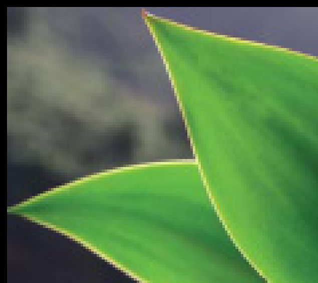
Forward to the future.

Annual Report 2007



Continental

Continental Corporation

in € millions	2007	2006
Sales	16,619.4	14,887.0
EBITDA	2,490.6	2,301.5
in % of sales	15.0	15.5
EBIT before amortization of intangible assets from PPA[1]	1,737.2	1,615.9
in % of sales	10.5	10.9
EBIT	1,675.8	1,601.9
in % of sales	10.1	10.8
Net income attributable to the shareholders of the parent	1,020.6	981.9
Free cash flow	-10,625.6	-641.1
Net indebtedness	10,856.4	1,181.0
Gearing ratio in %	158.3	25.1
Total equity	6,856.1	4,709.9
Equity ratio in %	24.7	43.4
Number of employees at the end of the year[2]	151,654	85,224
Dividend in €	2.00[3]	2.00
Share price (high) in €	109.07	97.14
Share price (low) in €	84.19	71.57

[1] PPA, purchase price allocation

[2] Excluding trainees

[3] Subject to the approval of the Annual Shareholders’ Meeting on April 25, 2008

Continental Corporation and Divisions

Sales in € millions	2007	2006
Chassis & Safety	4,648.6	4,521.7
Powertrain	1,177.0	650.7
Interior	1,531.6	858.6
Passenger and Light Truck Tires	4,975.6	4,693.6
Commercial Vehicle Tires	1,452.4	1,468.3
ContiTech	3,063.9	2,868.7
Other/consolidation	-229.7	-174.6
Continental Corporation	**16,619.4**	**14,887.0**

EBIT before PPA[1] in € millions	2007	2006
Chassis & Safety	573.8	529.3
Powertrain	-53.5	-17.3
Interior	38.4	30.8
Passenger and Light Truck Tires	740.7	651.4
Commercial Vehicle Tires	125.2	136.3
ContiTech	366.7	321.4
Other/consolidation	-54.1	-36.0
Continental Corporation	**1,737.2**	**1,615.9**

EBIT before PPA[1] in % of sales	2007	2006
Chassis & Safety	12.3	11.7
Powertrain	-4.5	-2.7
Interior	2.5	3.6
Passenger and Light Truck Tires	14.9	13.9
Commercial Vehicle Tires	8.6	9.3
ContiTech	12.0	11.2
Other/consolidation	—	—
Continental Corporation	**10.5**	**10.9**

EBIT in € millions	2007	2006
Chassis & Safety	567.0	528.3
Powertrain	-73.5	-21.2
Interior	10.8	25.1
Passenger and Light Truck Tires	738.7	650.9
Commercial Vehicle Tires	124.1	136.2
ContiTech	362.8	318.6
Other/consolidation	-54.1	-36.0
Continental Corporation	**1,675.8**	**1,601.9**

EBIT in % of sales	2007	2006
Chassis & Safety	12.2	11.7
Powertrain	-6.2	-3.3
Interior	0.7	2.9
Passenger and Light Truck Tires	14.8	13.9
Commercial Vehicle Tires	8.5	9.3
ContiTech	11.8	11.1
Other/consolidation	—	—
Continental Corporation	**10.1**	**10.8**

Operating assets in € millions	2007	2006
Chassis & Safety	5,021.5	2,629.9
Powertrain	5,686.2	554.1
Interior	6,541.6	679.0
Passenger and Light Truck Tires	2,753.8	2,615.7
Commercial Vehicle Tires	893.1	844.1
ContiTech	1,284.5	1,231.9
Other/consolidation	36.4	22.9
Continental Corporation	**22,217.1**	**8,577.6**

ROCE in %	2007	2006
Chassis & Safety	11.3	20.1
Powertrain	-1.3	-3.8
Interior	0.2	3.7
Passenger and Light Truck Tires	26.8	24.9
Commercial Vehicle Tires	13.9	16.1
ContiTech	28.2	25.9
Other/consolidation	—	—
Continental Corporation	**7.5**	**18.7**

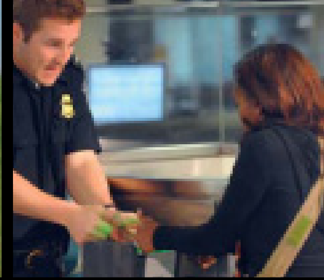
[1] EBIT before amortization of intangible assets from PPA

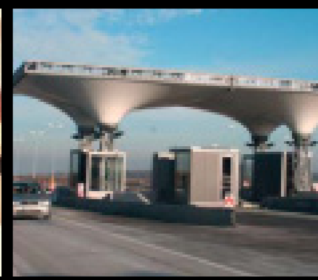
Forward to the future.

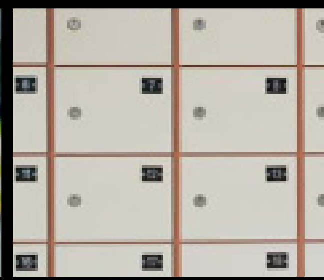
Annual Report 2007

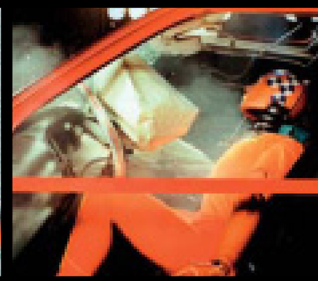
What moves us.

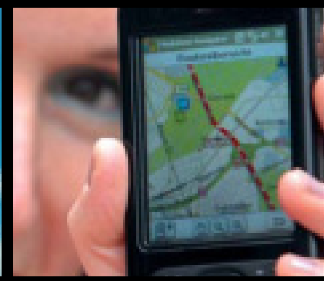
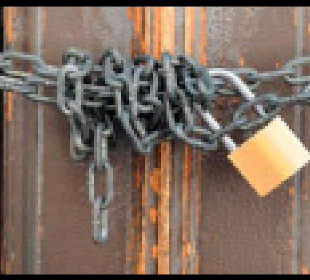
STOP
SOS
FLAMMABLE LIQUID

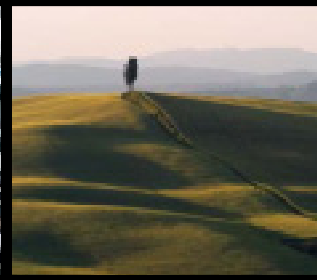


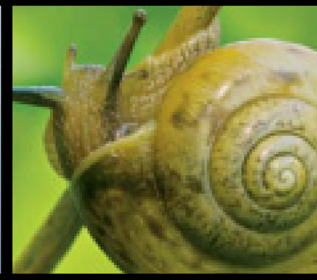


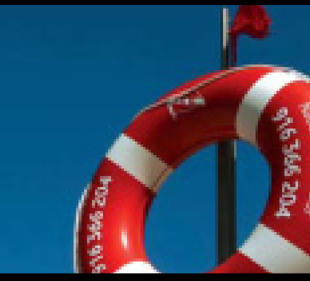




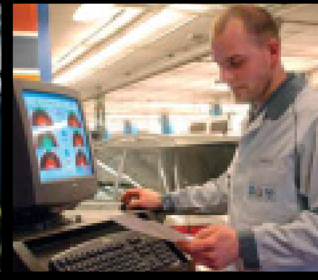



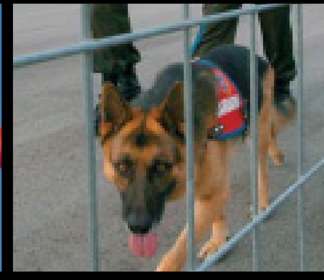




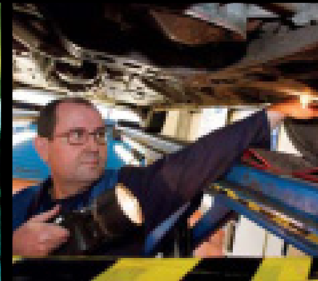
Hochspannung

916 366 204

Betreten der

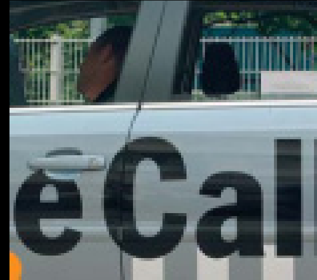




T+



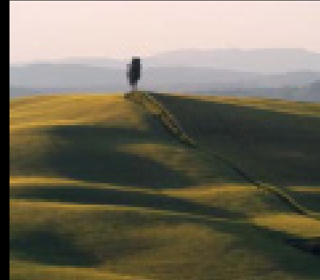
Social commitment to traffic safety
For us, safety especially means taking responsibility and making a contribution to society in terms of mobility and security on the roads. The numerous projects that the Company sponsors as part of its “We reward your safety” initiative, aimed at making the way to and from school safer, is a good example of our commitment. We also actively support the European Road Safety Charter that strives to reduce traffic fatalities by half within the EU.



Safety as a decisive future factor
The stricter requirements being demanded by legislators and drivers are further increasing demand for active and passive vehicle safety components and systems on a worldwide scale. With our combined expertise in driver assistance systems, environment sensors, telematics, tire technologies and electronic brake systems, Continental will decisively drive forward the integration of active and passive safety systems and set new standards with innovative systems for traffic management and accident prevention.

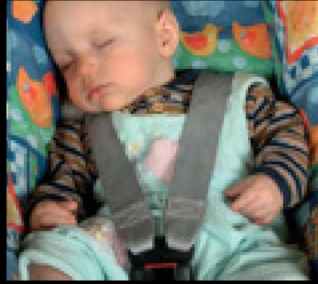
ContiGuard®
Our ContiGuard safety concept makes a decisive contribution to optimally protecting people on the roads. By networking active and passive safety systems and integrating camera and sensor technology, we make it possible to prevent accidents or, when that is no longer possible, to minimize the effects of an accident. That is our vision. And already today, many components of ContiGuard are in use, for instance to reduce stopping distances and to provide comprehensive protection against injuries.

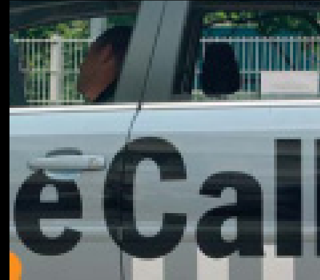
Safety – a driving ambition.

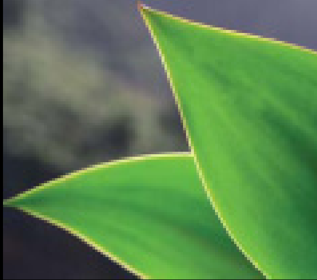


FLIEGST DU SCHON ATMOSFAIR?
Hydrogen
lighTram

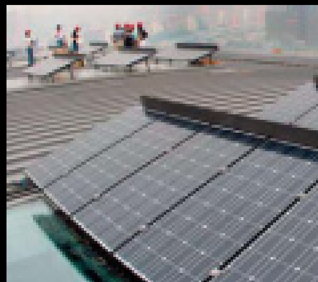
Umwelt
ZONE
40







Responsibility for the **environment**.

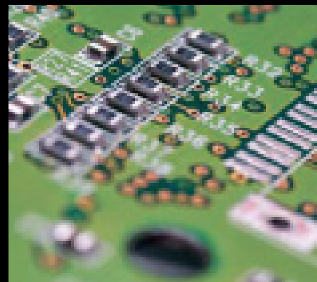


Continental's environmental management system

We take environmental protection seriously – and have done so for over 25 years. We were the first company in the rubber industry to have an external audit performed, at our Korbach plant in 1995. Our other plants are now also certified in accordance with the international standard ISO 14001. We ensure that specific goals are set for every location to reduce consumption and environmental impact, and check whether these are met by conducting internal and external audits. Our suppliers also undertake to comply with high environmental standards.

Well positioned to meet future challenges

Given ever more stringent consumption and emissions standards, the need for environmentally compatible and climate-friendly technologies is growing worldwide. Continental already holds a leadership position in powertrain systems for the hybrid technology segment, as well as in engine and transmission management, and in tires with optimized rolling resistance. As a result, we are also in an excellent position to continue making a substantial contribution to enabling the targeted global CO_2 reduction going forward.



Active CO_2 reduction with innovative products

Our piezo gasoline injection valves – awarded the 2005 German Innovation Prize – reduce CO_2 emissions by up to 20%. Our hybrid drives cut CO_2 emissions by up to 25%. We have succeeded in lowering the rolling resistance of several of our truck tire lines by 8% in the past five years. This means we are eliminating 4 metric tons of carbon dioxide or saving 1,600 liters of diesel on each vehicle traveling 150,000 kilometers, equivalent to a 3% reduction of CO_2. Up to 2% of CO_2 emissions can be cut just by using our engine timing belts.

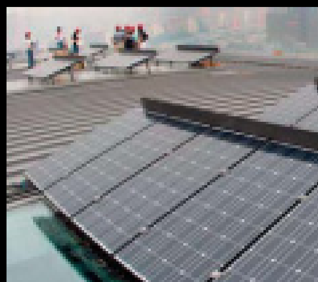
EL PAIS
SALE
70%
LA POSTE
15 16 17 18 19

17:00
Internetoptionen
Sicherheits
Hannover
Kassel
Dortmund
Google

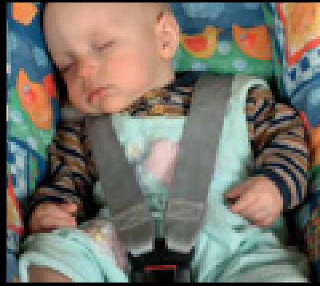
360° audit – transparency for each and every individual
Accessing and exchanging information are critical success factors in our knowledge-based society. We communicate openly and actively and make information available to everyone. After all, our overall performance depends decisively on the quality of our cooperation. In line with this, employees' performance is not only judged by supervisors, but also by their peers. At the same time, the supervisors are also evaluated by those they supervise. The 360° feedback is just one of many examples of how we at Continental actively communicate and exchange information.

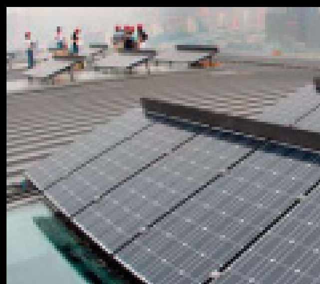
New, rapidly growing markets
The continually steady rise in the volume of data exchanged between vehicles, drivers, and their environment is giving birth to new and rapidly developing markets involving networked systems and products in the areas of infotainment and telematics. Thanks to our global leadership position in telematics systems and their combination with information and entertainment systems as well as cockpit instrumentation, Continental is in a position to deliver these benefits to vehicle manufacturers and consumers.

Telematics
Telematics applications not only help to avoid critical situations, and therefore to prevent accidents, they also help the injured in an emergency. They speed up the emergency rescue chain – because here every minute counts. Once an airbag has deployed, an emergency call is automatically sent to the nearest emergency services center, communicating the vehicle's position and the severity of the accident.

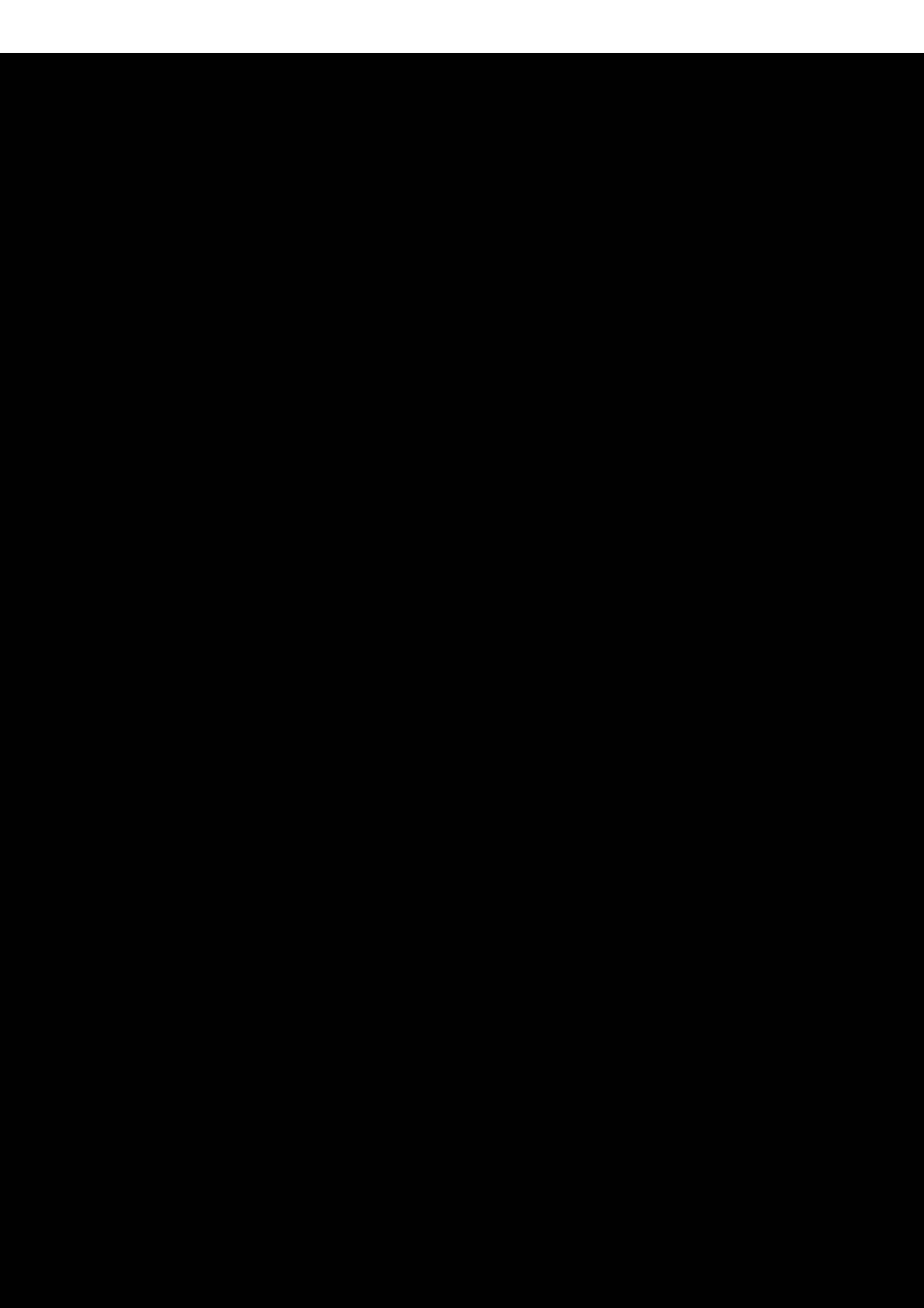


Networking **information**.





Forward to the **future**.
Continental.



C3 Key Figures for the Continental Corporation
C4 Key Figures for the Continental Divisions

For Our Shareholders

2 Chairman's Letter
5 Members of the Executive Board
8 The Continental Share

The Supervisory Board
13 Report of the Supervisory Board
15 Members of the Supervisory Board

Corporate Governance
16 Corporate Governance Principles of the Continental Corporation
19 Remuneration Report

Management Report

Corporate Profile
26 Overview
27 Structure of the Corporation
28 Business Activities, Organization, and Locations
41 Corporate Strategy

Corporate Responsibility
47 Employees
50 Environment
52 Acting Responsibly

Economic Climate
54 Macroeconomic Development
55 Industry Development

Pro Forma (Old Structure)
59 Corporation
63 Automotive Systems Division

Earnings, Financial and Net Assets Position
67 Earnings Position
73 Financial Position
75 Net Assets Position
Development in the Divisions
78 Chassis & Safety
81 Powertrain
84 Interior
87 Passenger and Light Truck Tires
90 Commercial Vehicle Tires
93 ContiTech
96 Earnings, Financial and Net Assets Position of the Parent Company
101 Supplementary Report on Events Occurring after December 31, 2007
102 Risk Report

Report on Expected Developments
106 Economic Conditions in the Following Two Fiscal Years
110 Outlook for the Continental Corporation

Consolidated Financial Statements

114 Statement of the Executive Board
115 Independent Auditor's Report
116 Consolidated Income Statements
117 Consolidated Balance Sheets
118 Consolidated Cash Flow Statements
119 Consolidated Statements of Changes in Total Equity
120 Segment Reporting

Notes to the Consolidated Financial Statements
123 General Information
123 Accounting Principles
131 New Accounting Pronouncements
133 Companies Consolidated
135 Acquisition and Sale of Companies
141 Notes to the Consolidated Income Statements
147 Notes to the Consolidated Balance Sheets
187 Other Disclosures

Further Information

198 Responsibility Statement
199 Other Directorships – The Executive Board
200 Other Directorships – The Supervisory Board
202 Ten-Year Review – Corporation
203 Glossary of Financial Terms
C5 Financial Calendar
C5 Contact Data and Acknowledgements

Dear Shareholders,

2007 was a very special year for Continental. In December, we completed the largest acquisition in our Company’s 136-year history – the purchase of Siemens VDO Automotive AG. Your Continental is now ranked number five in the world in the automotive supplier industry. We have set another important milestone on our path to becoming an integrated systems provider after acquiring Teves in 1998, Temic in 2001, Phoenix in 2004, and Motorola’s automotive electronics business in 2006. Continental and Siemens VDO, two very strong companies with rich traditions, combine to form a world-class automotive supplier. We aim to complete the majority process of the integration by the end of 2008.

We are building on a partnership-based integration using the slogan “winning the future – together”, which requires flexibility, creativity, and an enormous orientation on performance from all involved. We are confident that, backed by our dedicated employees, this project will lead to success. The positive experience of the first months after the acquisition has encouraged us in this view. I would like to warmly thank our employees for their hard work, enthusiasm, and courage to change.

The purchase price for Siemens VDO of €11.3 billion, which includes about €1 billion in tax benefits, is a large but reasonable sum considering the excellent future prospects this opens up. We view the problem-free financing of this transaction in a clearly more difficult market environment as confirmation of our rock-solid structure. At the same time, we are proud that we have received three noteworthy awards for the best implementation of financing in the year.

Why are we convinced that this acquisition was the right step at the right time at the right price? The answer is both simple and complex: Continental and Siemens VDO complement each other perfectly. Together we will provide new impetus in the areas of safety, environment, and information for everything vehicle-related. Here are a few key aspects:

- Safety:
  The combined expertise in driver assistance systems, with sensors for monitoring vehicle surroundings, telematics, innovations in the area of man-machine interface, and electronic brake systems, will drive the integration of passive and active safety systems even further. We will set new standards in traffic management and accident prevention with our innovative systems.

- Environment:
  Our leading position in powertrain systems, such as in hybrid technology, tire technology, as well as engine and transmission management, allows us to make a substantial contribution to global CO_2 emission reduction targets.

- Information:
  As the global leader in the manufacture of telematics systems with our expertise in information and entertainment systems, as well as cockpit instrumentation, we create new opportunities in information management.

In addition to the “traditional” divisions of Passenger and Light Truck Tires, Commercial Vehicle Tires, and ContiTech, we have created three new divisions to address these large fields – the megatrends of the automobile industry. They are: Chassis & Safety (focus on safety), Powertrain (focus on environmentally-friendly drives), and Interior (focus on information technologies). The structure of the new divisions and business units follows our principles of a decentralized, market-oriented organization focused on end-to-end customer orientation, consistent cost management, and innovation.

The two tire divisions and ContiTech are still part of Continental’s core business. Their expertise is a key complement to our product portfolio, e.g., in the areas of safety and the environment. They also generate a strong cash flow and make a significant contribution to our ability to maintain a certain degree of independence from the automotive original equipment sector in the future because of the replacement business as well as activities in other industries, such as mechanical engineering, equipment manufacturing, rail transportation, printing, and mining. Our medium- and long-term objective remains to generate around 40% of our sales outside the automotive original equipment industry.

Our new divisions are also required to generate a return on sales of at least 10%. Our experience with successful integrations in past years show that we can accomplish that.

I would like to stress once again that the goal of the acquisition of Siemens VDO is to generate profitable growth. The two companies go together very well – with regards to their products and customer structure as well as their regional line-up. Even though Siemens VDO is the perfect complement to the previous Continental to

an overwhelming extent, there is some overlap. We will work together with our employees to seek solutions regarding these vital restructuring measures and implement them as quickly as possible.

However, restructuring is only part of reaching our return targets by 2010. In addition, synergies will arise from the merging of production plants and other measures. There is also potential for improvement in purchasing and administration. The broad area of research and development should also not be forgotten. The issue here is not to reduce staff. On the contrary: we need each and every one of our engineers. Our focus is much more on creating standard technology platforms. In this way, we have the opportunity to bundle our strengths and thus significantly increase our innovative power. We can take on more customer projects with our own resources than we could before, and we also have a much lower need to outsource development work.

We sold our electric motors operations to the Brose Group at the end of 2007 because these activities do not belong to the Continental's core business, and because we feel this unit has better development opportunities and prospects at Brose.

Now to our key figures for the past fiscal year: Our pro forma consolidated sales – consolidated sales compared with the figures for Continental based on the old structure before the acquisition of Siemens VDO – increased 7.2% to €16.0 billion. Before changes in the scope of consolidation and exchange rate effects, all of the four divisions improved their performance over the previous year. We increased our consolidated operating result (EBIT) by 14.9% to €1.8 billion and again lifted the EBIT margin to 11.5% of sales, thus achieving the best results in our Company's history. In contrast, Continental's share price improved by only 1% to €88.99 in 2007.

Now, our top priority is the reduction of indebtedness. We will therefore propose a dividend of €2.00 per share to the Annual Shareholders' Meeting on April 25, 2008. This dividend is on a par with the previous year's level.

In 2007 we were again able to increase our sales volumes. We sold about 107.4 million passenger and light truck tires, an increase of 1% compared to the prior year. Truck tire sales rose by 3% to 7.2 million units. With 15.7 million electronic brake systems, we boosted volume sales by 8%. We sold 4.0 million air springs for trucks, an increase of 22%.

In the Americas, we achieved a particularly notable success in the passenger and light truck tire business, where, for the first time in many years, it was possible to steer operations into the black. In the current year we foresee further growth in profits and assume that we will show continuous improvement. The goal in the coming years is for America to make a sustained contribution to earnings in the Passenger and Light Truck Tires division.

The expansion of our North American facility for truck tires in Mount Vernon began last summer. When the project is completed at the end of 2008, we will be able to better meet the rising demand for our products, and 90% of our truck tires sold in the United States will come from U.S. production. In this way we can use some of the manufacturing capacity at other plants, previously used to supply the U.S. market, to supply the European and Asian markets instead, while significantly reducing our exchange rate risk.

We made a great deal of progress in the year under review by expanding our market position and business – especially in Asia:

We took the first step in setting up a tire plant in China, signing an investment agreement for this purpose at the end of October. Construction will start in mid-2008 in Hefei, the capital of Anhui province, which is increasingly establishing itself as a location for the national and international automobile industry. Production at the new plant will start at the beginning of 2010.

In 2008, a new manufacturing facility for hydraulic brake systems is due to begin operations in Changshu City, 100 kilometers northwest of Shanghai, to supply our customers in China, Japan, and Korea.

At the beginning of 2008, we laid the cornerstone for our development center in Shanghai. The new Asia Headquarters for the automotive divisions includes an office complex for design and test laboratories as well as a location for larger inspection and testing equipment. In May 2009, approximately 900 employees are due to begin working there.

In India, we signed a joint venture agreement with Rico Auto Industries to build a plant for hydraulic brake systems. Production is scheduled to start at the end of 2008.

In April 2008, we will begin operations at our new automotive electronics plant in the Indian city of Bangalore.

The construction of a new plant in Thailand for the production of diesel systems is in planning. Production is slated to start in 2009.

We opened a new center in Yokohama, Japan, in August 2007 where we will bundle the research and development activities of our automotive operations. In this way, we can serve our Japanese customers with products and systems faster than before.

In 2015, we want to generate 20% to 25% of our sales in Asia for the Corporation as a whole. We are currently at around 8%.

In November 2007, we acquired a majority interest in the tire and conveyor belt business of the Matador Rubber Group to strengthen our production in low-cost countries and our market position in Central and Eastern Europe as well as in Russia, the Ukraine, and the "stan" countries. With this acquisition, we became the number one passenger tire manufacturer in Europe.

At the beginning of 2007, we acquired UK-based hose manufacturer Thermopol with facilities in North America, Romania, and Korea to leverage further growth on the high-temperature hose market.

In July 2007, we acquired the Italian drum brake manufacturer Automotive Products Italia (AP) after a ten-year cooperation. Through AP's global presence, we will grow in the established markets as well as in the emerging countries of China and India, where we will offer high-quality, cost-effective brake systems tailored to local requirements.

Another measure to increase our international profile is our involvement in the UEFA EURO 2008™ European Football Championship in Austria and Switzerland, which we are particularly looking forward to. We used the sponsoring of the FIFA World Cup 2006™ in Germany already in 2006 to significantly enhance our brand awareness at an international level.

2008 is an exciting year for us. Thousands of our new colleagues will meet each other for the first time and work together. The integration of Siemens VDO is one of the biggest challenges in our Company's history, and we will overcome it together.

It is not our goal to be the biggest. But it is our goal to be the best in the areas we do business in.

I would like to warmly thank you, our shareholders, for your trust in our performance and in the achievements of our employees. We work every day to justify your confidence in us.

Sincerely,

Manfred Wennemer
Chairman of the Executive Board

Members of the Executive Board

Manfred Wennemer
born in 1947 in Ottmarsbocholt, North Rhine-Westphalia, Germany
Chairman of the Executive Board
Passenger and Light Truck Tires Division, and Interior Division
appointed until September 2011

Dr. Alan Hippe
born in 1967 in Darmstadt, Hesse, Germany
Finance, Controlling, IT and Law
appointed until May 2012

Gerhard Lerch
born in 1943 in Enkengrün, Bavaria, Germany
ContiTech Division
appointed until September 2008

Dr. Karl-Thomas Neumann
born in 1961 in Twistringen, Lower Saxony, Germany
Chassis & Safety Division, and Powertrain Division
appointed until September 2009

Dr. Hans-Joachim Nikolin
born in 1956 in Eschweiler, North Rhine-Westphalia, Germany
Commercial Vehicle Tires Division,
Purchasing, Quality and Environment
appointed until May 2009

Thomas Sattelberger
born in 1949 in Munderkingen, Baden-Württemberg, Germany
Human Resources, Director of Labor Relations
until May 2007

Heinz-Gerhard Wente
born in 1951 in Nettelrede, Lower Saxony, Germany
Human Resources, Director of Labor Relations
appointed until May 2012

William L. Kozyra
born in 1957 in Detroit, Michigan, U.S.A.
Deputy Member of the Executive Board
NAFTA Region
appointed until February 2011

Members of the Executive Board: Dr. Alan Hippe Dr. Hans-Joachim Nikolin Gerhard Lerch

William L. Kozyra   Manfred Wennemer   Heinz-Gerhard Wente   Dr. Karl-Thomas Neumann

The Continental Share

Volatile development of Continental's share price

Continental share listings

Continental AG's shares are listed on the German stock exchanges in Frankfurt, Hanover, Hamburg, and Stuttgart. In the U.S.A. they are traded as part of an American Depositary Receipt program on the Over-the-Counter market. They are not admitted for trading on a U.S. stock market.

The no-par value shares have a notional value of €2.56 per share.

Continental share data

Type of share	No-par value share
German securities code number	543900
ISIN number	DE0005439004 and DE000A0LR860
Reuters ticker symbol	CONG
Bloomberg ticker symbol	CON
Index membership	DAX 30 Prime All Share Prime Automobile DJ EURO Stoxx Automobile
Number of outstanding shares as of December 31, 2007	161,712,083

American Depositary Receipts data

Ratio	1:1
ISIN number	US2107712000
Reuters ticker symbol	CTTAY.PK
Bloomberg ticker symbol	CTTAY
ADR level	Level 1
Trading	OTC
Sponsor	Deutsche Bank Trust Company Americas

Development of the equity markets – overall economic environment

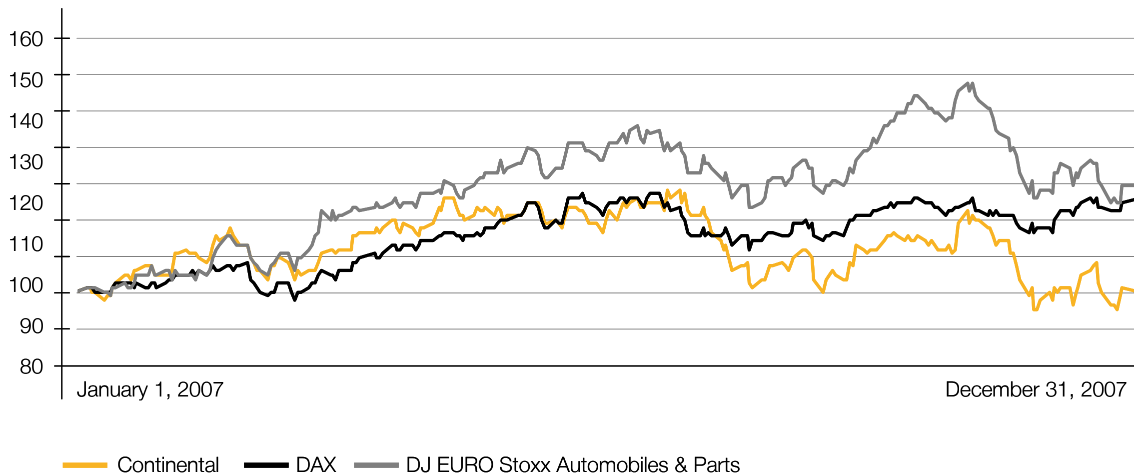
The capital markets once again proved to be favorable in the year under review. As in 2006, the individual regional indices recorded clear differences in performance in some cases. While the leading U.S. index, the Dow Jones, increased by just 6.4% in 2007 and the EURO Stoxx 50 remained more or less on a par with the previous year's level (-0.4%), the German DAX stock index closed 22% higher at 8,067.32 points.

German and European automotive stocks significantly outperformed their respective regional blue chip indices, increasing by 37.9% and 25% respectively. A wholly different picture emerged on the U.S. equity market, with the Dow Jones for U.S. automotive stocks recording a drop of 7.7% at the end of the year, while the leading Dow Jones index closed 6.4% higher.

Continental share price performance

Continental's share price improved by 1% in 2007 to €88.99. This development was marked by substantial volatility during the course of the year. The publication of the excellent results for the first quarter of 2007 led to a new all-time high of €107.40/share on May 7, 2007. Lifted by the strong economic growth, the DAX passed the 8,000 point mark, reaching 8,105.69 points – its highest index level ever – on July 16. Following this encouraging market development, Continental's share price closed at a new high of €109.07 on July 23, despite continuing speculation about the purchase of Siemens VDO Automotive AG. The announcement of the acquisition of Siemens VDO Automotive AG met with a positive response on the capital markets. In the second half of the year, sentiment on the capital markets deteriorated significantly in the wake of the crisis on the U.S. mortgage market. As a result, Continental's share price fell to an annual low of €84.19/share. The reduction of key rates by 50 basis points announced by the U.S. Federal Reserve only brought about a short-lived market recovery. In spite of the difficult situation on the financial markets, syndication of the credit lines necessary for financing the acquisition of Siemens VDO Automotive AG was completed successfully. Coupled with the publication of the positive results for the third quarter, Continental's share price recovered, enabling new shares equivalent to 10% of share capital to be placed on the capital market for €101.00/share. Although continuing speculation regarding an imminent recession in the U.S.A. and a banking sector impacted by high losses from the financing of U.S. real estate barely affected the DAX, it did lead to a marked downward correction in the price of automotive shares, causing a number of U.S. automotive

Share price performance



stocks in particular to fall below their 2007 opening-prices. The stock continued its negative trend at the beginning of 2008 due to a massive stock rotation and renewed fears of a possible recession in the U.S. economy. On February 11, the share reached a 2½ years low at €63.85.

The market capitalization totaled some €14.4 billion on December 31, 2007, putting our shares in 17th position (2006: 16th) among DAX-listed stocks at the end of the year. In terms of XETRA trading volume, Continental shares occupied 15th position (2006: 18th).

Proposal to maintain a constant dividend

In 2007, the Continental Corporation generated an operating result (EBIT) of €1,675.8 million. After deduction of taxes and interest, as well as minority interests, the net income attributable to the shareholders of the parent totaled €1,020.6 million, up 3.9% on the previous year. The Supervisory Board and the Executive Board will propose a dividend of €2.00 per share to the Annual Shareholders' Meeting on April 25, 2008. This dividend is on a par with the previous year's level, with a payout ratio of 31.7% (2006: 29.8%).

At the same time, the total shareholder return was 3.3% for fiscal year 2007 (2006: 18.8%).

Convertible bonds

In May 2004, the financing company ContiGummi Finance B.V. issued a €400 million convertible bond with a guarantee from Continental AG. In March 2007, bondholders exercised their conversion rights. Bonds in the principal amount of €0.8 million were converted into Continental AG shares, resulting in 15,794 new shares. Increasing the dividend to €2.00/share for fiscal year 2006 led to a reduction in the conversion price, which has been €50.047/share since April 25, 2007.

Loan syndication: €13.5 billion loan

In July 2007, two banks made a commitment to Continental to provide €13.5 billion to finance the acquisition of Siemens VDO. Despite difficult market conditions, the loan was successfully syndicated in September and October, involving a total of 39 banks.

Key figures per share in €	2007	2006
Basic earnings	6.79	6.72
Diluted earnings	6.52	6.44
Free cash flow	-70.65*	-4.39*
Dividend	2.00**	2.00
Dividend payout ratio (%)	**31.7**	**29.8**
Dividend yield (%)	2.2	2.3
Total equity	45.59	32.22
Share price at year-end	88.99	88.10
Average share price	97.34	84.89
Price-earnings ratio (P/E ratio)	14.34	12.63
High	109.07	97.14
Low	84.19	71.57
Average trading volume (XETRA)	**1,699,750**	**1,122,758**
Number of shares, average (in millions)	150.4	146.2
Number of shares as of December 31 (in millions)	161.7	146.5

* Information about the free cash flow development can be found in the Earnings, Financial and Net Assets Position section of this report.

** Subject to the approval of the Annual Shareholders' Meeting on April 25, 2008

Continental share price performance and indices	Dec. 31, 2007	Dec. 31, 2006	Change in %
Continental shares (in €)	88.99	88.10	+1.0
DAX 30*	8,067.32	6,596.92	+22.3
Dow Jones Euro Stoxx 50**	3,683.79	3,697.22	-0.4
Dow Jones Industrial Average**	13,264.82	12,463.15	+6.4
DAX Prime Automobile*	785.54	569.56	+37.9
Dow Jones Automobiles & Parts**	354.71	283.89	+24.9
S&P Automobiles Industry Index**	107.36	116.28	-7.7

* Performance index including dividends

** Price index excluding dividends

Capital increase

At the end of October 2007, Continental implemented a capital increase with a volume of just under 10% of the common stock stipulated in the Articles of Incorporation. The 14.65 million new shares were placed with institutional investors on October 30, 2007, under an accelerated bookbuilding process; shareholders' preemptive rights were disapplied. At €101.00, this generated proceeds of almost €1.48 billion. These funds could be used in December 2007 to reduce the syndicated loan amount of €13.5 billion.

Investments in Continental shares*

Initial investment	Jan. 1, 1998	Jan. 1, 2002	Jan. 1, 2007
Investment period in years	10	5	1
Portfolio growth in € as of December 31, 2007	68,530.00	74,090.00	890.00
Average dividends in investment period	6,506.94	4,770.00	2,000.00
Shareholder return p.a.**	16.66	44.47	3.28
Average returns of comparable indices in %			
DAX 30	6.62	22.77	22.29
DJ Euro Stoxx 50	3.41	8.88	-0.36

* Number of shares: 1,000

** Assuming that the dividend is not reinvested

Rating

Continental remained in constant dialog with the leading rating agencies Moody's Investors Service (Moody's) and Standard & Poor's in 2007 and, with the acquisition of Siemens VDO Automotive AG, intensified the contact. In the scope of this trustful cooperation, latest business figures were explained to the rating agencies, also in personal consultation.

The leading rating agencies changed Continental AG's credit rating following the acquisition of Siemens VDO Automotive AG as follows:

	New rating	Outlook
Standard & Poor's	BBB	stable
Moody's	Baa2	negative

	Previous rating	Outlook
Standard & Poor's	BBB+	stable
Moody's	Baa1	stable

For financing reasons, Continental is sticking to its goal to keep its rating within the higher credit category, which is characterized by the low default rates and referred to as the investment grade category. The target minimum ratings are BBB and Baa2.

A lower rating outside of the investment grade category - below BBB- or Baa3 - could make it difficult or impossible to access various financing instruments, thus leading to much less favorable financing conditions. The current rating enables Continental to further make use of options that would be restricted in the case of a markedly poorer rating.

Extensive investor relations activities

Our investor relations activities ensure the information is shared with the capital market continuously and in a transparent manner. In the period under review, institutional investors (shareholders and bondholders), private shareholders, and analysts were provided with up-to-date and comprehensive information about the Company. The IR team held a total of 553 (2006: 494) one-on-one and group discussions, which often included presentations by the Chairman of the Executive Board or the CFO. One particular highlight that took place in May 2007 at the ADAC Driving Safety Center in Grevenbroich was an event organized together with the Automotive Systems division. At this event, which for the first time was reserved exclusively for investors, the strategic orientation and key new products from Automotive Systems were presented. The response was huge: The shareholders attending represented approximately 20% of the capital invested. In addition, other investors visited our German production locations. Their interest was centered on our activities in the areas of hybrid drives and telematics.

Plans are to hold a Capital Markets Day in 2008. The main topic will be, in addition to the integration of Siemens VDO Automotive AG into the Continental Corporation, the three newly formed divisions Chassis & Safety, Powertrain and Interior. Here, special focus will be on the new products of the three divisions.

The Internet has continued to increase in significance as an instrument for our finance communications. The carefully prepared online information offering on our homepage was used extensively in 2007. All published Company information, forthcoming dates, and contacts can be found on Continental's investor relations pages at

www.continental-corporation.com. The investor relations team can be reached at any time via Internet (ir@conti.de).

The quality of our investor relations activities again garnered recognition. For instance, we received the award “Leading paneuropean quoted company for IR in Autos & Automotive components 2007” from the prominent *Institutional Investor* magazine, honoring the Continental IR team for the best investor relations work in the European auto and auto parts sector from an investor perspective.

Further increase in attendance at Annual Shareholders’ Meeting

Around 47% of the common stock was represented at the Annual Shareholders’ Meeting on April 24, 2007. This represents an increase of 7 percentage points compared with the previous year. When voting on all agenda items, the Annual Shareholders’ Meeting endorsed management’s proposals by a large majority.

Shareholder structure

In accordance with the statutory requirements, we have disclosed changes in our shareholders that were communicated to us in the course of 2007, in line with the provisions of the *Wertpapierhandelsgesetz* (German Securities Trading Act). Detailed information about these individual shareholders holding more than 3% of Continental’s shares as well as the changes during 2007 is provided under Note 38 to the consolidated financial statements.

In a shareholder identification survey carried out at the end of 2007, it was possible to identify 83.6% of all shares assigned solely to institutional investors. Based upon this analysis, our shares are distributed regionally as shown here. In addition, the distribution of discussions with investors held as part of our investor relations activities at conferences and roadshows in the respective regions is shown for the full year.

	Percent of investors	Percent of investor meetings
North America	33.7	35.2
United Kingdom and Ireland	26.6	35.9
Germany	12.4	12.7
Europe excluding Germany	9.7	14.1
Japan	0.9	2.0
Other countries	0.4	0.2

(16.4% unidentified institutional or private shareholders)

Dear Shareholders,

Dr. Hubertus von Grünberg
Chairman of the
Supervisory Board

In fiscal year 2007, the Supervisory Board of Continental AG continued to advise and monitor the Executive Board with regard to the management of the Company. The Supervisory Board was involved in decisions of fundamental importance to the Company in accordance with the Articles of Incorporation and statutory requirements. The Executive Board supplied the Supervisory Board with regular, up-to-date, and comprehensive reports on strategy, developments, and key business transactions at both the Company and the Corporation, as well as on related opportunities and risks. In addition to these reports, the Supervisory Board, the Chairman's Committee, and the Audit Committee informed themselves in detail about matters relating to the Company and discussed them at their meetings and separate sessions. The members of the Supervisory Board were also 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 and one extraordinary meeting in the year under review. No member missed more than half of these meetings. The Chairman's Committee met eight times and the Audit Committee five times in 2007. The standing committee stipulated by section 27 (3) of the *Mitbestimmungsgesetz* (German Co-determination Act) was not required to meet. Acting on the basis of a recommendation by the German Corporate Governance Code, the Supervisory Board set up a Nomination Committee that is comprised purely of shareholder representatives. Its mission is to prepare the nominations for elections for the Supervisory Board at the Annual Shareholders' Meeting. The committee has not yet met. There are no other committees.

The most important topic of the past year for the Supervisory Board was also the acquisition of Siemens VDO. At an extraordinary meeting on July 25, 2007, the Supervisory Board addressed the transaction in detail and approved it. The Supervisory Board supports this significant step in Continental's development. The acquisitions of a majority holding in the Matador Rubber Group and Automotive Products Italia S.r.l. were among the other matters discussed and approved by the Supervisory Board. As in the previous years, the Supervisory Board also repeatedly discussed the Company's strategic development and focus in general, as well as the strategic planning of the divisions. In addition, the measures to fully integrate ContiTech AG were the subject of our discussions. We are encouraged to note that the regular reporting on the passenger and light truck tire activities in North America has confirmed their positive development.

The Supervisory Board once again took the opportunity of the amendments to the German Corporate Governance Code which were adopted by the Government Commission in 2007 to discuss corporate governance at Continental. You can find the details of this in our Corporate Governance report starting on page 16. The Supervisory Board and Audit Committee also discussed the issue of compliance in detail with the Executive Board. In addition, the Supervisory Board members were again polled on the Board's efficiency, an exercise that affirmed the good findings of the previous survey.

One focus of all Supervisory Board plenary meetings and the Audit Committee meetings was once again the ongoing, detailed information on sales, earnings, and employment developments at the corporate and divisional level, and the Company's financial position. In particular, the Supervisory Board was informed by the Executive Board about business developments that departed from the Company's plans and defined targets.

In addition, the material risks included in the risk management system were presented in the Audit Committee along with the corresponding measures resolved by the Executive Board. The Audit Committee discussed and reviewed the results for the individual quarters and the outlook for the year as a whole before publication of the relevant interim reports. At its meeting in December 2007, the Supervisory Board discussed the financial and capital expenditure plans for fiscal year 2008 and the long-term planning for the period up to 2012. It also approved the budget for 2008.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, audited the annual financial statements for 2007 prepared by the Executive Board, the 2007 consolidated financial statements, and the combined Management Report for Continental AG and the Corporation, including the book-

keeping and the risk management system. Continental AG's 2007 consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs). An unqualified audit opinion was issued.

With regard to the risk management system, the auditors found that the Executive Board took the measures required under section 91 (2) of the *Aktiengesetz* (German Stock Corporation Act) and that the Company's risk management system is suited to recognize risks early on that could threaten the continued existence of the Company.

The documents relating to the annual financial statements and the audit reports were discussed with the Executive Board and the auditors at the Audit Committee meeting on February 20, 2008. They were also discussed at length at the plenary meeting of the Supervisory Board on March 7, 2008. The required documents were distributed on a timely basis prior to these meetings, allowing sufficient time to review them. The auditors were present at the meetings to discuss the annual financial statements and the consolidated financial statements. They reported on the key findings of the audit and were available to provide additional information to the Supervisory Board.

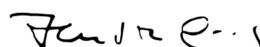
The Supervisory Board endorsed the results of the audit by the independent auditors on the basis of its own examination of the annual financial statements, the consolidated financial statements, the Management Report, the Group Management Report, and the proposal for the distribution of net income, as well as on the basis of the Audit Committee's report and recommendation. No objections were made. The Supervisory Board approved the annual financial statements and the consolidated annual financial statements. The annual financial statements for 2007 are thereby adopted. The Supervisory Board has approved the proposal for the distribution of net income made by the Executive Board.

There was one change in the Executive Board in 2007. On April 24, 2007, the Supervisory Board approved Mr. Thomas Sattelberger's departure by mutual agreement from the Executive Board as of May 2, 2007. At the same time, the Supervisory Board appointed Mr. Heinz-Gerhard Wente as a member of the Executive Board and Director of Labor Relations. The Supervisory Board would like to thank Mr. Sattelberger for his contribution to the Company's success.

The Supervisory Board would like to thank the Executive Board, all employees, and the employee representatives whose hard work under difficult conditions has again produced another outstanding result for the Company. We would like to extend our special thanks to you, our shareholders, for the trust you have placed in the Company.

Hanover, March 2008

For the Supervisory Board
Sincerely,



Dr. Hubertus von Grünberg
Chairman

Members of the Supervisory Board

Dr. Hubertus von Grünberg, Chairman

Werner Bischoff*, Deputy Chairman

Dr. h. c. Manfred Bodin

Dr. Diethart Breipohl

Michael Deister*

Dr. Michael Frenzel

Prof. Dr.-Ing. E. h. Hans-Olaf Henkel

Michael Iglhaut*

Hartmut Meine*

Dirk Nordmann*

Jan P. Oosterveld

Dr. Thorsten Reese*

Jörg Schönfelder*

Jörg Schustereit*

Fred G. Steingraber

Prof. Dipl.-Ing. Jürgen Stockmar

Christian Streiff

Dr. Bernd W. Voss

Dieter Weniger*

Erwin Wörle*

* Employee representative

Corporate Governance Principles of the Continental Corporation

The Corporate Governance Principles are an integral part of corporate management. They serve to foster the responsible, value-creation focused management of the Corporation.

The Executive Board and the Supervisory Board consider good corporate governance to be at the core of corporate management efforts focused on sustainably increasing the value of the company in the interests of all stakeholders. Corporate governance is the responsibility of the Company's corporate bodies, i.e., the Shareholders' Meeting, the Supervisory Board, and the Executive Board, as specified by law and our Articles of Incorporation. Continental AG's Corporate Governance Principles are closely modeled on the German Corporate Governance Code and are published on the Internet at www.continental-corporation.com. Together with The Basics, which we have used to lay down our corporate goals and guidelines since 1989, and our Code of Conduct, these Principles form an essential framework for corporate management and control at Continental.

Corporate bodies

Shareholders exercise their rights, including their voting rights, in the Shareholders' Meeting. Each Continental AG share entitles the holder to one vote. Shares conferring multiple or preferential voting rights, or limitations on voting rights, do not exist.

The Executive Board has sole responsibility for the management of the Company. The members of the Executive Board share responsibility for corporate management. The Chairman of the Executive Board is responsible for the Company's overall management and business policy. He ensures consistent management by the Executive Board and coordinates the work of the members of the Executive Board.

The Supervisory Board appoints, supervises, and advises the Executive Board. It is directly involved in decisions of material importance to the Company because certain corporate management issues require its approval as specified by law and the Articles of Incorporation. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and represents its interests vis-à-vis third parties. He is in regular contact with the Executive Board, and in particular with its Chairman, to discuss the Company's strategy, business development, and risk management.

The Supervisory Board and its committees

The Supervisory Board comprises 20 members as required by the *Mitbestimmungsgesetz* (German Codetermination Act) and the Company's Articles of Incorporation. Half the members of the Supervisory Board are elected by the Shareholders' Meeting, while the other half are elected by the employees of Continental AG and its German subsidiaries. The Chairman of the Supervisory Board, who represents the shareholders, has the casting vote in the case of a tie in the Supervisory Board. Both the shareholder representatives and the employee representatives have an equal duty to act in the interest of the Company. Further information on the members of the Supervisory Board is provided on pages 200 and 201 of this Annual Report.

The Supervisory Board has drawn up by-laws for itself, which supplement the law and the Articles of Incorporation with more detailed provisions including provisions on the duty of confidentiality, on handling conflicts of interest, and on the Executive Board's reporting obligations.

The Supervisory Board currently has four committees: The Chairman's Committee, the Audit Committee, the Nomination Committee, and the Mediation Committee. The members of the committees are listed on page 201.

The Chairman's Committee comprises the Chairman of the Supervisory Board, his Deputy, and the two other members of the Mediation Committee. In particular, the Chairman's Committee is responsible for concluding, terminating, and amending the employment contracts (and hence also for remuneration arrangements) and other agreements with members of the Executive Board.

The Audit Committee's tasks relate to the Company's accounting, the audit of the financial statements, and compliance. In particular, the Committee performs a preliminary examination of the annual financial statements of Continental AG, as well as the consolidated

financial statements and the risk management system, and makes its recommendation to the plenary session of the Supervisory Board, which then passes resolutions pursuant to section 171 (1) of the *Aktiengesetz* (German Stock Corporation Act). The Committee discusses the Company's draft interim reports, and is responsible for assuring the auditors' independence, for engaging the auditors, for determining the focus of the audit as required, and for agreeing the fee. The Chairman of the Audit Committee, Dr. Voss, as former CFO of Dresdner Bank, has special knowledge and experience in the application of accounting principles and internal control systems. Previous members of the Company's Executive Board and the Chairman of the Supervisory Board may not act as Chairman of the Audit Committee.

The Nomination Committee is responsible for suggesting suitable candidates to the Supervisory Board that it in turn recommends to the Annual Shareholders' Meeting for election. This Committee is composed solely of shareholder representatives.

The sole task of the Mediation Committee is to perform the responsibilities set forth in section 31 (3) sentence 1 of the *Mitbestimmungsgesetz*: If a candidate for appointment to the Executive Board does not achieve the statutory two-thirds majority in the first ballot, the Mediation Committee must make a recommendation regarding the appointment.

The Supervisory Board's report on its work and the work of its committees in the past fiscal year can be found on pages 13 and 14.

The Executive Board
The Executive Board currently has seven members. Further information on the members and their responsibilities can be found on page 199.

The responsibilities of the Chairman and the other members of the Executive Board are laid down in the by-laws of the Executive Board. These regulate which key matters pertaining to the Company and its subsidiaries require a decision to be made by the Executive Board. Article 14 of the Articles of Incorporation requires the consent of the Supervisory Board for significant measures carried out by the management.

Accounting
The Continental Corporation has applied the International Financial Reporting Standards (IFRSs) in its financial statements since fiscal 2005. More detailed information on IFRSs is provided in this Annual Report in Note 2 to the consolidated financial statements. The annual financial statements of Continental AG are prepared in accordance with the *Handelsgesetzbuch* (German Commercial Code).

Risk management
Continental's risk situation is analyzed and managed with the help of a Corporation-wide risk management system that serves to provide early warning of developments that could endanger the continued existence of the Company. Details can be found starting on page 102.

Transparent and prompt reporting
Continental values timely communication. The Company regularly reports to shareholders, analysts, shareholders' associations, the media, and interested members of the public on its position and on significant developments in the Corporation. All shareholders have equal access to information. All new information communicated to financial analysts and similar addressees is made available to shareholders without delay. The Internet in particular is used to guarantee the timely provision of information. The dates of key regular publications and events (annual reports, interim reports, Annual Shareholders' Meetings, and press and analyst conferences) are announced in good time in the Company's Financial Calendar. The dates already set for 2008 and 2009 can be found at the back of the report and on the Internet at www.continental-corporation.com.

Continental AG's Corporate Governance Principles
The Corporate Governance Principles were again the subject of discussions by the Supervisory Board and the Executive Board in 2007. The discussions focused on amendments to the Code resolved by the Government Commission on the German Corporate Governance Code on June 14, 2007. The Supervisory Board and Executive Board have resolved to adopt most of these changes for Continental.

Declaration in accordance with section 161 of the *Aktiengesetz* and departures from the German Corporate Governance Code
On September 28, 2007, the Executive Board and the Supervisory Board issued their annual declaration in accordance with section 161 of the *Aktiengesetz*. This stated that the Company has complied and will comply with the recommendations made by the "Government Commission on the German Corporate Governance Code" published by the German Federal Ministry of Justice in the official part of the electronic Federal Ga-

zette *(Bundesanzeiger*), and indicated which recommendations have not been applied, as well as those that will continue not to be applied. The declaration was made permanently available to shareholders on Continental's website. Earlier declarations in accordance with section 161 of the *Aktiengesetz* can also be found on the website.

In Continental AG's Corporate Governance Principles, the Executive Board and the Supervisory Board have undertaken to explain not only departures from the recommendations made by the Code, but also any departures from its suggestions.

a) Departures from recommendations

The Company cannot comply with the recommendation in Section 2.3.2 to inform all domestic and foreign financial services providers, shareholders, and shareholders' associations of the convening of the General Meeting, including sending the convention documents, using electronic means. The shares of the Company are bearer shares (Article 5 of the Articles of Association), which means that it is impossible to identify all recipients.

Section 4.2.3 (2) sentence 4 and (3): The 1999 stock option plan (see Note 22 to the consolidated financial statements for more information) does not provide for any limitation in the case of extraordinary, unforeseen developments. As this plan has already been fully utilized, it did not seem sensible to subsequently agree on such a cap. The stock option plan resolved by the Annual Shareholders' Meeting on May 14, 2004 provides for a cap.

Section 5.4.3 sentence 1 of the Code requires all Supervisory Board elections to be conducted individually. However, voting on a list of candidates has for years been practiced by most stock corporations in Germany, including Continental. At Continental's Annual Shareholders' Meetings, this system has never led to any objections. The system is used to condense the voting processes at the Annual Shareholders' Meeting and thus make voting more efficient. Any shareholder who wants elections of individual candidates is free to request this at the Annual Shareholders' Meeting. The Chairman of the Shareholders' Meeting then decides whether to grant the request directly, or only if approved by a majority of the Annual Shareholders' Meeting. We believe that this flexibility is in the interests of shareholders.

Pursuant to section 5.4.4 of the Code, it should not be the rule that the retiring Chairman or a member of the Executive Board becomes Chairman of the Supervisory Board or of a Supervisory Board committee. We believe that the Annual Shareholders' Meeting should not be restricted in its right to decide on a case-by-case basis whether such an arrangement is appropriate. The issue of whether a candidate is suitably qualified and independent to hold office on the Supervisory Board should be the deciding factor. Of course, any proposal to elect a member of the Executive Board to the Supervisory Board must be specially justified. We have adopted the Code's recommendation to disclose to shareholders candidates proposed for Chairman of the Supervisory Board (section 5.4.3 sentence 3), thus ensuring a maximum of transparency.

b) Departures from suggestions

Section 2.3.4: To date, the Company has not given shareholders the opportunity to follow the Annual Shareholders' Meeting using communication media such as the Internet. Although our Articles of Incorporation permit the use of electronic media to transmit some or all of the Annual Shareholders' Meeting, we do not think that the benefit to shareholders currently justifies the costs associated with such use. We therefore currently do not follow this suggestion.

Section 4.2.3 (3) suggests that when entering into Executive Board contracts companies should not agree severance payments for premature termination of Executive Board positions that exceed a certain threshold without justifiable grounds. Continental's Executive Board contracts do not contain provisions stipulating severance payments in such cases. In the past, however, severance payments were agreed in some cases that exceeded the thresholds set by the Code.

Section 5.1.2 (2) sentence 1: In most cases, even first-time appointments of new members of the Executive Board have been for a term of office of five years. The Supervisory Board considers this to be necessary and in the interests of the Company, in order to enable the Company to attract candidates who meet the high requirements for these positions.

Section 5.4.4: All members of the Supervisory Board are elected at the same time for the same term of office. There are no staggered terms, and we believe that this helps ensure the continuity of the Supervisory Board's work. To date, any changes required have been addressed by other means.

Remuneration Report

Remuneration of the Executive Board
The Chairman's Committee is responsible for agreeing the remuneration of the Executive Board. The plenary session of the Supervisory Board discusses the structure of the remuneration system on the recommendation of the Chairman's Committee, and reviews it regularly. The remuneration of the members of the Executive Board consists of the following components:

Each member of the Executive Board receives a fixed annual remuneration, which is paid in twelve monthly installments. Basically, this fixed component has not been increased since 2004. However, in two cases the fixed component for 2007 was increased in response to a considerable expansion of responsibilities following the acquisition of the VDO Group. A general adjustment will not be made until 2010 at the earliest.

In addition, each member of the Executive Board receives variable remuneration, which is dependent in part on the amount of the dividend distributed to shareholders. Should the dividend amount be increased significantly, the Chairman's Committee may alter the method of calculation. The bonus is also dependent on the achievement of individually agreed targets relating to key performance indicators of the individual Executive Board member's function. This variable remuneration component is limited to a maximum amount that depends on the fixed annual remuneration. In addition, a special bonus can be agreed upon for particular projects in individual cases.

Members of the Executive Board also receive additional benefits, primarily consisting of the reimbursement of expenses, including payments, generally for a limited time, for a second household or activities abroad on behalf of the Company, the provision of a company car, and premiums for group accident and directors' and officers' (D&O) liability insurance. The D&O insurance policy provides for an appropriate deductible. Members of the Executive Board must pay taxes on these additional benefits.

In addition, the members of the Executive Board were granted stock options in the year under review as part of the 2004 stock option plan.

Continued remuneration payments have also been agreed for a certain period in the event they are incapacitated, without fault, for work. Mr. Wennemer, Dr. Hippe, Mr. Kozyra, Dr. Neumann, Dr. Nikolin, and Mr. Wente also have the right to transitional payments for six months in the event of termination of their employment contract, except in the case of resignation or a mutually accepted early release from their contract. These transitional payments are determined on the basis of the most recently paid fixed annual salary and the average of the variable remuneration for the last three fiscal years. All members of the Executive Board have been granted post-employment benefits that are not linked exclusively to retirement but that may also apply in the event of non-renewal if the non-renewal was not due to the actions of the Executive Board member. Mr. Wennemer, Dr. Hippe, Dr. Neumann, and Dr. Nikolin are also entitled to post-employment benefits in the case of premature termination of their employment contract. The maximum post-employment benefit amounts to 50% of the most recent fixed compensation payment and 12% of the average bonus for the last five fiscal years. For each year of service, a member of the Executive Board attains a benefit entitlement amounting to 10% of the maximum post-employment benefits, until the full entitlement has been achieved after ten years. Mr. Wennemer, Dr. Hippe, Dr. Neumann, and Dr. Nikolin are entitled to an adjustment of the post-employment benefit after commencement of such benefit payments in the event of a 5% change in the consumer price index. Otherwise the adjustment is carried out in accordance with section 16 of the *Gesetz zur Verbesserung der betrieblichen Altersversorgung* (German Occupational Pension Improvement Act). A transitional payment or any other income is offset from the post-employment benefit.

No compensation agreements exist with the members of the Executive Board in the event of a takeover bid for, or a change of control of, the Company. No payments were promised or granted in 2007 to members of the Executive Board by a third party in respect to their activities in the Executive Board.

The total remuneration of each individual member of the Executive Board for the fiscal year, broken down into fixed and variable components, and the individual pension expense in the previous fiscal year, as well as the amount and value of the stock options granted under stock option plans, is disclosed in the table below. Further details of the stock option plans are given in Note 22 to the consolidated financial statements.

Remuneration of the Executive Board in 2007

in € thousands	Remuneration components				Stock options granted[3]		Pensions
	Fixed[1]	Variable	Long-term incentives[2]	Total	Quantity	Compensation cost[4]	Service cost 2007[5]
M. Wennemer	752	1,824	1,085	3,661	30,000	795	633
Dr. A. Hippe	502	1,501	724	2,727	20,000	525	193
G. Lerch	475	1,357	724	2,556	20,000	293	0
Dr. K.-T. Neumann	544	1,396	724	2,664	20,000	361	298
Dr. H.-J. Nikolin	476	1,115	724	2,315	20,000	515	168
T. Sattelberger (until May 2, 2007)	164	383	0	547	0	128	178
Heinz-Gerhard Wente (since May 3, 2007)	307	737	238	1,282	6,600	117	39
W. L. Kozyra (Deputy Member)	319	741	560	1,620	15,480	301	211
Total	**3,539**	**9,054**	**4,779**	**17,372**	**132,080**	**3,035**	**1,720**

[1] In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.

[2] Market values of the stock options granted in 2007.

[3] The stock options granted in 2007 relate to the 2004 stock option plan.

[4] The amount of personnel expense carried in the consolidated financial statements (compensation cost) in 2007 for the stock options granted under the stock option plans in 2007 or prior years.

[5] The service cost component of pension expense for 2007 calculated in accordance with international accounting principles.

Remuneration of the Executive Board in 2006

in € thousands	Remuneration components				Stock options granted[3]		Pensions
	Fixed[1]	Variable	Long-term incentives[2]	Total	Quantity	Compensation cost[4]	Service cost 2006[5]
M. Wennemer	750	1,824	947	3,521	30,000	570	626
Dr. A. Hippe	488	1,130	632	2,250	20,000	369	199
G. Lerch	467	1,743	316	2,526	10,000	143	223
Dr. K.-T. Neumann	471	1,084	632	2,187	20,000	148	221
Dr. H.-J. Nikolin	474	1,061	632	2,167	20,000	352	167
T. Sattelberger (until May 2, 2007)	474	1,130	632	2,236	20,000	310	521
W. L. Kozyra (Deputy Member since February 22, 2006)	307	639	313	1,259	9,900	164	186
Total	**3,431**	**8,611**	**4,104**	**16,146**	**129,900**	**2,056**	**2,143**

[1] In addition to cash components, the fixed remuneration includes non-cash elements, such as company cars, insurance, and moving costs.

[2] In the Annual Report for 2006, the compensation cost for that year was included in the total remuneration of the Executive Board under long-term incentives. For comparison purposes, the market values of the stock options granted in 2006 have been included in the year under review.

[3] The stock options granted in 2006 relate to the 2004 stock option plan.

[4] The amount of personnel expense carried in the consolidated financial statements (compensation cost) in 2006 for the stock options granted under the stock option plans in 2006 or prior years.

[5] The service cost component of pension expense for 2007 calculated in accordance with international accounting principles.

1999 stock option plan

In 2007, Mr. Wente exercised 2,000 stock option rights (average exercise hurdle €21.14) which had been granted to him as a senior executive. Otherwise, the members of the Executive Board had no more stock options under the 1999 stock option plan.

The average exercise price was €9.15 following deduction of the performance and outperformance discounts.

Stock option plan 2004		Outstanding at Jan. 1	Exercised	Granted	Expired	Outstanding at Dec. 31	Exercisable on Dec. 31[1]
M. Wennemer	Number of stock options	85,000	25,000	30,000	–	90,000	–
	Average exercise hurdle (€/unit)	69.07	43.10	118.65		92.81	
Dr. A. Hippe	Number of stock options	55,000	15,000	20,000	–	60,000	–
	Average exercise hurdle (€/unit)	69.86	43.10	118.65		92.81	
G. Lerch	Number of stock options	22,600	6,000	20,000	–	36,600	–
	Average exercise hurdle (€/unit)	71.88	43.10	118.65		102.15	
Dr. K.-T. Neumann	Number of stock options	25,000	–	20,000	–	45,000	–
	Average exercise hurdle (€/unit)	86.64	–	118.65		100.86	
Dr. H.-J. Nikolin	Number of stock options	52,000	12,000	20,000	–	60,000	–
	Average exercise hurdle (€/unit)	71.40	43.10	118.65		92.81	
T. Sattelberger (until May 2, 2007)	Number of stock options	46,000	–	–	46,000	–	–
	Average exercise hurdle (€/unit)	75.10	–	–	75.10	–	–
H.-G. Wente (since May 3, 2007)	Number of stock options	19,200	–	6,600	–	25,800	6,000
	Average exercise hurdle (€/unit)	68.47	–	118.65	–	81.31	18.74
W. L. Kozyra (Deputy Member)	Number of stock options	28,800	9,000	15,480	–	35,280	–
	Average exercise hurdle (€/unit)	68.47	43.10	118.65		96.96	

[1] The average exercise price is stated for the exercisable options.

The average exercise price was €18.74 after taking into account the performance discounts and outperformance adjustment.

Option rights granted under the 2004 stock option plan could be exercised for the first time in 2007.

Remuneration of the Supervisory Board

Article 16 of the Articles of Incorporation regulates the remuneration paid to members of the Supervisory Board. It consists of a fixed and a variable component, which is based on net income per share in the previous fiscal year. Chairmanship and deputy chairmanship of the Supervisory Board and membership and chairmanship of its committees qualify for higher remuneration. In addition, the members of the Supervisory Board are paid meeting attendance fees and their expenses are reimbursed. The D&O insurance policy also covers members of the Supervisory Board. However, in line with their responsibilities, the appropriate deductible is lower than that of the Executive Board.

The remuneration of individual members of the Supervisory Board in 2007 as provided for under these arrangements is presented in the table below.

Shares held by Supervisory Board and Executive Board members/directors' dealings

In 2007 and up to and including February 1, 2008, the members of the Supervisory Board and Executive Board held shares representing a total interest of less than 1% in the common stock of the Company. In 2007, Continental AG disclosed in accordance with section 15a of the *Wertpapierhandelsgesetz* (German Securities Trading Act) that five members of the Executive Board had acquired and immediately sold a total of 54,000 shares under the stock option plans, that a member of the Executive Board had sold 17,420 shares in addition, and that a member of the Supervisory Board had acquired and immediately sold 6,000 shares under the stock option plans.

Hanover, March 2008

Continental AG

The Supervisory Board The Executive Board

Remuneration of the Supervisory Board

in € thousands	Remuneration components			
	2007		2006	
	Fixed[1]	Variable	Fixed[1]	Variable
Dr. Hubertus von Grünberg	83	120	17	360
Werner Bischoff	62	90	12	270
Dr. h. c. Manfred Bodin	42	60	9	180
Dr. Diethart Breipohl	62	90	11	225
Michael Deister	63	90	11	225
Dr. Michael Frenzel	41	60	8	180
Prof. Dr.-Ing. E.h. Hans-Olaf Henkel	41	60	8	180
Michael Iglhaut (since March 16, 2006)	61	90	8	173
Gerhard Knuth (until March 15, 2006)	0	0	2	46
Hartmut Meine	42	60	8	180
Dirk Nordmann	42	60	9	180
Jan P. Oosterveld	42	60	9	180
Dr. Thorsten Reese	63	90	12	225
Jörg Schönfelder	41	60	9	180
Jörg Schustereit	42	60	8	180
Fred G. Steingraber	41	60	8	180
Prof. Dipl.-Ing. Jürgen Stockmar	41	60	9	180
Christian Streiff	41	60	8	180
Dr. Bernd W. Voss	83	120	13	270
Dieter Weniger	41	60	8	180
Erwin Wörle	41	60	9	180
Total	**1,015**	**1,470**	**196**	**4,134**

[1] Including meeting-attendance fees

Management Report

Management Report

Corporate Profile
26 Overview
27 Structure of the Corporation
28 Business Activities, Organization, and Locations
41 Corporate Strategy

Corporate Responsibility
47 Employees
50 Environment
52 Acting Responsibly

Economic Climate
54 Macroeconomic Development
55 Industry Development

Pro Forma (Old Structure)
59 Corporation
63 Automotive Systems Division

Earnings, Financial and Net Assets Position
67 Earnings Position
73 Financial Position
75 Net Assets Position
Development in the Divisions
78 Chassis & Safety
81 Powertrain
84 Interior
87 Passenger and Light Truck Tires
90 Commercial Vehicle Tires
93 ContiTech
96 Earnings, Financial and Net Assets Position of the Parent Company
101 Supplementary Report on Events Occurring after December 31, 2007
102 Risk Report

Report on Expected Developments
106 Economic Conditions in the Following Two Fiscal Years
110 Outlook for the Continental Corporation

Overview

Continental is one of the world's leading automotive industry suppliers. Our goal is to make individual mobility safer, more comfortable, and more sustainable.

Continental was founded in Hanover in 1871 and is currently the fifth largest automotive supplier in the world and the second largest in Europe. We are a specialist for hydraulic and electronic brake systems, driving dynamics control, powertrain technologies, networked active and passive safety systems, sensor technology, infotainment and telematics, tire technologies, and technical elastomers. In its six divisions – Chassis & Safety, Powertrain, Interior, Passenger and Light Truck Tires, Commercial Vehicle Tires, and ContiTech – Continental has 151,654 employees (as of December 31, 2007) working at nearly 200 locations in 36 countries.

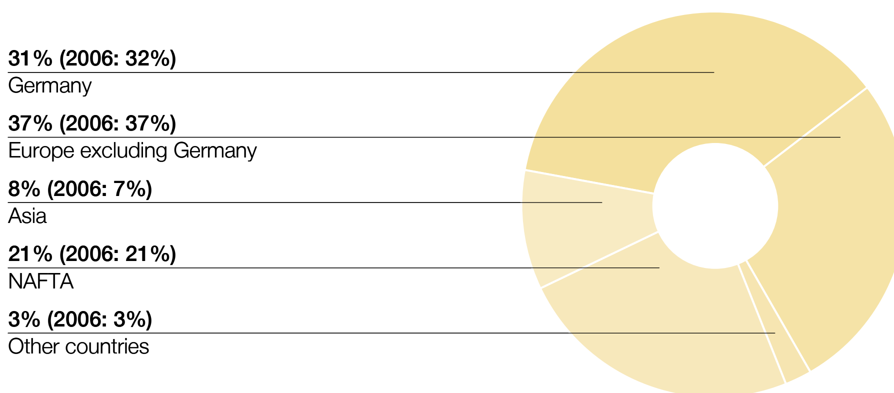
Most of our business units hold leading competitive positions in their respective markets. For example, we are number one worldwide for foundation brakes, safety electronics, telematics, vehicle instrumentation, and fuel supply systems, and number two for electronic brake systems and brake boosters. In the tire sector Continental ranks fourth worldwide, and is market leader in Europe in passenger and light truck tires, winter tires, and industrial tires. ContiTech is also the world leader in the markets for foil for automotive interiors, conveyor belts, and air springs for rail vehicle technology, as well as other sectors.

Siemens VDO adds strength

Now more than ever, Continental stands for intelligent, innovative and sustainable mobility of the future thanks to the acquisition of Siemens VDO in 2007. This move has significantly improved our scope of business activities in Europe, North America, and Asia. Today, we are an even more powerful partner to the automotive industry, and we see additional growth opportunities primarily in the following automotive industry trends:

- Higher standards demanded by motorists and increasingly comprehensive statutory requirements will heighten demand for active and passive vehicle safety components and systems.
- Ever more stringent consumption and emissions standards as well as the wishes of end consumers are leading to a growing need for environmentally compatible and climate-friendly power transmission systems for conventional engines, and for those equipped with hybrid technology.
- The rise in the volume of data and information exchanged between vehicles, drivers, and their environment will give birth to new markets involving networked systems and products in the areas of information and telematics.
- Demand for affordable cars will experience double-digit growth worldwide in the next few years.

Sales by region (as of December 31, 2007)



Structure of the Corporation

The Continental Corporation is divided into six divisions. The acquisition of Siemens VDO led to a significant expansion of our automotive spectrum.

New structure

The acquisition of Siemens VDO led to a significant expansion of our automotive activities. This is also reflected in the Corporation's structure:

- The core of the new **Chassis & Safety** division employing approximately 28,000 people is the bulk of the business contained in our former Automotive Systems division. This new division combines the active and passive safety activities and driver assistance systems of both companies.

- The new **Powertrain** division, which has around 32,000 employees, stands for innovative and efficient powertrain system solutions. The former business areas of Continental and Siemens VDO were united to form this division.

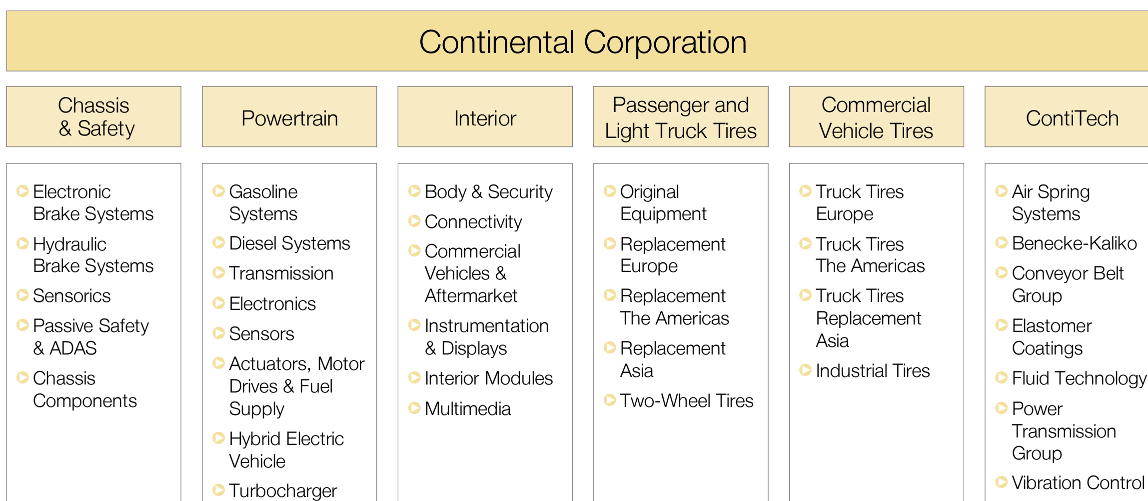
- The new **Interior** division with approximately 33,000 employees is positioned as the market and technological leader in information management between the vehicle, driver and passengers, between vehicles themselves, and between the vehicle and its environment, as well as in the wireless integration of mobile devices into the vehicle. This division was formed from the complementary operating units at Continental and Siemens VDO.

- Employing around 26,000 people, the **Passenger and Light Truck Tires** division develops and manufactures tires for compact, medium-size, and full-size passenger cars and light trucks in addition to extended mobility systems. Motorcycle and bicycle tires are also included in this division.

- The **Commercial Vehicle Tires** division has a workforce of approximately 8,000 and markets truck, bus, industrial and off-the-road tires suitable for a wide spectrum of applications and conditions.

- The **ContiTech** division, which employs around 24,000 people, is the world's largest manufacturer in the field of rubber and plastics technology outside of the tire industry. The division develops and produces functional parts, components, and systems for the automotive industry and for many other key sectors.

Cross-divisional centralized functions have been established for the three automotive divisions – Chassis & Safety, Powertrain, and Interior. These include the areas of technology and innovation projects, global customer support, purchasing, and quality.



Business Activities, Organization, and Locations

Our organization consists of decentralized, entrepreneurially responsible units. An all-round customer focus, uncompromising quality, systematic cost management, maximum efficiency, and a high degree of innovativeness make them successful.

Chassis & Safety Division

This division comprises our expertise in the areas of driving safety and dynamics, as well as driving stability, brakes, chassis, and sensor technology. The product portfolio ranges from intelligent and integrated safety and electronic brake systems, through driver assistance and occupant protection systems, to chassis electronics. The success of our technologies is reflected in products with a strong market position like electronic stability control (ESC), adaptive cruise control, and future-oriented developments such as vehicles equipped with ContiGuard® that can prevent accidents and injuries.

With around 28,000 employees at 61 locations in 21 countries, Chassis & Safety generated sales of €4.6 billion in the year under review. The division is divided into five business units:

- Electronic Brake Systems
- Hydraulic Brake Systems
- Sensorics
- Passive Safety and Advanced Driver Assistance Systems (ADAS)
- Chassis Components

The **Electronic Brake Systems** (EBS) business unit stands for innovative electronic brake systems and software solutions for brake control and chassis control functions.

The **Hydraulic Brake Systems** (HBS) business unit is one of the world's leading suppliers of brake and brake actuation systems, such as brake discs and calipers, parking brakes, electric parking brakes, brake boosters, as well as mechanical, electronic and hydraulic brake assist systems.

As market leader in wheel speed, chassis control, engine speed and ESC sensors, the **Sensorics** business unit supplies its customers with base products for all applications.

The **Passive Safety & Advanced Driver Assistance Systems (ADAS)** unit's business consists of systems for driver assistance and safety electronics for networked proactive and reactive vehicles. Its products, such as ContiGuard, adaptive cruise control systems and lane departure systems, allow drivers to overcome complex or critical driving situations.

The **Chassis Components** business unit supplies a wide spectrum of solutions for active chassis technology, such as electric steering systems and cleaning systems, that contribute to improved driving safety, comfort, and driving pleasure.

Market positions

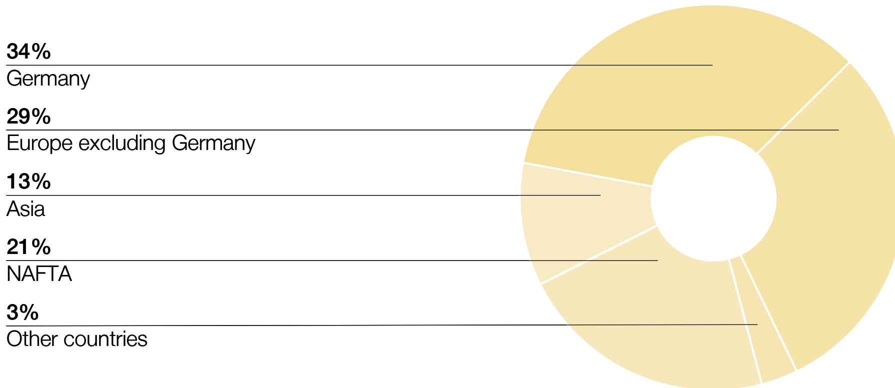
The Chassis & Safety division has become a leader in many market segments. We are number one worldwide in foundation brakes, as well as in air spring and airbag electronics, and number two in electronic brake systems and brake boosters.

Opportunities for growth

With its driver assistance and safety systems, the Chassis & Safety division is excellently positioned, particularly in light of the ever-increasing demands in respect of safety. Numerous regulatory efforts by international authorities and lawmakers will make the market for vehicle safety systems grow substantially. The European Commission has set the goal of cutting the number of accident fatalities from around 40,000 in 2000 to half this figure by 2010. The U.S. National Highway Traffic Safety Administration has ruled that almost all passenger cars and small delivery trucks sold in the U.S.A. on or after September 1, 2011 must be equipped with ESC.

The Chassis & Safety division is working on the development of new products for the new markets, for example on smaller and lighter brake components and antilock braking systems. This is one of the reasons why we acquired Automotive Products Italia (AP), the Italian drum brake manufacturer, in July 2007. Through AP's global

Chassis & Safety Division: Sales by region (as of December 31, 2007)



presence, we will grow in the established markets as well as in the emerging countries of China and India, where we will offer high-quality, cost-effective brake systems tailored to local requirements.

Product highlights:

Sensor can prevent accidents in urban traffic

More than two-thirds of accidents involving injuries happen in urban traffic. This is why we developed a sensor that can reduce the severity of accidents at low speed or even avoid such accidents entirely. The pre-crash system scans the area around the vehicle up to ten meters to the right, to the left, and straight ahead. If the sensor signals strike an object, a receiver unit uses the signals to calculate the distance to the car ahead and the closing speed. If the distance between the vehicles closes so rapidly that a rear-end collision is imminent, the braking system builds up sufficient pressure that the brakes respond immediately when the driver applies the brake pedal. If the driver takes his foot off the gas pedal, the system applies the brakes automatically. If the driver does not apply enough pressure to the brake, the brake assist function is initiated. These measures can prevent an accident if a vehicle is driving up to 35 km/h towards a stationary obstacle.

Electro-hydraulic combi brake for demands of the future

Demands on brakes of the future will include high operational reliability and comfort, many more functions, smart parking brake concepts and the ability to integrate into networked control systems. Brake-by-wire, or the electro-mechanical braking system, will open up these possibilities and can be installed in vehicles either as a mixed braking system with just a “dry” rear-axle brake, or as a full brake-by-wire system. Electro-mechanical brake calipers are ideal for integration into a global chassis control system. We see our electro-hydraulic combi brake (EHC) as the premium solution for linking innovation with safety functions. With high-performance hydraulic brakes on the front and electro-mechanical brakes on the rear axle, EHC combines proven technology with innovative functions and – when incorporated into future powertrain concepts – will enable effective energy recovery during the braking procedure.

Powertrain Division

The Powertrain division brings together innovative and efficient system solutions affecting every aspect of a vehicle's drivetrain. In line with the motto "Experience passion-driven mobility," this division has set itself the goal of making vehicle powertrain systems even more economical and environmentally friendly without compromising the pleasure of driving. With its innovative products, the division is very well placed to work towards the vision of zero-emission mobility. For example, high-precision and high-performance piezo injection has set new standards for diesel and gasoline engines in terms of fuel consumption and emissions. Hybrid drive systems take the trend toward greater efficiency one step further.

With approximately 32,000 employees at 68 locations in 21 countries, Powertrain generated sales of €1.2 billion in 2007. The division is divided into eight business units:

- Gasoline Systems
- Diesel Systems
- Electronics
- Transmission
- Sensors
- Actuators, Motor Drives & Fuel Supply
- Hybrid Electric Vehicle
- Turbocharger

The expertise of the **Gasoline Systems** business unit lies in highly advanced manifold and direct injection systems, both for traditional fuel (gasoline) and alternative fuels such as natural gas, liquid petroleum gas, or ethanol.

Since 2000, the **Diesel Systems** business unit's piezo common rail injection systems have stood for more efficient combustion in diesel engines. Engines fitted with piezo common rail injection are more economical and quieter, while simultaneously offering improved performance. Piezo technology injects diesel fuel more precisely and atomizes fuel more finely.

The **Electronics** business unit produces intelligent electronics for powerful, economical, clean, and quiet engines. Since the end of the 1990s, greater use of automotive electronics has saved 15 million metric tons of CO_2 in Germany alone, despite increased mileages and more vehicles on the road.

The **Transmission** business unit develops and produces electronics for controlling the latest automatic transmissions, such as stepped automatic transmissions, continuously variable transmissions (CVT), automatic gearshift systems, double-clutch transmissions, transfer boxes, and all-wheel drive systems.

Without exception, every future drivetrain component and system will be electronically controlled, and the **Sensors** unit will play a key role in this. Sensors allow more precise engine control, reducing emissions and fuel consumption even further, and improving performance, service life, comfort and safety.

The **Actuators, Motor Drives & Fuel Supply** business unit is responsible for actuators, electromotive drives, fuel supply systems, and fuel tank ventilation and leak diagnosis systems. Actuators trigger electrical signals, such as for opening and closing valves. Electromotive drives are used in many vehicle applications, e.g. for the radiator fan and the heating/ventilation/air conditioning systems.

The **Hybrid Electric Vehicle** business unit develops components and systems for hybrid, electric and fuel cell vehicles. One of the key factors determining the overall performance of an electric drive system is the performance of the battery. We will commence series production of lithium-ion batteries at the end of 2008.

Turbochargers, particularly in conjunction with direct injection, offer "downsizing" opportunities, i.e. the use of smaller, more economical gasoline engines without compromising performance. So gasoline engines are now beginning to rival the latest diesel engines. The Powertrain division's Turbocharger business unit is pressing on with turbocharger developments.

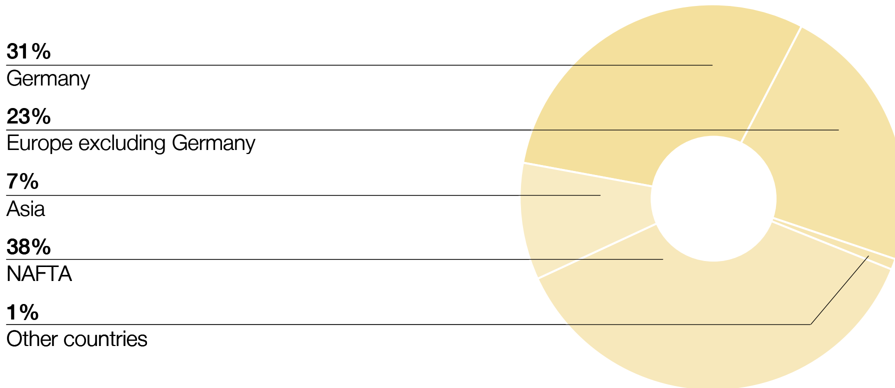
Market positions

The division is the world market leader in fuel supply systems, engine actuators, passive and pressure sensors, transmission and drivetrain control. We are number two in the diesel and gasoline injection systems market.

Opportunities for growth

The Powertrain Division is working hard on innovative technologies aimed at permanently reducing CO_2 emissions. This includes progressive electrification of the drivetrain.

Powertrain Division: Sales by region (as of December 31, 2007)



Our hybrid drives – the combination of internal combustion engine and electric motor – reduce a vehicle's fuel consumption and emissions by up to 25%. In parallel with our work on hybrid drives, we are driving forward further developments to gasoline and diesel engines with the aim of decreasing the fuel consumption of gasoline engines and the emissions of diesel engines even further, because in our estimation the internal combustion engine will remain the dominant power transmission system beyond the coming decade. Engines with piezo common rail injection systems will ensure compliance with the emission limits for nitrogen oxides and particulate matter applicable starting in 2014, and reduce CO_2 emissions by 3% compared with conventional diesel direct injection systems. Reductions of more than 15% in CO_2 emissions are made possible by using our turbochargers.

Product highlights:

Piezo gasoline direct injection sets new standards
Another milestone in fuel consumption and CO_2 emissions was achieved by transferring piezo technology from the diesel engine to the gasoline engine. Piezo direct injection reduces consumption and CO_2 emissions by up to 20% compared with conventional manifold injection. After piezo gasoline direct injection was introduced in BMW's six-cylinder twin turbo engine in 2006, four and six-cylinder engines with piezo gasoline direct injection for stratified-charge operation were launched on the market in volume models in 2007. Piezo gasoline direct injection saves approximately 800 kilograms of CO_2 annually for a vehicle in the full-size segment. Smaller, highly-turbocharged engines, particularly in conjunction with direct injection, offer "downsizing" opportunities – they replace larger normally aspirated engines without compromising performance. In this way, "downsizing" with direct injection has the potential to reduce CO_2 emissions of gasoline engines close to those of modern diesel engines.

Series production of lithium-ion batteries
Lithium-ion technology is the key to the success of hybrid drives and electric vehicles. Lithium-ion batteries have a much higher level of energy density than conventional batteries, giving electric drive vehicles a bigger range with the added benefits of taking up only a similar amount of space and being much lighter in weight. Continental will put lithium-ion batteries into production at the end of 2008.

Interior Division

The Interior division combines all activities relating to the management and visualization of information in the vehicle. This information is becoming more and more important due to increasing driver demands in the areas of operation, function, and safety. "Always On" is the division's goal: Drivers should have any information they want available to them at all times, stay connected to the outside world when they want, and retain complete control of the vehicle – with all of this being available at optimum cost to the vehicle manufacturers and consumers. The product portfolio of this division ranges from instrument clusters and access and control systems to audio and navigation platforms as well as telematics systems for passenger cars and commercial vehicles.

Interior has 68 locations in 22 countries, where some 33,000 employees generated sales of €1.5 billion in 2007. The division is divided into six business units:

- Body & Security
- Connectivity
- Commercial Vehicles & Aftermarket
- Instrumentation & Displays
- Interior Modules
- Multimedia

Electronic control units from the **Body & Security** business unit are invisible to drivers, but oversee the vehicle's functions to help drivers safely and conveniently open and load the vehicle and reach their destination. The next generation of vehicles will already include a tire sensor via which other systems within the vehicle can obtain precise information about the tires. Such information will then enable the braking system, for example, to react better in critical driving situations.

The **Connectivity** unit focuses on connecting vehicles with the outside world and integrating mobile devices into the vehicle. eCall, an automatic emergency call system that, in the event of accident, independently relays the vehicle's position and the severity of the accident to rescue services, is being further developed in this business unit. In our view, eCall will become an indispensable feature in cars of the future.

Commercial vehicles and trading activities are combined in the **Commercial Vehicles & Aftermarket** business unit. It develops and manufactures products to make commercial vehicles and special vehicles safer, cleaner, more economical, and more efficient. This includes the digital tachograph, guidance and control systems for drive electronics and on-board electronics, and on-board units for toll charges, among other things. The Aftermarket subunit supplies the open automotive parts market and independent repair workshops.

Engineers and designers in the **Instrumentation & Displays** unit create customized display systems using state-of-the-art technology and devise man-machine interfaces in keeping with ergonomic principles. The product range includes economical instruments for vehicles in the low-price segment, complex instrument clusters with high-definition color displays for the premium segment, and modern head-up displays that include functions to improve night vision.

The **Interior Modules** unit has specialized in integrating various products into the cockpit. Complete cockpits are developed and produced on behalf of automobile manufacturers. Interior Modules is also the preferred supplier for the operation and control of air conditioning systems.

The **Multimedia** business unit develops and produces audio and multimedia systems with integrated navigation for all vehicle categories. These include high-performance graphic systems for the presentation of three-dimensional maps, for example.

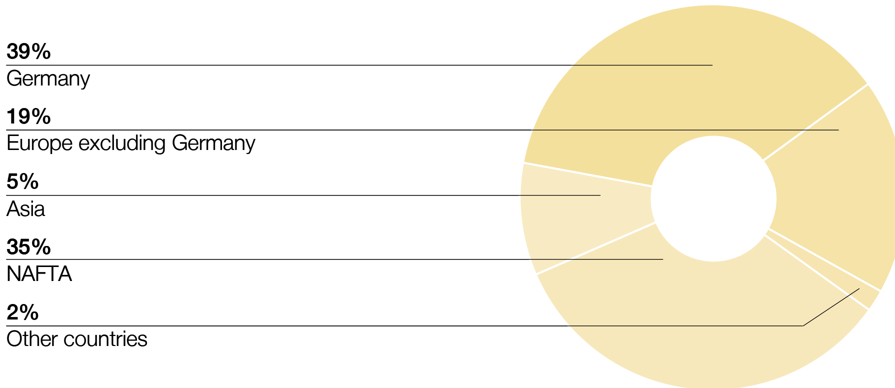
Market positions

The division is number one worldwide in instrumentation, telematics systems, access systems and body electronics for passenger cars, and number two in radio, air conditioner controllers and tire pressure monitoring systems. It is also the world leader in tachographs, control systems and sensors, instrumentation and complete driver workplaces for commercial vehicles.

Opportunities for growth

In the future it will become increasingly important to ensure a manageable flow of information within a vehicle and between the vehicle and its environment. Thanks to our driver information systems and telematics, we are in an excellent position to enable the seamless integration of portable devices in cars on the one hand, while optimizing the interface between cars and drivers on the other, making driving even more comfortable and safer in the future.

Interior Division: Sales by region (as of December 31, 2007)



In addition, telematics systems will play an important role in the reduction of CO_2 emissions in the future, because they are the key to networking vehicles with each other and with the infrastructure. This enables drivers to identify traffic congestion in large cities and metropolitan areas at an early stage, and thus to avoid it.

The EU is striving to make the eCall automatic emergency call system mandatory in all new cars as of 2010. Our Connectivity business unit is very well prepared for this.

Product highlights:

Ford relies on Continental for Sync interface
The Sync telematics interface offered in new Ford models creates a wireless connection between electronic consumer devices, such as mobile phones and MP3 players, and the vehicle's audio system. The system also includes a USB port, so drivers have multiple options for importing, playing, and listening to their personal music selection in the car. The product is also voice-operated, giving drivers more convenient access to their portable devices in their vehicles.

Partnership agreed with Microsoft
Together, Continental and Microsoft Corporation will develop in-vehicle communication, information, entertainment and navigation products. Working together on the multimedia platform, Continental and Microsoft will be able to bring these advanced systems to market much faster than the automotive industry's typical product development cycle. According to current planning, the first Continental product based on Microsoft's software technology is expected to go into production as early as 2009.

The intelligent car key
Continental's intelligent bi-directional electronic locking system has already been used in three vehicle families. On demand, the key clearly notifies the driver if the car is really locked. And there is more: The car key of the future will have its own display with additional functions. Developers are working, among other things, on a key with an integrated vehicle locator to make it easier to find the car in a large parking lot, for example.

Passenger and Light Truck Tires Division

The Passenger and Light Truck Tires division develops and manufactures passenger and light truck tires for compact, medium-size, and full-size cars as well as tires for vans, light trucks, and RVs. We have a decisive advantage over pure-play tire manufacturers, because we involve the expertise of our automotive divisions in our development work. This division produces tires under the brand names of Continental, Uniroyal (except in the NAFTA region, Columbia, and Peru), Semperit, Barum, General Tire, Euzkadi, Viking, Gislaved, Mabor, Matador, and Sime Tyres.

This division also includes our two-wheel (motorcycle and bicycle) business and our retail tire companies with more than 2,000 specialty tire outlets and franchises in 18 countries.

It has 22 locations in 14 countries and a workforce of approximately 26,000. In 2007, sales amounted to €5.0 billion. 107.4 million tires were produced. The Passenger and Light Truck Tires division is divided into five business units:

- Original Equipment
- Replacement Business Europe
- Replacement Business The Americas
- Replacement Business Asia
- Two-Wheel Tires

We sell Continental and General Tire (NAFTA region) brand tires in the original equipment market, the global business with automobile manufacturers. The product range also includes extended mobility systems such as Self-Supporting Runflat Tires (SSR), which have a reinforced sidewall that support the tire in the event of a puncture, ContiSeal, a self-sealing tire introduced exclusively for Volkswagen in 2008, the ContiComfortKit, a kit with a compressor and sealant for conveniently sealing tire punctures, and the ContiMobilityKit, a less convenient but more economical version of the ContiComfortKit.

Our replacement business is divided into three regions – Europe, the Americas and Asia. In addition to Continental tires (premium brand) and Barum tires (budget brand), which are sold all over the world, it sells the following regional brands: Uniroyal, Semperit, General Tire, Euzkadi, Viking, Gislaved, Mabor, Matador, and Sime Tyres.

The product portfolio of Two-Wheel Tires ranges from bicycle tires and high-performance racing tires through to high-performance motorcycle tires for speeds up to 300 km/h for the original equipment and replacement businesses. Continental offers products for professional riders and hobby riders alike.

Market positions

Continental is the number four company worldwide in the passenger and light truck tire market. In Europe, we reached market leader position for the first time in 2007 with the inclusion of Matador. This also applies to winter tires and automobile original equipment.

Sales to the automotive industry

29.6% of sales in the Passenger and Light Truck Tires division relates to business with vehicle manufacturers, and 70.4% to the replacement business.

Opportunities for growth

Our multi-brand strategy covers all market segments – the premium, quality and budget segments. We reflected the shift in product mix towards more high-performance tires in the early expansion of our product range, particularly in the high-performance and ultra-high performance area.

We are also consistently driving the expansion of our locations in low-cost countries. After setting up a sales and distribution system for tires in China in 2006, we decided to build a new tire factory in Hefei (Anhui province), China, in 2007. Construction is slated to begin in mid-2008, and production is expected to commence in early 2010. In April 2007 we acquired a 51% interest in the tire and conveyor belt business of the Matador Group, which is headquartered in Puchov, Slovakia. This enabled us to improve our market position in Central and Eastern Europe on the one hand, and to create additional sales potential in Russia, Ukraine, and the “stan” countries on the other. We now also have a production facility, and with it, another low-cost site in Russia.

In 2007, volumes of passenger and light truck tires sold to the replacement business in the Americas increased by 12%, displaying stronger growth than the market itself. This is due not only to the comprehensive overhaul of our product offering, but also to an entirely new customer and marketing strategy, which will enable us to generate further growth in the years to come.

We established the Replacement Business Asia unit in the year under review to bundle our activities in Asia. We want to better serve our customers locally and strengthen our market position. We began building a dealer network for the sale of premium Continental brand tires in the year under review.

Our passenger tires contribute to CO_2 reduction because of their reduced rolling resistance. Over the past five years, we have succeeded in lowering rolling resistance by approximately 10%. At the same time we have improved the tires' safety characteristics, such as their resistance to aquaplaning, and braking performance on dry roads. We are working continuously on making further progress in minimizing rolling resistance, and expect our efforts to provide us with further sales potential.

Product highlights:

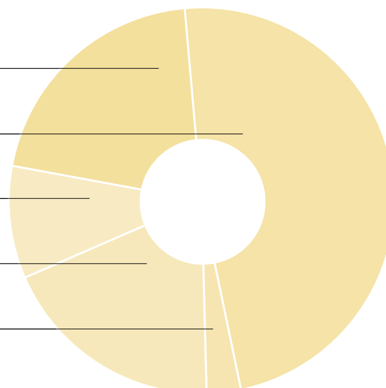
The new ContiWinterContact TS 830
Our new ContiWinterContact TS 830 is a further advancement in driving safety, tire life, and rolling resistance of winter tires. Sophisticated tread structures with a new type of 3-D sipe, improved sidewall construction, and new polymer compounds in the tread made this possible. This new winter tire is approved for speeds of up to 210 km/h and will be available from dealers as of fall 2008.

New Altimax tire line
We launched our new Altimax line of summer tires – two passenger tire models under the General Tire brand developed for the compact class to the upper mid-range class. The new Altimax RT and HP/UHP distinguish themselves above all through safe driving on wet and dry roads, good steering response, long tire life, and an attractive design. Easily recognizable indicators on the tire provide early warning of irregular wear and let the customer know when to change tires based on the minimum permissible tread depth. The Altimax RT was designed for compact cars with tires between 13 and 15 inches in diameter and is approved for speeds of up to 190 km/h, while the Altimax HP is intended for mid-sized cars that take tires between 15 and 16 inches in diameter. Approved for speeds of up to 270 km/h, the Altimax UHP will be available in sizes of up to 18 inches in diameter starting in the spring and covers sporty cars with powerful engines.

Automobile manufacturer approvals
When automobile manufacturers approve our products, they are endorsing our development expertise and the quality of our products. Currently, we have approvals worldwide for about 500 vehicle models.

We gained new approvals in the year under review, among them from Volkswagen as the exclusive supplier for its BlueMotion line. Maserati approved our tires for its Grand Turismo for the first time. In the sports car segment, we won approvals for the Jaguar XF, Porsche Carrera, Boxster and Cayman. Audi approved our tires for the S6, TT and the A5. We received approvals from Volvo for the V70, XC70 and XC 60. Our tires were also approved for all BMW Minis, the Fiat 500, the Ford Fiesta and Kuga, and the Mercedes-Benz E-Class AMG. General Motors approved our tires for the Cadillac DTS and the Chevrolet Cobalt SS. Approvals were received from Suzuki for the Splash, from Toyota for the Yaris, and from Kia for the Picanto.

Passenger and Light Truck Tires Division: Sales by region (as of December 31, 2007)



22% (2006: 24%)
Germany

51% (2006: 47%)
Europe excluding Germany

4% (2006: 4%)
Asia

20% (2006: 21%)
NAFTA

3% (2006: 3%)
Other countries

Commercial Vehicle Tires Division

The Commercial Vehicle Tires division offers bus, truck, and industrial tires for the most diverse service areas and application requirements. In certain regions, it also provides OTR (off-the-road) tires. This division's products are successful both in the original equipment and replacement markets. We distribute the Continental premium brand worldwide. In Europe the product range is supplemented by the Barum, Semperit, Uniroyal, and Matador brands. America also uses our General Tire brand products while Asia has the Sime Tyres brand.

Continental manufactures commercial vehicle tires at 12 locations in 7 countries. 7.2 million truck tires were produced in the year under review. Around 8,000 employees generated sales of €1.5 billion. The Commercial Vehicle Tires division is divided into four business units:

- Truck Tires Europe
- Truck Tires The Americas
- Truck Tires Replacement Asia
- Industrial Tires

State-of-the-art technology, a long tire life, reliable power transmission, and low fuel consumption thanks to low rolling resistance – these are the marks of the Continental-brand commercial vehicle tires we produce for light to heavy trucks and buses. Our tires are divided into the "Goods", "People", and "Construction" customer segments depending on how they are used. These tires have been developed for a wide variety of uses: long haul transportation, regional and intra-city transportation, construction site applications, and extreme terrain.

The premium range from Continental guarantees economic solutions for all transportation applications, regardless of the season. We have over 70 years of experience in the development and manufacturing of winter tires for commercial vehicles.

CONTIRE and ContiTread retread solutions help transportation companies save money and round out the product range.

Key account and retail customers also benefit from our comprehensive range of services. With its ContiTireManagement service for individual tire management and ContiBreakDownService for rapid assistance in the case of tire failure, ContiEuroService offers service packages that can be adapted to specific customer requirements. More than 7,000 partner companies across Europe guarantee a quick and trouble-free tire breakdown service – 365 days a year around the clock.

Continental industrial tires are used all over the globe, for example on transport vehicles such as forklifts. The products we offer are varied and range from solid rubber tires for situations in which avoiding punctures and preventing repairs are the key criteria, to products with a light-colored tire tread for pharmaceutical or food companies where cleanliness is the most important factor.

Market positions

We are the number four company worldwide in the truck tire market. In Europe, we are number two in the original equipment business and number three in the replacement business. We are Europe's market leader for industrial tires.

Sales to the automotive industry

24.5% of the Commercial Vehicle Tires division's sales relates to business with vehicle manufacturers and 75.5% to the replacement business.

Opportunities for growth

Key regions for future growth will be South America and Asia in particular. As a result, we have established suitable production capacity at our locations in Camaçari, Brazil, and Petaling Jaya, Malaysia.

The 51% interest in the tire and conveyor belt business of the Matador Group, headquartered in Puchov, Slovakia, significantly improved our truck tire market position in Central and Eastern Europe as well. This created additional sales potential in Russia, Ukraine, and the "stan" countries.

We have also set up a new business unit in the Commercial Vehicle Tires division. The Truck Tires Replacement Asia unit will help us strengthen our business in that region. We began building a dealer network for the sale of premium Continental brand tires in the year under review.

We are expanding the manufacturing capacity at our North American facility for truck tires in Mount Vernon, Illinois. When the project is completed at the end of 2008, 90% of the tires we sell in the United States will come from U.S. production. In this way, we can use some of the manufacturing capacity at other plants that was previously used to supply the U.S. market to supply

the European and Asian markets instead, thus catering for the rising demand for our products in America. At the same time, we have significantly reduced our exchange rate risk.

In 2007 we started to overhaul our entire product range, placing special focus on reducing the rolling resistance of our tires. Since 2002, we have succeeded in lowering the rolling resistance of various truck tire lines by 8%. This means a 3% or 4 metric ton reduction in CO_2 emissions, or a saving of 1,600 liters of diesel, over a distance of about 150,000 kilometers (equals the average number of kilometers traveled each year by a semitrailer truck). We want to lower the rolling resistance by another 10% by 2012.

Product highlights:

Enhanced comfort in coaches

Whether for long-distance travel or a mixture of regional and overland tours, the right choice of tire will have a definite impact on operator profit margins, on vehicle safety and, to a great extent, on passenger comfort, an all-important factor in a successful bus and coach travel business. Continental's HSL1 and HSR1 tires for coaches are the ideal choice. They run smoothly and quietly, thus contributing significantly to the well-being of passengers. A combination of special tread design and specially formulated rubber compound ensure maximum steering response and tracking stability. At the same time, operators using these tires benefit from lower operating costs and better fuel economy. Their uniform wear pattern is guaranteed by an extremely wide contact patch and circumferential ribs, with low fuel consumption being achieved thanks to their shoulder groove and a rubber compound specially engineered for this application.

The new Continental construction site tires

Continental's Commercial Vehicle Tires division serves a third segment in addition to the segments of people and goods transportation, namely construction sites. The new HSC1, HDC1 and HTC1 tires can be distinguished from their predecessors by their new tread design. Greater tread depth and a higher land-sea ratio in the tread elements for a longer tire life, improved handling, optimized traction and enhanced performance reserves are the product benefits. Worldwide, construction site vehicles travel a total of about 750 billion kilometers a year. The areas of tire application can be divided into two different categories: on and off-the-road. Our HSR1 and HDR+ tires are ideally suited for vehicles operating mainly on the road, while the HSO and HDO models are designed for off-the-road use only. Our new construction tires HSC1, HDC1 and HTC1 fit exactly in between. Their special features are outstanding traction, excellent puncture resistance and very good handling characteristics on a wide variety of ground surfaces. This new generation of tires is characterized by smooth running properties, safe driving on and off the road, plus an extremely high durability – all that being provided at low cost.

Commercial Vehicle Tires Division: Sales by region (as of December 31, 2007)

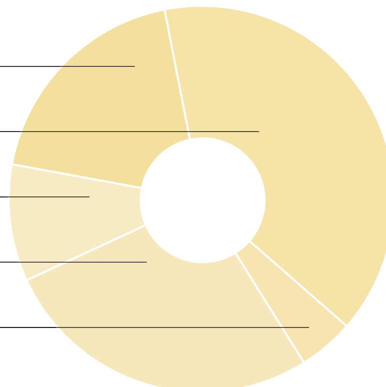
20% (2006: 19%)
Germany

41% (2006: 36%)
Europe excluding Germany

6% (2006: 6%)
Asia

28% (2006: 34%)
NAFTA

5% (2006: 5%)
Other countries



ContiTech Division

As a technology partner and original equipment manufacturer, the ContiTech division develops and produces functional parts, components, and systems for the automotive industry, machine and apparatus manufacturing, rail vehicles, printing, the building trade, the chemical and petrochemical industries, maritime navigation and aviation, and mining.

ContiTech has manufacturing operations at 61 locations in 21 countries. Around 24,000 employees generated sales of €3.1 billion in 2007. ContiTech is divided into seven business units:

- Air Spring Systems
- Benecke-Kaliko
- Conveyor Belt Group
- Elastomer Coatings
- Fluid Technology
- Power Transmission Group
- Vibration Control

Air springs made by **Air Spring Systems** are an essential safety and comfort-related feature on trucks, semitrailers and buses. This business unit serves a large replacement market in addition to the original equipment needs of virtually all major vehicle manufacturers. Air springs are used also to cushion driver's cabs and seats. The broad range of products is rounded off by air springs for railway vehicles operating in local and long-distance transportation, and air springs for various industrial applications.

The **Benecke-Kaliko** business unit develops and manufactures high-grade plastic surfacing materials used in vehicle interiors: instrument panels, door trims, leatherette for seats, and smaller parts like sun visors and ski sacks. Benecke-Kaliko offers a wide variety of material types, processing techniques and surface technologies and is well-known in the market for its leather-simulation technology, for example.

The **Conveyor Belt Group** supplies the worldwide mining industry – for both surface and underground mining operations – with high-performance conveyor belts that are individually tailored to the job in question. In this industry, the ContiTech and Phoenix brands hold a number of "world records" in terms of belt length, tensile strength and other physical properties. Other segments include miscellaneous industrial applications and special products like conveyor belts combined with ropeways for transporting materials over impassable terrain.

The **Elastomer Coatings** unit is engaged in coating reinforcing materials – mainly fabric, but also thin metal sheets – and supplies products like printing blankets for the printing industry and diaphragms. Its core area of competence is high-precision micron coatings. Life raft materials, on the other hand, must be capable of withstanding damage by seawater.

Hoses and hose lines made by **Fluid Technology** are installed in passenger and commercial vehicles, and used in many other industries such as machine construction, as well as for widely varying applications like crude oil transportation and food processing. ContiTech can boast engineering leadership for products such as heatable hose lines to reduce emissions from diesel engines (SCR technology), hose lines for soot particle filters, high-pressure hoses for active chassis systems and highly flexible charge air hoses.

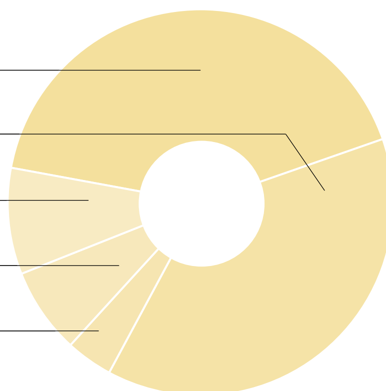
The **Power Transmission Group** develops and manufactures drive belts, matched components and complete belt-drive systems for vehicles, machinery and equipment. Developments include timing belts that last for the life of the car, and timing belts for use in oil. This business unit leads the multiple V-ribbed belt segment as a result of achieving further reductions of belt operating noise in cars.

Vibration Control develops and manufactures engine and chassis mounts for the automotive industry, as well as high-precision sealing elements for the chassis, brake and steering system. Anti-vibration and noise control products are also supplied to other branches of industry, such as wind turbine manufacturers. In addition, this business unit has a strong expertise in plastics (polyurethane) engineering.

Market positions

ContiTech is positioned at the forefront of the global market for non-tire rubber products. It is the world market leader for heat-resistant charge air hoses for cars, transportation hoses for use in large excavators and the oil industry, conveyor belts, air springs for rail vehicle technology, and foil for vehicle interiors. Moreover, the division is the European market leader for vehicle hoses and hose lines, and air spring systems for commercial vehicles, as well as for timing belts and multiple V-ribbed belts.

ContiTech Division: Sales by region (as of December 31, 2007)



Sales to the automotive industry
54.4% of sales in the ContiTech division relates to business with vehicle manufacturers, and 45.6% to business with other industries and the replacement market.

Opportunities for growth
In many areas of our activities, we will be able to transfer successful engineering achievements and industrializations to other products: for example by using our SCR hose lines, which are highly successful in commercial vehicles, in passenger car diesel engines too, or extending the use of our proven polyurethane belts from elevator construction to other areas of application.

The establishment of new plants in countries like China, Mexico and Brazil gives birth to a whole multitude of growth opportunities in Asia, the NAFTA region and the Mercosur countries. For example, Vibration Control is in the process of setting up manufacturing facilities for engine mounts in China and Mexico, specifically for General Motors to begin with. Benecke-Kaliko is starting to produce foil for vehicle interiors in Mexico, at the same site.

The Conveyor Belt Group already has a fairly global base thanks to its two plants in Asia and two plants in Latin America, although it intends to expand its worldwide presence even further. This makes the business unit less dependent on the declining demand within the West European mining industry.

Moreover, our acquisition of Matador is expected to provide the Conveyor Belt Group with additional opportunities for growth, especially in Eastern Europe. Alongside the Hungarian conveyor belt facility, which specializes in textile-reinforced belts, we are now gaining not only access to the market itself, but also a production site for conveyor belts with steel cable reinforcement. Our target markets are the Eastern EU countries, as well as Russia and Ukraine.

Our acquisition of UK-based hose manufacturer Thermopol at the beginning of 2007 strengthens our market position on the high-temperature hose market, which is growing at an above-average rate. Its plants in the U.S.A. and Korea also allow us to better supply our customers in these regions.

In the Benecke-Kaliko business unit, our focus on the growing business of high-quality foil for car interiors presents us with new sales opportunities.

Product highlights:

ContiLock R – safe and economical
Tight hose connections in air conditioning systems are becoming more and more important. When European Directive 2006/40/EC goes into effect in 2011, car air conditioning systems will have to be equipped with new coolants such as CO_2. We have developed low-permeation and flexible hose lines that make it possible to comply with these stringent regulations. However, the system can only be as tight as the connections between the lines. ContiTech has developed the ideal solution for these critical points with the ContiLock R cold-formed flat connection.

Hybrid ring revolutionizes CVT

A new drive belt developed by the ContiTech Power Transmission Group makes continuously variable transmission (CVT) possible for small cars, too. The so-called hybrid ring functions without lubrication and thus has a high coefficient of friction. Until now, high hydraulic pressure was required for the oil to lubricate the metal belts and chains used in CVT technology to control and provide contact pressure for the conical pulleys used. The dry-running hybrid ring now makes the hydraulic pump redundant. This reduces weight and necessary installation space, which plays a big role in the design of small cars. As no hydraulics are required, less energy is consumed which would otherwise have to be produced by the engine. CV transmissions enable combustion engines to run in such a way that the required propulsion power is delivered at an engine operating point that involves the least fuel consumption. Having dispensed with the hydraulics, the hybrid ring in CVT technology makes a further contribution to reducing CO_2 emissions.

Air spring system makes research on SOFIA flying observatory possible

A ContiTech air spring system provides vibration-free working conditions on board the SOFIA flying observatory (Stratospheric Observatory for Infrared Astronomy). SOFIA is a Boeing 747 SP that was converted into a laboratory to research the birth of stars and planetary systems from an altitude of 14 kilometers above the Earth's surface. The air spring technology, used primarily in commercial and rail vehicles, as well as in machinery and equipment, plays not only a supportive but also a key role on board. The telescope rests on a vibration isolation system consisting of an air spring system and silicone oil-filled dampers. It absorbs vibrational interference from the aircraft itself or from the slipstream when the hatch is open. The air spring system uses control electronics and sensors to hold the telescope in exactly the same position relative to the plane's fuselage. In this way, the highly-sensitive telescope remains perfectly aimed at the observation target at all times and supplies flawless images.

Corporate Strategy

Our strategy is based on profitable growth, innovative products, high quality, and competitive cost levels.

Our products make driving safer, more comfortable, and more sustainable. We have special know-how when it comes to brake and safety electronics, the most economical and environmentally friendly powertrain design, and the optimization of information flows within the vehicle and with the environment. Be it custom design, individual components, modules, or entire systems – our products are geared to meet the needs of vehicle manufacturers. Indeed, in many areas, we occupy a leading position in relation to our competitors.

With the acquisition of Siemens VDO in the past fiscal year, we have greatly expanded our automotive activities and thus taken an important step in Continental's strategic development. It was the largest acquisition in the history of our Company. As a result, we have made major advances as an integrated systems provider and significantly improved our position as one of the world's leading international automotive suppliers.

Profitable growth

Success in the demanding market environment in which we operate requires a strong ability to compete, which is strengthened for the long term by continuous and profitable growth. Innovative products, high quality, and competitive cost levels are essential for profitability. We will remain successful in the future only if we fulfill these conditions. The pursuit of maximum competitive ability is in line with our aspiration of achieving sustainable growth in value for our customers, suppliers, employees, and shareholders.

We want to achieve growth through our own strength and selective acquisitions, aiming for average organic sales growth of 5% annually. Following the purchase of Siemens VDO, debt repayment is our top priority in the coming years. We continue, however, to be interested in attractive acquisitions. Additions to our two tire divisions in Asia would strengthen their global market position significantly. We still see the need for action in both North America and Asia to strengthen the ContiTech division.

Our growth in the coming years will have a regional focus on Asia. We aim to participate in the positive trend in demand for automobiles that is becoming clear in this region. Our goal is for our business in Asia to account for 20% to 25% of sales by 2015. Within Asia, we see additional sales potential above all in China, followed by Japan, Korea, and India.

Innovative products

In 2007, we again impressed our customers with a large number of innovative products.

In mid-2008, the Chassis & Safety division will begin series production of a new generation of ESC control units. The integration of the yaw rate and acceleration sensors necessary for ESC (electronic stability control) directly in the control units reduces construction and integration effort, increases reliability, and cuts system costs. We have succeeded in making these sensors considerably smaller and, at the same time, more robust. Automobile manufacturers profit from this innovation through decreasing material and integration costs, since no additional casings, lines, or connectors are required. We believe that ESC will be mandatory for all new vehicles in a few years – not only in the U.S.A., but also in Europe. Under normal driving conditions, ESC can reduce the number of accidents by more than 20%; under wet or icy conditions, by as much as 30% to 40%.

Another example of our innovative ability is a new generation of tire pressure control systems that make automobiles and commercial vehicles safer, more comfortable, and more economical. A sensor module attached to the inside of the tire's tread surface not only offers more operational reliability, but also sends relevant data regarding the type of tire as well as the speed index and load index into the automobile. This helps electronic driving support systems such as ABS and ESC work more effectively. An additional integrated tire load sensor can, for instance, recognize a shifted load in a truck or small delivery van after a short driving distance. A project team of experts from the Interior division and the tire divisions is currently bringing the intelligent tire system to the production stage as part of a development order. The system can be launched at the end of 2009/ beginning of 2010. A small series is already planned for 2008.

But innovations are not limited only to our electronic product groups, as demonstrated by the self-sealing Continental tires with which the new Passat CC will come equipped. ContiSeal is a system we have developed that will maintain vehicle mobility despite the tire being punctured by a nail or screw: A protective layer on the inside of the tire's tread immediately seals any punctures made by screws or nails, thus preventing air from escaping. Almost any leak caused by an object of up to five millimeters in diameter can be sealed, thus preventing about 85% of normally occurring tire failures and maintaining ride comfort to a great extent.

Innovations that focus on environmental aspects include direct injection systems, tires with optimized rolling resistance for the reduction of CO_2 emissions, as well as hybrid engines. In conjunction with conventional drivetrains (diesel or gasoline engine) hybrid drives can contribute to reducing fuel consumption, thus cutting CO_2 emissions by as much as 25%. With the help of our innovative module concept, we are now in a position to offer the full range of hybrid versions (mild, full, plug-in hybrids) in cooperation with our partner ZF. Continental basically supplies the electric motor, the power electronics and the energy storage unit, making an essential contribution to the overall system. Furthermore, in 2007 we also managed to expand the module system with lithium-ion battery technology. This recently resulted in our being awarded roughly two thirds of all development orders placed for hybrid solutions worldwide outside of Japan.

Our high degree of innovativeness can also be seen in the ContiTech division – for instance, in drive belts. The demands on modern drive belts are constantly increasing. Above all, they have to last longer and longer. Today, modern timing belt drive systems are designed to last 240,000 to 300,000 kilometers. The ContiTech Power Transmission Group offers two innovations that were developed for special applications in engines and have proven to be particularly robust and durable: the Conti Oil Runner timing belt, which also operates in oil environments as an alternative to chain drives; and the multiple V-ribbed belt, Conti Unipower Tough Grip, which runs reliably even when other belt transmission components are out of adjustment. The new drive belts significantly reduce frictional losses. This lowers fuel consumption and thus also CO_2 emissions. Another advantage is lower noise emission. Thus the innovations are an important contribution to environmental protection.

Creative additions to our product program will also reinforce our competitive strength in the future. We see a great many more opportunities arising, because a large number of new technologies were acquired along with Siemens VDO. They have strengthened our know-how in all relevant areas. Examples include, in particular, direct injection technologies for diesel and gasoline engines, as well as additions in the area of passive safety that will offer a new boost to our efforts to integrate active and passive safety systems. Last but not least, the Siemens VDO know-how that we acquired in the area of instrumentation and secondary displays allows us to expand our solutions in the field of information technologies.

High quality

Today, the demands of vehicle buyers are greater than ever. In addition, statutory provisions have become more and more strict and product liability requirements have increased. This has significantly raised quality requirements at all levels of the production process.

As suppliers, we have to meet the requirements of vehicle manufacturers in order to be considered a qualified partner in the future as well. We achieve this by employing an efficient quality management system and continuous improvement processes. The numerous awards we received from our customers underscore the quality level that has been achieved and thus the success of our ongoing efforts. The ContiTech division in particular was able to report awards in a wide variety of business units: The Power Transmission Group and Gumimüvek Phoenix Hungaria, Hungary, were named Supplier of the Year by Volkswagen. Our Mündener Gummiwerke (MGW) facilities also won the supplier prize from MAN in 2007. Moreover, the ContiTech Vibration Control business unit, which was named Supplier of the Year by GM for the fourth year in a row, deserves special mention. The Passenger and Light Truck Tires division won the "Quality Achievement and Delivery Award" from Subaru of Indiana Automotive, Inc., in 2007, for example.

Competitive cost levels

Next to continuous growth, the lowest possible cost level is the most important prerequisite for our ability to compete. Cost awareness in all areas is of fundamental importance to us, since the automobile manufacturers expect annual price reductions of around 3% to 5% from us as a supplier. Cost awareness affects not only the design and technical features of our products, but also the procurement of raw materials and components. The organization of production, sales, and general admini-

stration – including the necessary personnel – is also important.

In the past fiscal year, wide-ranging cost reduction measures were implemented. At our German locations, for example, we achieved a significant increase in the number of hours worked per week without an increase in pay. Additionally, our research and development activities at low-cost locations were ramped up. Thanks to the constantly increasing production volumes at our tire plant in Camaçari, Brazil, and the acquisition of the Matador Group with its registered office in Puchov, Slovakia, the percentage of production at low-cost locations in the tire divisions also increased.

The continuous reduction of our cost levels continues to be our goal – also following the acquisition of Siemens VDO. The percentage of low-cost locations among the production facilities is to be further increased. Additionally, the aim is to leverage the synergies in purchasing, and research and development activities, as well as in sales and in the administrative areas arising from the merger of the two companies.

Positive market development

With our current market orientation, we consider ourselves to be optimally positioned to take advantage of the positive developments in the automotive industry for our sales growth.

To start with, the ongoing globalization of the automotive industry will offer Continental potential for growth. With demand for automobiles in the industrial countries largely stagnant, automobile manufacturers are expanding their presence in the new markets of Eastern Europe, Asia, and Latin America. In the meantime, there have not only been increases in sales volumes in these regions, but in production capacity as well. At the same time, manufacturers are switching over more and more to using vehicle platforms as a uniform basis for the models produced for the various brands. For the automotive supplier industry, this means a steadily growing demand for vehicle components in Eastern Europe, Asia, and Latin America. These components must be manufactured at new local production sites, in some cases requiring the installation of new production processes. This is leading to a continually increasing need for capital expenditure and financing, which is driving the consolidation process in the supplier industry. Larger automotive suppliers have a clear advantage. As one of the largest suppliers in the world, we can actively drive forward the consolidation process in the automotive supplier industry through acquisitions.

However, the global relocation of production capacities is not the only source of growth. It can safely be assumed that electric and electronic components will be in especially high demand in the coming years compared to all other automotive components. Electronic components already make up 20% of the overall vehicle value today.

Market research institutes expect that this percentage will increase to around 40% in 2015. Nearly 75% of all innovations can thus be attributed to electronics. As a result of our wide-ranging expertise in the field of vehicle electronics, this development opens additional opportunities for us. This applies all the more, because we have now obtained additional know-how in this area with Siemens VDO.

Moreover, there are specific global developments which are of special significance for us. On the one hand, driving safety, networked communication in vehicles, and the reduction in fuel consumption and CO_2 emissions are becoming increasingly important. On the other hand, a new type of vehicle – so-called “affordable” cars – is becoming more and more of a concrete option for developing and newly industrializing countries.

Vehicle safety has become a central factor in purchasing decisions, especially in Europe and the U.S.A. Surveys show that in certain countries safety aspects already belong to the decisive purchasing factors. In addition, public authorities are making more efforts to improve traffic safety.

The European Commission has also set the goal of cutting the number of accident fatalities from around 40,000 in 2000 to half this figure by 2010. Additionally, it wants to make electronic stability control (ESC) mandatory for all new vehicles. The Commission is also trying to prescribe the integration of a system which, in the event of an automobile accident, will automatically send an emergency signal (eCall) giving the location and the severity of the accident directly to emergency responders. In the U.S.A., administrative efforts to improve traffic safety have already progressed further than in Europe. In order to achieve a clear reduction in the number of traffic fatalities, the implementation of electronic stability control has been mandated for nearly all automobiles sold in the U.S.A. as of 2011. Our position in this growth area has

Production at low-cost sites

in %	Europe		Rest of the world	
	2007	2006	2007	2006
Chassis & Safety*	27	25	56	49
Powertrain*	15	13	14	3
Interior*	15	12	83	68
Passenger and Light Truck Tires**	56	56	62	55
Commercial Vehicle Tires**	68	66	23	17
ContiTech*	21	18	48	41

* based on sales ** based on units

once again significantly improved in the past year through the acquisition of Siemens VDO. We now also have airbag technologies and extensive expertise for the integration of active and passive automotive safety systems at our disposal.

We have taken a further step in our efforts to integrate active and passive safety systems with our new ContiGuard system. ContiGuard is an intelligent safety system in which all active and passive safety-related functions are fully integrated. The heart of the system consists of a safety control module that calculates the probability of an accident in every traffic situation. State-of-the-art camera and sensor technologies assist in the analysis. The system then initiates appropriate, staged responses that prevent an accident completely or, if this is not possible, reduce its effects to a minimum. The concept was designed so that it can be continuously upgraded: ContiGuard still has a great deal of potential for the future. Parts of the system are already in series production. In addition, the system's interfaces are defined so that external systems can be integrated seamlessly.

The constantly increasing number of electronic components in vehicles poses a new challenge for the automotive industry. The issue of networked communication for vehicles is arising ever more frequently because of the large number of components on the one hand, and the increasing demands of drivers with respect to operation, function, and safety on the other. Information must be transferred to the vehicle, processed, and also transmitted from the vehicle – to other vehicles or to potential traffic control systems in the vicinity. The wide range of different types of information that must be continuously processed by vehicles today requires ever more sophisticated selection with regard to its processing and presentation for the driver. With our activities in fields ranging from multimedia, instrumentation, and displays to vehicle connectivity, we are much better positioned after the acquisition of Siemens VDO to develop positively in this growth area.

In light of the continually growing environmental impact and the ongoing climate debate, there is intense public interest in the emission of pollutants in road transportation – in particular CO_2 emissions. Thus, the European Commission is aiming to reduce CO_2 emissions to 120 g/km by 2012. In the long term, it even aims to reduce this value to 95 g/km. In the U.S.A., the revised average fleet consumption figures (CAFE standards – Corporate Average Fuel Economy) provide for a 40% improvement in average miles per gallon from 25 mpg to 35 mpg (this corresponds roughly to a CO_2 reduction from 219 g/km to 156 g/km) as of 2020. Japan has set itself the goal of increasing the mileage performance of cars by 23.5% to 16.8 km/l, which would result in the same percentage reduction in CO_2. Since the reduction in CO_2 emissions from internal combustion engines can only effectively be achieved by reducing fuel consumption, all automobile manufacturers are being forced to search for additional opportunities for reduction without limiting the fun of driving. The engine or the vehicle as a whole presents many starting points for this. In both areas, we will be able to meet the growing demand from our customers. For instance, with piezo injection systems and hybrid drive systems, we offer two promising solutions for internal combustion engines. Double clutch transmissions, for which we offer electronic control units, also produce results. Additional potential can be found in rolling resistance-optimized tires or timing belts for internal combustion engines.

Another segment of growth in the automotive business during the next decade will be that of so-called "affordable" cars – especially in the future markets of Asia, as well as in Brazil and Russia. The production of cars

costing the end user less than 10,000 euros will increase – above all in India and China – from approximately 6.5 million units at present to about 11 million by 2017, which is equivalent to growth of 70%. Significant growth is also forecasted for Eastern Europe and South America, bringing the total volume of affordable cars to approximately 14 million units by 2017. Development of new products for these markets demands a fundamentally different approach to that taken for Europe, the U.S.A., and Japan. Whereas our goal for the traditional automobile nations is to create technical innovations and thus products with unique selling points, the development process for the new markets is just the opposite. This is where it becomes important to develop products with new, alternative claims, because only they are going to be competitive in the markets in question. The development process has to be adjusted to the different requirements. We are working on such concepts in all business units and are already successfully implementing some of them. For instance, we presently supply fuel pumps and tank sensors for the Tata Nano in India. Additionally, we equip the Dacia Logan with brake systems and airbags. With the acquisition of AP Italia, we now also have additional know-how at our disposal regarding the drum brakes frequently used in these vehicles. An inexpensive tire for this vehicle segment is also planned for the immediate future.

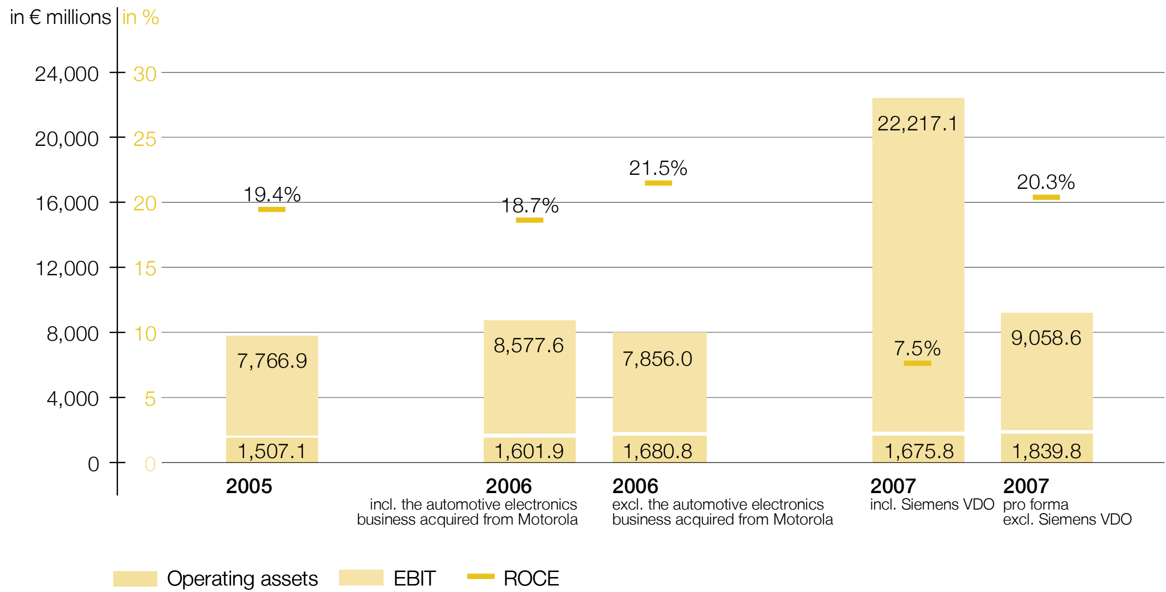
A systematic entrepreneurial approach

Continental is composed of a large number of business units, all of which should take an independent entrepreneurial approach. Support is provided by the Corporation's Executive Board and the relevant corporate functions. We are convinced that sustained profitable growth can be generated only in leading competitive positions. Therefore, only those business units that can achieve this will remain part of the Continental Corporation in the long-term. For cases in which this cannot be achieved at a manageable level of business risk, we will dispose of or discontinue the business area in question. Immediately after the acquisition of Siemens VDO in 2007, we therefore decided to sell the business unit for electric motors, which encompassed our own activities in addition to the activities of the former VDO.

The Corporation as an overall entity should develop in such way that it is not too exposed to the cycles in the automotive industry. This means that the latter's percentage of sales should not exceed 60%. The acquisition of Siemens VDO in the past fiscal year will result in a significant increase in this percentage. We therefore aim to strengthen our business outside the automotive industry in the medium term such that the level of 60% is once again achieved.

Value management

Increase in ROCE



Value management
Continental uses the percentage return on capital employed (ROCE) as a key performance indicator at all management levels. In addition, Continental Value Contribution (CVC) measures the absolute amount of value achieved and the change in absolute value over the previous year. This change in the absolute contribution measured by Delta CVC allows us to monitor the extent to which management units generate value-creating growth or employ resources efficiently.

Creating value for shareholders
Only sustained value creation for our shareholders will ensure a positive share price performance and therefore comparably low cost of capital and high enterprise value.

Employees

Continental's top concerns are to train and support our staff and continuously recruit new talent. The year under review held the special challenge of integrating the new Siemens VDO employees as well as the new Matador, Thermopol and AP Italia employees.

Development of the organizational structure
The new organizational structure was established as part of the integration of Siemens VDO. It is based on Continental's divisional structure, so the organizational units are called divisions, business units and segments. In addition to functions that are directly assigned to individual organizational units, there are also overarching functions that span the three automotive divisions in order to ensure a smooth exchange of information and to develop and realize synergies. Executives were chosen in a transparent and understandable process at the same time the organizational structure was created. This comprises a well-balanced representation of both Siemens VDO and Continental.

Anchored in a decentralized structure
The organization follows Continental AG's principles, according to which entrepreneurialism and direct business responsibility are clearly anchored in a decentralized structure. The organizational units operate independently with all relevant business functions and are furnished with full responsibility for profit and loss on an international basis. This structure has also been established in the three automotive divisions within the scope of integration.

Integration of corporate functions
The integration process has also been initiated in the corporate functions such as finances, IT, purchasing, controlling and human resources. A focus in human resources was to align the personnel systems and services directly after closing so that the same standards are used in dealing with all employees. This includes topics such as payroll accounting, human resources development and industrial safety concepts in all countries in which the Corporation operates.

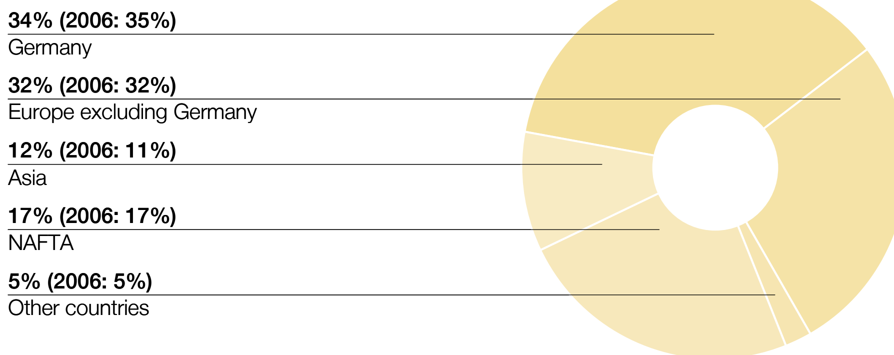
Aligning the different systems and guidelines
A comprehensive analysis of the status quo was carried out to prepare for harmonization of corporate guidelines. Among other things, we concentrated on international assignments, travel guidelines and remuneration policy. The Hay System was also implemented in the new divisions as the uniform job evaluation system for executives. Accordingly, each individual position in the Chassis & Safety, Powertrain and Interior divisions as well as at top senior executive level was evaluated in a top-down process.

Value-oriented remuneration
The value-oriented remuneration for Continental AG's executives is likewise being applied to the executives of Siemens VDO. From fiscal 2008, the key financial figures of Continental AG, namely CVC (Conti Value Contribution) and ROCE (Return on Capital Employed), will be introduced as the basis for calculating variable compensation for the executives of Siemens VDO. This will serve to ensure rapid harmonization of the control factors for this important incentive system for executives throughout the Corporation.

Integration of two different cultures
Aspects of corporate culture play an important role in the integration process. This being the case, a comparative cultural analysis of Continental and Siemens VDO was conducted in October 2007. The objective of integration is to bring together the strengths of both organizations as determined in this analysis, such as "innovative, structured, customer-oriented and quality-focused" on the part of Siemens VDO and "target-oriented, profitable, decisive and unbureaucratic" on the part of Continental. A "Culture Integration" project team will coordinate the activities, carry out further integration surveys and report regularly on the progress of various projects, most of which are at the divisional level.

All employees are invited to take part in the next global employee survey "BASICS live" in September 2008. Among other things, the overall satisfaction, management quality and the attitude of Continental employees will be measured. For us, the survey is an important tool for improving corporate culture and cooperation within the Corporation. The 2006 survey resulted in 6,400 new measures which were successfully implemented.

Employees by region (December 31, 2007)



Employer branding enhances employer attractiveness

Continental aims to use employer branding activities in order to position itself as an attractive employer in the relevant labor markets. It also intends to recruit and retain talented staff for Continental. Potential applicants are addressed with the "Are you auto-motivated – Welcome!" slogan. In addition to personal discussions at recruitment fairs, industrial trade fairs and events at schools and universities, potential employees are also increasingly being approached via the Internet. We have made provision for this and redesigned our career sites on the Internet to make them even more convenient and user-friendly. In 2007, press relations were intensified for the major professional fields. By stepping up our activities at key universities and expanding our trainee commitment program, we have been able to fill vacant positions faster and more effectively. All this has led to measurable successes: We advanced to place 32 (previous year 40) in the Trendence Study on employer attractiveness among engineers.

Global Engineering Excellence

On Continental's initiative, scientists from eight prominent universities conducted a study on the topic of Global Engineering Excellence (GEE) in 2005 and 2006. The participants were the Swiss Federal Institute of Technology Zurich, Switzerland; Technical University of Darmstadt, Germany; Georgia Institute of Technology and Massachusetts Institute of Technology, U.S.A.; Shanghai Jiao Tong University and Tsinghua University, China; Escola Politécnica da Universidade de São Paulo, Brazil; and the University of Tokyo, Japan. The outcome of the study was groundbreaking recommendations for the global focus of engineers. In order to build on the results of the survey, an international trainee program was launched at Continental in conjunction with the GEE universities in 2007 in order to provide prospective engineers with enhanced preparation for international activities. The participants selected by Continental are deployed internationally at various locations across the world.

Training

Continental employed 1,270 trainees in Germany in 2007. Including Siemens VDO, the Corporation currently has over 2,000 young people in training, around two-thirds in technical professions and one-third in commercial professions. Approximately 20% complete a dual program of study with a bachelor's degree to effectively address the shortage of technical and management personnel. The attractiveness and quality of the training programs at Continental is being constantly improved by various initiatives and projects, including placement at other locations in their home country and abroad which help to gear vocational training more strongly to the needs of the future target areas.

Human resources development measures for the integration and development of staff

We take the integration of new staff both in the plants and in the areas of research and development, sales and administration seriously and therefore maintain global standards for the training and integration of new Continental employees. Introductory training days are held at the local level in all plants, and for university graduates, Corporate Entry conferences are put on worldwide in

addition. These conferences give new employees their first detailed look at the Corporation. This is followed by further seminar modules such as employee dialogue or project management. The standardized staff development procedures include an annual employee review with a supervisor. As well as providing feedback on work performance and results, this meeting is also used among other things to discuss and define additional opportunities for development and training. In addition to individual seminars for employees, we are firmly convinced that, above all, challenging work assignments, participation in projects and suitable job rotations also help ensure that employees at Continental perform well and are successful.

Environment

We make a substantial contribution to environmental protection with our technologies and products.

For us, protecting the environment means much more than just complying with statutory and official regulations. We are facing up to the variety of ecological challenges and regard environmental protection as a key management responsibility that is also reflected in our operating business. That is why we make sure that production and product benefits are constantly optimized to lessen environmental impact. The obligation to protect the environment applies to every one of our employees.

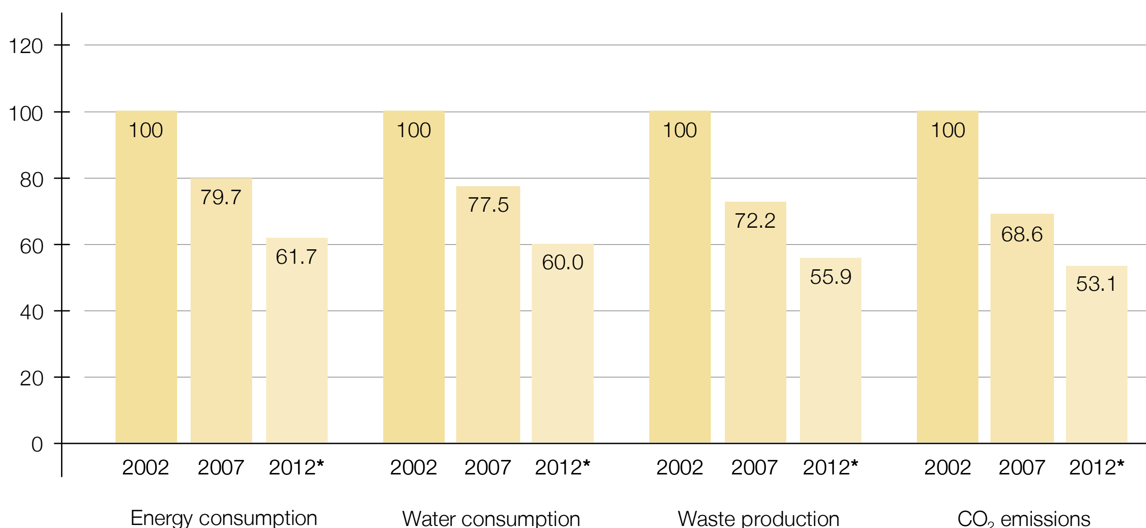
Climate protection is an essential part of environmental protection and also part of our corporate strategy – and not just since the first consequences of climate change appeared and this topic began to be discussed worldwide. We regard climate protection as a component of our social responsibility and make substantial contributions with our technologies and products.

Emissions occur in all stages of the product life cycle: from the procurement of raw materials to product manufacturing, use, and recycling. Life cycle assessments prove that the use phase produces by far the greatest amount of CO_2 emissions in the product life cycle. CO_2 output during the manufacturing process is low in comparison. For example, if the rolling resistance of a tire is improved by approximately 5%, reduced fuel consumption after one year of use offsets as much CO_2 emissions as arise during the manufacturing of the tire.

Emissions during manufacturing significantly reduced

Manufacturing our products involves emissions in air and water and creates waste. We are working continuously on gradually reducing the environmental impact of our production facilities. We have accomplished much in this area in recent years: From 2002 to 2007, we reduced our energy consumption per ton of finished product by 20%. In the same period, we reduced our consumption of water and highly volatile substances by more than 40% and our waste production by more than a quarter.

Continental: Environmentally relevant figures in %



* Continental AG's environmental goals

Ambitious goals
We fulfill our commitment to climate protection in many ways. We are focusing on reducing harmful CO_2 emissions by improving products and manufacturing processes. Our goals for CO_2 emissions are ambitious: We want to reduce emissions from our manufacturing processes by a total of approximately 20% by the year 2012. In addition, we want to further reduce our energy and water consumption, and waste production in the future by 5% each year and to increase our recycling rate by 2% annually. This will enable us to further reduce our raw material consumption and our energy requirement for waste recycling.

We are also working on reducing the emission of other gases that are harmful to the environment, e.g., gases from air conditioning systems. In addition, we are driving forward the use of renewable raw materials, such as natural rubber and plant-based oils. This conserves resources and contributes to climate protection at the same time.

The European Commission wants to cut average CO_2 emissions from passenger vehicles sold in the 27 EU countries to 120 g/km by 2012. In 2006, emissions were still 163 g/km. This will be achieved by improving vehicle technology and making greater use of biofuels, among other measures. Continental helps reach these goals.

New technologies and products contribute to CO_2 reduction
Reducing energy consumption in vehicles is the key to helping the environment. Individual mobility and sustainability are not at odds with each other in this regard. On the one hand, we do this by reducing the weight of our products so that less energy is required to power the entire vehicle. On the other hand, continuous improvements of our products, for example in the rolling and friction resistance of tires, engines, and transmissions, also help. These improvements mean less energy is required to overcome this resistance, in turn resulting in a reduction of CO_2 emissions.

In specific terms, we greatly reduced the weight of our brake components, to take one example. The fact that brake performance increased at the same time is a particularly notable success. We decreased the average rolling resistance of our passenger tires by approximately 10% since 2002 – with no negative impact on their safety characteristics.

We have already reduced CO_2 emissions by a total of approximately 30 g/km (about 15%) because we optimized the rolling resistance of our tires, and thanks to electronic brake systems, foundation brakes, fan modules, electronic control units for drivetrains, belt drive systems, and tire pressure monitoring systems. Hybrid drives allow reductions of a further 10 to 30 g/km (up to 15%). Our telematics systems and optimized hose lines have further potential to reduce emissions.

Powertrain management components – for instance our oil-resistant Oil Runner belts for engine timing – will cut CO_2 emissions by a further 1% to 2% in the future. These components produce significantly less friction than their predecessors, leading to reduced fuel consumption while driving. CO_2 emissions from the manufacturing of the product are offset after a driving distance of only around 400 kilometers, and the Oil Runner continues reducing CO_2.

Our piezo injection valves for conventional gasoline and diesel engines – awarded the 2005 German Innovation Prize – reduce CO_2 emissions by up to 20%. Moreover, many components work just as well with biofuels – that helps our environment, too. There is a wide range of components suitable for conventional fuels as well as for biofuels (bioethanol). Up to 70% of CO_2 emissions are offset because CO_2 that arises when bioethanol is burned has already been removed from the atmosphere.

We can also report successes outside the automotive industry: For example, our conveyor belts with optimized rolling resistance (Energy Optimized Conveyor Belts or EOBs) significantly reduce the energy required for open-cast coal mining. CO_2 emissions from the manufacturing of an EOB are offset after only two weeks of use. EOBs thus permanently reduce CO_2 emissions.

Acting Responsibly

Economic success makes social commitment possible. We take our responsibility seriously.

Continental employees work all over the world to offer our customers the best possible products for safety, driving comfort and environmentally-friendly technologies on the road. However, a company's success and competitiveness are not defined by its growth and profitability alone: Even the best products are of no use when ecological and social requirements are ignored. We are committed to sustained responsibility – Corporate Social Responsibility (CSR) – because corporate activity involves a constructive dialog with different stakeholders. This represents a challenge, but it is also an opportunity that we want to exploit. Our goal is to achieve an acceptable balance between the Company's economic needs and the justifiable interests that society has in our Company.

In line with this, we are committed to active health management, projects to promote balancing career and family, and training and further qualification opportunities to establish a secure basis for the future, among other things. In addition to our corporate activities, we also support other projects and campaigns by partnering with a large number of groups in society – primarily in the fields of welfare, safety, education, science, and sports.

Most of our involvement is in the immediate local area, so primarily the decentralized units launch and take responsibility for community projects, donations, and other charitable activities. We have many starting points as a large global company because the problems and the needs in the areas in which we are represented are very diverse. The primary goal of all activities is direct, fast, and sustained support.

CSR report documents principles and activities

Our CSR report, based on the international guidelines of the Global Reporting Initiative, can be viewed on our website (www.continental-corporation.com). We are thus pursuing our goal of informing interested stakeholders about Continental's commitment and making our corporate philosophy as well as our entrepreneurial approach transparent and understandable. Numerous projects, measures, and current topics, to which our divisions and locations feel especially committed and in which they are involved, are introduced in detail, as well as our corporate guidelines and Code of Conduct. We are open to suggestions and constructive ideas on how to fulfill our responsibilities more efficiently and continue to bring about change – we also see our social commitment as a process that we want to continuously improve.

Continental is committed to principles that form the basis for standards for entrepreneurial activities in the spirit of CSR. For example, we respect the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy by the UN International Labour Organization (ILO). These principles for multinational enterprises, governments, and employers' and workers' organizations are intended to improve the working and living conditions of people worldwide. The continuous fight against corruption and bribery is especially important to us. It is derived from our Corporate Governance principles, corporate guidelines, and the Code of Conduct. Unethical, illegal, and irresponsible actions can do significant damage to the Company and its stakeholders. We deploy a package of measures to counter this, such as our own Compliance & Anti-corruption Hotline. It is intended to help better track down any improper behavior. In this way, any Continental stakeholder who becomes aware of illegal or dubious activities, such as violations of our basic values, or criminal activities, has the possibility to report such activities effectively and anonymously to the Company. Information regarding the following issues in particular can be reported using the hotline: theft, bribery, fraud, anti-trust violations, conflicts of interest, insider trading, money laundering, accounting manipulation, environmental protection, health and workplace safety, and industrial safety.

Commitment to social welfare and traffic safety

In terms of concrete social commitment, our focus areas are social welfare and traffic safety.

- Employees of the Continental plant in Manila, the Philippines, launched an initiative to help improve the living conditions of people in the poor neighborhood of Satima Village, where approximately 650 families live in very cramped conditions. This long-term project is primarily about providing the families with stone houses that withstand storms and rain, sending their chil-

dren to school, providing them with medical assistance, and improving their everyday lives with donations of goods – in particular clothing and food.

- Continental Tyre South Africa (CTSA) is continuing its unrelenting fight against AIDS with new projects. Between 20% and 25% of the employees in Port Elizabeth are infected with the virus. For this reason, CTSA is mainly pursuing projects that educate on one hand and give practical assistance on the other.

- Continental's Ingolstadt location says "No to honor crimes" in support of the EU-wide Terre des Femmes campaign to make the public aware of human rights violations towards women.

- Continental's plant in Varzea Paulista, Brazil, is successfully taking an active part in helping the neighborhood, for example by making furnishings available to local organizations and by providing the needy with winter clothing.

- For a company in the automotive supplier industry, taking on social responsibility also means making a social contribution to traffic safety. An important topic is making sure children are safe going to and from school. Each year, a considerable number of schoolchildren in Germany are involved in traffic accidents on the way to or from school. Since the launch of the "We reward your safety" initiative, the Company has promoted 46 projects to make the way to and from school safer – from special campaign days to construction measures in the vicinity of schools.

- We also view the European Road Safety Charter as an important contributor to increasing safety. In line with this, we signed the charter last year. The goal of the European Commission is to cut the number of traffic fatalities in the European Union in 2004 in half by the year 2010.

Commitment to education and science

Our commitment to education and science is another one of our key tasks in the area of social responsibility. We fulfill this commitment in many ways:

- We have used the "Integration at Work" project, for example, for many years to address young people in Germany with limited educational achievements. In the project, young people are fully integrated in different areas of the Company for one year and work in a set working group under a mentor's supervision. Apart from learning professional and trade skills, participants also become acquainted with the social structure of the profession in everyday business life and gradually take on more responsibility. This way they have the opportunity to further develop and prove their readiness for training and work.

- According to estimates, there are over 3 million adults in South Africa who cannot read or write. That is why Continental Tyre South Africa has sponsored a national basic education and training program for adults called ABET (Adult Basic Education and Training) since 2001. The program aims to teach basic learning skills, knowledge, and competence – in reading, writing, mathematics, economics, agriculture, health care, art, and culture, among other things.

- Continental Tire North America (CTNA) supports the University of North Carolina at Chapel Hill in sports and education. The Company has a three-year scholarship program to support the GLOBE (Global Learning Opportunities in Business Education) program at the Kenan-Flagler Business School. The program offers students in business administration the opportunity to study abroad.

Economic Climate

The following information on inflation and growth rates for 2007 reflects the estimates available at the time this Annual Report went to print.

Macroeconomic development

Global economy

The global economy exhibited strong, dynamic growth in 2007. In October 2007, the IMF (International Monetary Fund) forecasted worldwide GDP (gross domestic product) growth of just over 5% for the current year. The BRIC countries (Brazil, Russia, India, and China), Eastern Europe, and other countries in Asia again buoyed up the global economy. The crisis that began in July 2007 on the U.S. mortgage market had only slight negative effects in 2007. Its effects on 2008 are difficult to forecast at the current time.

The price of oil rose to a new record level and approached the $100 per barrel mark at the end of the year. The U.S. dollar fell against the euro, closing 2007 at €1.46.

Germany

The economic upturn of 2006 continued in 2007. The drivers behind GDP growth of 2.5% were exports, which increased by 8.3% despite the weak U.S. dollar, and significantly increased investment in machinery and equipment. German exports benefited from a booming global economy and the improved competitiveness of German companies. The increase in value added tax implemented at the beginning of the year slowed consumer spending, which grew by just 0.2%. However, public spending was responsible for this increase. In contrast, private consumption fell 0.3% year-on-year. Encouragingly, employment figures showed significant improvement, pushing the unemployment rate to below 8%. In 2007, the number of people in work rose by 649,000 (1.7%). Germany balanced its budget for the first time since 1989. Over the course of the year, inflation increased to over 2.2% against a background of tax hikes and higher food and energy prices (especially electricity prices). This is the highest rate of inflation since 1994. Increasing uncertainty on the financial markets caused declining yields on the bond market over the course of the year. At the end of 2007, the yield on ten-year government bonds was 4.31%, up 0.3% over the previous year. Germany reaffirmed its position as the top global exporter of goods. This result is attributable to the improved competitiveness of German companies, among other factors. For example, automobile exports (cars and station wagons) grew by 11% to 4.3 million units, setting a new record.

Western Europe/Eurozone

Eurozone growth probably remained around 2.5% in 2007. Growth impetus came from exports and increased corporate investments. At just over 7%, the unemployment rate in the Eurozone has dropped to its lowest level in more than 15 years. The inflation rate rose to over 2.5% in the fourth quarter of 2007 due to increased energy and food prices, similar to the situation in Germany. Interest rate movements in 2007 were dominated by uncertainty on the capital markets since the mid-year point. The ECB (European Central Bank) made available several liquidity injections to ensure sufficient liquidity for the money market. At the end of 2007, the ECB was caught between a worse economic outlook and increasing inflation, and made no change to the key interest rate it had raised from 3.5% to 4% in 2007.

Central and Eastern Europe

Several new EU member states in Eastern Europe are still the growth leaders. Growth drivers were high levels of investment growth and private consumption. While countries such as Hungary focused on budget consolidation, other countries such as Slovakia again achieved GDP growth of over 8%. This environment also benefited new vehicle registrations within the region, and the new EU accession countries recorded a 14.5% increase in new registrations to 1.16 million vehicles. The top markets were Romania and Poland.

Russia

The Russian economy has experienced steady economic growth of over 6% annually for each of the last five years. The main drivers behind this are rising gas and oil prices. Russian exports are expected to have increased by over 9% in 2007. Substantial pay growth in past years created favorable conditions for an increase in consumer spending. However, pay growth together with strong inflows of funds are fueling inflation, which ended the year at over 10%. The number of new vehicle registrations in Russia also increased to 2.4 million vehicles,

buoyed by favorable economic development. As a result, just as many vehicles were sold in Russia as in the United Kingdom, which is the number 3 in Western European registration statistics.

America

The effects of the subprime mortgage crisis on the U.S. economy still remained limited in 2007. Data still indicate rising consumer spending and increasing exports, which are buoyed by a weaker U.S. dollar. In addition to the real estate crisis, consumers were also hit by rising energy prices. American banks in particular had to charge significant write-downs in 2007 due to the subprime crisis. Starting in September 2007, the Fed (Federal Reserve Bank) lowered the key interest rate substantially in three steps from 5.25% at the beginning of the year to 4.25%. The U.S. dollar lost more ground, closing 2007 at an exchange rate of less than $1.46 to the euro. Taken as an annual average, the U.S. dollar lost an additional 9.1% against the euro.

Latin America experienced strong growth in 2007 in view of the demand for raw materials. High prices for raw materials benefited exporters such as Brazil especially, since its currency appreciated against the U.S. dollar and the euro. GDP in this region probably grew again by over 5%.

Asia

Trade among Asian countries is continuing to increase, making these countries less dependent on other large economies such as the United States. In 2007, India and China grew by more than 8% and 11%, respectively, which also had a positive impact on other Asian countries. GDP growth in Asia for 2007 was probably at the same level as the previous year at approximately 8%. Inflation increased significantly in a number of countries. For example, inflation in China hit a 10-year high of over 6% at the end of 2007, triggered by a sharp increase in food prices, among other causes.

At approximately 2%, Japan's GDP growth was somewhat less than expected, affected by a weaker residential real estate market and lower corporate investments. Inflation remained extremely low at under 0.5%.

Industry development

The worldwide original equipment business with automobile manufacturers is the most important market segment for our Company as an international automotive supplier. However, the global original equipment market for commercial vehicles and the replacement markets for passenger, light truck, and commercial vehicle tires in Western and Central Europe and the NAFTA region are also significant. Within a macroeconomic setting, trends in these market segments were very different during the year under review.

Automobile production

The volume of vehicles produced worldwide is the key factor driving our original equipment business in the light vehicle segment (passenger and light commercial vehicles). 69.9 million vehicles were manufactured in 2007, an increase of 5.4% year-on-year. In 2006, the volume of vehicles produced worldwide grew by 4.6%.

Vehicle production in our key sales regions varied in 2007. Production in Western Europe grew for the first time since 2002, increasing by 1.4% to 16.1 million vehicles and exceeding our forecasts of 15.9 million units. In the NAFTA region, only 15.0 million units were produced in the light vehicle segment. Volume in this region therefore fell again by 1.9% as against 2006, and was also below our forecasted figure of 15.3 million units. Overall, the increase in Western Europe could not offset the decline in the NAFTA region, which is why production in these two regions has negatively affected our business.

Production in other sales regions rose again in 2007 compared with 2006. The Eastern Europe region exhibited high growth with an increase of 17.7%. This region is becoming more and more important as a production location: In 2007, the number of vehicles produced rose to 5.8 million units. This means that the share of vehicles produced in Eastern Europe has more than doubled since 2001 and now amounts to 26% of European vehicle production. Vehicle production in South America grew by 18.3% to 3.5 million units. Growth in Asia slowed by approximately 2%. Nonetheless, production volume rose by 7.9% (previous year: 10.3%) to 27.6 million units. This figure includes the volume manufactured in Japan, which currently produces almost one-third of all vehicles and still accounts for a major proportion of the region. In China, production of passenger cars was up 25% to nearly 5 million units.

Commercial vehicle production

In 2007, the volume of commercial vehicles manufactured grew to 2.44 million units, rising another 4.4% despite a dramatic collapse on the NAFTA market. This

is significantly higher than our previous year's forecast of 2.1 million units.

Western Europe and the NAFTA region, which are particularly important sales markets for our Company, experienced very different developments. Production in Western Europe rose by 7.7% to 517,000 units, significantly exceeding our expectations. This development was still buoyed by uninterrupted strong demand from Eastern Europe. This market increased 9.3% to 153,000 units. In the NAFTA region, purchases of commercial vehicles moved forward from 2006, which had led to an increase in production of 10% in anticipation of the new U.S. emission regulations in 2006, caused a decline of 32.9% to 436,000 units in 2007. This more than confirmed the fear that we expressed at the beginning of the year regarding the NAFTA sales market. The total shortfall for these two sales regions is approximately 150,000 units, which impacted our business in a negative way.

Our remaining sales markets showed positive growth: commercial vehicle production in South America rose by 23% to 123,000 units. The volume of commercial vehicles produced in the Asia region also jumped significantly to 1.2 million, up 25% year-on-year. Developments on both of these markets significantly exceeded our expectations.

Passenger tire replacement business

In the passenger tire replacement business, our most important markets are in Western, Eastern, and Central Europe and in the NAFTA region. Both markets recorded increases as against the previous year.

The number of passenger tires sold rose 1.6% to 291.5 million units in Western, Central, and Eastern Europe despite weak overall sales of winter tires in Europe. While business in Western Europe virtually stagnated, Central and Eastern Europe generated an increase in volume of 1.6% year-on-year. However, this is the slowest growth in the last five years. After a weak 2006 (-3.3%), the NAFTA region again recorded sales growth of 2.2% to 270.6 million. Our hopes that business would pick up in this region were thus fulfilled. The Asian markets also recorded the largest increases in the volume of passenger tires. The previous year's strong growth of 6.7% was exceeded again by an increase of 7.2% to 211.1 million.

Truck tire replacement business

The volume in the markets of Western, Central, and Eastern Europe and in the NAFTA region is also particularly important for our truck tire replacement business. In 2007, the volume in Western, Central, and Eastern Europe grew 3.9% to 20.7 million tires. Central and Eastern Europe were again the drivers here, contributing the

Production of light vehicles** in millions of units	2007*	2006	2005	2004	2003
Western Europe	16.1	15.9	16.1	16.4	16.4
Eastern Europe	5.8	4.9	4.2	3.9	3.3
NAFTA	15.0	15.3	15.7	15.7	15.9
South America	3.5	3.0	2.8	2.5	1.9
Asia	27.6	25.6	23.2	21.5	20.0
Africa and Middle East	1.8	1.6	1.4	1.3	1.1
Total	**69.9**	**66.3**	**63.4**	**61.3**	**58.6**

Source: Global Insight *preliminary estimate, **cars and light commercial vehicles.

Production of heavy vehicles** in thousands of units	2007*	2006	2005	2004	2003
Western Europe	517	480	460	430	380
Eastern Europe	153	140	130	120	90
NAFTA	436	650	590	490	360
South America	123	100	110	100	70
Asia	1,213	970	950	990	790
Total	**2,442**	**2,340**	**2,240**	**2,130**	**1,690**

Source: Global Insight *preliminary estimate, **heavy vehicles.

major share of the growth. The market recovery presumed at the beginning of the year did not appear in the NAFTA region and the volume fell again by 1.8% to 20.6 million tires. The Asian markets recorded the largest increases in the volume of truck tires also. The previous year's strong growth of 5.8% was exceeded again by an increase of 6.7% to 56.3 million.

Markets for raw materials

Developments on numerous markets for raw materials in 2007 were volatile in a way similar to the previous year. In the automobile industry, important raw materials are, among others: oil-based materials, in addition to copper, steel, nickel, and aluminum, and natural rubber in particular for the tire industry. Over the course of the year, the markets for oil-based materials set new records after easing at the beginning of the year. The prices for copper, steel, and nickel also almost hit their 2006 peaks in the first half of the year or climbed further – in the case of nickel – to set a new record. The price for aluminum eased slightly in the course of 2007, but at the end of the year returned to the same level as at the beginning of the year. The record highs of 2006 were not however reached. The trend for copper, steel and nickel slowed in some cases over the rest of the year due to continued signs of a downturn in the U.S. economy. Furthermore, as in the previous year, this development was driven primarily by strong demand in China, the political situation in the Middle East, and ultimately also by speculation. This development was only cushioned by the further decline of the U.S. dollar against the euro, because most raw materials are settled in U.S. dollars. Overall, the development on the raw materials markets did not significantly impact Continental in 2007, because we had already reacted to increases, especially in the price of natural rubber, by raising the price of passenger and commercial vehicle tires in 2006.

Natural rubber, which is traded on the Singapore and Tokyo commodity exchanges, is an extremely important single raw material for the tire divisions. The price of natural rubber skyrocketed in the first six weeks of 2007 to hit its average price from the previous year, at approximately $1,945 per ton, after prices had eased at the end of 2006. Price levels stabilized until the fourth quarter of 2007, when they increased again. This increase was offset somewhat by the weak U.S. dollar, because natural rubber is mainly priced in U.S. dollars.

Continental buys various types of natural rubber, primarily in Thailand, Malaysia, and Indonesia. The price trend tends to be stable. For instance, on December 28, 2007, type TSR 20 natural rubber was listed on the SICOM Singapore exchange at approximately $2,500 per ton. A ton of natural rubber (TSR 20) cost an average of $2,145 in 2007, compared with $1,945 in the previous year, an increase of 10.3%.

In addition to natural rubber, which we use directly, crude oil is the most important base for many of the materials used in production, such as synthetic rubber, carbon black, and chemicals. In some cases, there are multi-stage production processes at our suppliers between the crude oil and the materials procured by Continental. The crude oil market in 2007 was dominated by rising prices for the fifth year in a row. The price fell to

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2007*	2006	2005	2004	2003
Western and Central Europe	291.5	287.1	273.8	265.6	254.9
NAFTA	270.6	264.9	274.0	269.6	260.5
Asia	211.1	196.9	184.6	172.1	157.7

Source: LMC World Tyre Forecast Service, 2007* preliminary estimate.

Replacement sales of truck tires

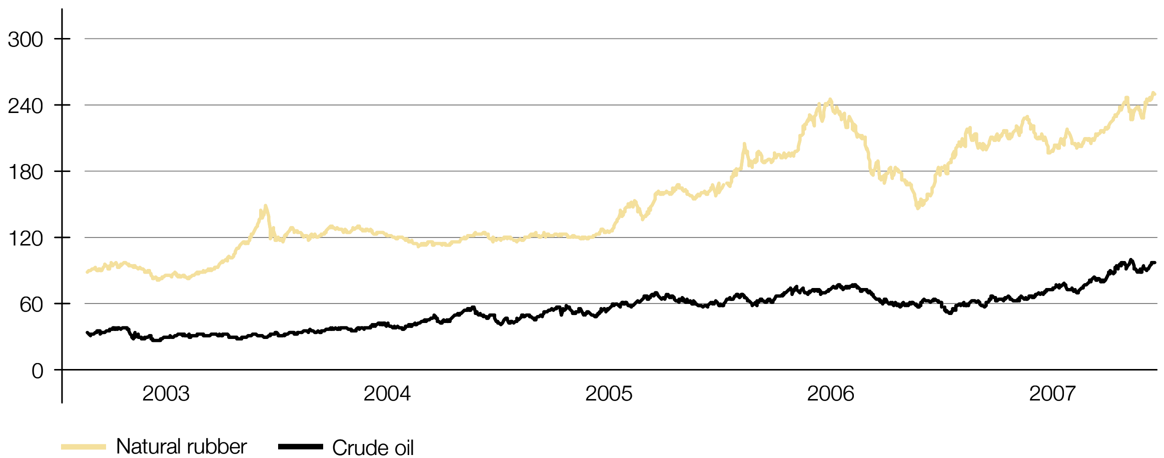
in millions of units	2007*	2006	2005	2004	2003
Western and Central Europe	20.7	19.9	19.3	19.2	18.8
NAFTA	20.6	20.9	21.5	20.5	19.2
Asia	56.3	52.8	49.9	46.5	42.1

Source: LMC World Tyre Forecast Service, 2007* preliminary estimate.

$53 per barrel in January, the lowest level since December 2005, as a result of the continued easing in crude oil prices at the beginning of the year. However, from then on, the only direction in which the oil price traveled for the rest of the year was up, hitting its old 2006 record of $80 per barrel again in September 2007. On December 31, 2007, crude oil (WTI, West Texas Intermediate) was quoted at $96 per barrel. The average cost for crude oil rose by 11% over the previous year.

Metals, which we only buy in a highly processed form, such as formed and machined parts, are another base material for production. The price of crude steel also increased again in the course of 2007 to an annual average of $650, an increase of 8.8% after prices had stabilized in both of the previous years. However, this price increase had no negative effect on our business because our suppliers have strong inventories.

Trends in prices



Continental Corporation Pro Forma (Old Structure)

- Sales up 7.2%
- Sales up 5.5% before consolidation and exchange rate changes
- Adjusted EBIT up 12.4%

As a result of the acquisition of Siemens VDO, the organizational structure of the Continental Corporation was changed. The former Automotive Systems division was dissolved and integrated into the three new divisions Chassis & Safety, Powertrain and Interior together with the activities of Siemens VDO. Siemens VDO was consolidated for the first time on December 1, 2007. For this reason, the Earnings, Financial and Net Assets Position section is preceded by a pro forma section that presents the Continental Corporation and the previous Automotive Systems division in the "old" structure without Siemens VDO, comparable with the previous year.

Sales up 7.2%;
Sales up 5.5% before consolidation and exchange rate changes

Consolidated sales in 2007 rose by 7.2% compared with the same period of the previous year to €15,960.1 million (2006: €14,887.0 million). The automotive electronics business acquired from Motorola contributed €1,090.7 million to sales. Before changes in the scope of consolidation and exchange rate effects, the increase was 5.5%. All divisions were able to outperform 2006: Automotive Systems by 3.5%, Passenger and Light Truck Tires by 6.9%, Commercial Vehicle Tires by 6.9%, and ContiTech by 7.1%.

EBITDA up 12.2%

Consolidated EBITDA improved compared to the previous year by €281.5 million, or 12.2%, to €2,583.0 million (2006: €2,301.5 million). EBITDA amounted to 16.2% of sales (2006: 15.5%).

Earnings up 14.9%;
Adjusted EBIT up 12.4%

Consolidated EBIT improved compared to the previous year by €237.9 million, or 14.9%, to €1,839.8 million (2006: €1,601.9 million), achieving a return on sales of 11.5% (2006: 10.8%) and a ROCE of 20.3% (2006: 18.7%). The automotive electronics business acquired from Motorola contributed €3.1 million to EBIT, including expenses for integration and restructuring measures. Before changes in the scope of consolidation and special effects, EBIT rose by €205.3 million or 12.4% to €1,867.4 million (2006: €1,662.1 million). The adjusted return on sales amounted to 12.3% (2006: 11.3%).

The ROCE was 20.3% (2006: 18.7%). Before changes in the scope of consolidation, all divisions contributed to absolute value creation, i.e., a positive Continental Value Contribution (CVC), in 2007.

Special effects in 2007

Special effects in 2007 resulted in a loss of €58.5 million for the Corporation. For comments on individual special effects, please refer to page 68 of the Management Report.

Special effects in 2006

Special effects in 2006 resulted in a loss of €75.2 million for the Corporation. For comments on individual special effects, please refer to page 69 of the Management Report.

Procurement

Raw material prices on the international commodities markets rose in 2007, again driven by strong demand and speculation. The total procurement volume for the Continental Corporation rose by 4.1% to €10.1 billion (2006: €9.7 billion).

Research and development

Research and development expenses rose by €69.3 million or 10.2% year-on-year to reach €746.3 million (2006: €677.0 million), or 4.7% of sales (2006: 4.5%).

The automotive electronics business acquired from Motorola incurred research and development expenses in 2007 of €108.3 million.

Depreciation and amortization

Total depreciation and amortization for the Corporation rose compared to fiscal year 2006 by €43.6 million to €743.2 million (2006: €699.6 million) or 4.7% of sales

(2006: 4.7%). In 2007 impairment losses of €26.2 million were recognized (2006: €38.2 million).

Operating assets

Consolidated operating assets increased by €481.0 million to €9,058.6 million compared with year-end 2006 (€8,577.6 million). This rise resulted primarily from the acquisition of the Matador Group, which resulted in additions to operating assets amounting to €246.5 million. Other changes in the scope of consolidation such as the purchase of the Thermopol Group and AP Italia collectively increased operating assets overall. Total additions amounted to €136.7 million. These were more than offset by exchange rate effects of €218.9 million.

Non-current assets rose by a total of €227.7 million to €5,943.0 million (2006: €5,715.3 million). Of this amount, property, plant, and equipment accounted for an addition of €166.6 million and other intangible assets accounted for an addition of €32.0 million, both of them mainly due to the purchase of the Matador Group and AP Italia. Conversely, exchange rate effects reduced property, plant, and equipment and intangible assets by €68.3 million. Capital expenditure on property, plant, and equipment and software exceeded depreciation and amortization, resulting in an increase of €111.2 million. Goodwill additions from the acquisition of AP Italia and the Thermopol Group were almost entirely offset by negative exchange rate effects.

Working capital increased by €193.1 million to €2,692.9 million, of which €91.6 million relates to the changes in the scope of consolidation described above. This was offset to a certain extent by exchange rate effects amounting to €80.9 million.

Capital expenditure

Additions to property, plant, and equipment and software in the Corporation amounted to €854.4 million, up €49.4 million on the previous year (€805.0 million). Capital expenditure amounted to 5.4% (2006: 5.4%) of sales.

Capital expenditure in 2007 resulting from the automotive electronics business acquired from Motorola amounted to €77.8 million (2006: €11.9 million).

Employees

The workforce of the Continental Corporation increased to 91,135, up 5,911 or 6.9% compared to 2006 (85,224). This was due primarily to the first consolidation of the Thermopol Group (+594), AP Italia (+510) and the Matador Group (+2,531). Increased order volumes in all divisions led to an overall rise in the workforce.

Continental Corporation in € millions	2007	2006	Change in %
Sales	15,960.1	14,887.0	7.2
EBITDA	2,583.0	2,301.5	12.2
in % of sales	16.2	15.5	—
EBIT	1,839.8	1,601.9	14.9
in % of sales	11.5	10.8	—
Research and development expenses	746.3	677.0	10.2
Depreciation and amortization[1]	743.2	699.6	6.2
Operating assets	9,058.6	8,577.6	5.6
EBIT in % of operating assets	20.3	18.7	—
Capital expenditure[2]	854.4	805.0	6.1
Number of employees at the end of the year[3]	91,135	85,224	6.9
Adjusted sales[4]	15,227.9	14,737.6	3.3
Adjusted EBIT[5]	1,867.4	1,662.1	12.4
Adjusted EBIT in % of sales	12.3	11.3	—

[1] Excluding write-downs of investments
[2] Capital expenditure on property, plant, equipment and software
[3] Excluding trainees
[4] Before changes in the scope of consolidation
[5] Before changes in the scope of consolidation and special effects

Sales in € millions	2007	2006
Automotive Systems	6,636.7	5,994.4
Passenger and Light Truck Tires	4,975.6	4,693.6
Commercial Vehicle Tires	1,452.4	1,468.3
ContiTech	3,063.9	2,868.7
Other/consolidation	-168.5	-138.0
Continental Corporation	**15,960.1**	**14,887.0**

Adjusted sales[1] in € millions	2007	2006
Automotive Systems	6,033.2	5,994.4
Passenger and Light Truck Tires	4,912.1	4,693.6
Commercial Vehicle Tires	1,445.9	1,390.0
ContiTech	2,998.3	2,797.6
Other/consolidation	-161.6	-138.0
Continental Corporation	**15,227.9**	**14,737.6**

[1] Before changes in the scope of consolidation

EBIT in € millions	2007	2006
Automotive Systems	668.3	532.2
Passenger and Light Truck Tires	738.7	650.9
Commercial Vehicle Tires	124.1	136.2
ContiTech	362.8	318.6
Other/consolidation	-54.1	-36.0
Continental Corporation	**1,839.8**	**1,601.9**

Adjusted EBIT[2] in € millions	2007	2006
Automotive Systems	689.9	630.5
Passenger and Light Truck Tires	763.8	655.2
Commercial Vehicle Tires	108.4	97.3
ContiTech	359.4	315.1
Other/consolidation	-54.1	-36.0
Continental Corporation	**1,867.4**	**1,662.1**

[2] Before changes in the scope of consolidation and special effects

ROS in %	2007	2006
Automotive Systems	10.1	8.9
Passenger and Light Truck Tires	14.8	13.9
Commercial Vehicle Tires	8.5	9.3
ContiTech	11.8	11.1
Other/consolidation	—	—
Continental Corporation	**11.5**	**10.8**

Adjusted ROS in %	2007	2006
Automotive Systems	11.4	10.5
Passenger and Light Truck Tires	15.5	14.0
Commercial Vehicle Tires	7.5	7.0
ContiTech	12.0	11.3
Other/consolidation	—	—
Continental Corporation	**12.3**	**11.3**

Operating assets in € millions	2007	2006
Automotive Systems	4,092.8	3,863.0
Passenger and Light Truck Tires	2,753.8	2,615.7
Commercial Vehicle Tires	893.1	844.1
ContiTech	1,284.5	1,231.9
Other/consolidation	34.4	22.9
Continental Corporation	**9,058.6**	**8,577.6**

ROCE in %	2007	2006
Automotive Systems	16.3	13.8
Passenger and Light Truck Tires	26.8	24.9
Commercial Vehicle Tires	13.9	16.1
ContiTech	28.2	25.9
Other/consolidation	—	—
Continental Corporation	**20.3**	**18.7**

Automotive Systems Division Pro Forma (Old Structure)

- Sales up 10.7%
- Sales up 3.5% before consolidation and exchange rate changes
- Adjusted EBIT up 9.4%

Sales volumes
The Electronic Brake & Safety Systems business unit sold 15.7 million electronic brake systems during the 2007 fiscal year. The North American market continued to develop satisfactorily. With 2.9 million ESC units we achieved a growth in sales volumes of 45.1% compared to 2006. Sales of wheel speed sensors were up 8.5% to some 64 million units.

Sales volumes at the Hydraulic Brake Systems business unit also rose, largely due to increased new business and higher unit sales figures. We lifted sales volumes of brake boosters by 9.1% to 13.4 million units. Brake calipers saw a rise of 1.8% to 34.5 million units.

The Chassis & Powertrain business unit achieved marked increases in sales volumes for diesel control units, oil sensors, and electronic air springs.

Sales volume in the Electric Drives business unit declined in the year under review.

The Body & Security business unit achieved gains in volume overall, with the most significant growth being reported by the seat controllers product group.

Sales up 10.7%;
Sales up 3.5% before consolidation and exchange rate changes
Sales of the Automotive Systems division rose to €6,636.7 million, up 10.7% compared with 2006 (€5,994.4 million). The automotive electronics business acquired from Motorola contributed €1,090.7 million to sales. Before changes in the scope of consolidation and exchange rate effects, sales increased by 3.5%.

The year-on-year growth in sales is mainly attributable to higher volumes for ESC systems, brake boosters, brake calipers, as well as for diesel-engine and oil sensors. The biggest sales growth was achieved by the Electronic Brake & Safety Systems business unit, due, among other things, to the higher number of vehicles equipped with ESC in the U.S.A.

EBITDA up 19.5%
The Automotive Systems division improved its EBITDA compared to the previous year by €162.2 million, or 19.5%, to €996.0 million (2006: €833.8 million). EBITDA amounted to 15.0% of sales (2006: 13.9%).

Earnings improve 25.6%;
Adjusted EBIT up 9.4%
The Automotive Systems division improved its EBIT by 25.6% to €668.3 million (2006: €532.2 million) and achieved a return on sales of 10.1% (2006: 8.9%) and a ROCE of 16.3% (2006: 13.8%). The automotive electronics business acquired from Motorola contributed €3.1 million to EBIT. This figure includes integration and restructuring expenses. Before changes in the scope of consolidation and special effects, EBIT rose by €59.4 million or 9.4% to €689.9 million (2006: €630.5 million). The adjusted return on sales amounted to 11.4% (2006: 10.5%).

Special effects in 2007
The continuing integration of Motorola's automotive electronics business resulted in expenses in the year under review of €25.9 million and restructuring expenses of €8.1 million – including expenses associated with the negotiations concluded in the first quarter of 2007 for the redundancy plan for the Angers plant in France.

To optimize the organization of production facilities in Germany and improve the cost structure of the Electric Drives business unit, the Haldensleben site was closed with effect from the end of the year except for a few minor winding-up activities. The Haldensleben operations were relocated to Berlin. This led to restructuring expenses in 2007 in the amount of €5.8 million.

Automotive Systems in € millions	2007	2006	Change in %
Sales	6,636.7	5,994.4	10.7
EBITDA	996.0	833.8	19.5
in % of sales	15.0	13.9	—
EBIT	668.3	532.2	25.6
in % of sales	10.1	8.9	—
Research and development expenses	535.4	476.7	12.3
Depreciation and amortization[1]	327.7	301.6	8.7
Operating assets	4,092.8	3,863.0	5.9
EBIT in % of operating assets	16.3	13.8	—
Capital expenditure[2]	432.5	359.4	20.3
Number of employees at the end of the year[3]	32,357	30,198	7.1
Adjusted sales[4]	6,033.2	5,994.4	0.6
Adjusted EBIT[5]	689.9	630.5	9.4
Adjusted EBIT in % of sales	11.4	10.5	—

[1] Excluding write-downs of investments
[2] Capital expenditure on property, plant, equipment and software
[3] Excluding trainees
[4] Before changes in the scope of consolidation
[5] Before changes in the scope of consolidation and special effects

Effective January 1, 2008, Continental Teves Japan Inc. sold significant parts of its plant including the related buildings and machinery at the Hiroshima location in Japan, to Nisshinbo Industries Inc. for the symbolic amount of 1 yen in order to avoid the cost of a plant closure. In accordance with IFRSs, the carrying amount of the plant must be written down to its expected selling price. This led to an impairment loss of €3.6 million.

The transfer of production capacity from the Ebbw Vale plant in the UK to the Zvolen plant in Slovakia, which commenced in 2006, resulted in restructuring expenses in 2007 of €1.4 million.

A further provision of €5.2 million was recognized for unused leased facilities near Detroit, Michigan, U.S.A., acquired as part of the acquisition of Motorola's automotive electronics business, as subleasing is not possible.

Special effects in 2007 resulted in a loss €50.0 million for the Automotive Systems division.

Special effects in 2006

In 2006 we transferred production capacity from the Ebbw Vale, UK, plant to our plant in Zvolen, Slovakia, in order to improve the cost structure in the Foundation Brakes unit. This led to restructuring expenses in the previous year in the amount of €28.0 million.

Provisions of €9.9 million were released after legal claims brought by former employees relating to the closure of the Automotive Systems division's Gretz plant in France were dismissed in 2006.

At the end of 2006, the decision was made to abandon a leased facility outside Detroit, Michigan, U.S.A. as of 2007. This facility was obtained as part of the acquisition of the automotive electronics business from Motorola. The related lease agreement does not expire until the end of 2025. At the end of 2006, it was estimated that the ongoing leasing costs would not be fully covered by subleasing the building. This is because of likely deductions as well as lost rent for the portions of the building that cannot be leased, as well as lost surcharges for lessee installations amortized over the rental agreement. Provisions amounting to €11.5 million were set up accordingly. Furthermore, impairment losses were recognized in the amount of €1.9 million.

Integration expenses amounting to €10.5 million arose in 2006 in conjunction with the automotive electronics business acquired from Motorola, primarily for employee incentives and for the use of Motorola, Inc., IT systems.

As part of the long-term production strategy of the Automotive Systems division, all plants are subject to continuous review for productive and technical efficiency and their cost structure. As a result of the high production costs in the French plant in Angers and the U.S. plants in Elma, New York, and Seguin, Texas, production could not be maintained at these plants. This led to restructuring expenses totaling €56.3 million, including impairment losses amounting to €10.7 million.

Special effects in 2006 resulted in a loss of €98.3 million for the Automotive Systems division.

Procurement
In 2007 raw materials prices increased again as a result of the continuing high demand from the emerging markets. The consequent pressure on costs, especially at engineering suppliers, again led to further consolidation among market participants. The reorganization of our procurement activities in 2006 reinforced our global procurement position. There was a further increase in the proportion of items sourced in low-wage economies. We also pursued our Asia strategy by developing more local procurement sources.

Research and development
Research and development (R&D) expenses rose by €58.7 million or 12.3% year-on-year to reach €535.4 million (2006: €476.7 million), or 8.1% of sales (2006: 8.0%).

The automotive electronics business acquired from Motorola incurred research and development expenses in 2007 of €108.3 million. Furthermore, research and development expenses in the Electronic Brake & Safety Systems business unit as well as in the Hybrid Drives unit increased further.

Depreciation and amortization
Total depreciation and amortization increased compared with 2006 by €26.1 million to €327.7 million (2006: €301.6 million), corresponding to 4.9% (2006: 5.0%) of sales. In 2007 impairment losses of €5.9 million (2006: €12.6 million) were recognized on property, plant, and equipment.

Operating assets
Operating assets of the Automotive Systems division increased over 2006 by €229.8 million to reach €4,092.8 million (2006: €3,863.0 million) as of December 31, 2007. This was due to a substantial extent to the acquisition of AP Italia which contributed €101.2 million. This was offset to some degree by exchange rate effects amounting to €134.2 million.

Non-current assets rose by €91.5 million from €3,238.3 million to €3,329.8 million. This rise was due largely to additions to property, plant, and equipment, which increased to €1,480.7 million (2006: €1,387.6 million). As well as additions resulting from the first consolidation of AP Italia amounting to €22.4 million, capital expenditure on property, plant, and equipment exceeded depreciation and amortization, resulting in net additions of €131.4 million. This was offset to some degree by exchange rate changes amounting to €46.8 million. Goodwill associated with the acquisition of AP Italia amounting to €47.1 million was more than offset by negative exchange rate effects.

Working capital grew by €109.3 million compared with year-end 2006 to €620.3 million. Exchange rate changes reduced working capital by €20.5 million. Inventories were up €66.6 million to €439.9 million (2006: €373.3 million). At €835.9 million, accounts receivable were down €3.1 million on the figure for the previous year. Operating liabilities were down €45.8 million to €655.5 million (2006: €701.3 million). Here again negative exchange rate changes exceeded additions from the acquisition of AP Italia.

Capital expenditure
Additions to property, plant, and equipment and software for the Automotive Systems division amounted to €432.5 million, up €73.1 million on the previous year (€359.4 million). Capital expenditure amounted to 6.5% (2006: 6.0%) of sales.

Capital expenditure relating to the automotive electronics business acquired from Motorola amounted to €77.8 million (2006: €11.9 million).

The Electronic Brake & Safety Systems business unit continued to invest in expanding production capacity and implementing a new manufacturing concept in response to increased demand for ESC and ABS systems in America and Europe.

The Hydraulic Brake Systems business unit invested in the development of a new production facility in Changshu, China. In addition, the Corporation invested in implementing a new manufacturing concept at a number of plants.

The Chassis & Powertrain business unit concentrated its investment on establishing manufacturing capacity for transmission control units.

The Telematics business unit expanded manufacturing capacity in the U.S.A. and China.

Employees

The number of employees in the Automotive Systems division increased by 2,159, or 7.1%, over 2006 to reach 32,357 (2006: 30,198). The acquisition of AP Italia increased the workforce by 510 as of the date of first consolidation. Rising order volumes meant 167 new employees could be hired in Varzea Paulista, Brazil, and 114 new employees in Budapest, Hungary. At Ebbw Vale, UK, 148 jobs were shed due to restructuring. In Sibiu, Romania, the number of employees increased by 104 due to rising order volumes and the further expansion of R&D activities. Due to the positive volume development in electronics, 668 new employees were hired worldwide. 175 new employees were hired within the scope of building up plant capacity in Zvolen, Slovakia.

Developments in the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech divisions are detailed on pages 87 to 95 of the Management Report.

Earnings Position

- Sales up 11.6%
- Adjusted EBIT up 6.1%

Continental Corporation in € millions	2007	2006	Change in %
Sales	16,619.4	14,887.0	11.6
EBITDA	2,490.6	2,301.5	8.2
in % of sales	15.0	15.5	–
EBIT before amortization of intangible assets from PPA	1,737.2	1,615.9	7.5
in % of sales	10.5	10.9	–
EBIT	1,675.8	1,601.9	4.6
in % of sales	10.1	10.8	–
Net income attributable to the shareholders of the parent	1,020.6	981.9	3.9
Earnings per share (in €)	6.79	6.72	1.0
Research and development expenses	834.8	677.0	23.3
Depreciation and amortization[1]	814.8	699.6	16.5
Operating assets	22,217.1	8,577.6	159.0
EBIT in % of operating assets	7.5	18.7	–
Capital expenditure[2]	896.9	805.0	11.4
Number of employees at the end of the year[3]	151,654	85,224	77.9
Adjusted EBIT before amortization of intangible assets from PPA	1,841.5	1,691.1	8.9
Adjusted EBIT before amortization of intangible assets from PPA in % of sales	11.1	11.4	–
Adjusted EBIT[4]	1,780.1	1,677.1	6.1
Adjusted EBIT in % of sales	10.7	11.3	–

[1] Excluding write-downs of investments
[2] Capital expenditure on property, plant, equipment and software
[3] Excluding trainees
[4] Adjusted for special effects

Sales up 11.6%
Consolidated sales in 2007 rose by 11.6% compared with the same period of the previous year to €16,619.4 million (2006: €14,887.0 million). This increase resulted both from organic growth and from changes in the scope of consolidation. Exchange rate changes had an offsetting effect. Siemens VDO contributed €659.3 million to sales.

During the course of the acquisition of Siemens VDO, the Corporation's previous organizational structure was changed. The former Automotive Systems division was dissolved and brought together with the activities of Siemens VDO in the three new divisions, Chassis & Safety, Powertrain, and Interior. Therefore, no information is available for the former Automotive Systems division or for Siemens VDO on a stand-alone basis as of January 1, 2008.

Despite the changes in the scope of consolidation, sales by region scarcely changed compared with the previous year. The proportion of regional sales by Siemens VDO included in December 2007 had only a minor effect.

EBITDA up 8.2%
Consolidated EBITDA improved compared to the previous year by €189.1 million, or 8.2%, to €2,490.6 million (2006: €2,301.5 million). EBITDA amounted to 15.0% of sales (2006: 15.5%).

Consolidated sales can be broken down by individual regions as follows:

Sales by region in %	2007	2006
Germany	31	32
Europe excluding Germany	37	37
NAFTA	21	21
Asia	8	7
Other countries	3	3

EBIT before amortization of intangible assets from PPA up 7.5%

Consolidated EBIT before amortization of intangible assets from PPA (purchase price allocation) improved compared to the previous year by €121.3 million, or 7.5%, to €1,737.2 million (2006: €1,615.9 million). EBIT before amortization of intangible assets from PPA amounted to 10.5% of sales (2006: 10.9%).

Operating result (EBIT) improve 4.6%; Adjusted EBIT up 6.1%

The consolidated operating result (EBIT) increased by €73.9 million over the previous year to €1,675.8 million, a rise of 4.6% (2006: €1,601.9 million). The return on sales fell to 10.1% (2006: 10.8%). Adjusted for special effects, EBIT rose by €103.0 million or 6.1% to €1,780.1 million (2006: €1,677.1 million). The adjusted return on sales amounted to 10.7% (2006: 11.3%).

Siemens VDO impacted EBIT by €164.0 million in December 2007. This figure includes amortization of intangible assets from the purchase price allocation of €33.1 million and inventories valued at €33.6 million which were first written up to fair value as part of the purchase price allocation and then, as a result of utilization of these inventories, led to an expense in the corresponding amount in December 2007. In addition, December 2007 at Siemens VDO was marked by special effects, including restructuring measures.

As of January 1, 2008, no information is available for the former Automotive Systems division or for Siemens VDO on a stand-alone basis.

ROCE was 7.5% (2006: 18.7%). It should be noted in this context that proportionate EBIT resulting from changes in the scope of consolidation takes effect from the date of first consolidation, whereas the capital effects at the end of the year are recognized. Siemens VDO had a significant impact in 2007 (recognition of the capital effects at year end but only one month's EBIT).

Special effects in 2007

The continuing integration of the automotive electronics business acquired from Motorola resulted in expenses in the year under review of €25.9 million and restructuring expenses of €8.1 million – including expenses associated with the negotiations concluded in the first quarter of 2007 for the redundancy plan for the Angers plant in France.

To optimize the organization of production facilities in Germany and improve the cost structure of the Electric Drives business unit, the Haldensleben site was closed with effect from the end of 2007 except for remaining minor winding-up activities. The Haldensleben operations were relocated to Berlin. This led to restructuring expenses in 2007 in the amount of €5.8 million.

Effective January 1, 2008, Continental Teves Japan Inc. sold significant parts of its plant, including the related buildings and machinery at the Hiroshima location in Japan, to Nisshinbo Industries Inc. for the symbolic amount of 1 yen in order to avoid the cost of a plant closure. In accordance with IFRSs, the carrying amount of the plant must be written down to its expected selling price. This led to an impairment loss of €3.6 million.

The relocation of production capacity from our Ebbw Vale, UK, plant to the plant in Zvolen, Slovakia that began in 2006 led to restructuring expenses of €1.4 million in 2007.

A further provision of €5.2 million was set up for unused leased facilities near Detroit, Michigan, U.S.A., acquired as part of the acquisition of Motorola's automotive electronics business, as subleasing is not possible.

Our U.S. tire company Continental Tire North America (CTNA) amended its coverage of healthcare costs for retirees in 2006. In an interim decision, the responsible court of first instance upheld a class-action lawsuit brought against this measure insofar as the amendments

to the pension plan should not have been implemented in full unilaterally. CTNA has lodged an appeal against this decision. CTNA has also submitted a proposal for a mutually agreed solution to the affected retirees, which essentially provides for a one-time payment to be made to an external fund. Under this agreement, the existing plan amendments would be maintained. In this context, expenses of €46.5 million were recognized in the Passenger and Light Truck Tires division and €3.4 million in the Commercial Vehicle Tires division in the period under review.

In addition, the medical healthcare plans for salaried employees were adjusted in 2007 by further limiting medical benefits. This resulted in positive effects on earnings amounting to €27.6 million in the Passenger and Light Truck Tires division and of €14.4 million in the Commercial Vehicle Tires division.

Unutilized provisions of €3.1 million were reversed as part of the winding-up of restructuring activities at the tire plant in Charlotte, North Caroline, U.S.A.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €18.7 million due to the failure to achieve process efficiency and to the related earnings situation. This requirement was due to capital expenditures made in 2007 which under IFRS impairment principles are not recognized at replacement cost but at the lower net realizable value.

As a result of the earnings position, the investment in Drahtcord Saar KG was written down by €5.5 million.

The first consolidation of the Matador Group led to a gain of €21.2 million from the negative balance. This was partially offset by impairment losses of €1.3 million on an unused brand name and an unused power plant.

In the period under review, the ContiTech division incurred restructuring expenses totaling €2.9 million, including expenses related to Roulunds, Denmark.

The sale of the Benecke-Kaliko unit's furniture coverings business led to a gain of €8.2 million in the ContiTech division. The Company incurred restructuring expenses of €4.7 million in this context.

Special effects resulting from Siemens VDO activities in 2007 (not relevant for the pro forma figures):

The closure of the downtown location in Bangalore, India and the relocation of machinery to the area surrounding Bangalore led to restructuring expenses of €2.1 million.

On December 20, 2007, we announced at our site in Chatham, Canada, that the remaining production activities there would be discontinued. A provision for restructuring of €10.1 million was created for this purpose.

In connection with the purchase price allocation of Siemens VDO, inventories valued at €33.6 million were written up to fair value. Utilization of these inventories in December led to an expense in the corresponding amount.

In total, special effects for Siemens VDO operations (not relevant for the pro forma figures) in 2007 impacted earnings nagatively by €45.8 million.

Special effects in 2007 resulted in a loss of €104.3 million for the Corporation.

Special effects in 2006

In 2006 we transferred production capacity from the Ebbw Vale, UK, plant to our plant in Zvolen, Slovakia, in order to improve the cost structure in the Foundation Brakes unit. This led to restructuring expenses in the period under review of €28.0 million.

Provisions of €9.9 million were released after legal claims brought by former employees relating to the closure of the Automotive Systems division's Gretz plant in France were dismissed in 2006.

At the end of 2006, the decision was made to abandon a leased facility outside Detroit, Michigan, U.S.A. as of 2007. This facility was obtained as part of the acquisition of the automotive electronics business from Motorola. The related lease agreement does not expire until the end of 2025. At the end of 2006, it was estimated that the ongoing leasing costs would not be fully covered by subleasing the building. This is because of likely deductions as well as lost rent for the portions of the building that cannot be leased, as well as lost surcharges for lessee installations amortized over the rental agreement. Provisions amounting to €11.5 million were set up accordingly. Furthermore, impairment losses were recognized in the amount of €1.9 million.

Integration expenses amounting to €10.5 million arose in 2006 in conjunction with the automotive electronics business acquired from Motorola, primarily for employee incentives and for the use of Motorola, Inc., IT systems. As part of our long-term production strategy, all sites are continuously reviewed for their productive and technical efficiency and cost structure. As a result of the high production costs in the French plant in Angers and the U.S. plants in Elma, New York, and Seguin, Texas, production could not be maintained at these plants. This led to restructuring expenses totaling €56.3 million, including impairment charges amounting to €10.7 million.

At the end of 2006, all hourly workers and retirees in the U.S. tire operations were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this amendment, these beneficiaries have a standard level of medical coverage. These plan amendments resulted in a release of provisions for post-employment obligations of €108.8 million.

Due to the completion of negotiations to phase out production of passenger and light truck tires at the Hanover-Stöcken plant by the end of 2007, an additional sum of €0.6 million was set aside for termination benefits in 2006 on top of the provision created in 2005.

Restructuring at the plant in Charlotte, U.S.A. resulted in expenses of €48.4 million in 2006. Other measures taken at Continental Tire North America related to the Mayfield plant, which exclusively manufactured semi-finished products for tire production. This gave rise to restructuring expenses of €37.8 million.

In view of the continued shortfalls in process-efficiency targets and the related operating results, property, plant, and equipment at the San Luis Potosí plant in Mexico was written down as impaired in the amount of €18.7 million. This requirement was due to capital expenditures made in 2006 which, under IFRS impairment principles, are not recognized at replacement cost but at the lower net realizable value.

On July 31, 2006, we sold our North American OTR tire operations to the Titan Tire Corporation. The disposal gave rise to a gain of €19.1 million.

In 2006 the ContiTech division recorded a number of minor special effects, such as restructuring expenses, totaling €8.5 million. These were more than offset by a gain of €12.9 million from the negative balance resulting from the first consolidation of the Roulunds Rubber Group.

In 2006 the investment in Sandusky Ltd. was written off in full in the amount of €3.7 million as a result of the company filing for bankruptcy.

Special effects in 2006 resulted in a loss of €75.2 million for the Corporation

Procurement

Raw material prices on the international commodities markets rose in 2007, driven again by strong demand and speculation. The total procurement volume for the Continental Corporation rose by 9.9% to €10.7 billion (2006: €9.7 billion). This includes the procurement volume for Siemens VDO for one month.

Research and development

Research and development (R&D) expenses rose by €157.8 million or 23.3% year-on-year to €834.8 million (2006: €677.0 million), or 5.0% of sales (2006: 4.5%). This is largely attributable to changes in the scope of consolidation resulting from the acquisition of Siemens VDO and Motorola’s automotive electronics business.

In the Chassis & Safety, Interior and Powertrain divisions, intangible assets from development activities are recognized in connection with the initial product development in the original equipment business. Costs are capitalized as of the point in time at which we have been nominated as a supplier by the original equipment manufacturer and have successfully fulfilled a specific pre-release stage. Capitalization ends with the approval for unlimited series production. The costs of customer-specific applications, pre-production prototypes, and testing for products already being sold, continue to be expensed as incurred. Capitalized development expenses are amortized over a useful life of three years, using the straight-line method. The assumed useful life reflects the time in which an economic benefit is likely to be achievable from these development projects.

The requirements for capitalizing intangible assets from development activities (IAS 38) were not met in the Passenger and Light Truck Tires, Commercial Vehicle Tires and ContiTech divisions.

Depreciation and amortization

Total depreciation and amortization increased by €115.2 million to €814.8 million (2006: €699.6 million), corresponding to 4.9% (2006: 4.7%) of sales. In the year under review, impairment losses of €27.1 million (2006: €38.2 million) were recognized.

Net interest expense

At €154.2 million, net interest expense rose by €43.6 million compared with the previous year (2006: €110.6 million).

The increase as against the previous year was mainly due to the acquisition of Siemens VDO for which debt of €10.2 billion was assumed under the multicurrency term loans and revolving credit facility provided by a consortium of banks. Financing costs increased net interest expense in 2007 by €53.5 million.

The higher average indebtedness in 2007 compared with the previous year also increased costs. Fiscal 2007 opened with indebtedness up by €687.8 million compared with January 1, 2006 due to the refinancing of the purchase price of Motorola's automotive electronics business at the beginning of July 2006 and the contributions into a trust fund for pension obligations in Germany under a contractual trust arrangement (CTA) in June and December 2006. These payments resulted in total financial outflows of €1,386.7 million in 2006. In addition, the doubling of the dividend payment in April 2007 for the previous fiscal year led to a rise in cash outflows of €147.2 million. This effect was reinforced by higher interest rates in 2007, especially in the Eurozone. Conversely, the capital increase implemented at the end of October 2007 for the purchase of Siemens VDO led to inflows of funds amounting to €1,478.8 million, which were available until the beginning of December 2007 when the price had to be paid and helped to cushion net interest expense in November.

Exchange rate effects from financial receivables and liabilities accepted or issued in foreign currencies were almost entirely offset in 2007 by effects from changes in the fair value of derivative instruments arranged contractually for hedging purposes. While the negative effect at the end of fiscal 2007 stood at €1.4 million, exchange rate effects in the previous year increased net interest expense by €22.1 million.

Tax expense

The aggregate tax expense declined by €15.0 million to €471.7 million (2006: €486.7 million). This corresponds to an effective tax rate of 31.0% (2006: 32.6%). The improved tax rate is due largely to the positive effects of country-specific differences and a lower level of deferred taxes that were not recognized due to the insufficient probability of realization. This was partially offset by other special effects including effects from previous years and the first-time recognition of deferred tax assets.

Net income attributable to the shareholders of the parent

Net income attributable to the shareholders of the parent increased by €38.7 million, or 3.9%, to €1,020.6 million (2006: €981.9 million). This corresponds to earnings per share of €6.79 (2006: €6.72).

Reconciliation of EBIT to net income in € millions	2007	2006	Change in %
Chassis & Safety	567.0	528.3	7.3
Powertrain	-73.5	-21.2	-246.7
Interior	10.8	25.1	-57.0
Passenger and Light Truck Tires	738.7	650.9	13.5
Commercial Vehicle Tires	124.1	136.2	-8.9
ContiTech	362.8	318.6	13.9
Other/consolidation	-54.1	-36.0	—
EBIT	**1,675.8**	**1,601.9**	**4.6**
Net interest expense	-154.2	-110.6	39.4
Earnings before income taxes	**1,521.6**	**1,491.3**	**2.0**
Income taxes	-471.7	-486.7	3.1
Net income	**1,049.9**	**1,004.6**	**4.5**
Minority interests	-29.3	-22.7	-29.1
Net income attributable to the shareholders of the parent	**1,020.6**	**981.9**	**3.9**
Earnings per share (in €), undiluted	6.79	6.72	1.0

Financial Position

Reconciliation of cash flow

Net cash flow from operating activities increased by €1,090.5 million year-on-year to €1,913.6 million, equivalent to 11.5% of sales (2006: €5.5%). This rise was largely due to the positive change in pension provisions compared with the previous year, which contributed €772.1 million. The Corporation made no payments in fiscal 2007 comparable to the contributions of €630.0 million made in 2006 to the CTA in Germany. Net cash flow also benefited from the reduced increase in working capital at the 2007 year-end compared with the end of 2006. The positive effect compared with full-year 2006 amounts to €107.4 million. EBIT showed an improvement compared with 2006, contributing €73.9 million to cash flow.

Free cash flow at year-end 2007 stood at -€10,625.6 million, representing an increase in cash outflow of €9,984.5 million over 2006, attributable largely to the acquisition of Siemens VDO. The purchase price paid for this acquisition was €11,501.1 million. Together with other expenditure such as capital expenditures on property, plant, equipment, software, and other acquisitions including the Matador Group and AP Italia, this led to total cash outflows from investing activities amounting to €12,539.2 million (2006: €1,464.2 million). Before the cash used for acquisitions, there was a free cash flow of €1,050.9 million.

Net indebtedness increased by €9,675.4 million to €10,856.4 million compared with year-end 2006 (2006: €1,181.0 million). The gearing ratio is therefore 158.3% (2006: 25.1%). The increase in net indebtedness is primarily attributable to net outflows from the negative free cash flow, partly offset by cash inflows from the capital increase of €1,478.8 million implemented at the end of October 2007 for the purchase of Siemens VDO. A doubled dividend was distributed for fiscal 2006, resulting in payments of €293.1 million. Other effects include gross indebtedness incurred from acquiring companies.

Capital expenditure (additions)

Additions to property, plant, and equipment and software amounted to €896.9 million, up €91.9 million on the previous year (€805.0 million). Capital expenditure amounted to 5.4% (2006: 5.4%) of sales.

Capital expenditure resulting from the automotive electronics business acquired from Motorola amounted to €77.8 million (2006: €11.9 million).

Capital expenditure also increased as a result of changes in the scope of consolidation due to the acquisition of Siemens VDO.

Indebtedness

Gross indebtedness increased by €11,341.6 million to €13,126.8 million (2006: €1,785.2 million).

Bonds remained virtually unchanged from the previous year at €856.5 million (2006: €852.4 million).

in € millions	Dec. 31, 2007	Dec. 31, 2006
Cash provided by operating activities	1,913.6	823.1
Cash used for investing activities	-12,539.2	-1,464.2
Cash flow before financing activities (free cash flow)	**-10,625.6**	**-641.1**
Dividends paid	-293.1	-145.9
Dividends paid to minority interests	-11.1	-11.7
Proceeds from the issuance of shares	1,487.9	2.1
Non-cash changes	-25.2	16.7
Other	-225.9	27.2
Foreign exchange effects	17.6	64.9
Change in net indebtedness	**-9,675.4**	**-687.8**

Liabilities to banks increased by €10,625.8 million to €11,397.7 million (2006: €771.9 million). The acquisition funding for Siemens VDO lifted liabilities to banks through the utilization of multicurrency term loans and revolving credit facility by Continental AG in the amount of €10,222.6 million. Continental AG also took out two long-term loans of €300.0 million each. Conversely, liabilities decreased as a result of principal repayments and the repayment of specific loans.

Other financial liabilities increased by €711.7 million to €872.6 million (2006: €160.9 million). This was partly due to an increase in the amount raised through asset-backed securitization programs. Utilization under the commercial paper program was also increased by €427.9 million to €437.9 million.

At €2,270.4 million (2006: €604.2 million), **cash and cash equivalents, derivative instruments and interest-bearing investments** were up by €1,666.2 million.

Net indebtedness increased by €9,675.4 million to €10,856.4 million compared with year-end 2006 (€1,181.0 million).

Effective indebtedness, i.e., including contingent liabilities on notes, was up €9,667.6 million to €10,876.8 million (2006: €1,209.2 million).

Financing

The focus of financing operations was funding the acquisition of Siemens VDO. At the end of July 2007 Continental received a firm commitment from two banks in the amount of €13.5 billion. In the course of syndicating the loan in September and October 2007, the group of lending banks expanded to 39 both in Germany and abroad. Despite the difficult market conditions, the loan was oversubscribed during the syndication process, resulting in higher commitments being available than the €13.5 billion originally planned. The loan was utilized in four tranches, with interest rates ranging from 5.23% to 5.33%, which are based upon the EURIBOR reference interest rate. The tranches fall due from 2008 to 2012.

The loan of €600 million agreed at the end of 2006 with the European Investment Bank (EIB), Luxembourg, was taken up in 2007. This loan is being used to refinance research and development expenses relating to our active and passive vehicle safety systems.

Continental’s objective is to significantly reduce the increased indebtedness arising from the acquisition of Siemens VDO over the coming years. One step in this direction was already taken in 2007 before the purchase price was paid to Siemens. In the course of the capital increase implemented at the end of October 2007, some 14.7 million shares were successfully placed with institutional investors at a price of €101.00 per share. The proceeds accruing from this placement of €1.48 billion helped to finance the acquisition.

On average, based on quarter-end values, 62.1% of debt had fixed interest rates over the year.

Net Assets Position

Total assets
Total assets were up €16,884.6 million to €27,737.6 million (2006: €10,853.0 million). This was mainly due to the acquisition of Siemens VDO.

Non-current assets
Non-current assets rose by €11,506.0 million to €17,383.9 million (2006: €5,877.9 million). The rise is primarily due to the increase in intangible assets and property, plant, and equipment. Goodwill increased by €5,571.4 million to €7,289.2 million, particularly in connection with the acquisition of Siemens VDO. Other intangible assets increased by €2,758.0 million to €2,979.8 million (2006: €221.8 million), while property, plant, and equipment increased by €2,449.1 million to €5,998.1 million (2006: €3,549.0 million). The increase in other intangible assets related mainly to customer relationships and technical know-how identified during the first consolidation of Siemens VDO. This acquisition was also the principal factor in the increase in property, plant, and equipment of €2,449.1 million, which mainly related to the production sites acquired. The first consolidation of the associated companies acquired with Siemens VDO, which were measured at fair value, was primarily responsible for the increase in investments in associated companies of €644.5 million.

Current assets
Current assets rose by €5,378.6 million to €10,353.7 million (2006: €4,975.1 million). This was chiefly due to the increase in cash and cash equivalents. Current assets also increased due to higher inventories than the previous year, up €938.7 million to €2,535.9 million (2006: €1,597.2 million) and to the rise of €1,603.3 million in trade accounts receivable, which totaled €3,943.6 million (2006: €2,340.3 million). This increase was primarily due to the acquisition of Siemens VDO and other changes in the scope of consolidation, plus the growth in operating activities. Other assets increased by €293.9 million to €577.3 million (2006: €283.4 million), largely due to value added tax receivables from the December business of the Siemens VDO companies acquired. Income tax receivables increased by €228.8 million to €257.9 million (2006: €29.1 million); this was primarily attributable to effects of registering the retroactive merger of VDO AG with Continental Automotive GmbH.

Total equity
Total equity increased by €2,146.2 million to €6,856.1 million (2006: €4,709.9 million), primarily as a result of the capital increase in the fourth quarter and the positive net income attributable to the shareholders of the parent for 2007 amounting to €1,020.6 million. This was partially offset by the dividend payout for fiscal 2006 totaling €293.1 million. Currency translation of net assets in foreign locations reduced total equity by €111.0 million.

Non-current liabilities
Non-current liabilities increased by €9,511.5 million to €11,668.3 million (2006: €2,156.8 million), largely due to the assumption of long-term indebtedness in order to finance the purchase price of Siemens VDO. Deferred tax liabilities rose by €336.1 million, attributable in particular to the intangible assets in foreign subsidiaries disclosed in the framework of the purchase price allocation for Siemens VDO.

Current provisions and liabilities
Current provisions and liabilities increased by €5,226.9 million to €9,213.2 million (2006: €3,986.3 million); this rise is mainly due to the short-term components of the indebtedness incurred to finance the purchase price of Siemens VDO (tranche A and the revolving credit facility) and to the increase in trade accounts payable, especially arising from the first consolidation of Siemens VDO.

Consolidated balance sheets

Assets in € millions	Dec. 31, 2007	Dec. 31, 2006
Goodwill	7,289.2	1,717.8
Other intangible assets	2,979.8	221.8
Property, plant, and equipment	5,998.1	3,549.0
Investments in associates	766.4	121.9
Other long-term assets	350.4	267.4
Non-current assets	**17,383.9**	**5,877.9**
Inventories	2,535.9	1,597.2
Trade accounts receivable	3,943.6	2,340.3
Other short-term assets	1,674.8	466.5
Cash and cash equivalents	2,199.4	571.1
Current assets	**10,353.7**	**4,975.1**
Total assets	**27,737.6**	**10,853.0**

Total equity and liabilities in € millions	Dec. 31, 2007	Dec. 31, 2006
Total equity	**6,856.1**	**4,709.9**
Non-current liabilities	**11,668.3**	**2,156.8**
Trade accounts payable	2,758.9	1,465.9
Other short-term provisions and liabilities	6,454.3	2,520.4
Current liabilities	**9,213.2**	**3,986.3**
Total equity and liabilities	**27,737.6**	**10,853.0**
Net indebtedness	**10,856.4**	**1,181.0**
Gearing ratio in %	**158.3**	**25.1**

Operating assets

Operating assets at Corporation level increased significantly as against the end of the previous fiscal year, rising from €8,577.6 million as at year-end 2006 to €13,639.5 million, or 159.0%, to €22,217.1 million on December 31, 2007. This rise is primarily due to the Corporation's acquisitions in the course of 2007, in particular the acquisition of Siemens VDO. Other acquisitions included the Matador Group, AP Italia, and Thermopol. At year-end 2007 operating assets attributable to Siemens VDO amounted to €13,158.5 million. The first consolidation of the other acquisitions mentioned above led to additions to operating assets of €383.2 million in 2007.

The assets and liabilities of the business units held for sale – primarily Motor Drives – have been reclassified as "Assets held for sale" and "Liabilities held for sale" respectively.

Total non-current assets reported amounted to €17,201.2 million, up €11,485.9 million from the previous year. Additions to operating assets from the transactions described above related primarily to goodwill, up €5,571.4 million to €7,289.2 million, other intangible assets, up €2,758.0 million to €2,979.8 million, property, plant, and equipment, up €2,449.1 million to €5,998.1 million and investments in associated companies, up €644.5 million to €766.4 million.

Working capital at year-end amounted to €3,741.0 million due to the aforementioned acquisitions, up €1,241.2 million year-on-year. Receivables amount to €3,964.0 million (2006: €2,368.5 million) and inventories to €2,535.9 million (2006: €1,597.2 million). Operating liabilities amount to €2,758.9 million (2006: €1,465.9 million).

Employees by region in %	2007	2006
Germany	34	35
Europe excluding Germany	32	32
NAFTA	17	17
Asia	12	11
Other countries	5	5

Employees

The workforce of the Continental Corporation increased by 77.9% or 66,430 compared to 2006 (85,224) for a total of 151,654. This was primarily due to the first consolidation of Siemens VDO (+60,519), Thermopol (+594), AP Italia (+510), and the Matador Group (+2,531). Increases in order volumes led to new hirings overall in all divisions.

Development in the Divisions: Chassis & Safety

- Sales up 2.8%
- Adjusted EBIT up 3.3%

Sales volumes

The Electronic Brake Systems business unit sold 15.7 million electronic brake systems during fiscal 2007. The North American market continued to develop gratifyingly. With 2.9 million ESC units we achieved there a growth in sales volumes of 45.1% compared to 2006. Sales of wheel speed sensors were up 8.5% to some 64 million units.

Sales volumes at the Hydraulic Brake Systems business unit also rose, largely due to increased new business and higher unit sales figures. We lifted sales volumes of brake boosters by 9.1% to 13.4 million units. Brake calipers saw a rise of 1.8% to 34.5 million units.

Sales up 2.8%

Sales by the Chassis & Safety division increased in 2007 to €4,648.6 million (2006: €4,521.7 million), up 2.8% compared with 2006. The rise in sales is partly due to organic growth and partly to changes in the scope of consolidation, especially resulting from the acquisition of Siemens VDO.

EBITDA up 6.9%

The Chassis & Safety division improved its EBITDA compared to the previous year by €51.6 million, or 6.9%, to €796.4 million (2006: €744.8 million). EBITDA amounted to 17.1% of sales (2006: 16.5%).

EBIT before amortization of intangible assets from PPA up 8.4%

The Chassis & Safety division improved its EBIT before amortization of intangible assets from PPA compared to the previous year by €44.5 million, or 8.4%, to €573.8 million (2006: €529.3 million). EBIT before amortization of intangible assets from PPA amounted to 12.3% of sales (2006: 11.7%).

Operating results (EBIT) up 7.3%; Adjusted EBIT up 3.3%

The Chassis & Safety division reported an increase in EBIT of 7.3%, to €567.0 million (2006: €528.3 million), achieving a return on sales of 12.2% (2006: 11.7%) and a ROCE of 11.3% (2006: 20.1%). Before special effects, adjusted EBIT rose by €18.2 million or 3.3% to €575.7 million (2006: €557.5 million). The adjusted return on sales amounted to 12.4% (2006: 12.3%).

Special effects in 2007

Effective January 1, 2008, Continental Teves Japan Inc. sold significant parts of its plant, including the related buildings and machinery at the Hiroshima location in Japan, to Nisshinbo Industries Inc. for the symbolic amount of 1 yen in order to avoid the cost of a plant closure. In accordance with IFRSs, the carrying amount of the plant must be written down to its expected selling price. This led to an impairment loss of €3.6 million.

The relocation of production capacity from our Ebbw Vale, UK, plant to the plant in Zvolen, Slovakia that began in 2006 led to restructuring expenses of €1.4 million in 2007.

In connection with the purchase price allocation of Siemens VDO, inventories valued at €3.7 million were written up to fair value. Utilization of these inventories in December led to an expense in the corresponding amount.

Special effects in 2007 resulted in a loss of €8.7 million for the Chassis & Safety division.

Special effects in 2006

In 2006 we transferred production capacity from the Ebbw Vale, UK, plant to our plant in Zvolen, Slovakia, in order to improve the cost structure in the Foundation Brakes unit. This led to restructuring expenses in the period under review in the amount of €28.0 million.

Provisions of €9.9 million were released after legal claims brought by former employees relating to the closure of the Automotive Systems division's Gretz plant in France were dismissed in 2006.

As part of our long-term production strategy, all sites are continuously reviewed for their productive and technical efficiency and cost structure. As a result of the high production costs in the French plant in Angers and the U.S. plants in Elma, New York, and Seguin, Texas, production could not be maintained at these plants. This led

Chassis & Safety in € millions	2007	2006	Change in %
Sales	4,648.6	4,521.7	2.8
EBITDA	796.4	744.8	6.9
in % of sales	17.1	16.5	—
EBIT before amortization of intangible assets from PPA	573.8	529.3	8.4
in % of sales	12.3	11.7	—
EBIT	567.0	528.3	7.3
in % of sales	12.2	11.7	—
Research and development expenses	347.5	330.4	5.2
Depreciation and amortization[1]	229.4	216.5	6.0
Operating assets	5,021.5	2,629.9	90.9
EBIT in % of operating assets	11.3	20.1	—
Capital expenditure[2]	279.8	279.1	0.3
Number of employees at the end of the year[3]	27,809	20,059	38.6
Adjusted EBIT before amortization of intangible assets from PPA[4]	582.5	558.5	4.3
Adjusted EBIT before amortization of intangible assets from PPA in % of sales	12.5	12.4	—
Adjusted EBIT[4]	575.7	557.5	3.3
Adjusted EBIT in % of sales	12.4	12.3	—

[1] Excluding write-downs of investments
[2] Capital expenditure on property, plant, equipment and software
[3] Excluding trainees
[4] Before special effects

to proportionate restructuring expenses for the Chassis & Safety division in 2006 totaling €11.1 million.

Special effects in 2006 impacted the Chassis & Safety division by a total of €29.2 million.

Procurement
The procurement market for the new Chassis & Safety division is based to a large extent on that of the former Automotive Systems division. The advantages of the centralized purchasing structure we introduced are continuously available to us. The main priorities were to source new suppliers for new technologies in the Driver Assistance Systems unit and to reduce costs in the Passive Safety Systems area.

Research and development
Research and development (R&D) expenses rose by €17.1 million or 5.2% year-on-year to reach €347.5 million (2006: €330.4 million), or 7.5% of sales (2006: 7.3%).

Depreciation and amortization
Total depreciation and amortization increased by €12.9 million compared with 2006 to €229.4 million (2006: €216.5 million), corresponding to 4.9% (2006: 4.8%) of sales. In 2007, impairment losses of €5.1 million (2006: €1.9 million) were recognized on property, plant, and equipment.

Operating assets
Operating assets in the Chassis & Safety division were affected partly by the acquisition of Siemens VDO, but also include significant elements of the former Automotive Systems division. Additions to operating assets of €2,391.6 million brought the total to €5,021.5 million compared to year-end 2006 (€2,629.9 million).

Non-current assets amounted to €4,413.0 million (2006: €2,227.6 million), of which 61.6% or €2,719.7 million (2006: €1,155.5 million) is accounted for by goodwill. Property, plant, and equipment accounted for €1,235.6 million (2006: €966.0 million).

Working capital amounted to €484.1 million (2006: €315.4 million). This includes inventories in the total amount of €324.1 million (2006: €222.0 million) and

operating receivables, which contributed €723.2 million (2006: €552.9 million) to working capital. Operating liabilities amounted to €563.2 million (2006: €459.5 million).

Capital expenditure (additions)
Additions to property, plant, equipment, and software for the Chassis & Safety division increased slightly by €0.7 million to €279.8 million (2006: €279.1 million). Capital expenditure amounted to 6.0% (2006: 6.2%) of sales.

The Electronic Brake Systems business unit continued to invest in expanding production capacity and implementing a new manufacturing concept in response to increased demand for ESC and ABS systems in America and Europe.

The Hydraulic Brake Systems business unit invested in the development of a new production facility in Changshu, China.

In addition, the Corporation invested in implementing a new manufacturing concept at a number of plants.

Employees
The number of employees in the Chassis & Safety division increased by 7,750 compared with the previous year to 27,809 (2006: 20,059). The acquisition of Siemens VDO brought an additional 6,339 employees onto the payroll as of the date of first consolidation and the acquisition of AP Italia increased it by 510. Rising order volumes meant 167 new employees could be hired in Varzea Paulista, Brazil, and 114 new employees in Budapest, Hungary. At Ebbw Vale, UK, 148 jobs were shed due to restructuring. In Sibiu, Romania, the workforce grew by 96 employees due to encouraging order volumes and further expansion of research and development activities.

Development in the Divisions: Powertrain

- Sales up 80.9%
- Adjusted EBIT down 241.3%

Sales volumes
As Siemens VDO was only included for the first time for one month in fiscal 2007, we do not yet have any meaningful sales volume figures for the new Powertrain division.

Sales up 80.9%
Sales by the Powertrain division increased in 2007 to €1,177.0 million (2006: €650.7 million), up 80.9% compared with 2006. The increase in sales is accounted for both by organic growth and by changes in the scope of consolidation, primarily through the acquisition of Siemens VDO and Motorola's automotive electronics business.

EBITDA down 69.3%
EBITDA of the Powertrain division fell compared to the previous year by €13.3 million, or 69.3%, to €5.9 million (2006: €19.2 million). EBITDA amounted to 0.5% of sales (2006: 3.0%).

EBIT before amortization of intangible assets from PPA down 209.2%
The Powertrain division's EBIT before amortization of intangible assets from PPA compared to the previous year fell by €36.2 million, or 209.2%, to -€53.5 million (2006: -€17.3 million). EBIT before amortization of intangible assets from PPA amounted to -4.5% of sales (2006: -2.7%).

Operating results (EBIT) down 246.7%; Adjusted EBIT down 241.3%
The Powertrain division showed a decline in EBIT of €52.3 million or 246.7% to -€73.5 million (2006: -€21.2 million). This corresponds to a return on sales of -6.2% (2006: -3.3%) and a ROCE of -1.3% (2006: -3.8%). Before special effects, adjusted EBIT declined by €43.2 million or 241.3% to -€25.3 million (2006: €17.9 million). The adjusted return on sales was -2.1% (2006: 2.8%).

Special effects in 2007
On December 20, 2007, we announced at our site in Chatham, Canada, that the remaining production activities there would be discontinued. A provision for restructuring of €10.1 million was recognized for this purpose.

In connection with the purchase price allocation of Siemens VDO, inventories worth €12.2 million were written up to fair value. Utilization of these inventories in December led to an expense in the corresponding amount.

To optimize the organization of production facilities in Germany and improve the cost structure of the Electric Drives business unit, the Haldensleben site was closed with effect from the end of the year except for a few minor winding-up activities. The Haldensleben operations were relocated to Berlin. This led to restructuring expenses in the amount of €5.8 million in the period under review.

The continuing integration of the automotive electronics business acquired from Motorola led to proportionate integration expenses of €14.6 million and restructuring expenses of €2.9 million for the Powertrain division in 2007.

A further provision of €2.6 million was recognized proportionately for the Powertrain division for unused leased facilities near Detroit, Michigan, U.S.A., acquired as part of the acquisition of Motorola's automotive electronics business, as subleasing is not possible.

The impact of special effects on the Powertrain division reduced earnings for 2007 by a total of €48.2 million.

Special effects in 2006
As part of our long-term production strategy, all our plants are continuously reviewed for their productive and technical efficiency and cost structure. As a result of the high production costs in the French plant in Angers and the U.S. plants in Elma, New York, and Seguin, Texas, production could not be maintained at these plants. This led to proportionate restructuring expenses for the Powertrain division in 2006 totaling €26.9 million.

Proportionate integration expenses amounting to €5.6 million arose in 2006 for the Powertrain division in conjunction with the automotive electronics business acquired from Motorola, primarily for employee incentives and for the use of Motorola, Inc., IT systems.

Powertrain in € millions	2007	2006	Change in %
Sales	1,177.0	650.7	80.9
EBITDA	5.9	19.2	-69.3
in % of sales	0.5	3.0	—
EBIT before amortization of intangible assets from PPA	-53.5	-17.3	-209.2
in % of sales	-4.5	-2.7	—
EBIT	-73.5	-21.2	-246.7
in % of sales	-6.2	-3.3	—
Research and development expenses	144.9	77.7	86.5
Depreciation and amortization[1]	79.4	40.4	96.5
Operating assets	5,686.2	554.1	926.2
EBIT in % of operating assets	-1.3	-3.8	—
Capital expenditure[2]	129.6	46.6	178.1
Number of employees at the end of the year[3]	31,608	4,742	566.6
Adjusted EBIT before amortization of intangible assets from PPA[4]	-5.3	21.8	-124.3
Adjusted EBIT before amortization of intangible assets from PPA in % of sales	-0.5	3.4	—
Adjusted EBIT[4]	-25.3	17.9	-241.3
Adjusted EBIT in % of sales	-2.1	2.8	—

[1] Excluding write-downs of investments.

[2] Capital expenditure on property, plant, equipment and software.

[3] Excluding trainees.

[4] Before special effects.

At the end of 2006, the decision was made to abandon a leased facility outside Detroit, Michigan, U.S.A. as of 2007. This facility was obtained as part of the acquisition of Motorola's automotive electronics business. The related lease agreement does not expire until the end of 2025. At the end of 2006 it was estimated that the ongoing leasing costs would not be fully covered by subleasing the building. This is because of likely deductions as well as lost rent for the portions of the building that cannot be leased, as well as lost surcharges for lessee installations amortized over the rental agreement. A proportionate provision of €5.7 million was therefore recognized in the Powertrain division. A proportionate impairment loss was also recognized in the amount of €0.9 million.

The impact of special effects on the Powertrain division reduced EBIT for 2006 by a total of €39.1 million.

Procurement

The procurement market for the Powertrain division comprises both existing suppliers to the former Automotive Systems division and those added with the acquisition of Siemens VDO. The established central purchasing structure can operate for the expanded product range straightaway, thus exploiting synergies from these procurement markets. The main driver for our activities is the heavy price pressure on engineering materials; however, this is offset by synergies identified on the electronics and transmissions side.

Research and development

Research and development (R&D) expenses rose by €67.2 million or 86.5% year-on-year to reach €144.9 million (2006: €77.7 million), or 12.3% of sales (2006: 11.9%).

Depreciation and amortization

Total depreciation and amortization increased compared with fiscal year 2006 by €39.0 million to €79.4 million (2006: €40.4 million), corresponding to 6.7% (2006: 6.2%) of sales. In 2007 impairment losses of €1.4 million (2006: €7.7 million) were recognized on property, plant, and equipment.

Operating assets

Operating assets in the Powertrain division were dominated by the acquisition of Siemens VDO, which resulted in additions compared to year-end 2006 amounting to €5,132.1 million, for a total of €5,686.2 million.

The assets and liabilities of the business units held for sale – primarily Motor Drives – have been reclassified as “Assets held for sale” and “Liabilities held for sale” respectively. This produced an addition of €563.6 million to the “Assets held for sale” item under operating assets.

Non-current assets amounted to €4,434.6 million (2006: €444.0 million), of which goodwill accounted for €1,911.1 million (2006: €173.0 million), intangible assets for €1,054.5 million (2006: €39.2 million) and property, plant, and equipment for €1,319.8 million (2006: €225.1 million).

Capital expenditure (additions)

Additions to property, plant, equipment, and software in the Powertrain division rose by €83.0 million year-on-year to reach €129.6 million (2006: €46.6 million). Capital expenditure amounted to 11.0% (2006: 7.2%) of sales.

Investment in the year under review focused primarily on expanding manufacturing capacity for transmission control equipment.

Employees

The number of employees in the Powertrain division increased by 26,866 compared with previous year to 31,608 (2006: 4,742). The acquisition of Siemens VDO brought us an additional 26,504 employees as of the date of first consolidation. Rising order volumes meant 105 new employees could be hired as part of the integration of the Ingolstadt and Nuremberg plants in Germany. Production increases and the expansion of our research and development activities enabled us to take on another 114 employees in Calamba, Philippines, and 19 in Sibiu, Rumania.

Development in the Divisions: Interior

- Sales up 78.4%
- Adjusted EBIT down 9.8%

Sales volumes
As Siemens VDO was included for the first time for one month in fiscal 2007, we do not yet have any meaningful sales figures for the new Interior division.

Sales up 78.4%
Sales by the Interior division increased in 2007 to €1,531.6 million (2006: €858.6 million), up 78.4% compared with 2006. The increase in sales is the result of both organic growth and changes in the scope of consolidation, primarily through the acquisition of Siemens VDO and the automotive electronics business acquired from Motorola.

EBITDA up 44.9%
EBITDA of the Interior division improved compared to the previous year by €31.4 million, or 44.9%, to €101.3 million (2006: €69.9 million). EBITDA amounted to 6.6% of sales (2006: 8.1%).

EBIT before amortization of intangible assets from PPA up 24.7%
The Interior division's EBIT before amortization of intangible assets from PPA compared to the previous year was up by €7.6 million, or 24.7%, to €38.4 million (2006: €30.8 million). EBIT before amortization of intangible assets from PPA amounted to 2.5% of sales (2006: 3.6%).

Operating results (EBIT) down 57.0%; Adjusted EBIT down 9.8%
The Interior division showed a decrease in EBIT of 57.0% to €10.8 million (2006: €25.1 million), achieving a return on sales of 0.7% (2006: 2.9%) and a ROCE of 0.2% (2006: 3.7%). Before special effects, adjusted EBIT declined by €5.4 million or 9.8% to €49.7 million (2006: €55.1 million). The adjusted return on sales amounted to 3.2% (2006: 6.4%).

Special effects in 2007
The closure of the downtown location in Bangalore, India, and the relocation of machinery to the area surrounding Bangalore led to restructuring expenses of €2.1 million.

In connection with the purchase price allocation (PPA) of Siemens VDO, inventories valued at €17.7 million were written up to fair value. Utilization of these inventories in December led to an expense in the corresponding amount.

The continuing integration of the automotive electronics business acquired from Motorola resulted in proportionate integration expenses of €11.3 million and restructuring expenses of €5.2 million for the Interior division in 2007.

A further provision of €2.6 million was recognized proportionately for the Interior division for unused leased facilities near Detroit, Michigan, U.S.A., acquired as part of the acquisition of Motorola's automotive electronics business, as subleasing is not possible.

The impact of special effects on the Interior division reduced earnings for 2007 by a total of €38.9 million.

Special effects in 2006
As part of our long-term production strategy all our plants are continuously reviewed for their productive and technical efficiency and cost structure. As a result of the high production costs in the French plant in Angers and the U.S. plants in Elma, New York, and Seguin, Texas, production could not be maintained at these plants. This led to proportionate restructuring expenses for the Interior division in 2006 of €18.3 million.

Proportionate integration expenses of €4.9 million arose in 2006 for the Interior division in conjunction with the automotive electronics business acquired from Motorola, primarily for employee incentives and for the use of Motorola, Inc., IT systems.

At the end of 2006, the decision was made to abandon a leased facility outside Detroit, Michigan, U.S.A. as of 2007. This facility was obtained as part of the acquisition of Motorola's automotive electronics business. The related lease agreement does not expire until the end of 2025. At the end of 2006, it was estimated that the ongoing leasing costs would not be fully covered by subleasing the building. This is because of likely deduc-

Interior in € millions	2007	2006	Change in %
Sales	1,531.6	858.6	78.4
EBITDA	101.3	69.9	44.9
in % of sales	6.6	8.1	—
EBIT before amortization of intangible assets from PPA	38.4	30.8	24.7
in % of sales	2.5	3.6	—
EBIT	10.8	25.1	-57.0
in % of sales	0.7	2.9	—
Research and development expenses	131.5	68.6	91.7
Depreciation and amortization[1]	90.5	44.8	102.0
Operating assets	6,541.6	679.0	863.4
EBIT in % of operating assets	0.2	3.7	—
Capital expenditure[2]	65.5	33.8	93.8
Number of employees at the end of the year[3]	33,459	5,397	520.0
Adjusted EBIT before amortization of intangible assets from PPA[4]	77.3	60.8	27.1
Adjusted EBIT before amortization of intangible assets from PPA in % of sales	5.0	7.1	—
Adjusted EBIT[4]	49.7	55.1	-9.8
Adjusted EBIT in % of sales	3.2	6.4	—

[1] Excluding write-downs of investments
[2] Capital expenditure on property, plant, equipment and software
[3] Excluding trainees
[4] Before special effects

tions as well as lost rent for the portions of the building that cannot be leased, as well as lost surcharges for lessee installations amortized over the rental agreement. A proportionate provision of €5.8 million was therefore recognized in the Interior division. A proportionate impairment loss was also recognized in the amount of €1.0 million.

The impact of special effects on the Interior division reduced EBIT for 2006 by a total of €30.0 million.

Procurement
The procurement market for the Interior division comprises both existing suppliers to the former Automotive Systems division and those added with the acquisition of Siemens VDO. This market involves many new business areas ranging from infotainment products to interior fittings with new driver interface solutions, and this will also lead to the emergence of new suppliers and potential synergies. Price pressure was the determining factor for the results, especially in the field of plastic resins, as well as synergy effects in the Body & Security Systems unit.

Research and development
Research and development (R&D) expenses rose by €62.9 million or 91.7% year-on-year to reach €131.5 million (2006: €68.6 million), or 8.6% of sales (2006: 8.0%).

Depreciation and amortization
Total depreciation and amortization increased compared with fiscal year 2006 by €45.7 million to €90.5 million (2006: €44.8 million), corresponding to 5.9% (2006: 5.2%) of sales. In 2007 impairment losses of €0.3 million (2006: €3.0 million) were recognized on property, plant, and equipment.

Operating assets
Operating assets in the Interior division were dominated by the acquisition of Siemens VDO, which resulted in additions compared to the end of 2006 amounting to €5,862.6 million, for a total of €6,541.6 million (2006: €679.0 million).

Non-current assets totaled €5,738.5 million (2006: €566.7 million), of which goodwill accounted for €2,566.5 million (2006: €307.7 million), intangible assets for €1,445.6 million (2006: €61.8 million) and property,

plant, and equipment for €1,207.8 million (2006: €196.5 million). The total value of associated companies amounted to €503.0 million (2006: €0.0 million).

Working capital at year-end was €679.8 million (2006: €99.7 million). Accounts receivable amounted to €884.3 million (2006: €151.7 million) and inventories to €566.3 million (2006: €97.9 million). Operating liabilities stood at €770.8 million (2006: €149.9 million).

Capital expenditure (additions)

Additions to property, plant, equipment, and software for the Interior division increased by €31.7 million to €65.5 million (2006: €33.8 million). Capital expenditure amounted to 4.3% (2006: 3.9%) of sales.

The investment priority for the Telematics unit was the establishment of additional manufacturing capacity for telematics products in the U.S.A. and the expansion of the plants in China and Romania.

Employees

The number of employees in the Interior division increased by 28,062 compared with the previous year to 33,459 (2006: 5,397). The acquisition of Siemens VDO increased the number of employees by 27,676 as of the date of first consolidation. The positive trend in order volumes and further expansion of the R&D activities enabled us to hire 104 new employees in Sibiu, Romania.

Development in the Divisions: Passenger and Light Truck Tires

- Sales up 6.0%
- Sales up 6.9% before consolidation and exchange rate changes
- Adjusted EBIT up 16.6%

Sales volumes

At 107.4 million tires, we achieved sales volumes above the previous year's level. Sales in the Original Equipment business unit exceeded the figure for 2006. We were able to lift sales volumes in Europe, while volumes in the NAFTA region were substantially lower than the previous year's figure as planned. The sales volume in the European Replacement business fell below the 2006 level mainly due to poorer sales of winter tires. Nevertheless, we managed to stabilize our market share in this region. We increased sales volumes in the North American Replacement business. The product mix again improved.

Sales up 6.0%;
Sales up 6.9% before consolidation and exchange rate changes

Sales of the Passenger and Light Truck Tires division rose to €4,975.6 million, up 6.0% compared with 2006 (€4,693.6 million). Before changes in the scope of consolidation and exchange rate effects, the increase was 6.9%. Matador contributed €46.0 million to sales.

EBITDA up 11.3%

The Passenger and Light Truck Tires division improved its EBITDA compared to the previous year by €98.6 million, or 11.3%, to €969.6 million (2006: €871.0 million). EBITDA amounted to 19.5% of sales (2006: 18.6%).

EBIT before amortization of intangible assets from PPA up 13.7%

The Passenger and Light Truck Tires division improved its EBIT before amortization of intangible assets from PPA compared to the previous year by €89.3 million, or 13.7%, to €740.7 million (2006: €651.4 million). EBIT before amortization of intangible assets from PPA amounted to 14.9% of sales (2006: 13.9%).

Earnings up 13.5%;
Adjusted EBIT up 16.6%

The Passenger and Light Truck Tires division showed an increase in EBIT of 13.5%, to €738.7 million (2006: €650.9 million), achieving a return on sales of 14.8% (2006: 13.9%) and a ROCE of 26.8% (2006: 24.9%). Before changes in the scope of consolidation and special effects, EBIT rose by €108.6 million or 16.6% to €763.8 million (2006: €655.2 million). The adjusted return on sales amounted to 15.5% (2006: 14.0%).

The Americas business unit achieved breakeven point at EBIT level and succeeded in winning back market share in the replacement business.

Special effects in 2007

An expense of €46.5 million was recognized in the Passenger and Light Truck Tires division in 2007 for the one-time payment to an external fund in connection with healthcare provision for retirees in the U.S.A.

In addition, in 2007 the medical healthcare plans for salaried employees in the U.S.A. were adjusted by further limiting medical benefits. This produced a positive effect on earnings in the Passenger and Light Truck Tires division amounting to €27.6 million.

Unutilized provisions of €3.1 million were reversed as part of the winding-up of restructuring activities at the tire plant in Charlotte, North Carolina, U.S.A.

Property, plant, and equipment at the Mount Vernon plant in the U.S.A. was written down in the amount of €18.7 million due to the failure to achieve process efficiency and to the related earnings situation. This requirement was due to capital expenditures made in 2007 which under IFRS impairment principles are not recognized at replacement cost but at the lower net realizable value.

Passenger and Light Truck Tires in € millions	2007	2006	Change in %
Sales	4,975.6	4,693.6	6.0
EBITDA	969.6	871.0	11.3
in % of sales	19.5	18.6	—
EBIT before amortization of intangible assets from PPA	740.7	651.4	13.7
in % of sales	14.9	13.9	—
EBIT	738.7	650.9	13.5
in % of sales	14.8	13.9	—
Research and development expenses	110.5	105.2	5.0
Depreciation and amortization[1]	230.9	220.1	4.9
Operating assets	2,753.8	2,615.7	5.3
EBIT in % of operating assets	26.8	24.9	—
Capital expenditure[2]	222.0	244.5	-9.2
Number of employees at the end of the year[3]	26,281	24,821	5.9
Adjusted sales[4]	4,912.1	4,693.6	4.7
Adjusted EBIT before amortization of intangible assets from PPA[5]	765.8	655.7	16.8
Adjusted EBIT before amortization of intangible assets from PPA in % of sales	15.6	14.0	—
Adjusted EBIT[5]	763.8	655.2	16.6
Adjusted EBIT in % of sales	15.5	14.0	—

[1] Excluding write-downs of investments
[2] Capital expenditure on property, plant, equipment and software
[3] Excluding trainees
[4] Before changes in the scope of consolidation
[5] Before changes in the scope of consolidation and special effects

As a result of the earnings position, the investment in Drahtcord Saar KG was written down in the amount of €5.5 million.

The first consolidation of the Matador Group led to a proportionate gain of €16.8 million for the Passenger and Light Truck Tires division from the negative balance. This was partially offset by proportionate impairment losses amounting to €1.0 million on an unused brand name and an unused power plant.

In the Passenger and Light Truck Tires division, special effects led to a decrease in earnings totaling €24.2 million in 2007.

Special effects in 2006

At the end of 2006, all hourly workers and retirees in the U.S. tire operations were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this amendment, these beneficiaries now have a standard level of medical coverage. These plan amendments resulted in a release of provisions for post-employment obligations of €101.2 million in the Passenger and Light Truck Tires division.

Due to the completion of negotiations to phase out production of passenger and light truck tires at the Hanover-Stöcken plant by the end of 2007, an additional sum of €0.6 million was set aside for termination benefits in 2006 on top of the provision created in 2005.

Restructuring at the plant in Charlotte, North Carolina, U.S.A. resulted in expenses of €48.4 million in 2006. Other measures taken at Continental Tire North America related to the Mayfield, Kentucky, plant, which exclusively manufactured semi-finished products for tire production. This gave rise to restructuring expenses of €37.8 million.

In view of the continued shortfalls in process-efficiency targets and the related operating results, property, plant, and equipment at the San Luis Potosí plant in Mexico was written down as impaired in the amount of €18.7

million. This requirement was due to capital expenditures made in 2006 which under IFRS impairment principles are not recognized at replacement cost but at the lower net realizable value.

Special effects in 2006 impacted the Passenger and Light Truck Tires division negatively by €4.3 million.

Procurement

Raw material prices on the international commodities markets rose in 2007, again driven by strong demand and speculation. The global purchasing organization was further strengthened in Asia with the goal of obtaining new supply sources. With the successful introduction of additional new supply sources from Asia and increased utilization of existing supply sources from low-wage countries, the share of our purchasing requirements obtained from low-wage countries was further expanded.

Research and development

Research and development (R&D) expenses increased by 5.0% year-on-year to reach €110.5 million (2006: €105.2 million), or 2.2% of sales (2006: 2.2%). The focus of the research and development work in the Passenger and Light Truck Tires division in 2007 was on the renewal of the product portfolio with the emphasis on the Americas region and on enhancing the technologies required for this.

Depreciation and amortization

Depreciation and amortization increased to €230.9 million (2006: €220.1 million), representing 4.6% (2006: 4.7%) of sales. In 2007 impairment losses of €19.7 million (2006: €19.9 million) were recognized on property, plant, and equipment.

Operating assets

Operating assets in the Passenger and Light Truck Tires division increased by €138.1 million to €2,753.8 million compared with year-end 2006 (€2,615.7 million). Negative exchange rate effects amounted to €54.2 million. Acquisition of the Matador Group resulted in additions to operating assets in the amount of €185.9 million.

Non-current assets rose by €88.7 million to €1,395.5 million (2006: €1,306.8 million). This rise was primarily due to the acquisition of the Matador Group, which led to an increase in property, plant, and equipment of €97.0 million and in other intangible assets of €12.2 million. Depreciation and amortization on operating assets exceeded capital expenditure on property, plant, and equipment and software, resulting in a reduction of €8.9 million. Negative exchange rate effects reduced the carrying amount of non-current assets by €8.2 million.

Working capital increased by a total of €46.2 million to €1,207.6 million (2006: €1,161.4 million). The total value of inventories increased by €61.5 million to €797.6 million (2006: €736.1 million), whereby negative exchange rate effects of €25.4 million were offset by additions from the acquisition of the Matador Group of €40.8 million. Accounts receivable rose by €52.7 million to €886.6 million (2006: 833.9 million); conversely, exchange rate effects totaled €22.3 million, while additions due to the acquisition of the Matador Group totaled €45.8 million. Accounts payable rose by €68.0 million, of which €22.7 million was accounted for by the acquisition of the Matador Group.

Capital expenditure (additions)

Additions to property, plant, equipment, and software amounted to €222.0 million, down €22.5 million on the previous year (€244.5 million). Capital expenditure amounted to 4.5% (2006: 5.2%) of sales. The investment priorities in 2007 included the continued expansion of capacity in the low-cost European countries of Portugal, Romania, and the Czech Republic. We also invested in capacity expansion at the production sites in the U.S.A., Mexico, and Malaysia.

Employees

The number of employees in the Passenger and Light Truck Tires division increased over the previous year by 1,460, or 5.9%, to 26,281 (2006: 24,821). Restructuring at the Charlotte plant in the U.S.A. led to the shedding of 108 jobs. The expansion of the plant in Camaçari, Brazil added a total of 119 employees to the workforce. The acquisition of the Matador Group increased the number of employees by 1,936 as of the date of first consolidation. The reduction of the production volume and efficiency increases led to the shedding of 355 jobs in San Luis Potosí, Mexico. In Petaling Jaya, Malaysia, we discontinued production of passenger tires, relocating it to Alor Star. As a result, the workforce was reduced by 129.

Development in the Divisions: Commercial Vehicle Tires

- Sales down 1.1%
- Sales up 6.9% before consolidation and exchange rate changes
- Adjusted EBIT up 11.4%

Sales volumes

Worldwide we increased sales volumes of truck tires by 3.4% to 7.2 million units, with the European Truck Tires business unit increasing its sales volumes compared with the previous year. Original equipment sales volumes rose by 19.5%, while sales to the replacement business were 5.1% above the previous year. Sales of truck tires in The Americas business unit showed a decline. Original equipment business was down 19.2%, while replacement business was up 1.3%.

Sales down 1.1%;
Sales up 6.9% before consolidation and exchange rate changes

Sales by the Commercial Vehicle Tires division declined to €1,452.4 million, down 1.1% compared with 2006 (€1,468.3 million). Before changes in the scope of consolidation and exchange rate effects, sales increased by 6.9%.

EBITDA down 0.6%

EBITDA of the Commercial Vehicle Tires division was down compared to the previous year by €1.3 million, or 0.6%, to €202.4 million (2006: €203.7 million). EBITDA amounted to 13.9% of sales (2006: 13.9%).

EBIT before amortization of intangible assets from PPA down 8.1%

The Commercial Vehicle Tires division's EBIT before amortization of intangible assets from PPA was down compared to the previous year by €11.1 million, or 8.1%, to €125.2 million (2006: €136.3 million). EBIT before amortization of intangible assets from PPA amounted to 8.6% of sales (2006: 9.3%).

Earnings down 8.9%;
Adjusted EBIT up 11.4%

The Commercial Vehicle Tires division showed a decline in EBIT of 8.9% to €124.1 million (2006: €136.2 million) achieving a return on sales of 8.5% (2006: 9.3%) and a return on capital employed (ROCE) of 13.9% (2006: 16.1%). Before changes in the scope of consolidation and special effects, EBIT increased by €11.1 million or 11.4% to €108.4 million (2006: €97.3 million). The adjusted return on sales amounted to 7.5% (2006: 7.0%).

Special effects in 2007

An expense of €3.4 million was recognized in the Commercial Vehicle Tires division in 2007 for a one-time payment to an external fund in connection with healthcare provision for retirees in the U.S.A.

In addition, in 2007 the medical healthcare plans for salaried employees in the U.S.A. were adjusted by further limiting the medical benefits. This produced a positive effect on earnings in the Commercial Vehicle Tires division amounting to €14.4 million.

The first consolidation of the Matador Group led to a proportionate gain of €3.2 million for the Commercial Vehicle Tires division from the negative balance. This was partially offset by proportionate impairment losses amounting to €0.3 million on an unused power plant.

Overall, special effects in 2007 resulted in a gain of €13.9 million for the Commercial Vehicle Tires division.

Special effects in 2006

At the end of 2006, all hourly workers and retirees in the U.S. tire operations were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this change, these beneficiaries now have a standard level of medical coverage. These plan amendments resulted in a release of provisions for post-employment obligations of €7.6 million in the Commercial Vehicle Tires division.

On July 31, 2006 we sold our North American OTR tire operations to the Titan Tire Corporation. The disposal gave rise to a gain of €19.1 million.

Overall, special effects in 2006 resulted in a gain of €26.7 million for the Commercial Vehicle Tires division.

Commercial Vehicle Tires in € millions	2007	2006	Change in %
Sales	1,452.4	1,468.3	-1.1
EBITDA	202.4	203.7	-0.6
in % of sales	13.9	13.9	—
EBIT before amortization of intangible assets from PPA	125.2	136.3	-8.1
in % of sales	8.6	9.3	—
EBIT	124.1	136.2	-8.9
in % of sales	8.5	9.3	—
Research and development expenses	43.6	42.7	2.1
Depreciation and amortization[1]	78.3	67.5	16.0
Operating assets	893.1	844.1	5.8
EBIT in % of operating assets	13.9	16.1	—
Capital expenditure[2]	83.0	91.3	-9.1
Number of employees at the end of the year[3]	8,384	8,129	3.1
Adjusted sales[4]	1,445.9	1,390.0	4.0
Adjusted EBIT before amortization of intangible assets from PPA[5]	109.5	97.4	12.4
Adjusted EBIT before amortization of intangible assets from PPA in % of sales	7.6	7.0	—
Adjusted EBIT[5]	108.4	97.3	11.4
Adjusted EBIT in % of sales	7.5	7.0	—

[1] Excluding write-downs of investments

[2] Capital expenditure on property, plant, equipment and software

[3] Excluding trainees

[4] Before changes in the scope of consolidation

[5] Before changes in the scope of consolidation and special effects

Procurement

Raw material prices on the international commodities markets rose in 2007, again driven by strong demand and speculation. The global purchasing organization was further strengthened in Asia with the goal of obtaining new supply sources. With the successful introduction of additional new supply sources from Asia and increased utilization of existing supply sources from low-wage countries, the share of our purchasing requirements obtained from low-wage countries was further expanded.

Research and development

Research and development (R&D) expenses increased to €43.6 million (2006: €42.7 million), or 3.0% (2006: 2.9%) of sales. The focus of the R&D work in the Commercial Vehicle Tires division in 2007 was on the renewal of the product portfolio and on enhancing the technologies required for product renewal.

Depreciation and amortization

Depreciation and amortization increased to €78.3 million (2006: €67.5 million), representing 5.4% (2006: 4.6%) of sales. In 2007 impairment losses of €0.3 million were recognized on property, plant, and equipment. 2006 saw reversals of impairment losses totaling €1.2 million on property, plant, and equipment recognized in 2003.

Operating assets

Operating assets in the Commercial Vehicle Tires division increased by €49.0 million compared with the previous year to €893.1 million (2006: €844.1 million). Negative exchange rate effects totaled €12.3 million. Changes in the scope of consolidation accounted for an increase totaling €41.5 million.

Non-current assets increased by €40.0 million to €500.6 million, largely due to the acquisition of the Matador Group. Of this amount, additions of €16.9 million were accounted for by property, plant, and equipment.

Compared with year-end 2006, working capital increased only slightly, by €4.5 million to €335.1 million (2006: €330.6 million). Exchange rate effects had a negative effect of €11.7 million. Inventories increased by €39.7 million. Negative exchange rate effects in the area amounting to €5.3 million were offset by additions of €13.9 million arising from the first consolidation of Matador. At €300.2 million (2006: €299.7 million) operating accounts receivable were virtually unchanged. Operating liabilities increased by €35.7 million to €177.2 million (2006: €141.5 million), including €11.3 million from the addition of the Matador Group.

Capital expenditure

Additions to property, plant, equipment, and software declined by €8.3 million to €83.0 million (2006: €91.3 million). Capital expenditure amounted to 5.7% (2006: 6.2%) of sales. The main reason for the decrease was the lower level of additions for the new plant in Camaçari, Brazil. Important additions were made as a result of the expansion of manufacturing capacity in Mount Vernon, Illinois, U.S.A. and Puchov, Slovakia.

Employees

The number of employees in the Commercial Vehicle Tires division increased by 255 to 8,384 (2006: 8,129). The acquisition of the Matador Group increased the number of employees by 383 as of the date of first consolidation. The construction of the plant in Camaçari, Brazil led to an increase in personnel of 82 people. As a result of the sale of the Kulim plant in Alor Star, Malaysia, the number of employees declined by 103.

Development in the Divisions: ContiTech

- Sales up 6.8%
- Sales up 7.1% before consolidation and exchange rate changes
- Adjusted EBIT up 14.1%

Sales up 6.8%;
Sales up 7.1% before consolidation and exchange rate changes
Sales by the ContiTech division increased to €3,063.9 million (2006: €2,868.7 million), up 6.8% compared to 2006. Before changes in the scope of consolidation and exchange rate effects, sales increased by 7.1%.

With the exception of the Benecke-Kaliko business unit, all business units achieved increased sales compared with the previous year. Air Spring Systems and the Conveyor Belt Group achieved the largest improvements.

EBITDA up 8.5%
EBITDA of the ContiTech division improved compared to the previous year by €36.6 million, or 8.5%, to €466.4 million (2006: €429.8 million). EBITDA amounted to 15.2% of sales (2006: 15.0%).

EBIT before amortization of intangible assets from PPA up 14.1%
The ContiTech division's EBIT before amortization of intangible assets from PPA compared to the previous year was up by €45.3 million, or 14.1%, to €366.7 million (2006: €321.4 million). EBIT before amortization of intangible assets from PPA amounted to 12.0% of sales (2006: 11.2%).

Earnings improve 13.9%;
Adjusted EBIT up 14.1%
The ContiTech division increased EBIT to €362.8 million (2006: €318.6 million), up 13.9% compared to 2006, achieving a return on sales of 11.8% (2006: €11.1%) and a ROCE of 28.2% (2006: 25.9%). Before changes in the scope of consolidation and special effects, EBIT rose by €44.3 million or 14.1% to €359.4 million (2006: €315.1 million). The adjusted return on sales amounted to 12.0% (2006: 11.3%).

Special effects in 2007
The first consolidation of the Matador Group led to a proportionate gain of €1.2 million for the ContiTech division from the negative balance.

In the period under review, the ContiTech division incurred restructuring expenses totaling €2.9 million, including expenses related to Roulunds, Denmark.

The sale of the Benecke-Kaliko business unit's furniture coverings business led to a gain of €8.2 million in the ContiTech division. The Company incurred restructuring expenses of €4.7 million in this context.

Overall, special effects in 2007 resulted in a gain of €1.8 million for the ContiTech division.

Special effects in 2006
In 2006 the ContiTech division recorded a number of minor special effects, such as restructuring expenses, totaling €8.5 million. These were offset by a gain of €12.9 million from the negative balance resulting from the first consolidation of the Roulunds Rubber Group.

In 2006 the investment in Sandusky Ltd. was written off in full in the amount of €3.7 million as a result of the company filing for bankruptcy.

Overall, special effects in 2006 resulted in a gain of €0.7 million for the ContiTech division.

Procurement
The global purchasing organization leverages synergies with general purchasing contracts for ContiTech, and further supplier approvals help in addition.

ContiTech in € millions	2007	2006	Change in %
Sales	3,063.9	2,868.7	6.8
EBITDA	466.4	429.8	8.5
in % of sales	15.2	15.0	—
EBIT before amortization of intangible assets from PPA	366.7	321.4	14.1
in % of sales	12.0	11.2	—
EBIT	362.8	318.6	13.9
in % of sales	11.8	11.1	—
Research and development expenses	56.8	52.4	8.4
Depreciation and amortization[1]	103.6	111.2	-6.8
Operating assets	1,284.5	1,231.9	4.3
EBIT in % of operating assets	28.2	25.9	—
Capital expenditure[2]	99.8	105.7	-5.6
Number of employees at the end of the year[3]	23,871	21,887	9.1
Adjusted sales[4]	2,998.3	2,797.6	7.2
Adjusted EBIT before amortization of intangible assets from PPA[5]	363.3	317.9	14.3
Adjusted EBIT before amortization of intangible assets from PPA in % of sales	12.1	11.4	—
Adjusted EBIT[5]	359.4	315.1	14.1
Adjusted EBIT in % of sales	12.0	11.3	—

[1] Excluding write-downs of investments
[2] Capital expenditure on property, plant, equipment and software
[3] Excluding trainees
[4] Before changes in the scope of consolidation
[5] Before changes in the scope of consolidation and special effects

Research and development

Research and development expense increased over the previous year by €4.4 million to €56.8 million (2006: €52.4 million), amounting to 1.9% of sales (2006: €1.8%). This was mainly due to higher expenses in the Fluid and Air Spring Systems business units.

Depreciation and amortization

Total depreciation and amortization decreased compared with 2006 by €7.6 million to €103.6 million (2006: €111.2 million), corresponding to 3.4% (2006: 3.9%) of sales. In 2007 impairment losses of €0.3 million (2006: €6.9 million) were recognized on property, plant, and equipment.

Operating assets

In the year under review, the operating assets in the ContiTech division rose by €52.6 million to €1,284.5 million (2006: €1,231.9 million). The negative exchange rate effect amounted to €18.2 million.

Changes in the scope of consolidation accounted for an increase totaling €54.4 million. This relates mainly to the purchases of the Thermopol Group and the Matador Group.

At €682.8 million, non-current assets remained on a comparable level to the previous year (2006: €685.9 million). The reduction in property, plant, and equipment of €14.7 million was caused partly by disposals of land and buildings, and partly by negative exchange rate effects totaling €8.0 million. The first consolidation of Thermopol and Matador increased property, plant, and equipment by a total of €14.9 million.

At €530.3 million, working capital exceeded the previous year's level by €33.3 million. €4.5 million of this amount is due to changes in the scope of consolidation. Negative exchange rate changes had an offsetting effect amounting to €7.3 million.

Capital expenditure

Additions to property, plant, equipment, and software decreased by 5.6% to €99.8 million (2006: €105.7 million), equivalent to 3.3% (2006: 3.7%) of sales. The investment priorities were the expansion of the plants in Romania, Hungary, Mexico and Turkey. We also implemented rationalization activities in Germany.

Employees

The number of employees in the ContiTech division increased by 1,984, or 9.1%, over 2006 to 23,871 (2006: 21,887). The acquisition of the Matador Group and Thermopol increased the number of employees by 212 and 594 respectively as of the date of first consolidation. Growth in volumes led to the hiring of new employees in Romania, Mexico, and Brazil, in particular.

Earnings, Financial and Net Assets Position of the Parent Company

In addition to the report on the overall development of the Corporation, the following separately summarizes the financial performance and position of the parent company.

Unlike the consolidated financial statements, the stand-alone financial statements of Continental Aktiengesellschaft are prepared in accordance with the *Handelsgesetzbuch* (German Commercial Code) and *Aktiengesetz* (German Stock Corporation Act). The management report of Continental Aktiengesellschaft has been combined with the consolidated report of the Continental Corporation in accordance with section 315 (3) of the *Handelsgesetzbuch*, since the future development and related risks and opportunities of the parent company, including its key research and development activities, are integrally combined with the Corporation as a whole. Further, the following separate summary of the parent company's stand-alone results, net assets and financial position as part of the consolidated management report, provides the basis for understanding the Executive Board's proposal for the distribution of the parent company's net income.

Net assets and financial position of Continental Aktiengesellschaft	**Dec. 31, 2007**	**Dec. 31, 2006**
Assets in € millions		
Intangible assets	61.1	45.8
Property, plant, and equipment	188.5	186.5
Investments	10,725.5	3,767.7
Non-current assets	**10,975.1**	**4,000.0**
Inventories	201.7	162.7
Other assets and amounts receivable	7,316.9	2,076.6
Cash and cash equivalents	1,116.5	60.3
Current assets	**8,635.1**	**2,299.6**
Prepaid expenses	**83.7**	**45.6**
	19,693.9	6,345.2
Shareholders' equity and liabilities in € millions		
Common stock	414.0	375.1
Capital reserves	2,781.9	1,330.8
Surplus reserves	54.7	54.7
Retained earnings	336.7	293.6
Shareholders' equity	**3,587.3**	**2,054.2**
Provisions	**837.4**	**787.1**
Liabilities	**15,267.7**	**3503.9**
Deferred income	**1.5**	**—**
	19,693.9	6,345.2
Gearing ratio in %	189.7	73.0
Equity ratio in %	18.2	32.4

Total assets rose year-on-year by €13.4 billion to €19.7 billion. This was mainly due to the acquisition of 100% of shares in VDO Automotive AG in the amount of €6.7 billion and the receivables from VDO Automotive AG acquired as part of this transaction of €5.4 billion. In addition, cash and cash equivalents rose significantly by €1.1 billion.

In addition to the acquisition of shares in VDO Automotive AG, financial assets were increased further by capital increases in Brazil (€100.0 million) and China (€14.9 million). In addition, long-term securities increased by €117.3 million; of which €96.0 million relates to securities pledged to DZ Bank AG, Frankfurt. These securities have been pledged to secure the claims of the outstanding shareholders of the former Phoenix AG, Hamburg, on account of a management and profit and loss pooling agreement between ContiTech AG, Hanover, and its parent company ContiTech Universe Verwaltungs GmbH, Hanover. Phoenix AG was merged with ContiTech AG on January 16, 2007.

Owing to the developments described above, fixed assets and investments reached a 55.7% share of total assets as of December 31, 2007 (previous year: 63.0%), 97.7% of which is attributable to investments (previous year: 94.2%).

In the context of the finance for the VDO acquisition, equity rose by nearly €1.5 billion as a result of a capital increase against cash contributions and liabilities to banks increased by €10.6 billion. Furthermore, higher liabilities to affiliated companies of €0.6 billion, drawdowns from a commercial paper program as of the balance sheet date of €0.4 billion and utilization of a current ABS program of €92.0 million contributed to current financing and securing liquidity.

In addition to the cash capital increase described above, equity rose by a further €45.2 million overall because of a small number of exercises of conversion and subscription rights and the rise in net income for the year as against the previous year. The previous year's retained earnings of €293.6 million were distributed almost in full to shareholders, and the retained earnings for the current fiscal year amount to €336.7 million.

Sales were up €181 million to €2,655.4 million (previous year: €2,474.4 million). This represents an increase of 7.3% (previous year: 4.1%). This trend was due mainly to 6.1% higher sales volumes for passenger and light truck tires and 14.3% for truck tires, combined with average prices that also increased by a net amount. In particular, there was a rise of 16.6% in the export business and an increase of 8.6% in domestic original equipment business, while domestic replacement business reported a slight decline of 4.5%.

By comparison, the cost of sales rose by €176.0 million to €2,093.4 million, resulting in a 0.9% improvement in the gross margin on sales to €562.0 million (previous year: €557.0 million).

As in the previous year, other operating income and other operating expenses primarily included expenses and income from corporate overheads or cost credits and charges from or for subsidiaries.

Also as in previous years, net income from financial activities was dominated by profit transfer agreements and income from investments. While profit transfers from Formpolster GmbH, Hanover, (€246.1 million) and investment income from Continental Teves AG & Co. oHG, Frankfurt am Main, (€620.0 million) were recognized, this was offset by losses absorbed from Continental Caoutchouc-Export Aktiengesellschaft, Hanover, of €23.2 million and Continental Automotive GmbH, Hanover, of €417.5 million. The earnings of Continental Automotive GmbH resulted from expenses recognized in profit and loss for the acquisition of shares in VDO Automotive AG and the absorption of losses from VDO AG as of December 31, 2007. Net interest expenses declined by €15.1 million to -€80.1 million on account of the debt-financed acquisition of shares in VDO Automotive AG. Net income from financial activities accounts for 67.4% of earnings before taxes (previous year: 66.4%).

After deduction of the tax expense totaling €223.6 million (previous year: €287.4 million), Continental Aktiengesellschaft's net income for the year was €336.2 million (previous year: €293.1 million). The after-tax return on sales was 12.6% (previous year: 11.9%). The after-tax return on equity was 9.4% compared with 14.3% in the previous year.

After the inclusion of the retained earnings carried forward from the previous year (€0.5 million), retained earnings total €336.7 million. As in the previous year, there was no transfer to other surplus reserves in accordance with section 58 (2) of the *Aktiengesetz*.

Statement of income of Continental Aktiengesellschaft in € millions	2007	2006
Sales	**2,655.4**	**2,474.4**
Cost of sales	2,093.4	1,917.4
Gross margin on sales	**562.0**	**557.0**
Selling expenses	218.2	213.3
Administrative expenses	85.8	78.3
Other operating income	170.8	180.7
Other operating expenses	246.3	251.0
Net income from financial activities	**377.3**	**385.4**
Earnings before taxes	559.8	580.5
Income tax expense	**223.6**	**287.4**
Net income for the year	336.2	293.1
Retained earnings brought forward from the previous year	0.5	0.5
Retained earnings	**336.7**	**293.6**

Based on the retained earnings of Continental Aktiengesellschaft, a dividend payment of €2.00 per share will be proposed to the Annual Shareholders' Meeting for the 2007 fiscal year. Assuming that the Annual Shareholders' Meeting approves the proposed dividend, the sum to be distributed amounts to €323.4 million, which corresponds to an increase in the distribution amount of €30.3 million (10.3%) with a consistent distribution per share as against the previous year. The remaining balance will be carried forward to new account.

For fiscal 2008, we expect a further increase in operating earnings. At present no risks are expected in connection with investments.

On account of the merger agreement concluded in January 2008 between VDO Automotive AG and Continental Automotive AG, income tax expense will benefit significantly for fiscal 2007. This effect will be included in profit and loss in fiscal 2008 on account of the non-adjusting nature of the agreement.

Report pursuant to section 289, subsection 4 and section 315, subsection 4 of the *Handelsgesetzbuch* (German Commercial Code)

1. The subscribed capital of the Company amounts to €413,983,932.48. It is divided into 161,712,083 no-par-value shares. These shares are, without exception, common shares; different classes of shares are not contemplated. Each share has voting rights from the time it is issued but is dividend-bearing, for the first time, only for the fiscal year in which it is issued. Each no-par-value share entitles the holder to one vote at the Annual Shareholders' Meeting (§ 20, para. 1 of the Articles of Incorporation).

2. To the best of the Executive Board's knowledge, no restrictions that apply to the voting rights or to the transfer of the shares, also those that are the result of agreements between shareholders, exist.

3. The Company has not been notified of any direct or indirect equity interests exceeding ten percent of voting rights.

4. Shares with privileges that grant controlling powers do not exist.

5. The Company is not aware of any employees with shareholdings not directly exercising control of voting rights.

6. Appointment and dismissal of the members of the Executive Board are carried out in accordance with section 84 of the *Aktiengesetz* (German Stock Corporation Act) in conjunction with section 31 of the *Mitbestimmungsgesetz* (German Co-determination Act). Accordingly, the Supervisory Board is respon-

sible for the appointment and dismissal of a member of the Executive Board. It reaches its decisions with a majority of two-thirds of its members. If this majority is not reached, the so-called Mediation Committee must submit a nomination to the Supervisory Board for the appointment within one month following the voting. Other nominations may also be submitted to the Supervisory Board in addition to the Mediation Committee's nomination. A simple majority of the votes is sufficient when voting on these nominations submitted to the Supervisory Board. In the event that voting results in a tie, a new vote takes place where the Chairman of the Supervisory Board has the casting vote in accordance with section 31, subsection 4 of the *Mitbestimmungsgesetz*.

Amendments to the Articles of Incorporation are made by the Shareholders' Meeting. In § 20, para. 3 of the Articles of Incorporation, the Shareholders' Meeting has made use of the possibility granted in section 179, subsection 1, sentence 2 of the *Aktiengesetz*, to assign to the Supervisory Board the power to make amendments solely affecting the version of the Articles of Incorporation.

Resolutions of the Shareholders' Meeting to amend the Articles of Incorporation in accordance with § 20, para. 2 of the Articles of Incorporation shall be adopted by a simple majority as a rule and, insofar as a majority of the capital stock is required, by a simple majority of the capital stock represented unless otherwise required by mandatory law or by the Articles of Incorporation. The law prescribes a mandatory majority of three quarters of the capital stock represented when resolutions are made, for example, for amendments to the Articles of Incorporation involving substantial capital measures, such as resolutions concerning the creation of authorized or conditional capital.

7.I The Executive Board may issue new shares only on the basis of resolutions by the Shareholders' Meeting.

a) On the basis of the resolution by the Annual Shareholders' Meeting on April 24, 2007, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital by up to an amount of €187.5 million by issuing new shares by April 23, 2012. In 2007, the Company partially exercised this authorization in the amount of €37.5 million.

b) Furthermore, the Executive Board can grant new shares to beneficiaries of conversion or warrant rights. The Shareholders' Meeting had authorized the Company to grant such conversion or warrant rights by May 22, 2006 itself or through subsidiaries and, in conjunction with this, had conditionally increased the basic capital by up to €140 million. In partial utilization of this authorization, in May 2004, Conti-Gummi Finance B.V. granted interest-bearing convertible bonds for 2004/2011 at 1.625% p.a. with a nominal amount of €400 million. This convertible bond is guaranteed by Continental AG and the conversion rights entitle the holder to exchange these for shares in Continental AG. The Executive Board is authorized to issue new shares of the Company in accordance with the conditions of the convertible bond to those bondholders in exchange for the convertible bond.

c) The Annual Shareholders' Meeting of the Company decided on May 5, 2006 to authorize the Executive Board for five years, to issue bonds with warrants and/or convertible bonds up to a total amount of €6 billion and with a term of up to 20 years. In conjunction with this, the Annual Shareholders' Meeting decided to create conditional capital of up to €149 million and to amend the Articles of Incorporation accordingly. These resolutions have been challenged by shareholder actions. The conditional capital was entered in the commercial register based on a final clearance for registration pursuant to section 246a of the *Aktiengesetz*. If the Executive Board issues bonds with warrants and/or convertible bonds on the basis of its authorization, new shares would be issued in accordance with the conditions of these bonds.

d) Finally, the Executive Board is entitled to issue new shares to the beneficiaries of the stock option plans of 1999 and 2004 adopted by the respective Shareholders' Meeting in accordance with the conditions of these stock option plans.

7.II Based on the authorization granted by the Annual Shareholders' Meeting on April 24, 2007, the Executive Board is authorized until October 23, 2008 to acquire shares of the Company with a total value of up to 10% of the basic capital at the time of the resolution on the stock exchange or by public tender offer for all lawful purposes. Furthermore, in section

71 of the *Aktiengesetz*, the law grants the Executive Board in certain cases listed there, the right to buy back own shares.

8. The following material agreements are subject to a change of control at Continental AG.

   The conditions of the convertible bonds granted in May 2004 by Conti-Gummi Finance B.V. and guaranteed by Continental AG allow an adjustment of the conversion ratio, if there is a change of control at Continental AG. A "change of control" is defined as the acquisition of shares in Continental AG, which grants a person or persons acting in concert more than 50% of the voting rights in the Company. The contract concluded in August 2007 in connection with the acquisition of Siemens VDO Automotive AG governing a syndicated loan in the amount of €13.5 billion grants every creditor the right to prematurely terminate his share of the credit line and the loan granted as part thereof and to demand repayment of it, if a person or persons acting in concert acquire control of Continental AG and subsequent negotiations concerning a continuance of the loan have not led to an agreement. "Control" is also defined as the acquisition of more than 50% of the voting rights as well as the subjection of Continental AG to a controlling agreement. The €600 million loan agreement with the European Investment Bank also allows for the right of the bank, in cases where there is a "change of control", to demand talks concerning the situation and, if the bank comes to the conclusion that it has a negative effect on the future repayment of the loan, to demand early repayment. A "change of control" here means the acquisition of more than 50% of the voting rights or the right to more than 50% of the dividends or the right to appoint more than 50% of the members of the Executive Board or the Supervisory Board by a person or by persons acting in concert. Should a change of control occur, as outlined in the agreements described above and a contractual partner exercise his respective rights, it is possible that required follow-up financing may not be approved under the existing conditions, which could therefore lead to higher financing costs.

   In 1996, Compagnie Financière Michelin and Continental AG founded the 50/50 joint venture MC Projects B.V. in the Netherlands, to which Michelin contributed the rights to the Uniroyal brand for Europe. MC Projects B. V. licenses these rights to Continental. According to the agreements in conjunction with this joint venture, this license can be terminated for cause, if a major competitor in the tire business acquires more than 50% of the voting rights of Continental. In the case of such a change of control and the exercise of the right to cancel, there could be losses in sales of the tire divisions.

9. No compensation agreements have been concluded between the Company and the members of the Executive Board or employees providing for the case that a takeover bid takes place.

Remuneration of the Executive Board

The total remuneration of the members of the Executive Board comprises a number of remuneration components. Specifically, these components comprise fixed salary, bonus, components with a long-term incentive effect, as well as additional benefits, including post-employment benefits. Further details including the individual remuneration are specified in the remuneration report of the Corporate Governance Report starting on page 19. The remuneration report is a part of the Management Report.

Supplementary Report on Events Occurring after December 31, 2007

As of February 11, 2008, there were no events or developments that could have materially affected the measurement and presentation of the assets and liabilities as of December 31, 2007.

Risk Report

Continental's overall risk situation is analyzed and managed Corporation-wide using the risk management system. No risks have been identified from our current standpoint that could endanger the continued existence of the Company.

As a global corporation, Continental is subject to a wide variety of risks that could negatively impact business and, in extreme cases, endanger the Company's existence. We accept calculable risks if the resulting opportunities lead us to expect to achieve a sustainable growth in value. A uniform Corporation-wide risk management system is designed to ensure that these risks are detected in time, their causes are analyzed, and that the risks are assessed and avoided, or at least minimized. It regulates the recording, assessment, documentation, and reporting of risks, and is integrated into the Corporation's strategy, planning, and budgeting processes. The system is included in the annual audit and complies fully with the corporate governance principles of the Continental Corporation and the statutory requirements.

Identifying, assessing, and reporting risk

The management of each unit of the Corporation analyzes the material risks relating to that unit. Such risks are categorized and evaluated according to set guidelines. Risks are normally assessed according to their negative impacts on the unit's operating result. Using an extensive risk inventory, the units report any changes to previously reported risks, plus any new developments that could turn into material risks as part of their monthly reporting. Any new material risks that occur between regular reporting dates have to be reported immediately. In addition, the central controlling function further analyzes at Corporation and division level the key figures provided as part of this reporting, so that the causes of potential risks can be identified early.

Risk management

The responsible management initiates suitable countermeasures that are also documented in the reporting system for each risk identified and assessed as material. The compliance and risk committee monitors and consolidates the identified risks at Corporation level. It regularly reports to the Executive Board and, where necessary, recommends additional actions. The Executive Board discusses and resolves these measures, and reports to the Supervisory Board's Audit Committee. The responsible bodies continually monitor the development of all identified risks and the progress of actions initiated. Regular audits of the risk management process by the internal auditors guarantee its efficiency and further development.

Macroeconomic risks

Our expectations for the macroeconomic developments for the near future are described starting on page 106.

Negative developments that could also affect the Corporation directly or indirectly cannot be ruled out. A further increase in raw materials prices or marked deterioration in financing conditions due to the U.S. mortgage market crisis could impede global economic growth. In addition to increasing our procurement costs, this might lead to a reduction in consumers' readiness to spend, which would in turn have a negative effect on global economic growth.

We currently consider the following areas to be of significant risk to the Company:

Industry risks

Falling production volumes pose sales risks in volume and monetary terms, as well as earnings. Such risks arise because although automotive manufacturers normally nominate a supplier for a certain vehicle, they do not commit to a minimum purchase. We reduce these risks, for example, by making our production capacities more flexible and taking action to cut our fixed costs. Growing installation rates for some of the Corporation's key products in the automotive area compensate for these risks to some extent. Furthermore, part of our strategy relies on generating a substantial percentage of sales outside the automotive original equipment industry in order to spread our risk across industries with different cycles. However, after our acquisition of the Siemens VDO, the share of sales attributable to the automotive industry has risen significantly. Our goal is to return to a share of 40% of sales from outside the automotive industry.

Automobile manufacturers are increasingly being impacted by a simultaneous mixture of innovation, cost-cutting pressure, and ever shorter product development cycles, and are passing this pressure on to their suppliers. In particular, they expect lower prices for the same, in some cases even enhanced functionality, plus consistently high product quality. Sustained cost management and the broad-based structure of our Corporation put us in a position to handle these risks.

Procurement risks

A forecast of the raw materials markets for the near future is included on page 109.

For the automotive divisions, cost exposure may result in particular from rising steel prices, whereas the other divisions are mainly affected by the development of oil and natural rubber prices. Since these raw materials are usually purchased in U.S. dollars, a stronger U.S. dollar can represent a further price risk for our companies that are outside of the U.S.A. and whose currency is not tied to the U.S. dollar. We expect that raw material prices will continue to rise on the international raw materials markets in 2008.

We mitigate the risks of unavailability of raw materials and production materials by observing the market carefully, and seeking out and developing new suppliers. Nevertheless, single sourcing cannot always be avoided. By carefully selecting our suppliers and reviewing them regularly, we limit the risk of supply delays, insufficient quantities, or inadequate quality.

Investment risks

Capital expenditure decisions are subject to risk due to their long-term effects and their volumes. For this reason, they are committed only after a standard Corporation-wide approval procedure has been followed, which includes a careful check of the assumptions and profitability, taking into account location-specific risk factors.

Product risks

Product defects lead to liability risks and the need for costly replacement activities. We address such risks with careful product development and extensive quality management, including intensive market monitoring. The possible impact of these risks is also mitigated by insurance policies and other precautionary measures. Due in particular to uncertainties in the U.S. legal system, where first-instance decisions are generally made by lay-person juries, there is no assurance that individual product liability claims will not exceed the related provisions.

Environmental risks

Comprehensive environmental management serves to identify environmental risks early on and to take precautionary action. The possible environmental effects are considered during the development of our products. We certify our plants in accordance with the ISO 14001 environmental standard.

Many of the Corporation's properties have been used for industrial purposes for many years, leading to risks of contamination and the resulting site restoration obligations. We pay special attention to identifying such risks when acquiring companies. If necessary, appropriate provisions are included in contracts.

Stricter statutory requirements can lead to higher development and production costs, particularly where the environment is concerned. We track legislative initiatives in our key markets as part of our risk identification and control procedures, and address the issue of alternative materials for our products in our research and development.

Risks from pension commitments

In the U.S.A., the United Kingdom, and certain other countries, we use pension funds run by independent external fund managers to manage and finance pension commitments. In 2006, Continental established legally independent trust funds under a contractual trust arrangement for the funding of post-employment obligations of certain subsidiaries in Germany. Weak financial markets can impact the pension fund's performance and lead to significant additional expenses. The development of the pension liabilities and the funds is disclosed in Note 23 to the consolidated financial statements. We are also continuing our gradual transition to defined contribution pension plans to further reduce the risks from pension commitments.

Some of the subsidiaries in the U.S.A. also have obligations to contribute to the healthcare costs of retirees. A further increase in these costs cannot be excluded, but we try to mitigate such increases by limiting the amount payable by the Corporation. A report on the status of the dispute concerning a change in the amount of our contribution is provided in Note 32 to the consolidated financial statements.

Credit risks

The operational credit risk is analyzed and monitored by local and central credit managers. The responsibilities of our central credit management function include pooled accounts receivable risk management. However, default risk cannot be excluded with absolute certainty.

Country-specific risks

Our strategy of expanding production in low-wage locations and of penetrating new markets means that we consciously accept appropriate and calculable country- and market-specific risks. Currently, this applies in particular to our activities in emerging markets. We examine and monitor the legal and political conditions as part of our general risk management process. Assessing country-specific risk is an important factor when examining the profitability of an investment.

Legal risks

Legal risks, disputes, and claims for damages are disclosed in Note 32 to the consolidated financial statements.

Personnel risks

At innovative companies like Continental, highly qualified employees are vital. Fluctuation carries the risk of a loss of expertise. We try to commit our qualified technical and management personnel to the Company through incentive programs, performance-based remuneration systems, and by offering international development prospects. We find qualified new recruits by maintaining close contact with universities and by running special recruitment programs.

Continental Corporation is a global company. For this reason, our employees come from various cultural backgrounds. Risks from deliberate illegal acts by individuals cannot be excluded. We reduce these risks by employing an internal control system, which consists of a segregation of functions, dual control, procedural guidelines in force throughout the Corporation, and our Code of Conduct. The corporate internal audit department monitors this control system. We systematically investigate any possible misconduct.

Risks from investments

Using acquisitions and investments to increase the value added for the Corporation and improve its market position is part of our corporate strategy. This results in a risk from investments that we attempt to reduce in advance by conducting in-depth due diligence. All acquisitions and investments are analyzed for their strategic relevance and earnings power. Expectations of companies acquired in previous years have largely been met.

IT risks

In a centralized, standardized IT environment, there is a risk of excessive dependence on a single system or a single data center. In that case, a system failure could have serious consequences for the entire Company. A number of safety mechanisms have been implemented to minimize the risk of system failure, including access control systems, emergency planning, uninterruptible power supplies for critical systems, and redundant data storage. We use firewall systems, virus scanners, etc., to protect our IT systems against data security risks resulting from unauthorized access.

Interest rate and currency risks, risks from derivatives

The international nature of our business activities results in deliveries and payments in various currencies. Currency exchange fluctuations involve the risk of losses because assets denominated in currencies with a falling exchange rate lose value, whereas liabilities denominated in currencies with a rising exchange rate become more expensive. The net exposure, produced primarily by offsetting exports against imports in the individual currencies, is recorded and measured regularly. For many years now, Continental Corporation has been using natural hedges to reduce currency risks. These hedges are aimed at keeping the difference between income and expenses in any one currency as low as possible, thus minimizing the effect of exchange rate fluctuations against the euro. We also monitor and analyze expected exchange rate developments. Based on the results of our constant monitoring, exchange rate risks are hedged as necessary using appropriate financial instruments. Currency management sets tight limits for open positions and thus considerably reduces the hedging risk. For hedging, we only allow the use of those derivative financial instruments that can be reported and measured in the risk management system. The Corporation's net foreign investments are generally not hedged against exchange rate fluctuations. Our imports into the Eurozone generally exceed exports to other currency zones.

Where variable interest rates are agreed for liabilities, these rates can fall and rise. The risks arising from rising interest rates are monitored and evaluated as part of our interest rate management activities, and managed using

derivative interest rate hedging instruments. The Corporation's interest-bearing liabilities are the subject of these activities. All interest rate hedges serve exclusively to manage identified interest rate risks.

The Continental Corporation is not exposed to a risk of fluctuation in the fair value of long-term, fixed interest rate financial liabilities due to changes in market interest rates, as the lenders cannot exercise any right to early repayment due to rate fluctuations.

To reduce counterparty risk, interest rate and currency management transactions are only entered into with selected banks. We minimize internal settlement risks by clearly segregating functional areas. The central controlling function regularly determines and monitors forecasted surpluses or shortages in individual currencies from the operating business throughout the Corporation. A liquidity forecast is prepared by central cash management on a regular basis.

Liquidity risks
Cost-effective, adequate financing is necessary for the subsidiaries' operating business. Various marketable financial instruments are employed for this purpose, including overnight money, term deposits, commercial paper, and bonds, as well as bilateral and syndicated loans. Capital expenditure by subsidiaries is primarily financed through equity and loans from banks or subsidiaries. There are also cash-pooling arrangements with subsidiaries to the extent they are possible and justifiable in the relevant legal and tax situation. Where events lead to unexpected financing requirements, Continental can draw upon both existing liquidity and fixed credit lines from banks.

Overall risk analysis
Continental's overall risk situation is analyzed and managed using the risk management system as described. The Company is presently not aware of any risks that could endanger its continued existence.

Report on Expected Developments

Economic conditions in the following two fiscal years.

Macroeconomic development

The subprime crisis in the U.S.A. and its potential effects on the U.S. economy resulted in additional uncertainties in the financial markets right at the beginning of 2008.

The initial signs of a downturn in the U.S. economy are already visible and worsen the conditions for global growth in 2008. Currently, the prevailing opinion is that a slowdown in the U.S. economy will also have a curbing effect on other regions. Slowing demand in the U.S.A. is expected to have a cooling effect not only on – in some cases – already overheated Asian economies, but also economic growth in other regions, such as Europe. Thus, the export boom of the past year is likely to slow down in many countries in 2008. Contrary to the patterns of previous economic cycles, newly industrializing countries (among them, the BRIC countries) should have a stabilizing effect owing to their sustained high demand, and will contribute positively to the growth of the global economy in 2008. Additionally, a weakening global growth dynamic could also help calm raw materials markets and thus have a positive effect on inflation rates in the individual economic regions.

Germany

An economic slowdown is expected for 2008. However, owing to an increase in the rate of employment, which should continue to grow in 2008, consumer spending should rise noticeably and thus cushion the expected decline in the growth rates for exports and capital spending to some extent. Growth between 1.5% and 2% appears feasible. The rate of inflation is likely to decline toward 2% as a result of the higher basis at the end of 2007.

Western Europe/Euro zone

As in Germany, improved labor market conditions in the Eurozone should also see consumer spending picking up. Similar to Germany, growth of just under 2% is expected. The continued appreciation of the euro will reduce the growth rate of exports.

The rate of inflation should ease again over the course of the year, but will remain above 2%. Early in 2008, the ECB forecast an inflation rate of 2.5% for 2008 and referred to the potential risks of a wage-price spiral. Stricter lending policies on the part of banks could curtail economic growth.

Uncertainty in the financial markets also persisted in the first quarter of 2008 and kept short-term interest rates relatively high. As a result of the inflation rate, which exceeded 3% at the end of 2007, the scope for a noticeable reduction in interest rates in 2008 is currently limited. However, with the global economy losing some headway, there should only be limited potential for a stronger increase in long-term market interest rates.

Central and Eastern Europe

Several new EU member states in Eastern Europe should again continue to be the frontrunners in GDP growth in Europe in 2008. Strong domestic demand will continue to be an important growth driver. In countries such as the Czech Republic, Slovakia, and Poland, GDP growth rates in excess of 4% are expected again.

Russia

GDP growth in excess of 6% is also expected for 2008. The increasing significance of the Russian domestic economy, which is also ensuring increased imports, will influence growth positively and thus offset a potential decrease in raw material prices.

U.S.A.

The crisis in the real estate markets and increased energy prices are likely to impact the most important economic driver – consumer spending. The credit crisis in U.S. residential properties should reach its peak in the course of 2008. It is almost impossible to predict whether the export outlook for U.S. industry, which is benefiting from the weaker U.S. dollar and the strong global economy, can compensate for the lower consumer spending growth rates. Growth forecasts diverge, ranging from 1% to 2.5% on average. As early as mid-January, both the Federal Reserve Bank (Fed) and the U.S. government signaled their desire to implement measures to counteract the emerging downturn. At the beginning of February 2008, the U.S. Congress passed an economic stimulus program of about $150 billion.

Early in 2008 the Fed lowered the key interest rate in two steps by 1.25% to 3%. Despite the current risk of infla-

tion, market participants expect further interest rate cuts. The interest rate cuts by the Fed serve as an instrument to support the economy. Against the background of lower growth, short-term money market rates in the U.S.A. are likely to decline in 2008. Capital market rates should, however, persist for the time being at a comparably low level. If the risk of a recession is to be averted, increasing capital market rates are likely.

Latin America
Increasing domestic demand in Latin American countries will offset the negative effects of the slowing U.S. economy. Mexico appears to be most susceptible to slowing economic growth in 2008, since the export industry is strongly dependent on the U.S.A. Assuming raw material prices stay high, Brazil will continue to exhibit high growth rates. GDP growth in Latin America should, however, fall to below 5% on the whole.

Asia
Growth should also remain steady in 2008; the above-average growth rates – compared with the global economy – exceeding 10% in some cases should recede slightly. It is highly probable that the effects of the slowdown of economic growth in the U.S.A. will only slightly depress growth in the most important Asian economies – China and India. Trade within Asia has increased in recent years; demand from China and India continues to increase.

Against the background of greater investment and consumer spending, growth in Japan should fluctuate between 1.5% and 2%. On average, GDP growth in excess of 7% can be expected in Asia.

Industry development
Our key sales markets are the global business with vehicle manufacturers and the replacement markets for passenger, light truck and commercial vehicle tires, particularly in Western and Central Europe, and the NAFTA region. While the original equipment business with vehicle makers has a significant influence on the development of business within our Chassis & Safety, Powertrain, Interior and ContiTech divisions, the replacement markets for passenger, light truck and commercial vehicle tires are decisive for the tire divisions.

We are forecasting growing **light vehicle production** (passenger cars, station wagons, light commercial vehicles < 6t) for 2008. For 2008, a total volume of 72.5 million vehicles is expected. Growth will again be driven primarily by the expansion of capacity in the markets in Asia, Latin America, and Eastern Europe. For Western Europe and the NAFTA region, however, declining production volume, which will be more than offset by the aforementioned regions, is anticipated. In total, this means growth of 3.6% compared with 2007. However, it must be emphasized that this estimate is largely contingent on the economic conditions for the U.S.A. and Europe. For 2009, growth of 4.8% to 75.8 million units is expected. Presuming a long-term growth rate of 3% worldwide for new car registrations, the surplus capacity (currently at 20 to 25%) would continue to increase in the next two years.

Production of light vehicles** in millions of units	2007*	2008	2009
Western Europe	16.1	16.0	16.3
Eastern Europe	5.8	6.4	6.9
NAFTA	15.0	14.1	14.5
South America	3.5	4.1	4.3
Asia	27.6	30.0	32.0
Africa and Middle East	1.8	1.8	1.8
Total	69.9	72.4	75.8

Source: Global Insight *preliminary estimate, **cars and light commercial vehicles (< 6t)

Production of heavy vehicles** in thousands of units	2007*	2008	2009
Western Europe	517	504	507
Eastern Europe	153	160	166
NAFTA	436	499	660
South America	123	125	124
Asia	1,213	1,253	1,238
Total	2,442	2,541	2,695

Source: Global Insight *preliminary estimate, ** heavy vehicles (> 6t)

Replacement sales of passenger, light truck and 4x4 tires

in millions of units	2007*	2008	2009
Western and Central Europe	291.5	299.6	307.7
NAFTA	270.6	274.6	279.1
Asia	211.1	226.6	243.7

Source: LMC World Tyre Forecast, 2007 *preliminary estimate

Replacement sales of truck tires

in millions of units	2007*	2008	2009
Western and Central Europe	20.7	21.2	21.8
NAFTA	20.6	20.9	21.6
Asia	56.3	60.6	65.0

Source: LMC World Tyre Forecast, 2007 *preliminary estimate

For 2008, a 4.1% increase in worldwide production of **commercial vehicles** is expected. In addition to growth in Eastern Europe (5% to 160,000 units), this increase is also based on an increase in vehicles produced in the NAFTA region, where growth of around 14% to 499,000 units is expected, following the significant decrease in 2007. Following the substantial increase in 2007, volumes are expected to decline in Western Europe and are currently estimated at 2.5%. This would see 504,000 units being produced in Western Europe. For South America and Asia, we expect a slight expansion in the production volume of 1.6% to 125,000 and 1.25 million vehicles respectively. In 2009, the pace of growth should increase further. The background is the switch of emission regulations from EPA 07 to EPA 10 in 2010 in the U.S.A., which should pull forward demand slightly in 2009 and therefore have a positive effect on production. In total, an increase of 6.1% to 2.7 million units is expected.

In terms of the **passenger tire replacement business**, we expect further volume growth in our key sales regions for 2008 and 2009. We anticipate growth in Europe of 2.8% and 2.7% for the two years. Our current estimate indicates that market volume in the NAFTA region should grow by 1.5% in 2007 and by 1.6% in 2008. In the core markets, growth is thus at or slightly below the long-term growth trend, which is estimated at 2.7%. Asia should maintain the high level of growth of previous years. An increase of 7.4% for 2008 and 7.5% for 2009 is expected.

We also expect growth in the **truck tire replacement business** in 2008 and 2009. For Europe, annual growth rates of 2.5% and 2.8% are anticipated. After two years of decline in the NAFTA region, 2008 is expected to bring a 1.8% increase in tires sold to 20.9 million units, and we are forecasting an increase of 3% in 2009. Asia will also exhibit very strong growth in the truck tire replacement market: Growth of 7.6% and 7.1% is expected.

Markets for raw materials

Despite the growth in worldwide demand in past years, we do not expect any supply shortages for our key raw materials (oil, natural rubber, and steel), because the increased supply is sufficient to meet demand. Geopolitical uncertainties and financial speculation in raw materials could have a short-term effect on this equilibrium, however. As a result of the recent price growth for crude oil and natural rubber, we expect that raw material prices will trend upwards in 2008.

Outlook for the Continental Corporation

Expected sales development

For 2008 we aim to achieve sales that exceed the sales reported pro forma for Continental and Siemens VDO for 2007 totaling €26.4 billion. In 2009 we want to attain a growth rate of approximately 5%, in keeping with our strategic goals. One of the conditions for this growth, however, is that our expectations regarding macroeconomic performance, the automotive industry, and raw materials markets prove to be accurate. Moreover, we assume that no major unforeseeable changes will occur, particularly in our key market segments. There are however opportunities for the two coming years should our assumptions prove to be too conservative. All divisions will contribute to the increase in consolidated sales.

The three new automotive divisions Chassis & Safety, Powertrain and Interior will benefit from our acquisition of the Siemens VDO automotive business as well as from further growth in demand in Asia. We additionally expect the volume of ESC sales to grow in the NAFTA region in the coming years.

The Passenger and Light Truck Tires division will benefit from the continuing improvement of the product mix. In addition, the full incorporation of Matador's passenger tire activities will have a positive impact on the development of sales. For the Americas region, we anticipate further growth in replacement sales.

The ongoing expansion of capacity in Brazil and the full incorporation of the commercial vehicle activities of Matador will help the Commercial Vehicle Tires division cover greater market demand both in 2008 and 2009.

The ContiTech division will report further volume gains in the years 2008 and 2009 as well, particularly in Eastern Europe and Asia. We are still expecting that this growth will be achieved to an above average extent with products outside of the automotive original equipment industry.

Expected earnings development

For 2008, we expect the consolidated EBIT margin before amortization resulting from the purchase price allocation (PPA), and before integration and restructuring expense, to exceed the pro forma, adjusted EBIT margin of 9.3% achieved for the year 2007. Before the aforementioned effects, we expect a further improvement in the EBIT margin for 2009.

As part of the acquisition of Siemens VDO, the organizational structure of the Continental Corporation was changed. The former Automotive Systems division was dissolved and integrated into the three new divisions Chassis & Safety, Powertrain and Interior together with the activities of Siemens VDO. It is therefore not possible to make an isolated forecast of the development in earnings for the three new automotive divisions. Furthermore, it is to be expected that the integration of the former Automotive Systems activities into the new organizational structure will lead to integration and restructuring costs in the low triple-digit million range in the coming two years. The vast majority of these costs, however, should be incurred in 2008. Furthermore, the three new automotive divisions will continue to face high pressure from the automobile manufacturers on selling prices. In total as a result, the aforementioned factors will have a negative impact on the Corporation's EBIT margin. Contrary to our earlier expectations, we do however feel there is chance of creating net synergies exceeding €300 million in 2010 as a result of merging our R&D activities, the combined purchasing volumes and the streamlined sales structures.

In the coming two years – especially in the first half of 2008 – the Passenger and Light Truck Tires division will again be faced with risks primarily from further increases in prices for materials such as natural rubber. As in the past, we will try to compensate for this with rationalization measures, mix improvements and price increases. Additionally, the inventory situation for winter tires in the German and Austrian markets is difficult at the beginning of the year, so volume increases are not expected on these key sales markets in the current year. In the medium term, we feel we have a chance of returning to the positive trend of 2007 thanks to our good position, especially on the Eastern European markets. Should the demand on the European market drop further, we will react with restructuring measures, especially at the Western European locations. In contrast, we see opportunities for 2008 and 2009 particularly in the structures of our business in the Americas region, which have been improved successively in recent years. The significant improvement in product mix and cost structures and the greater utilization of capacities in our plant in Brazil should have a positive impact on the EBIT of the entire division in 2008 and 2009. The risks for this region also lie in the rising raw material costs, especially since there is no compensation effect here from the weak U.S. dollar versus the euro. The integration of Matador's passenger tire activities will again improve our cost position in

Europe decisively. With the additional sales channels available and the expansion of capacities in Eastern Europe, the market presence will also once again improve significantly in this growth region. Put all together, we anticipate an increase in EBIT in this division in the coming two years before any restructuring costs.

The Commercial Vehicle Tires division will further increase its percentage of production at low-cost locations in the coming two years as well. In 2008 and 2009, the expansion of our production capacities in Brazil, Malaysia and Eastern Europe as well as improved market presence in these regions will have a positive effect on EBIT. In addition, the cost reduction measures introduced at our Mount Vernon and Hanover-Stöcken locations will boost EBIT. Should raw material prices rise again over the prior year, this division will also attempt to compensate this effect with price increases and improved efficiency.

In 2008 and 2009, the ContiTech division will further reinforce its profitability. In addition to product innovations, the share accounted for by the more profitable industrial business and the share of production in low-cost countries will rise. Furthermore, the integration of the Roulunds and Thermopol activities and the integration of the Matador Conveyor Belt business provide further opportunities to stabilize the EBIT margin at the high level.

Planned financing measures

With the €13.5 billion loan agreement entered into in 2007 and the capital increase of €1.48 billion, Continental established a sound basis for financing the Siemens VDO acquisition. The proceeds from bond issues planned in 2008 will be used to repay the loans made available by banks. The timing and volume will depend on market conditions. The maturity structure of the €13.5 billion loan agreement in 2007 allows Continental to hold off in the event of unfavorable market conditions.

The issue of a hybrid bond to further strengthen our credit rating is planned. Because it will be subordinated to other debt issues, analysts and rating agencies will see it in part as strengthening our equity. The success of the placement will, however, depend decisively on further developments in the credit markets.

Research and development

As a result of the acquisition of Siemens VDO, research and development expense in 2008 will increase to approximately 6% of sales arising from the merging of both areas. Our goal is to lower this ratio in the coming years. For 2009, a ratio of just under 6% is to be expected.

Capital expenditure

We will continue our expansive capital expenditure policy in the next two years and anticipate a capital expenditure ratio of approximately 6.0% for 2008 and 2009.

Net indebtedness and gearing ratio

Following the acquisition of Siemens VDO, debt reduction is our top priority in the coming two years. The goal is to reduce the gearing ratio to our strategic target goal of 80 to100% by 2010. Despite this, small acquisitions to strengthen our non-automotive sector are conceivable. In the medium- and long-term, we will continue to pursue our goal of making 40% of our sales in non-automotive business fields. The amount of the dividends for the next two years will reflect our goal to quickly reduce indebtedness. As things look now, an increase in the dividend is therefore not to be expected for 2008 or 2009.

Consolidated Financial Statements

Consolidated Financial Statements

114 Statement of the Executive Board
115 Independent Auditor’s Report
116 Consolidated Income Statements
117 Consolidated Balance Sheets
118 Consolidated Cash Flow Statements
119 Consolidated Statements of Changes in Total Equity
120 Segment Reporting

Notes to the Consolidated Financial Statements

123 General Information
123 Accounting Principles
131 New Accounting Pronouncements
133 Companies Consolidated
135 Acquisition and Sale of Companies
141 Notes to the Consolidated Income Statements
147 Notes to the Consolidated Balance Sheets
187 Other Disclosures

Consolidated Financial Statements

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 management report for the Corporation and Continental AG, and the other information provided in the annual report. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and include any necessary and appropriate estimates. The management report for the Corporation and Continental AG contains an analysis of the earnings, financial and net assets position of the Corporation, as well as further information provided in accordance with the provisions of the *Handelsgesetzbuch* (German Commercial Code).

An effective internal management and control system is employed to ensure that the information used for the preparation of the consolidated financial statements, including the management report for the Corporation and Continental AG and internal reporting, is reliable. This includes standardized guidelines at Corporation level for accounting and risk management in accordance with section 91 (2) of the *Aktiengesetz* (German Stock Corporation Act) and an integrated financial control concept as part of the Corporation's value-oriented management, plus internal audits. The Executive Board is thus in a position to identify significant risks at an early stage and to take countermeasures.

The Audit Committee of the Supervisory Board of Continental AG engaged KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, as the auditors for the year ended December 31, 2007 pursuant to the resolution adopted by the Annual Shareholders' Meeting. KPMG audited the consolidated financial statements prepared in accordance with IFRSs and the management report for the Corporation and Continental AG. The auditors issued the report presented on the following page.

The consolidated financial statements, the management report for the Corporation and Continental AG, the auditors' report, and the risk management system will be discussed in detail by the Audit Committee of the Supervisory Board together with the auditors. These documents and this report will then be discussed with the entire Supervisory Board at the meeting of the Supervisory Board held to approve the financial statements.

Hanover, February 11, 2008

The Executive Board

Independent Auditor's Report

We have audited the consolidated financial statements prepared by Continental Aktiengesellschaft, Hanover, comprising the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the management report for the Company and the Group for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, February 12, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Zehnder	Dr. Thümler
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Income Statements

in € millions	See Note	2007	2006
Sales		**16,619.4**	**14,887.0**
Cost of sales		-12,595.6	-11,205.2
Gross margin on sales		**4,023.8**	**3,681.8**
Research and development expenses		-834.8	-677.0
Selling and logistics expenses		-912.9	-853.9
Administrative expenses		-452.9	-442.5
Other income and expenses	6	-172.7	-132.7
At-equity share in earnings of associates	7	19.0	21.4
Other income from investments	7	6.3	4.8
Earnings before interest and taxes		**1,675.8**	**1,601.9**
Interest income	8	57.5	36.5
Interest expense	8	-211.7	-147.1
Net interest expense		**-154.2**	**-110.6**
Earnings before taxes		**1,521.6**	**1,491.3**
Income tax expense	9	-471.7	-486.7
Net income		**1,049.9**	**1,004.6**
Minority interests		-29.3	-22.7
Net income attributable to the shareholders of the parent		1,020.6	981.9
Undiluted earnings per share in €	35	**6.79**	**6.72**
Diluted earnings per share in €	35	**6.52**	**6.44**

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

Assets

in € millions	See Note	Dec. 31, 2007	Dec. 31, 2006
Goodwill	10	7,289.2	1,717.8
Other intangible assets	10	2,979.8	221.8
Property, plant, and equipment[1]	11	5,998.1	3,549.0
Investments in associates	12	766.4	121.9
Other investments	13	23.8	15.4
Deferred tax assets	14	162.6	141.4
Deferred pension charges	23	77.5	43.0
Long-term derivative instruments and interest-bearing investments	27	19.5	20.3
Other long-term financial assets	15	48.0	46.4
Other assets	16	19.0	0.9
Non-current assets		**17,383.9**	**5,877.9**
Inventories	17	2,535.9	1,597.2
Trade accounts receivable	18	3,943.6	2,340.3
Other short-term financial assets	15	190.3	126.9
Other assets	16	577.3	283.4
Income tax receivable	25	257.9	29.1
Short-term derivative instruments and interest bearing investments	27	51.5	12.8
Cash and cash equivalents	19	2,199.4	571.1
Assets held for sale	20	597.8	14.3
Current assets		**10,353.7**	**4,975.1**
Total assets		**27,737.6**	**10,853.0**

Total Equity and Liabilities

in € millions	See Note	Dec. 31, 2007	Dec. 31, 2006
Common stock		414.0	375.1
Capital reserves		2,808.7	1,340.1
Retained earnings		3,614.4	2,886.8
Other comprehensive income		-253.9	-131.2
Equity attributable to the shareholders of the parent		**6,583.2**	**4,470.8**
Minority interests		272.9	239.1
Total equity	21	**6,856.1**	**4,709.9**
Provisions for pension liabilities and other post-employment benefits	23	688.6	525.6
Deferred tax liabilities	14	525.2	189.1
Long-term provisions for other risks	24	466.0	333.2
Long-term portion of indebtedness	26	9,872.6	1,082.1
Other long-term financial liabilities	28	73.5	—
Other liabilities	30	42.4	26.8
Non-current liabilities		**11,668.3**	**2,156.8**
Trade accounts payable	29	2,758.9	1,465.9
Income tax payable	25	532.7	381.6
Short-term provisions for other risks	24	842.6	533.7
Indebtedness	26	3,254.2	703.1
Other short-term financial liabilities	28	902.9	565.4
Other liabilities	30	679.1	336.6
Liabilities held for sale	31	242.8	—
Current liabilities		**9,213.2**	**3,986.3**
Total equity and liabilities		**27,737.6**	**10,853.0**

[1] Thereof land and buildings held as investment property with a total book value of €29.5 million (2006: €17.9 million).

Consolidated Cash Flow Statements

in € millions	2007	2006
EBIT	1,675.8	1,601.9
Interest paid	-144.8	-114.1
Interest received	57.0	36.3
Income tax paid	-483.9	-451.6
Dividends received	15.0	17.1
Depreciation and amortization	814.8	699.6
At-equity share in earnings of associates and accrued dividend income from other investments	-25.4	-29.5
Gains from the disposal of assets, subsidiaries and business units	-21.7	-18.4
Other non-cash items	-21.2	-12.9
Changes in		
inventories	-169.7	-135.4
trade accounts receivable	91.1	-91.5
trade accounts payable	-4.5	43.0
pension and post-employment provisions	28.8	-743.3
other assets and liabilities	102.3	21.9
Cash provided by operating activities	**1,913.6**	**823.1**
Proceeds on disposal of property, plant, equipment and intangible assets	43.4	32.2
Capital expenditure on property, plant, equipment and software	-896.9	-805.0
Capital expenditure on intangible assets from development projects	-7.3	-0.8
Proceeds on disposal of subsidiaries and business units, incl. surrendered cash and cash equivalents	1.0	69.0
Acquisition of subsidiaries and business units, incl. acquired cash and cash equivalents	-11,676.5	-766.9
Interest bearing advances	-2.9	7.3
Cash used for investing activities	**-12,539.2**	**-1,464.2**
Cash flow before financing activities (free cash flow)	**-10,625.6**	**-641.1**
Borrowings	2,026.5	363.6
Proceeds from the issuance of long-term debt	9,188.4	279.6
Principal repayments on long-term debt	-136.0	-551.0
Proceeds from the issuance of shares	9.1	2.1
Capital increase	1,478.8	—
Dividends paid to minority interests	-11.1	-11.7
Dividends paid	-293.1	-145.9
Cash flow provided by/used for financing activities	**12,262.6**	**-63.3**
Change in cash and cash equivalents	**1,637.0**	**-704.4**
Cash and cash equivalents as of January 1	571.1	1,273.8
Effect of exchange rate changes on cash and cash equivalents	-8.7	1.7
Cash and cash equivalents as of December 31	**2,199.4**	**571.1**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Total Equity

in € millions	Number of shares[1] (thousands)	Common stock	Capital reserves	Retained earnings	Other comprehensive income: successive share purchases	Other comprehensive income: Difference from currency translation	Other comprehensive income: Difference from financial instruments[2]			Sub-total
As of Jan. 1, 2006	**145,865**	**373.4**	**1,307.8**	**2,049.7**	**-24.8**	**-131.6**	**-0.3**	**3,574.2**	**220.8**	**3,795.0**
Net income	—	—	—	981.9	—	—	—	981.9	22.7	**1,004.6**
Comprehensive income	—	—	—	—	—	24.1	-0.5	23.6	-0.3	**23.3**
Net profit for the period	—	—	—	**981.9**	—	**24.1**	**-0.5**	**1,005.5**	**22.4**	**1,027.9**
Dividends paid	—	—	—	-145.9	—	—	—	-145.9	-11.7	**-157.6**
Issuance of shares	664	1.7	33.4	—	—	—	—	35.1	—	**35.1**
Revaluation reserves[3]	—	—	—	—	1.9	—	—	1.9	—	**1.9**
Reclassification of equity component of the related convertible bond portion on conversion	—	—	-1.1	1.1	—	—	—	—	—	**—**
Changes in minority interests from consolidation changes or capital increases	—	—	—	—	—	—	—	—	7.6	**7.6**
As of Dec. 31, 2006	**146,529**	**375.1**	**1,340.1**	**2,886.8**	**-22.9**	**-107.5**	**-0.8**	**4,470.8**	**239.1**	**4,709.9**
Net income	—	—	—	1,020.6	—	—	—	1,020.6	29.3	**1,049.9**
Comprehensive income	—	—	—	—	—	-111.0	1.0	-110.0	-5.2	**-115.2**
Net profit for the period	**—**	**—**	**—**	**1,020.6**	**—**	**-111.0**	**1.0**	**910.6**	**24.1**	**934.7**
Dividends paid	—	—	—	-293.1	—	—	—	-293.1	-11.1	**-304.2**
Issuance of shares	15,183	38.9	1,468.7	—	—	—	—	1,507.6	—	**1,507.6**
Successive acquisitions of shares in fully consolidated companies	—	—	—	—	-12.7	—	—	-12.7	-36.4	**-49.1**
Reclassification of equity component of the related convertible bond portion on conversion	—	—	-0.1	0.1	—	—	—	—	—	**—**
Changes in minority interests from consolidation changes or capital increases	—	—	—	—	—	—	—	—	**57.2**	**57.2**
As of Dec. 31, 2007	**161,712**	**414.0**	**2,808.7**	**3,614.4**	**-35.6**	**-218.5**	**0.2**	**6,583.2**	**272.9**	**6,856.1**

See accompanying notes to the consolidated financial statements.

[1] Shares outstanding.

[2] Includes derivative financial instruments and available-for-sale financial assets. Net of total deferred taxes of €0.5 million (2006: €0.3 million).

[3] Adjustment of carrying amount of existing shares held in associates to fair value at date of obtaining control.

Segment Reporting

Segment report by division for 2007

in € millions	Chassis & Safety	Powertrain	Interior	Passenger and Light Truck Tires
Sales to external customers	4,625.9	1,140.5	1,529.4	4,959.9
Intercompany sales	22.7	36.5	2.2	15.7
Total sales	**4,648.6**	**1,177.0**	**1,531.6**	**4,975.6**
EBIT (segment result)	567.0	-73.5	10.8	738.7
as % of sales	12.2	-6.2	0.7	14.8
– thereof at-equity share in earnings of associates	12.8	0.0	0.5	5.2
Capital expenditure[1]	279.8	129.6	65.5	222.0
as % of sales	6.0	11.0	4.3	4.5
Depreciation and amortization[2]	229.4	79.4	90.5	230.9
– thereof impairment[3]	5.1	1.4	0.3	19.7
Significant non-cash expenses/income	-2.6	18.6	9.9	-32.1
Segment assets	5,584.7	6,231.9	7,312.4	3,230.4
– thereof investments in associates	74.5	121.4	503.0	51.7
Operating assets[4]	5,021.5	5,686.2	6,541.6	2,753.8
ROCE in %	11.3	-1.3	0.2	26.8
Segment liabilities	1,249.1	1,431.9	1,601.2	1,203.1
Number of employees as of December 31, 2007	27,809	31,608	33,459	26,281

in € millions	Commercial Vehicle Tires	Conti-Tech	Other/Con-solidation	Continental Corporation
Sales to external customers	1,373.4	2,990.3	—	16,619.4
Intercompany sales	79.0	73.6	-229.7	—
Total sales	**1,452.4**	**3,063.9**	**-229.7**	**16,619.4**
EBIT (segment result)	124.1	362.8	-54.1	1,675.8
as % of sales	8.5	11.8		10.1
– thereof at-equity share in earnings of associates	0.4	0.2	-0.1	19.0
Capital expenditure[1]	83.0	99.8	17.2	896.9
as % of sales	5.7	3.3		5.4
Depreciation and amortization[2]	78.3	103.6	2.7	814.8
– thereof impairment[3]	0.3	0.3	—	27.1
Significant non-cash expenses/income	-2.3	-13.9	-8.5	-30.9
Segment assets	1,070.3	1,551.0	-4.7	24,976.0
– thereof investments in associates	8.5	2.1	5.2	766.4
Operating assets[4]	893.1	1,284.5	36.4	22,217.1
ROCE in %	13.9	28.2		7.5
Segment liabilities	386.3	714.5	-25.4	6,560.7
Number of employees as of December 31, 2007	8,384	23,871	242	151,654

See accompanying explanations in Note 34.

[1] Capital expenditure on property, plant, equipment, and software.

[2] Excluding write-downs of investments.

[3] In 2007, reversals of impairment losses of €0.7 million are included in the ContiTech division.

[4] Please see the glossary for a definition of operating assets.

Segment report by division for 2006

in € millions	Chassis & Safety	Powertrain	Interior	Passenger and Light Truck Tires
Sales to external customers	4,498.3	637.8	858.3	4,680.6
Intercompany sales	23.4	12.9	0.3	13.0
Total sales	**4,521.7**	**650.7**	**858.6**	**4,693.6**
EBIT (segment result)	528.3	-21.2	25.1	650.9
as % of sales	11.7	-3.3	2.9	13.9
– thereof at-equity share in earnings of associates	9.2	0.0	2.0	7.4
Capital expenditure[1]	279.1	46.6	33.8	244.5
as % of sales	6.2	7.2	3.9	5.2
Depreciation and amortization[2]	216.5	40.4	44.8	220.1
– thereof impairment[3]	1.9	7.7	3.0	19.9
Significant non-cash expenses/income	-0.1	0.9	7.6	-115.2
Segment assets	3,089.4	646.1	828.9	3,024.3
– thereof investments in associates	65.7	0.0	0.0	40.8
Operating assets[4]	2,629.9	554.1	679.0	2,615.7
ROCE in %	20.1	-3.8	3.7	24.9
Segment liabilities	1,006.8	241.2	336.9	1,138.6
Number of employees as of December 31, 2006	20,059	4,742	5,397	24,821

in € millions	Commercial Vehicle Tires	Conti-Tech	Other/Con-solidation	Continental Corporation
Sales to external customers	1,395.2	2,816.8	—	14,887.0
Intercompany sales	73.1	51.9	-174.6	—
Total sales	**1,468.3**	**2,868.7**	**-174.6**	**14,887.0**
EBIT (segment result)	136.2	318.6	-36.0	1,601.9
as % of sales	9.3	11.1		10.8
– thereof at-equity share in earnings of associates	0.5	-0.3	2.6	21.4
Capital expenditure[1]	91.3	105.7	4.0	805.0
as % of sales	6.2	3.7		5.4
Depreciation and amortization[2]	67.5	111.2	-0.9	699.6
– thereof impairment[3]	-1.2	6.9	—	38.2
Significant non-cash expenses/income	-36.0	-13.4	-10.4	-166.6
Segment assets	985.6	1,485.2	-16.0	10,043.5
– thereof investments in associates	4.3	2.4	8.7	121.9
Operating assets[4]	844.1	1,231.9	22.9	8,577.6
ROCE in %	16.1	25.9		18.7
Segment liabilities	381.7	693.1	-26.6	3,771.7
Number of employees as of December 31, 2006	8,129	21,887	189	85,224

[1] Capital expenditure on property, plant, equipment, and software.

[2] Excluding write-downs of investments.

[3] In 2006, reversals of impairment losses of €1.2 million are included in the Commercial Vehicle Tires division and of €0.7 million in the ContiTech division.

[4] Please see the glossary for a definition of operating assets.

Reconciliation of EBIT to net income

in € millions	2007	2006
Chassis & Safety	567.0	528.3
Powertrain	-73.5	-21.2
Interior	10.8	25.1
Passenger and Light Truck Tires	738.7	650.9
Commercial Vehicle Tires	124.1	136.2
ContiTech	362.8	318.6
Other/consolidation	-54.1	-36.0
EBIT	**1,675.8**	**1,601.9**
Net interest expense	-154.2	-110.6
Earnings before income taxes	**1,521.6**	**1,491.3**
Income tax expense	-471.7	-486.7
Net income	**1,049.9**	**1,004.6**
Minority interests	-29.3	-22.7
Net income attributable to the shareholders of the parent	**1,020.6**	**981.9**

Segment report by region

in € millions	Germany	Europe excluding Germany	North America	Asia	Other countries	Continental Corporation
Sales to external customers 2007	**5,111.0**	**6,089.1**	**3,566.7**	**1,303.8**	**548.8**	**16,619.4**
Sales to external customers 2006	4,829.1	5,415.1	3,109.3	1,080.5	453.0	14,887.0
Capital expenditure 2007	**304.0**	**261.4**	**187.4**	**97.2**	**46.9**	**896.9**
Capital expenditure 2006	284.3	220.9	144.3	68.9	86.6	805.0
Segment assets[1] as of Dec. 31, 2007	**8,522.7**	**4,887.6**	**4,061.3**	**1,270.0**	**6,234.4**	**24,976.0**
Segment assets[1] as of Dec. 31, 2006	3,622.0	2,953.6	2,415.1	613.7	439.1	10,043.5
Number of employees as of Dec. 31, 2007	**52,294**	**48,720**	**25,614**	**18,040**	**6,986**	**151,654**
Number of employees as of Dec. 31, 2006	30,059	26,839	14,306	9,652	4,368	85,224

[1] The segment assets correspond to operating assets before deducting trade accounts payable.

Notes to the Consolidated Financial Statements

1. General Information

Continental Aktiengesellschaft, whose registered office is Vahrenwalder Strasse 9, Hanover, Germany, is the parent company of the Continental Corporation and a listed stock corporation. The Company is registered in the commercial register of the Hanover Local Court (HR B No. 3527). Continental AG is a supplier to the automotive industry, with worldwide operations. The consolidated financial statements of Continental AG will be submitted to the electronic *Bundesanzeiger* (Federal Gazette) and published there.

The date for the approval of the consolidated financial statements by the Supervisory Board is March 7, 2008.

The consolidated financial statements of Continental AG as of December 31, 2007 have been prepared under International Financial Reporting Standards (IFRSs) as adopted by the European Union, in accordance with EU Regulation (EC) No. 1606/2002 in conjunction with section 315a (1) of the *Handelsgesetzbuch* (German Commercial Code). The term IFRSs includes all International Accounting Standards (IASs) still in force and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). All International Financial Reporting Standards mandatory for fiscal year 2007 have been applied.

Amounts disclosed in this annual report for the periods from 1998 to 2003 are those as published previously in accordance with U.S. GAAP.

2. Accounting Principles

The consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments, which are recognized at their fair value, and assets held for sale.

The financial statements of subsidiaries included in the consolidated financial statements have been prepared using accounting principles consistently applied throughout the Corporation, in accordance with IAS 27. In general, the balance sheet dates of the subsidiary financial statements are generally the same as the balance sheet date of the consolidated financial statements.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts presented are in millions of euros.

Consolidation principles

All major subsidiaries in which Continental AG directly or indirectly holds a majority of voting rights and has the possibility of control have been included in the consolidated financial statements and fully consolidated. In accordance with the provisions of SIC 12 (Consolidation – Special Purpose Entities), the consolidated financial statements must also include companies that can be controlled by Continental AG, despite a lack of majority voting rights, by other means such as agreements or guarantees. No companies were required to be included in the consolidated financial statements as a result of these provisions in either 2007 or 2006. The consolidation of subsidiaries is based on the purchase method of acquisition accounting, which eliminates the purchase price against the parent company's interest in the acquired net assets at fair value at the date of acquisition. Intangible assets not previously recognized in the stand-alone financial statements of the acquired company are also recognized at their fair value. Intangible assets identified in the course of a business combination, including for example brand names, patents, technology, customer relationships, and order backlogs, are recognized separately at the date of acquisition only if the requirements under IAS 38 for an intangible asset are met. If they can only be measured on a provisional basis at the time of acquisition, the assets and/or liabilities are adjusted as necessary within twelve months after the acquisition. Any positive remaining amount is capitalized as goodwill. In order to ensure the recoverability of goodwill arising from provisional measurement and the corresponding purchase price allocation, the provisional goodwill is allocated provisionally to the affected management units as of the balance sheet date. This provisional allocation can deviate significantly from the final allocation.

The shares in the net assets of subsidiaries that are not attributable to the Corporation are shown as minority interests as a separate component of total equity.

For the term during which Continental or any of its subsidiaries have made binding offers to minority shareholders to purchase their shares in subsidiaries, those minority interests are shown as financial liabilities and not as equity. These financial liabilities are recognized at fair value, which corresponds to the price offered. In the event that the offer was made simultaneously at the time of the business combination, then the fair value of the binding purchase offer is considered part of the total cost of acquisition. On the other hand, if that offer was made separately from the business combination, then any difference between the binding purchase offer and the carrying amount of the minority interests at the time that offer is made is recognized directly in equity. In particular in Germany, offers to purchase minority interests are required by law in connection with management and profit and loss pooling agreements, in accordance with the redemption obligations under section 305 of the *Aktiengesetz* (German Stock Corporation Act).

Once control has been obtained, any differences arising from successive purchases of shares from minority interests between the purchase price and the carrying amount of those minority interests are recognized directly in equity.

Where there are successive purchases of shares, at the point in time where control is obtained any difference between the carrying amount for shares previously held prior to obtaining control and the fair value is taken directly to equity. To the extent this difference reflects unrecognized fair values compared to the historical cost of the net assets of the associate, the difference is credited separately to a revaluation reserve within total equity.

Significant investments where Continental AG holds between 20.0% and 50.0% of the voting rights, thereby enabling it to exert significant influence on the associated companies, are in general accounted for using the equity method. Companies that are dormant or have only a low level of business activity and therefore no significant impact on the net assets, financial position, and results of operations of the Continental Corporation are not included in the consolidated financial statements. Such companies are recognized in the consolidated financial statements at cost unless their fair value can be determined in accordance with IAS 39.

Associates are included using the equity method in which the carrying amount is adjusted to reflect the share in the associate's net equity. If the annual financial statements of the associates are not available, the proportionate share in earnings or losses is recognized as necessary based on estimated amounts. Goodwill arising from the initial inclusion of associates is accounted for under the equity method. Goodwill is not amortized but tested annually for impairment.

Intercompany amounts receivable and payable, as well as income and expenses, are eliminated on consolidation. Intercompany profits arising on the supply of goods and services, and dividend payments made within the Corporation, are eliminated on consolidation. Deferred taxes related to the elimination of intercompany transactions are recognized at the effective income tax rate for the Corporation.

Foreign currency translation

The assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euros at the year-end middle rates. The statement of income is translated at the exchange rates prevailing at the transaction dates. Differences resulting from currency translation are recognized in accumulated other comprehensive income until the disposal of the subsidiary, without recognizing deferred taxes.

In the stand-alone statements of Continental AG and its subsidiaries, amounts receivable and payable in foreign currencies are measured on recognition at the transaction rate and adjusted at the balance sheet date to the related spot rates. Gains and losses arising on foreign currency translation are recognized in the income statement, except for certain loans. Foreign currency adjustments relating to the translation of intercompany financing made in the functional currency of one of the parties, and for which repayment is not expected in the foreseeable future, are charged directly to other comprehensive income within total equity.

In accordance with IAS 21, goodwill arising from any form of acquisition is recognized directly as an asset of the subsidiary acquired and therefore also translated for subsidiaries whose functional currencies are not the euro into euros at the balance sheet date using the middle rate. Differences resulting from foreign currency translation are recognized in accumulated other comprehensive income.

The following table summarizes the exchange rates used in currency translation that had a material effect on the consolidated financial statements:

Currencies		Closing rate		Average rate for the year	
1 € in		Dec. 31, 2007	Dec. 31, 2006	2007	2006
Brazil	BRL	2.59	2.82	2.67	2.73
Switzerland	CHF	1.66	1.61	1.64	1.57
China	CNY	10.74	10.12	10.37	10.01
Czech Republic	CZK	26.52	27.44	27.75	28.34
United Kingdom	GBP	0.74	0.67	0.68	0.68
Hungary	HUF	253.81	251.68	251.33	264.10
Japan	JPY	166.07	156.65	161.21	146.09
South Korea	KRW	1,376.51	1,225.00	1,273.07	1,198.84
Mexico	MXN	16.00	14.32	14.98	13.70
Malaysia	MYR	4.88	4.65	4.71	4.61
Philippines	PHP	60.69	64.63	63.09	64.41
Romania	RON	3.61	3.39	3.34	3.52
Slovakia	SKK	33.68	34.39	33.76	37.21
U.S.A.	USD	1.47	1.32	1.37	1.26
South Africa	ZAR	10.06	9.22	9.66	8.52

Revenue recognition
Revenue – before VAT/sales tax and after deducting sales allowances – is recognized at the date of delivery provided that economic ownership, and therefore the major risks and rewards, have been transferred to the buyer, and that payment is probable.

Only sales of products resulting from the ordinary business activities of the Company are shown as revenue. Ancillary income or proceeds, such as from the sale of equipment or scrap, or rental and licensing income, are netted against the related expenses.

Revenues from made-to-order production – mostly for public transportation operators – are recognized using the percentage of completion method. The ratio of costs already incurred to the estimated total costs associated with the contract serves as the basis of calculation. Expected losses from these contracts are recognized in the reporting period in which the actual estimated total costs exceed the sales expected from the respective contract.

Product-related expenses
Costs for advertising, sales promotion, and other sales-related items are expensed as incurred. Provisions are recognized for probable warranty claims on sold products on the basis of past experience, as well as legal and contractual terms. Additional provisions may be recognized for specific known cases.

Research and development expenses
Research and development expenses comprise expenditure on research and development and expenses for customer-specific applications, prototypes, and testing. Advances and reimbursements from customers are netted against expenses at the time they are invoiced. In addition, the expenses are reduced by the amount relating to the application of research results to the development of new or substantially improved products, if the related activity fulfills the recognition criteria for internally generated intangible assets set out in IAS 38. This portion of the expenses is recognized as an intangible asset and is amortized over a period of three years from the date that the developed products become marketable. However, expenses for customer-specific applications, pre-production prototypes, or tests for products already being sold (application engineering), generally do not qualify as development expenditure which may be recognized as an intangible asset. Furthermore, expenses incurred directly in connection with starting up new operations or launching new products or processes are charged immediately to income.

Only very few development projects fulfill the strict recognition criteria as intangible assets since our major medium- and longer-term projects are for supplying automobile manufacturers (original equipment business). New developments for the original equipment business are not marketable until Continental has been nominated as the supplier for the particular vehicle platform or

model and, furthermore, has successfully fulfilled pre-production release stages. Moreover, these release stages serve as the prerequisite to demonstrate the technical feasibility of the product, especially given the high demands imposed on comfort and safety technology. Accordingly, development costs are recognized as an asset only as of the date of nomination as supplier and fulfillment of a specific pre-production release stage. The development is considered to be completed once the final approval for the unlimited series production is granted.

Although suppliers are nominated by original equipment manufacturers with the general obligation to supply products over the entire life of the particular model or platform, these supply agreements constitute neither long-term contracts nor firm commitments, in particular because the original equipment manufacturers make no volume commitments. For this reason, all pre-series production expenses – with the exception of the capitalized development costs described above – are recognized immediately in profit or loss.

Interest and investment income

Interest income and expenses are recognized for the period to which they relate; dividends receivable are recognized upon the legal entitlement to payment.

Earnings per share

Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury stock is deducted for the period it is held in treasury. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Balance sheet classification

Assets and liabilities are shown as non-current assets and liabilities in the balance sheet if they have a remaining term of over one year and, conversely, as current assets and liabilities if the remaining term is shorter. Liabilities are treated as current if there is no unconditional right to avoid settlement of the liability within twelve months after the balance sheet date. Provisions for pensions and other post-employment obligations as well as deferred tax assets and liabilities are generally shown as non-current. If assets and liabilities have both current and non-current portions, the amounts are classified separately.

Goodwill

Goodwill corresponds to the difference between the purchase cost and the fair value of the acquired assets and liabilities of a business combination. Goodwill is not subject to amortization; it is tested for impairment at least annually and, if necessary, written down to the extent impaired.

Intangible assets

Purchased intangible assets are carried at acquisition cost and internally generated intangible assets at their production cost, provided that the conditions for recognition of an internally generated intangible asset are met in accordance with IAS 38. If intangible assets have finite useful lives, they are amortized straight-line over a useful life of three to eight years. Intangible assets with indefinite useful lives are tested at least annually for impairment and, if necessary, written down to the extent impaired.

Property, plant, and equipment

Property, plant, and equipment is carried at cost less straight-line depreciation. Impairment losses are recognized through an additional write-down of the affected items. Investment grants are generally deducted from cost.

Construction cost consists of the direct costs and attributable material and manufacturing overheads, including depreciation. It does not include any financing costs.

As soon as an asset is available for its intended use, subsequent cost is only capitalized to the extent the related modification changes the function of the asset or increases its economic value, and the cost can be clearly identified. All other subsequent expenditure is recorded as current period maintenance expense.

Property, plant, and equipment is broken down into the lowest level of the components that have significantly different useful lives and, to the extent integrated in other assets, when they are likely to be replaced or overhauled during the overall life of the related main asset. Maintenance and repair costs are recognized as an expense as incurred. The Corporation has no property, plant, or equipment that by the nature of its operation and deployment can only be repaired and serviced in intervals over several years. The useful lives are up to 33 years for buildings and land improvements; up to twelve years for technical equipment and machinery; and two to ten years for factory and office equipment.

Investment property
Land and buildings held for the purpose of generating rental income instead of production or administrative purposes are carried at depreciated cost. Depreciation is charged on a straight-line basis over the useful lives, which correspond to those for real estate in use by the Company.

Leasing
Continental AG leases property, plant, and equipment, especially buildings. If the substantial risks and rewards from the use of the leased asset are controlled by Continental AG, the agreement is treated as a finance lease, and an asset and related financial liability are recognized. In the case of an operating lease, where the economic ownership remains with the lessor, only the lease payments are recognized as incurred and charged to income. Other arrangements, particularly service contracts, are also treated as leases to the extent they require the use of a particular asset to fulfill the arrangement and the arrangement conveys a right to control the use of the asset.

Impairment
The Corporation immediately reviews intangible assets and property, plant, and equipment when there is an indication of impairment by comparing the carrying amount with the recoverable amount. The recoverable amount corresponds to the higher of the fair value less costs to sell and the present value of the expected future cash flows from the continued use of the asset. If the carrying amount is higher than the recoverable amount, the difference is recognized as an impairment loss. If the circumstances for the prior recognition of an impairment no longer prevail, the impairment losses are reversed.

The annual impairment test for goodwill is made at the level of the strategic business units, which represent the relevant cash-generating units. Recoverability is tested by comparing the carrying amount of the business unit, including goodwill, with its recoverable amount on the basis of its discounted pre-tax cash flows representing the value in use. An impairment loss is recognized to the extent the carrying amount exceeds the recoverable amount for the business unit. Impairment losses for goodwill are not reversed in subsequent periods.

The expected cash flows for the business units are derived from the long-term plans that cover the following five years. The terminal cash flows are extrapolated using the expected growth rates for the individual business units; however, normalized for significant non-recuring effects. The overall average growth rate applied in the 2007 test was 0.42% (2006: 0.37%). The plan data are adjusted as necessary for any forecasted significant one-time effects. The plans are based in particular on assumptions for macroeconomic developments, as well as trends in sales prices, raw material prices, and exchange rates.

The interest rate used in fiscal 2007 to discount cash flows was 12.8% (2006: 12.2%).

Assets held for sale and related liabilities
Individual non-current assets or a group of non-current assets and related liabilities are classified separately as held for sale in the balance sheet if their disposal has been committed and is probable. Assets held for sale are recognized at the lower of their carrying amount and their fair value less costs to sell, and are no longer depreciated once they are classified as held for sale.

Financial instruments
A financial instrument in accordance with IAS 32 is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. They include primary financial instruments such as trade accounts receivable and payable, securities and financial assets, and indebtedness and other financial liabilities. They also include derivative financial instruments that are used to hedge against risks from changes in exchange rates and interest rates. Financial instruments are recognized at the trade date, i.e., the date at which the obligation to buy or sell an asset is incurred.

Primary financial instruments
Primary financial instruments are classified under one of the following four categories according to the purpose for which they are held. The classification is reviewed at each reporting date and affects whether the asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

a. Changes in the fair value of financial assets at fair value through profit or loss – which are either designated as such on initial recognition or are classified as held for trading – are recognized immediately in the income statement. In addition, they are reported as current assets if they are either held for trading purposes or are expected to be realized within 12 months following the balance sheet date.

b. Held-to-maturity financial assets – which have fixed or determinable payments at the date of initial recognition as well as a fixed maturity and are intended to be held until that maturity – are recognized at amortized cost and reported as non-current or current assets in accordance with their term. Any impairment losses are charged directly to income.

c. Loans and receivables – which have fixed or determinable payments and are not quoted on an active market – are measured at amortized cost less any necessary impairment write-downs. They are reported in the balance sheet under other financial assets, unless they represent trade accounts receivable, and as non-current or current in accordance with their term.

d. Available-for-sale financial assets – which are designated as available for sale at the date of initial recognition – are measured at fair value, if a fair value can be determined, and reported as non-current or current assets according to the expected date of sale. Unrealized gains or losses are recognized in accumulated other comprehensive income, net of tax effects, until the date of derecognition. If the impairment is determined to be permanent, the loss is recognized immediately in profit or loss. If fair value cannot be determined, for example in the case of investments in unconsolidated affiliated companies or other equity investments, the assets are measured at cost.

Liabilities arising from primary financial instruments may be recognized either at amortized cost or at fair value through profit or loss. Continental AG generally measures all financial liabilities at amortized cost, which comprises the remaining principal balance and issuing costs, net of any amortized premium or discount. Liabilities from financing leases are shown at the present value of the remaining lease payments based on the implicit lease interest rate. Financial obligations with fixed or determinable payments that comprise neither indebtedness nor derivative financial liabilities quoted on an active market are reported in the balance sheet under other financial liabilities in accordance with their term.

Hybrid financial instruments

Financial instruments that have both a debt and an equity component are classified and measured separately by those components. Instruments under this heading include primarily bonds with warrants and convertible bonds. In the case of convertible bonds, the market value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the indebtedness incurred through the bond proceeds. Market values of conversion rights from bonds with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. The interest expense for the debt component is calculated over the term of the bond based on the market interest rate at the date of issue for a comparable bond without conversion rights. The difference between the deemed interest and the coupon rate is accrued over the term to the carrying amount of the bonded indebtedness. The issuing costs of the convertible bond are deducted directly from the carrying amount of the debt component. In the event of maturity or conversion, the equity component previously recognized in capital reserves at the date of issue is offset against the accumulated retained earnings in accordance with the option permitted by IAS 39.

Derivative financial instruments

Derivative financial instruments are used only in connection with amounts recognized in the balance sheet or forecasted cash flows, and are recognized at their fair values. The fair value generally corresponds to the market or exchange price. In the absence of an active market, the fair value is determined using financial models, for example by discounting expected future payment flows at the market rate of interest or by applying recognized option pricing models. Financial instruments are recognized at the trade date, i.e., when the obligation to buy or sell the instrument is incurred.

Changes in the fair values of derivative financial instruments used for fair value hedging purposes to offset fluctuations in the market value of recognized assets or liabilities are charged to income together with the changes in value of the hedged item. Changes in the fair values of derivative financial instruments used to hedge future cash flows where effectiveness is demonstrated are recognized directly in equity until the associated hedged transaction is settled. If the criteria for hedge accounting are not met or the hedge becomes ineffective, the changes in fair value of the specific derivative financial instrument are recognized in income as incurred, independently of the hedged item. Once the forecasted transaction for which the cash flows have been hedged results in the recognition of a financial asset or a financial liability, any gains or losses previously deferred in equity

are released to income at that time. If the transaction leads to the recognition of a non-financial asset, it is reflected by an increase or reduction in the cost of acquisition.

Amounts receivable

Amounts receivable and other financial assets are carried at their principal amount. Valuation allowances are recognized in specific cases where default is probable, or as a general allowance based on experience. Continental AG sells trade accounts receivable, particularly under asset-backed securitization programs. The accounts receivable are still recognized in the balance sheet when the risks and rewards, in particular credit and default risk, have not been transferred. The repayment obligations from these sales are then shown as short-term indebtedness.

Inventories

Inventories are recognized at the lower of cost and net realizable value. Acquisition cost is generally determined using the weighted-average method. Production cost includes direct costs, production-related material costs, overheads, and depreciation. Inventory risks resulting from decreased marketability or excessive storage periods are accounted for with write-downs.

Other assets

Other assets are recognized at cost. Write-downs are recognized as appropriate to reflect any possible risk related to recoverability.

Accounting for income taxes

Income taxes are measured using the balance sheet liability method, in accordance with IAS 12. Tax expenses and refunds that relate to income are recognized as income taxes. Accordingly, late payment fines and interest arising from subsequently assessed taxes are reported as tax expenses as soon as it becomes probable that the recognition of a reduction in taxes will be rejected.

Current taxes owed on income are recognized as expenses when they are incurred.

These include deferred taxes for the expected tax payments and refunds from temporary differences between the carrying amounts in the consolidated financial statements and the related tax bases, as well as from the utilization of loss carryforwards. No deferred tax is recognized for non-tax-deductible goodwill. The deferred tax assets and liabilities are measured at the applicable tax rates related to the period when the temporary differences are expected to reverse. Changes in tax rates are recognized once the rate has been substantially enacted. Deferred tax assets are not recognized if it is not probable that they will be realized in the future.

Provisions for pension liabilities and other post-employment benefits

The retirement benefits offered by the Corporation encompass both defined benefit and defined contribution plans.

Pension liabilities under defined benefit plans are actuarially measured pursuant to IAS 19, using the projected unit credit method that reflects salary, pension, and employee fluctuation trends. The discount rate to determine the present value is based on long-term loans in the respective capital market. Actuarial gains and losses that exceed the greater of 10% of the defined benefit obligation or 10% of the fair value of the plan assets at the start of the fiscal year are recognized in profit or loss over the expected average remaining service lives of the beneficiaries. Expenses for the interest cost on pension liabilities and income from the pension funds are not shown separately in net interest expenses, but are included in the compensation costs in the related cost categories as classified in the income statement.

Accordingly, the interest cost of other, similar long-term employee benefits is included in the compensation costs as part of the cost categories as classified in the income statement and not shown separately as net interest expense. Pension liabilities for some companies of the Corporation are covered by pension funds. Furthermore, plan assets comprise all assets, as well as claims from insurance contracts, that are held exclusively towards payments to those entitled to pensions and are not available to meet the claims of other creditors. Pension obligations and plan assets are reported on a net basis in the balance sheet.

The significant other post-employment benefits also shown under the provision for pension and other post-employment liabilities relate to obligations to pay for health costs for retired workers in the U.S., Canada, and other countries.

Defined contribution plans represent retirement benefits where the Company only contributes contractually fixed amounts for current service entitlements, which are

generally invested by independent, external asset managers until the date of retirement of the employee. The fixed amounts are partly dependent on the level of the employee's own contribution. The Company gives no guarantees of the value of the asset after the fixed contribution, either at the retirement date or beyond. The entitlement is therefore settled by the contributions paid in the year.

Provisions for other risks

Provisions are recognized when a legal or constructive obligation has arisen that is likely to result in a future cash outflow to third parties and the amount can be reliably determined or estimated. The provisions are recognized at the balance sheet date at the value at which the obligations could probably be settled or transferred to a third party. Non-current provisions such as litigation or environmental risks are discounted to their present value. The resulting periodic interest charge for the provisions is shown under net interest expenses including an effect from a change in interest.

Non-financial liabilities

Current liabilities are carried at their payable amount. Non-current non-financial liabilities are measured at amortized cost.

Stock option plans

The amount of personnel expenses recognized in respect of stock options is based on the fair value of the options at the date of grant, using the Monte Carlo simulation model. The fair value of the option is recognized in capital reserves and in profit or loss over the vesting period.

Estimates

Proper and complete preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the assets, liabilities, and disclosures in the notes, as well as the income and expenses for the period.

The most important estimates relate to the determination of the useful lives of intangible assets and property, plant, and equipment; the impairment testing of goodwill and non-current assets, in particular the underlying cash flow forecasts and discount rate; the recoverability of amounts receivable and other assets as well as income taxes receivable; the financial modeling parameters for stock option plans; the recognition and measurement of provisions, especially the actuarial parameters for pensions and other post-employment obligations; and the probabilities of claims and amounts of settlements for warranty, litigation or environmental risks.

The assumptions and estimates are regularly reviewed and updated to reflect actual developments as necessary and based on the information currently available at the date of preparation of the consolidated financial statements.

Consolidated cash flow statements

The statements of cash flows show the sources during the period that generated cash and cash equivalents as well as the application of cash and cash equivalents. Cash includes all liquid funds and demand deposits. Cash equivalents are short-term (maturing in less than three months), highly liquid financial investments that can be readily converted into known cash amounts and are subject to only minor fluctuations in value. Financial investments are considered to be cash equivalents only if they have a remaining term not exceeding three months.

3. New Accounting Pronouncements

In accordance with EU Regulation No. 1606/2002 in conjunction with section 315a (I) of the *Handelsgesetzbuch*, Continental AG has prepared its consolidated financial statements in compliance with the IFRSs as adopted by the European Union under the endorsement procedure. Thus IFRSs are only required to be applied following endorsement of a new standard by the European Union.

The following amendments and interpretations issued in relation to published standards that were applicable to Continental AG became effective in fiscal year 2007 and have been adopted accordingly:

IFRS 7 – Financial Instruments: Disclosures – and Amendment to IAS 1 – Presentation of Financial Statements – Capital Disclosures – contain additional disclosure requirements in particular relating to the nature and extent of risks arising from financial instruments, especially credit risk, liquidity risk, and market risk, including sensitivity analyses. These disclosures are included in the description of the individual instruments concerned.

IFRIC 10 – Interim Financial Reporting and Impairment – makes it clear that impairment losses recognized in respect of certain assets in interim financial statements, starting from 2007 for Continental AG, may not be reversed subsequently in the annual financial statements. There were no impairment losses affected by this provision in 2007.

The following standards and interpretations will only become effective at a later date:

IAS 23 – Borrowing Costs – was amended to the effect that funds that are borrowed specifically to acquire or produce a qualifying asset must be capitalized. The previous option to capitalize borrowing costs was eliminated. In this context, a qualifying asset is one for which a substantial period of time is necessary to get it ready for its intended use or sale. This amendment is only required to be applied for fiscal years beginning on or after January 1, 2009. The main qualifying assets concerned are planned new production facilities.

IFRS 8 – Operating Segments – replaces the risks and rewards approach of IAS 14 to segment reporting by a management approach that identifies and reports segments based on internal reports regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Therefore, the financial accounting approach of IAS 14 to the measurement of segment information is also replaced by the management approach. The application of IFRS 8 is mandatory only for annual periods beginning on or after January 1, 2009; however, the prescribed approach to identifying and reporting segments is consistent with the principles already applied by Continental AG.

IFRS 3 (revised) – Business Combinations – was amended to take account of a number of issues relating to accounting for business combinations. The main amendments are as follows:

- All transaction costs, including costs directly attributable to the acquisition, must be expensed immediately instead of treating them as a component of the purchase price of the acquired entity;

- In future, an option will exist for all business combinations in which less than a 100% interest is acquired to recognize the non-controlling interests either including any goodwill attributable to them or, as previously, merely at the fair value of the non-controlling interest's proportionate share of the identifiable assets and liabilities;

- When determining the purchase price, contingent purchase price adjustments must now be included at their fair value at the acquisition date, regardless of the probability of their occurrence. Subsequent adjustments to the fair value of purchase price components classified as liabilities must generally be recognized in income in the period in which the adjustment is made;

- In the case of a business combination achieved in stages ("step acquisition"), the acquirer must in future remeasure its previously held equity interest at its acquisition-date fair value and must recognize the resulting gain or loss in profit or loss, instead of in other comprehensive income;

- All contractual relationships existing at the acquiree at the acquisition date, with the exception of leases, must be reclassified or redesignated; and

- A claim granted to the acquirer by the seller to indemnification in relation to a liability of the acquiree, e.g., in connection with tax risks or legal disputes, will in future lead to the recognition of an asset in the amount of the liability concerned. In subsequent periods, this asset must then be measured in the same way as the related liability.

These amendments to IFRS 3 are only required to be applied to business combinations taking place in fiscal years starting on or after July 1, 2009. Its application will start to affect the accounting treatment of acquisitions from 2010 onwards.

IAS 27 (revised 2008) – Consolidated and Separate Financial Statements – was amended to include the following clarifications:

- The “economic entity approach” is required to be applied to all transactions involving non-controlling interests. Under it, purchases and disposals of investments in subsidiaries that do not result in a loss of control are accounted for as an equity transaction. Thus such transactions do not result in any change in the carrying amounts of the assets and liabilities reported in the balance sheet (including goodwill).

- By contrast, where a disposal of an investment leads to a loss of control, a disposal gain or loss is recognized in income. In future, the disposal gain or loss will also include the difference between the previous carrying amount and the fair value of such investments in the subsidiary that are retained after the loss of control.

- The current limitation on the loss attributable to non-controlling interests to the carrying amount of the non-controlling interests is eliminated, with the result that the carrying amount of non-controlling interests may be negative in future.

These revisions to IAS 27 are only required to be applied for fiscal years starting on or after July 1, 2009 and will have an effect on future transactions as from 2010 onwards.

IFRIC 11 – IFRS 2: Group and Treasury Share Transactions – provides guidance on how IFRS 2 is to be applied to share-based payments involving an entity’s own equity instruments or those of another entity in the same group of companies (e.g., the parent company). The Interpretation requires share-based payments in which the entity receives goods or services in return for its own equity instruments to be presented in accordance with IFRS 2, regardless of how the equity instruments are obtained (e.g., share buyback or contingent capital increase).

IFRIC 11 applies to fiscal years beginning on or after March 1, 2007. Its application is not expected to have any significant effect on the Continental Corporation.

IFRIC 12 – Service Concession Arrangements – Determining the Accounting Model – provides guidance on the accounting treatment by operators of public-to-private service concessions granted for a limited period. The Interpretation must be applied to agreements if:

- The grantor controls and regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price, and

- The grantor controls – through ownership, beneficial entitlement, or otherwise – any significant residual interest in the infrastructure at the end of the term of arrangement.

IFRIC 12 applies to fiscal years beginning on or after January 1, 2008. Its application is not expected to have any significant effect on the Continental Corporation.

IFRIC 13 – Customer Loyalty Programmes – regulates the accounting treatment of entities granting award credits such as bonus points or air miles, to customers who buy other goods or services. The Interpretation requires a portion of the revenue from the sale to be allocated to the award credits. This portion of the revenue may only be recognized in income when the obligation is met. This regulation applies to fiscal years beginning on or after July 1, 2008. Its application is not expected to have any significant effect on the Continental Corporation.

IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – specifies additional criteria for determining the limit in IAS 19 on the amount of a defined benefit surplus that can be recognized as an asset. Under it, a surplus must be unconditionally available for a refund or reduction in future contributions for an entity to recognize an asset. IFRIC 14 also aims to avoid the possibility of statutory minimum funding requirements being onerous for the

entity. On the other hand, additional liabilities must be recognized if an entity has a statutory obligation to cover an existing shortfall for past service on the minimum funding basis. These clarifications are required to be applied to fiscal years beginning on or after January 1, 2008. Their application is not expected to have any significant effect on the Continental Corporation.

4. Companies Consolidated

In addition to the parent company, the consolidated financial statements include 371 (2006: 278) domestic and foreign companies in which Continental AG holds a direct or indirect interest of more than 20.0% of the voting rights. Of these, 318 (2006: 244) are fully consolidated and 53 (2006: 34) are carried at equity.

The number of companies consolidated increased in total by 93 year-on-year. 102 companies were acquired and two companies were newly formed. One company was sold and three companies were liquidated. In addition, the companies consolidated were reduced by six companies as a result of mergers and one company was deconsolidated.

Additions to companies consolidated in 2007 principally comprise the acquisition of Siemens VDO Automotive AG and its subsidiaries The effects of this are shown under Note 5 – Acquisition and Sale of Companies.

60 (2006: 52) companies whose assets, liabilities, income, and expenses are only of minor significance both individually and collectively for the assets, earnings, and financial situation of the Corporation, were not consolidated. Of these, 30 (2006: 26) companies are affiliated companies, of which 20 (2006: 17) are currently inactive. A further 30 (2006: 26) companies not consolidated are affiliated companies, of which six (2006: six) are currently inactive.

More information on equity interests can be found in the list of the Corporation's shareholdings, which is published with the consolidated financial statements in the electronic Bundesanzeiger (Federal Gazette).

Statutory exemption provisions applying to German companies

The statutory exemption provisions have been applied to the following German corporations or commercial partnerships pursuant to section 264 (3) or 264b of the *Handelsgesetzbuch*:

ADC Automotive Distance Control Systems GmbH, Lindau; Alfred Teves Beteiligungs-GmbH, Frankfurt am Main; ASM Automobil-System-Montagen GmbH, Haldensleben; Babel Grundstücksverwaltungsgesellschaft mbH, Mainz; Benecke-Kaliko Aktiengesellschaft, Hanover; Beneform GmbH, Peine; CAS München GmbH, Hanover; Benoac Fertigteile GmbH, Peine; CAS-ONE Holdinggesellschaft mbH, Hanover; Conseo GmbH, Hamburg; Continental Automotive Grundstücksgesellschaft mbH, Frankfurt am Main; Continental Mechanical Components Germany GmbH, Roding; IDM GmbH Industriesensoren, Lindau; IPM GmbH, Hamburg; Conti Temic microelectronic GmbH, Nuremberg; Conti Versicherungsdienst Versicherungsvermittlungsgesellschaft mbH, Hanover; Continental Automotive GmbH, Hanover; Continental Caoutchouc-Export-Aktiengesellschaft, Hanover; Continental Engineering Services GmbH, Frankfurt; ContiTech Antriebssysteme GmbH, Hanover; ContiTech Elastomer-Beschichtungen GmbH, Hanover; ContiTech Formpolster GmbH, Hanover; ContiTech Kühner Beteiligungsgesellschaft mbH, Oppenweiler; ContiTech Luftfedersysteme GmbH, Hanover; ContiTech Schlauch GmbH, Hanover; ContiTech Techno-Chemie GmbH, Karben; ContiTech Transportbandsysteme GmbH, Hanover; ContiTech Verwaltungs-GmbH, Hanover; ContiTech Vibration Control GmbH, Hanover; ContiTech-Universe Verwaltungs-GmbH, Hanover; Correx Handelsgesellschaft für Kautschukprodukte mbH, Hanover; Eddelbüttel & Schneider GmbH, Hamburg; eStop GmbH, Seefeld; Formpolster GmbH, Hanover; GERAP Grundbesitz- und Verwaltungsgesellschaft mbH, Frankfurt am Main; Göppinger Kaliko GmbH, Eislingen; Matador Deutschland GmbH, Düsseldorf; Max Kammerer GmbH, Frankfurt am Main; Kyros 31 GmbH, Munich; Metallgummi GmbH, Hamburg; Mündener Gummiwerk GmbH, Hannoversch-Münden; OTA Grundstücks- und Beteiligungsverwaltung GmbH, Frankfurt am Main; Phoenix 6. Verwaltungs-GmbH, Hamburg; Phoenix Automotive GmbH, Hamburg; Phoenix Beteiligungsgesellschaft mbH, Hamburg; Phoenix Compounding Technology GmbH, Hamburg; Phoenix Conveyor Belt Systems

Asia GmbH, Hamburg; Phoenix Conveyor Belt Systems GmbH, Hamburg; Phoenix Dichtungstechnik GmbH, Waltershausen; Phoenix Fluid Handling Industry GmbH, Hamburg; Phoenix Industrieanlagen Verwaltungs GmbH, Hamburg; Phoenix Sechste Verwaltungsgesellschaft mbH, Hamburg; Phoenix Siebte Verwaltungsgesellschaft mbH, Hamburg; Phoenix Traffic Technology GmbH, Hamburg; Phoenix Vermögensverwaltungs-GmbH, Hamburg; REG- Reifen- Entsorgungsgesellschaft mbH , Hanover; Siemens Automotive Beteiligungs GmbH, Regensburg; Siemens Restraint Systems GmbH, Regensburg; Siemens VDO Mechatronic Verwaltungsgesellschaft mbH, Stollberg; Siemens VDO Trading GmbH, Frankfurt am Main; Steinebronn Beteiligungs-GmbH, Oppenweiler; TEMIC Automotive Electric Motors GmbH, Berlin; UMG Beteiligungsgesellschaft mbH, Hanover; VDO Automotive AG, Regensburg; Vergölst GmbH, Bad Nauheim;

Continental Automotive Grundstücks-Vermietungsgesellschaft mbH & Co. KG; Continental Teves AG & Co. oHG, Frankfurt; ContiTech Kühner GmbH & Cie. KG, Oppenweiler; Phoenix Service GmbH & Co. KG, Hamburg; Siemens VDO Mechatronic GmbH & Co. KG, Stollberg; Union Mittelland Gummi GmbH & Co. Grundbesitz KG, Hanover.

5. Acquisition and Sale of Companies

Siemens VDO

On July 25, 2007, Continental AG and its subsidiary Continental Automotive GmbH (formerly CAS Two Holding Gesellschaft mbH) entered into an agreement with Siemens AG and companies affiliated to it to acquire 100% of the shares of Siemens VDO Automotive AG (trading as VDO Automotive AG since December 10, 2007) and its subsidiaries. The transaction was completed on December 3, 2007 after being approved without conditions by the responsible antitrust authorities. The purchase price including transaction costs was €11.3 billion. Siemens VDO Automotive AG's accumulated financing requirement of €1.0 billion up to this date was met by a total payment of €12.3 billion. Of this total amount, €6.9 billion was allocated for the acquisition of all the shares and €5.4 billion for the acquisition of all the receivables of Siemens AG from Siemens VDO Automotive AG and from its subsidiaries and second-tier subsidiaries. The acquired assets and liabilities of Siemens VDO Automotive AG were recognized at the following preliminary fair values at the acquisition date:

Acquisition of Siemens VDO	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Intangible assets	133.5	2,757.9
Property, plant, and equipment	2,107.8	2,299.2
Investments	295.9	636.3
Inventories	829.1	778.6
Accounts receivable	1,877.0	1,706.2
Other current assets	396.5	373.7
Cash and cash equivalents	838.1	838.1
Assets held for sale	0.5	502.2
Pension provisions	-134.8	-151.3
Net deferred taxes	773.4	-198.0
Other provisions	-597.0	-629.6
Indebtedness	-1,152.1	-109.7
Trade accounts payable	-1,444.0	-1,310.6
Other liabilities	-497.4	-439.8
Liabilities held for sale	—	-228.8
Net assets	**3,426.5**	**6,824.4**
Minority interests	49.6	57.0
Purchased net assets	**3,376.9**	**6,767.5**
Purchase price of shares		6,882.7
Accounts receivable acquired from Siemens AG		4,409.0
Purchase price		**11,291.8**
Repayment of financing at closing		1,042.4
Total payment at closing		**12,334.1**
Transaction costs		5.1
Goodwill		**5,571.8**

It cannot be ruled out that significant adjustments may be made to the goodwill or the carrying amounts of assets and liabilities due to the final purchase price allocation, and in particular to expected obligations under warranties, for example.

This preliminary purchase price allocation resulted in goodwill of €5,571.8 million. The key reasons for the goodwill are the addition of a large proportion of Continental AG's product offering to that of Siemens VDO Automotive AG, and the related market opportunities that exceed Siemens VDO's current earnings potential alone, as well as other synergies expected from the merger. The other acquired intangible assets mainly comprise technologies and research and development projects not yet completed (€1,518.2 million) with an estimated average useful life of almost seven years, as well as customer relationship assets (€1,206.0 million) with an estimated average useful life of almost eight years.

Since its acquisition, Siemens VDO has contributed €659.3 million to sales and -€121.5 million (including write-downs resulting from purchase price allocation – PPA) to net income attributable to the shareholders of the parent. The Continental Corporation's reported sales for 2007 would have been €9,748.7 million higher, and net income attributable to the shareholders of the parent would have been €199.5 million lower (including write-downs resulting from PPA), if this transaction had been completed on January 1, 2007. Reported earnings per share for 2007 would have been €3.55 lower as a result of this and due to the additional interest expense for financing the acquisition of Siemens VDO if this transaction had been completed on January 1, 2007.

Matador

On November 2, 2007, Continental AG acquired a majority interest of 51% in the tires and conveyor belt business and the rubber-processing machinery business unit of the Slovak Matador Group. Continental AG has the right to successively acquire a further 49% of Matador's shares, while Matador has the option to sell up to 49% of its shares to Continental AG at any time. The preliminary purchase price amounts to €150.0 million for 100% of the shares (equity value). The acquired assets and liabilities of Matador were recognized at the following fair values at the acquisition date:

Acquisition of Matador	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Intangible assets	4.6	17.6
Property, plant, and equipment	134.3	122.9
Investments	16.4	39.9
Inventories	59.3	57.8
Accounts receivable	68.3	65.0
Other current assets	10.4	10.4
Financial assets	3.9	3.9
Cash and cash equivalents	7.8	7.8
Assets held for sale	2.9	3.0
Pension provisions	-0.3	-0.3
Net deferred taxes	-12.8	-11.2
Other long-term provisions	-1.6	-1.4
Indebtedness	-86.0	-86.0
Trade accounts payable	-35.4	-35.7
Other current liabilities	-18.2	-18.2
Liabilities held for sale	-2.3	-2.3
Net assets	**151.3**	**173.2**
Minority interests	0.2	0.2
Purchased net assets	**151.1**	**173.0**
Purchase price		150.0
Transaction costs		1.8
Negative balance		**-21.2**

This preliminary purchase price allocation resulted in a negative balance of €21.2 million, which was recognized in other operating income. A purchase price of €150.0 million was agreed on the basis of the business plan available at the time and the assumed business expectations. The negative balance is attributable to the amount of the net assets at the closing date, which mainly reflects the recognition of intangible assets (including brands).

Since the acquisition, Matador's business has contributed €50.7 million to sales and -€2.3 million to net income attributable to the shareholders of the parent. The Continental Corporation's reported sales for 2007 would have been €316.2 million higher, net income attributable to the shareholders of the parent would have been €13.2 million higher, and earnings per share would have been €0.07 higher if this transaction had been completed on January 1, 2007.

Thermopol

On February 1, 2007, ContiTech AG acquired 100% of the shares of the hose manufacturer Thermopol International Ltd., London, including its subsidiaries, at a final purchase price of €25.2 million plus transaction costs of €0.8 million. The relevant agreements were signed in London on January 31, 2007. The acquired assets and liabilities were recognized in the following amounts:

Acquisition of the Thermopol Group	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Intangible assets	0.5	6.8
Property, plant, and equipment	5.7	5.9
Inventories	4.4	4.4
Accounts receivable	10.0	10.0
Other current assets	1.6	1.7
Cash and cash equivalents	0.8	0.8
Pension provisions	-0.2	-0.2
Net deferred taxes	-0.3	-1.9
Other long-term provisions	0.0	-0.8
Indebtedness	-5.7	-5.7
Trade accounts payable	-4.7	-4.7
Other current liabilities	-1.8	-1.8
Net assets	**10.3**	**14.5**
Minority interests	—	—
Purchased net assets	**10.3**	**14.5**
Purchase price		25.2
Transaction costs		0.8
Goodwill		**11.5**

This purchase price allocation resulted in goodwill of €11.5 million, which reflects the strengthening of Thermopol's global market position in the high-performance silicone hose business for passenger and commercial vehicles.

Since the acquisition at the beginning of February, Thermopol's business has contributed €39.5 million to sales and -€0.2 million to net income attributable to the shareholders of the parent. The Continental Corporation's reported sales for 2007 would have been €3.5 million higher, net income attributable to the shareholders of the parent would have been €0.2 million lower, and earnings per share would not have changed significantly if this transaction had been completed on January 1, 2007.

AP Italia

On September 1, 2007, Continental AG acquired 100% of the shares of Pacifica European Holdings Ltd., UK, and its subsidiary Automotive Products Italia (SV) S.r.l. (AP) from the Australian Pacifica Group Ltd. at a purchase price of €63.1 million plus transaction costs of €0.6 million. The acquired assets and liabilities were recognized at the following fair values at the acquisition date:

Acquisition of AP Italia	Carrying amount immediately before acquisition	Fair value at date of first consolidation
Intangible assets	4.1	23.4
Property, plant, and equipment	19.7	22.4
Inventories	5.4	5.2
Accounts receivable	20.4	20.4
Other current assets	0.0	0.4
Cash and cash equivalents	0.9	0.9
Pension provisions	-3.5	-3.1
Net deferred taxes	-4.3	-11.7
Indebtedness	-16.2	-16.2
Trade accounts payable	-17.7	-17.7
Other current liabilities	-6.1	-7.4
Net assets	**2.7**	**16.6**
Minority interests	—	—
Purchased net assets	**2.7**	**16.6**
Purchase price		63.1
Transaction costs		0.6
Goodwill		**47.1**

This purchase price allocation resulted in goodwill of €47.1 million, which reflects the strengthening of AP Italia's international position in the area of drum and parking brakes, as well as the growth opportunities offered by new, high-growth markets in emerging countries, especially in Asia.

Since the acquisition, AP has contributed €24.1 million to sales and €3.4 million to net income attributable to the shareholders of the parent. The Continental Corporation's reported sales for 2007 would have been €56.8 million higher, net income attributable to the shareholders of the parent would have been €4.2 million higher, and earnings per share would have been €0.03 higher if this transaction had been completed on January 1, 2007.

The Powertrain division and Passenger and Light Truck Tires division completed additional acquisitions for a total purchase price of €2.6 million in 2007. These led to the recognition of customer- and technology-related assets amounting to €2.3 million. No further information is provided in respect of these acquisitions because they have had no significant effect on the net assets and results of operations of the Continental Corporation.

Phoenix
On November 2, 2004, Continental AG acquired 75.6% of the shares of Phoenix AG as a result of a public takeover offer. The acquired shares in Phoenix were contributed to ContiTech AG. On November 16, 2004, ContiTech AG and Phoenix AG entered into a management and profit and loss pooling agreement, as well as a merger agreement. The Annual Shareholders' Meetings of Phoenix AG and ContiTech AG approved the agreements. Certain minority shareholders brought actions contesting the approval resolutions adopted by Phoenix's Annual Shareholders' Meeting. The management and profit and loss pooling agreement was entered in the commercial register of Phoenix AG on March 9, 2005 and thereby became effective. The merger was entered in the commercial register of ContiTech AG and became effective on January 16, 2007. Phoenix AG ceased to exist as a result of the merger. The minority shareholders of Phoenix AG at the date of the merger are now shareholders of ContiTech AG with a share of the capital and voting rights in ContiTech AG of approximately 3.15%. As a result of this interest held by minority shareholders in ContiTech AG, the management and profit and loss pooling agreement entered into with ContiTech-Universe Verwaltungs-GmbH as the controlling company terminated at the end of fiscal year 2007 in accordance with section 307 of the *Aktiengesetz* (AktG – German Stock Corporation Act). On July 11, 2007, ContiTech AG as the controlled company entered into a new management and profit and loss pooling agreement effective from January 1, 2008 with ContiTech-Universe Verwaltungs-GmbH as the controlling company. The management and profit and loss pooling agreement contains a binding offer to redeem the shares held by the minority shareholders of ContiTech AG for €24.83 per share in cash. The Annual Shareholders' Meeting of ContiTech AG on August 22, 2007 approved the management and profit and loss pooling agreement and resolved to transfer the shares held by minority shareholders to ContiTech-Universe Verwaltungs-GmbH in return for a cash redemption offer in accordance with section 327a of the AktG (squeeze-out). The redemption offer also amounts to €24.83 per no-par value share of ContiTech AG. Minority shareholders have filed actions contesting both resolutions that were still pending at the date of preparation of the annual financial statements. The management and profit and loss pooling agreement was entered in the commercial register of ContiTech AG on January 9, 2008 and thus became effective. Special proceedings (*Spruchverfahren*) have been initiated by shareholders to establish whether the amount of the cash redemption offer under the management and profit and loss pooling agreement is appropriate and were still pending at the date of preparation of the annual financial statements. After completion of these proceedings, the terms of the redemption offer may change.

Sales of companies
On December 20, 2007, the Company signed an agreement to sell its electric motors activities to the Brose Group – primarily under an asset deal – for total proceeds of €240.0 million (enterprise value). The unit to be sold mainly comprises motors for electric windows, anti-lock braking systems, heating/ventilation, engine cooling, and electric power steering as well as development offices. The sale, which must still be approved by the antitrust authorities, is expected to be completed in the second quarter of 2008. The business unit held for sale also includes the motor activities acquired as part of the acquisition of Siemens VDO. The corresponding items were reported under "assets held for sale" and "liabilities held for sale". No significant profit is expected from the final carve-out and sale.

The Benecke-Kaliko unit sold its furniture covering business to the Renolit Group under an asset deal effective from 2007. This led to a gain of €8.2 million.

Notes to the Consolidated Income Statements

6. Other Income and Expenses

in € millions	2007	2006
Other expenses	-296.7	-318.2
Other income	124.0	185.5
	-172.7	**-132.7**

The other expenses relate primarily to:

in € millions	2007	2006
Restructuring measures without impairment	28.6	127.8
Impairment of property, plant, equipment and intangible assets	27.1	38.7
Litigation and environmental risks	58.2	52.7
Realized and unrealized foreign currency exchange losses	26.2	47.4
Losses on disposal of business units and companies	0.0	2.5
Valuation allowances for doubtful accounts	14.8	9.5
Post-employment benefit obligations in the U.S.A.	49.9	0.0
Expenses for termination benefits	33.2	14.8
Others	58.7	24.8
	296.7	**318.2**

The ongoing integration of Motorola's automotive electronics business led to restructuring expenses and impairment losses on property, plant, and equipment totaling €8.1 million in the period under review – including expenses relating to the negotiations concluded in the first quarter of 2007 on the redundancy plan for the plant in Angers, France. In the previous year, the discontinuation of production at the plants in Angers, France, Elma and Seguin, U.S.A., due to high production costs resulted in restructuring expenses of €45.6 million.

The relocation of production capacity from the Ebbw Vale plant in the United Kingdom to the Slovak plant in Zvolen that began in 2006 to improve the cost structure in the Foundation Brakes unit led to additional impairment expenses of €1.4 million in 2007 (2006: restructuring expenses of €28.0 million).

To optimize the organization of production in Germany and to improve the cost structure in the Electric Drives business unit, the Company's Haldensleben location was closed by the end of 2007, apart from remaining minor winding-up activities. The Haldensleben plant's activities were relocated to Berlin. This resulted in total expenses for restructuring measures excluding impairment losses of €5.8 million, of which €4.2 million were reported in other expenses.

In the period under review, the ContiTech division incurred restructuring expenses and impairment losses totaling €2.9 million, including expenses and losses related to Roulunds, Denmark.

The closure in 2007 of the Interior division's downtown location in Bangalore, India, and the relocation of machinery to the surrounding area of Bangalore, led to restructuring expenses of €2.1 million.

On December 20, 2007, it was announced that the Powertrain division's existing production activities at the Company's Chatham location in Canada would be discontinued. This resulted in restructuring expenses and the impairment of property, plant, and equipment of €10.1 million.

The indefinite suspension of tire production at the plant in Charlotte, U.S.A., led to restructuring expenses of €48.4 million in 2006, of which €22.2 million was reported under other expenses. At the plant in Mayfield, U.S.A., restructuring expenses of €36.6 million were recognized in 2006 due to the shutdown of preproduction activities for tire manufacture.

Effective January 1, 2008, Continental Teves Japan Inc. sold significant parts of its plant, including the related

buildings and machinery at the Hiroshima location in Japan, to Nisshinbo Industries Inc. for the symbolic amount of 1 yen to avoid the costs of shutting the plant down. In accordance with IFRSs, the carrying amount of the plant must be written down to its expected selling price. This led to an impairment loss of €3.6 million.

Property, plant, and equipment at the Mt. Vernon plant in the U.S.A. was written down in the amount of €18.7 million in 2007 due to the failure to achieve process efficiency and to the related earnings situation.

In 2006, property, plant, and equipment at the San Luis Potosí plant in Mexico was written down in the amount of €18.7 million due to the continued failure to achieve process efficiency and to the related results of operations.

The shutdown of the plant in Angers, France, and Seguin and Elma, U.S.A., announced in December 2006 resulted in impairment losses of €10.7 million. Furthermore, impairment losses of €7.6 million were recognized on property, plant, and equipment in the ContiTech division as a result of non-value-creating activities.

Please see Note 24 for information on expenses relating to litigation and environmental risks.

The U.S. tire company Continental Tire North America (CTNA) amended its coverage of healthcare costs for retirees in 2006. In an interim decision, the responsible court of first instance upheld a class-action lawsuit brought against this measure insofar as the amendments to the pension plan should not have been implemented in full unilaterally. CTNA has filed an appeal against this decision. CTNA has also submitted a proposal for a mutually agreed solution to the affected retirees, which essentially provides for a one-time payment to be made to an external fund. Under this agreement, the existing plan amendments would be maintained. In this context, expenses of €49.9 million were recognized in the period under review.

Expenses for severance payments amounting to €33.2 million (2006: €14.8 million) relate to various individual workforce adjustment measures that do not qualify as restructuring measures.

At the end of 2006, the Company resolved to discontinue the use of a leased property near Detroit, U.S.A. as from 2007. This property was obtained as part of the acquisition of Motorola's automotive electronics business. The related lease agreement does not expire until the end of 2025. As it is not possible to sublet the property, an additional provision of €5.2 million was recognized in 2007 (2006: €11.5 million).

The "others" item additionally contains in particular expenses for employee profit-sharing programs, stock option plans, and integration costs for Motorola.

The other income relates to:

in € millions	2007	2006
Gain on the reversal of post-employment benefit obligations in the U.S.A.	42.0	108.8
Gain on sale of subsidiaries and business units	8.2	19.8
Negative balance from the acquisition of Matador (2006: Roulunds Group)	21.2	12.9
Gain on sale of property, plant, and equipment	13.4	1.1
Gain from reimbursement of customer tooling expenses	13.6	12.3
Other	25.6	30.6
	124.0	**185.5**

The medical healthcare plans for salaried employees in the tires business in the U.S.A. were adjusted in the period under review by further limiting medical benefits. This resulted in positive effects on earnings of €42.0 million. According to a legal assessment, these adjustments do not require the consent of the employees or retirees concerned.

At the end of 2006, all hourly workers in the U.S. tire operations and retirees were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this change, these beneficiaries now have a standard level of medical coverage. In the previous year, these plan amendments resulted in the reversal of previously recognized provisions for post-employment obligations of €108.8 million.

The sale of the Benecke-Kaliko unit's furniture coverings business in 2007 led to a gain of €8.2 million in the ContiTech division. The Company incurred restructuring expenses of €4.7 million in this context.

In 2006, the Company's North American OTR tire operations were sold to Titan Tire Corporation, a leading supplier in the OTR tire business. The disposal resulted in a gain of €19.1 million.

The first consolidation of the Matador Group in 2007 led to a gain of €21.2 million from the negative balance from the acquisition of Matador. This was partially offset by impairment losses of €1.3 million on an unused brand name and a power plant that is no longer used.

In 2006, the first consolidation of the Roulunds Group produced a negative balance of €12.9 million.

In particular, unutilized provisions amounting to €3.1 million were reversed in the year under review as part of the winding-up of the restructuring measures at the tire plant in Charlotte, U.S.A.

All actions brought by former employees relating to the closure of the Gretz plant were dismissed by a final and non-appealable decision in 2006. The provision of €9.9 million recognized for this was reversed accordingly in the previous year.

In the period under review, reimbursements for customer tooling were received in the amount of €13.6 million (2006: €12.3 million).

In addition, government grants amounting to €6.5 million that were not intended for investments in non-current assets were recognized in income in the "other" item as well as in the fixed cost items (2006: €7.3 million).

The following total personnel expenses are included in the income statement:

in € millions	2007	2006
Wages and salaries	2,967.3	2,585.5
Social security contributions	577.0	530.3
Pension and post-employment benefit costs	108.4	59.4
	3,652.7	**3,175.2**

The increase in personnel expenses is due in particular to the first consolidation of Siemens VDO in December 2007. The average number of employees in 2007 was 93,895 (2006: 81,603).

7. Income from Investments

in € millions	2007	2006
At-equity share in earnings of associates	**19.0**	**21.4**
Income from other investments	6.4	8.1
Write-downs of investments in associates	0.0	-3.2
Other investments and loans	-0.1	-0.1
Other income from investments	**6.3**	**4.8**

Income from investments includes in particular the proportionate share of the profit or loss of companies accounted for using the equity method in the amount of €19.0 million (2006: €21.4 million). In 2007, this includes impairments at Drahtcord Saar KG amounting to €5.5 million.

8. Net Interest Expense

in € millions	2007	2006
Interest income	**57.5**	**36.5**
Interest and similar expense	-189.3	-104.0
Financial lease cost	-1.7	-5.0
Convertible bonds	-9.8	-9.9
Gains/losses from foreign currency translation	22.4	-37.9
Losses/gains from changes in the fair value of derivative instruments	-23.8	15.8
Interest cost for long-term provisions and liabilities	-9.5	-6.1
Interest expense	**-211.7**	**-147.1**
Net interest expense	**-154.2**	**-110.6**

Interest expense in 2007 reflects a total of €0.2 million in payments to the minority shareholders in ContiTech AG under the terms of the management and profit and loss agreement. In the previous year, payments to minority shareholders in Phoenix AG amounted to €3.8 million.

Since Continental AG did not remit the purchase price to Siemens for Siemens VDO until the beginning of December 2007, the effects of the higher financial debt on net interest expense in 2007 are reflected only to a limited extent.

9. Income Tax Expense

The domestic and foreign income tax expense of the Corporation was as follows:

in € millions	2007	2006
Current taxes (domestic)	-224.4	-282.7
Current taxes (foreign)	-302.6	-212.5
Deferred taxes (domestic)	12.1	19.4
Deferred taxes (foreign)	43.2	-10.9
Income tax expense	**-471.7**	**-486.7**

The average domestic tax rate for 2007 was 39.2% (2006: 39.2%). This rate reflects a federal corporate tax rate of 25.0% (2006: 25.0%), a reunification surcharge of 5.5% (2006: 5.5%) and a municipal trade tax rate of 17.3% (2006: 17.3%).

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

in € millions	2007	2006
Expected tax expense at the domestic tax rate	-596.5	-584.6
Foreign tax rate differences	125.8	92.0
Reversal of temporary differences previously not recognized	—	10.4
Non-recognition of deferred tax assets unlikely to be realized	-24.0	-81.0
Non-deductible amortization of goodwill	—	-0.2
Effects from disposals and impairment of business units	—	-0.3
Realization of deferred tax assets from losses carried forward previously not recognized	—	4.9
First-time recognition of deferred tax assets likely to be realized	—	17.1
Negative balance from Matador (2006: Roulunds)	8.3	5.1
Incentives and tax holidays	24.6	33.4
Effects of changes in tax rates	-1.5	1.4
Taxes for previous years	3.5	16.2
Other	-11.9	-1.1
Income tax expense reported in the financial statements	**-471.7**	**-486.7**
Effective tax rate in %	**31.0**	**32.6**

The reduction in the expected tax expense from the difference in foreign tax rates primarily reflects the increasing volume of our activities in Eastern Europe and Portugal. Incorporation of the taxation difference gives the consolidated expected weighted average rate.

In 2007, there were no reversals of temporary differences relating to matters not previously recognized as deferred tax assets. In 2006, the effects from the reversal of previously temporary differences resulted mainly from the reversal of provisions for risks in connection with the shutdown of production locations in previous years. No deferred tax assets had been previously recognized as these were not sufficiently likely to be realized.

The effect of not recognizing deferred tax assets due to insufficient probability of recoverability is much lower than in the previous year and can be attributed above all to the increase in loss carryforwards in the U.S.A. and Mexico.

In 2007, tax reductions were claimed or expired from losses carried forward amounting to €56.1 million (2006: €27.3 million). This did not reduce the tax expense (2006 €4.9 million), since deferred tax assets had already been recognized or adjusted on the balance sheet for this purpose.

The amortization of surplus deferred tax assets resulted in a net tax burden, despite reductions in the tax rate.

The tax effects from government incentives and tax holidays were lower than in the previous year, in particular as a result of expiring incentives in Eastern Europe.

In 2007, taxes for previous years relate to the tax refund resulting from a favorable decision in legal proceedings, in addition to the settlement of outstanding tax obligations from 2006. In 2006, taxes for previous years resulted from the reversal of provisions no longer required for current and deferred taxes in respect of investments, mostly relating to the tax treatment of goodwill.

The Other item mainly includes non-deductible expenses. For the previous year, it is adjusted for the effect of the negative balance from the acquisition of the Roulunds Rubber Group.

Notes to the Consolidated Balance Sheets

10. Goodwill and Other Intangible Assets

in € millions	Goodwill	Internally generated intangible assets	Purchased intangible assets	Advances to suppliers	Total other intangible assets
At January 1, 2006					
Cost	1,744.0	27.2	437.6	9.3	**474.1**
Accumulated amortization	320.2	19.6	331.6	—	**351.2**
Book value	1,423.8	7.6	106.0	9.3	**122.9**
Net change in 2006					
Book value	1,423.8	7.6	106.0	9.3	**122.9**
Foreign currency translation	-38.8	—	-4.9	0.1	**-4.8**
Additions	—	0.8	25.8	10.4	**37.0**
Additions from first consolidation of subsidiaries	332.8	—	120.5	—	**120.5**
Transfers	—	—	5.6	-5.6	**—**
Disposals	—	—	1.1	—	**1.1**
Amortization	—	3.4	49.3	—	**52.7**
Book value	1,717.8	5.0	202.6	14.2	**221.8**
At December 31, 2006					
Cost	2,033.5	28.0	577.0	14.2	**619.2**
Accumulated amortization	315.7	23.0	374.4	—	**397.4**
Book value	1,717.8	5.0	202.6	14.2	**221.8**
Net change in 2007					
Book value	1,717.8	5.0	202.6	14.2	**221.8**
Foreign currency translation	-54.9	0.2	-5.6	0.0	**-5.4**
Additions	—	7.3	41.9	15.2	**64.4**
Additions from first consolidation of subsidiaries	5,630.4	—	2,808.0	—	**2,808.0**
Reclassification to assets held for sale	—	—	-3.5	—	**-3.5**
Transfers	—	—	10.5	-10.5	**0.0**
Disposals	4.1	—	0.2	—	**0.2**
Amortization	—	3.6	100.8	—	**104.4**
Impairment write-downs	—	—	0.9	—	**0.9**
Book value	7,289.2	8.9	2,952.0	18.9	**2,979.8**
At December 31, 2007					
Cost	7,595.1	25.3	3,375.1	18.9	**3,419.3**
Accumulated amortization	305.9	16.4	423.1	—	**439.5**
Book value	7,289.2	8.9	2,952.0	18.9	**2,979.8**

The acquisition of Siemens VDO, AP Italia, and the Thermopol Group gave rise to goodwill amounting to €5,630.4 million. The remaining carrying amount of goodwill relates principally to the acquisition of Motorola's automotive electronics business (2006), Continental Teves (1998), Continental Temic (2001), and Phoenix AG (2004) and was allocated to the Corporation's individual segments as follows:

in € millions	Dec. 31, 2007	Dec. 31, 2006
Chassis & Safety	2,719.7	1,155.4
Powertrain	1,911.1	173.0
Interior	2,566.5	307.7
Passenger and Light Truck Tires	13.8	13.8
Commercial Vehicle Tires	3.0	3.0
ContiTech	75.1	64.9
	7,289.2	**1,717.8**

Amounts shown under internally generated intangible assets represent capitalized development costs. Of the total amount of development costs incurred in 2007, €7.3 million (2006: €0.8 million) met the criteria for recognition as an asset.

Additions to purchased intangible assets from the first consolidation of subsidiaries related mainly to customer relationships and technology-based assets from the acquisition of Siemens VDO, AP Italia, the Thermopol Group, and Matador.

The other additions were mainly related to software.

Of the €104.4 million (2006: €52.7 million) amortization expense incurred for intangible assets, €83.5 million (2006: €42.2 million) was included in cost of sales and €20.9 million (2006: €10.5 million) was included in administrative expenses in the consolidated income statements.

The purchased intangible assets include carrying amounts of €88.5 million (2006: €7.7 million) that are not amortized. Additions in 2007 related in particular to the brand names of VDO amounting to €71.4 million, the brand names of Matador amounting to €8.1 million, and the brand names of Thermopol amounting to €1.5 million.

The remaining purchased intangible assets at December 31, 2007 mainly comprise the carrying amount of software amounting to €88.4 million (2006: €65.2 million), which is amortized on a straight-line basis.

For disclosures on impairments, please see Note 6.

11. Property, Plant, and Equipment

in € millions	Land, land rights and buildings	Technical equipment and machinery	Other equipment, factory and office equipment	Advances to suppliers and assets under construction	Total
At January 1, 2006					
Cost	1,627.9	5,812.6	981.0	488.7	**8,910.2**
Accumulated depreciation	786.7	4,130.0	719.9	5.8	**5,642.4**
Book value	841.2	1,682.6	261.1	482.9	**3,267.8**
thereof capital leases	43.0	0.6	1.7	–	**45.3**
thereof investment property	12.5	–	–	–	**12.5**
Net change in 2006					
Book value	841.2	1,682.6	261.1	482.9	**3,267.8**
Foreign currency translation	-6.7	-21.1	-2.3	-10.4	**-40.5**
Additions	83.1	362.0	88.7	236.8	**770.6**
Additions from first consolidation of subsidiaries	109.7	86.9	34.9	23.2	**254.7**
Amounts disposed of through disposal of subsidiaries	0.2	–	–	1.8	**2.0**
Reclassification to assets held for sale	-2.9	-9.0	-0.1	–	**-12.0**
Transfers	88.5	218.1	36.8	-343.4	**0.0**
Disposals	6.7	25.3	8.0	2.7	**42.7**
Depreciation	62.7	452.1	93.9	0.0	**608.7**
Impairment write-downs	7.6	23.9	1.2	7.4	**40.1**
Write-ups	0.7	1.2	–	–	**1.9**
Book value	1,036.4	1,819.4	316.0	377.2	**3,549.0**
At December 31, 2006					
Cost	1,835.7	6,103.3	1,075.8	393.8	**9,408.6**
Accumulated depreciation	799.3	4,283.9	759.8	16.6	**5,859.6**
Book value	1,036.4	1,819.4	316.0	377.2	**3,549.0**
thereof capital leases	39.4	1.3	1.3	–	**42.0**
thereof investment property	17.9	–	–	–	**17.9**
Net change in 2007					
Book value	1,036.4	1,819.4	316.0	377.2	**3,549.0**
Foreign currency translation	-20.1	-25.0	-2.3	-7.4	**-54.8**
Additions	39.1	340.3	89.4	372.7	**841.5**
Additions from first consolidation of subsidiaries	649.5	1,359.2	190.7	251.1	**2,450.5**
Amounts disposed of through disposal of subsidiaries	–	–	–	–	**–**
Reclassification to assets held for sale	-12.0	-12.8	-2.0	-7.3	**-34.1**
Transfers	36.5	253.7	9.1	-299.3	**0.0**
Disposals	26.0	9.3	1.2	8.0	**44.5**
Depreciation	67.1	508.5	107.7	–	**683.3**
Impairment write-downs	3.7	18.5	0.5	4.2	**26.9**
Write-ups	0.7	–	–	–	**0.7**
Book value	1,633.3	3,198.5	491.5	674.8	**5,998.1**
At December 31, 2007					
Cost	2,427.6	7,701.6	1,301.2	681.8	**12,112.2**
Accumulated depreciation	794.3	4,503.1	809.7	7.0	**6,114.1**
Book value	1,633.3	3,198.5	491.5	674.8	**5,998.1**
thereof financial leases	49.0	46.4	1.5	–	**96.9**
thereof investment property	29.5	–	–	–	**29.5**

The additions to property, plant, and equipment from the first consolidation of subsidiaries mainly reflected the consolidation of Siemens VDO (€2,299.2 million), the acquisition of the Thermopol Group (€5.9 million), AP Italia (€22.4 million), and the consolidation of Matador (€122.9 million).

The Chassis & Safety division invested in the expansion of production capacities for brake and safety systems in America and Europe. In the Powertrain division, manufacturing capacity for transmission control units was further expanded. In 2007, the Interior division invested in particular in the development of additional manufacturing capacities for telematics products in the U.S. The focus of investments in the Passenger and Light Truck Tires division was on the continued expansion of capacities at the European low-cost locations of Portugal, Romania, and the Czech Republic. Investments in the area of Commercial Vehicle Tires division were made to develop the manufacturing capacities in Mount Vernon, U.S.A., and in Puchov, Slovakia. ContiTech shifted its investment focus to the development of locations in Romania, Hungary, and Mexico.

For disclosures on impairments, please see Note 6.

Government investment grants amounting to €10.0 million (2006: €13.1 million) were deducted directly from the acquisition costs.

Assets held for sale related mainly to property, plant, and equipment, and to minor activities.

Property, plant, and equipment includes leased buildings, technical equipment, and other facilities where the Corporation is the beneficial owner, and relate primarily to administration buildings and manufacturing systems. The leases have an average term of 20 years for buildings and 5 years for technical equipment and are based on interest rates of between 5.5% and 8.6%. There are largely no renewal or purchase options in the contracts.

The Corporation's land and buildings accounted for as investment property changed as follows in the current and prior years:

in € millions	2007	2006
Cost at January 1	27.8	19.0
Accumulated depreciation at January 1	9.9	6.5
Net change		
Book value at January 1	17.9	12.5
Foreign currency translation	0.0	0.0
Changes in companies consolidated	17.4	—
Additions	0.4	6.5
Disposals	5.5	0.2
Depreciation	0.7	0.9
Book value at December 31	29.5	17.9
Cost at December 31	39.7	27.8
Accumulated depreciation at December 31	10.2	9.9

The fair value – determined using the gross rental method – of land and buildings accounted for as investment property at December 31, 2007 amounted to €33.9 million (2006: €23.6 million). Rental income in 2007 was €3.7 million (2006: €4.4 million) and the related maintenance costs were €2.7 million (2006: €3.1 million).

12. Investments in Associates

in € millions	2007	2006
At January 1	**121.9**	**122.7**
Additions	0.7	—
Additions from first consolidation of subsidiaries	632.6	—
Disposals	-1.0	—
Changes in the consolidation method	—	-9.5
Transfers	0.0	—
Share of earnings	24.5	21.4
Write-downs	-5.5	-3.7
Dividends received	-8.6	-9.0
Foreign exchange effects	1.8	0.0
At December 31	**766.4**	**121.9**

€627.3 million in additions from the first consolidation of subsidiaries is related to associates recognized at fair value as part of the Siemens VDO acquisition, in particular Hyundai Autonet Co. Ltd., Kyoungkido, Korea; S-Y-Systems Technologies Europe GmbH, Regensburg; Emitec GmbH, Lohmar; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe; and Siemens VDO Automotive Huizhou Co. Ltd. Huizhou, China.

As a result of the earnings position, the investment in Drahtcord Saar KG was written down by €5.5 million, which is included in the earnings of associates.

In 2006, write-downs of €3.7 million reflected the impairment of the equity-accounted share in Sandusky Ltd., U.S.A.; €0.5 million of this amount was related to goodwill.

Changes in the method of consolidation in 2006 mainly related to the reclassification of Barum Centrum Prague, Czech Republic, to affiliated companies.

The principal investments in associates for the automotive divisions relate to Hyundai Autonet Co. Ltd., Kyoungki-do, Korea; S-Y-Systems Technologies Europe GmbH, Regensburg; Emitec GmbH, Lohmar; SAS Autosystemtechnik GmbH & Co. KG, Karlsruhe; Siemens VDO Automotive Huizhou Co. Ltd. Huizhou, China; and Shanghai Automotive Brake Systems Co. Ltd., China; and for tire activities, Compañía Ecuatoriana del Caucho, S.A., Ecuador; and MC Projects B.V., the Netherlands.

The unaudited key figures taken from the last available annual financial statements of these principal associates are summarized as follows (amounts are stated at 100%; reference amounts from 2006 are also shown):

- Sales €4,961.6 million (2006: €4,521.6 million)
- Profit for the year €107.8 million (2006: €100.3 million)
- Total assets €1,749.3 million (2006: €1,547.6 million)
- Liabilities €776.6 million (2006: €974.3 million).

13. Other Investments

in € millions	Shares in affiliated companies	Other investments	Total
At January 1, 2006	**6.7**	**2.6**	**9.3**
Foreign currency translation	0.0	-0.2	-0.2
Additions	0.1	6.9	7.0
Transfers	-0.7	0.0	-0.7
At December 31, 2006	**6.1**	**9.3**	**15.4**
Foreign currency translation	0.0	-0.6	-0.6
Additions from first consolidation of subsidiaries	0.1	9.0	9.1
Additions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Transfers	0.0	0.0	0.0
Impairment write-downs	-0.1	0.0	-0.1
At December 31, 2007	**6.1**	**17.7**	**23.8**

Other investments are carried at cost as their fair value cannot be determined reliably.

14. Deferred taxes

Deferred tax assets and liabilities are composed of the following items:

in € millions	Dec. 31, 2007	Dec. 31, 2006
Intangible assets	-616.9	-192.3
Property, plant, and equipment	-186.4	-124.9
Inventories	28.1	22.1
Other assets	-9.0	-34.4
Pension obligations less deferred charges	112.5	61.2
Other provisions	164.2	72.8
Indebtedness	-7.5	39.2
Other differences	38.7	53.0
Allowable tax credits	28.4	26.9
Tax losses carried forward	85.3	28.7
Net deferred taxes	-362.6	-47.7
Deferred tax assets	**162.6**	**141.4**
Deferred tax liabilities	525.2	189.1

Deferred taxes are measured in accordance with IAS 12 at the tax rate applicable for the periods in which they are expected to be realized. As a result of the German Business Tax Reform Act 2008, corporate income tax in Germany has been reduced to 15% (plus 5.5% solidarity surcharge) effective January 1, 2008. In addition, the average trade tax burden is also falling to around 14.1%, and trade tax is no longer deductible from the basis of corporate income tax calculation. Thus, deferred taxes in the German companies are measured at 29.9%.

The change in deferred taxes arising from intangible assets, property, plant, and equipment, and other provisions is mainly attributable to the adjustments as part of the Siemens VDO acquisition.

Compared with the previous year, indebtedness is illustrated separately and no longer within the other differences. The differences between pension obligations and deferred pension charges continue to be reported on a net basis.

In 2007, total net deferred tax assets amounting to €63.8 million (2006: €51.8 million) were recognized by certain subsidiaries that comprised current losses and other net recoverable temporary differences. These net deferred tax assets can probably be realized given that sufficient future taxable income can be expected.

As of December 31, 2007, the Corporation's corporate tax losses carried forward amounted to €822.1million (2006: €751.4 million). Most of the Corporation's existing losses carried forward relate to foreign subsidiaries and are mostly limited in the period they can be carried forward.

A total of €429.6 million of (2006: €471.6 million) deferred tax assets have not yet been recognized in the Corporation as their recoverability is currently considered to be not sufficiently probable. Of these assets, €232.2 million (2006: €211.0 million) relates to losses carried forward in particular in the U.S.A. and Mexico.

The cumulative amount of deferred taxes for items taken directly to total equity increased from €0.3 million in 2006 to €0.5 million.

The deferred tax liabilities from retained foreign earnings amount to a total of €47.8 million (2006: €50.4 million). Of this, deferred tax liabilities amounting to €9.8 million (2006: €13.0 million) were recognized for amounts for which it cannot be ruled out that they will be remitted to the parent company in the short or medium term. The reduction compared with the previous year can be attributed to the lower domestic tax rates applicable as of 2008.

15. Other Financial Assets

in € millions	Dec. 31, 2007		Dec. 31, 2006	
	Maturity		Maturity	
	up to 1 year	over 1 year	up to 1 year	over 1 year
Amounts receivable from related parties	43.6	9.9	26.4	0.4
Loans to third parties	—	37.7	—	34.4
Amounts receivable from employees	16.0	—	5.4	—
Amounts receivable from suppliers	2.9	—	3.8	—
Amounts receivable for customer tooling	35.0	—	24.1	—
Other financial assets	92.8	0.4	67.2	11.6
	190.3	**48.0**	**126.9**	**46.4**

The carrying amounts of the other financial assets correspond to their fair values. Amounts receivable from employees relate mainly to preliminary payments for hourly wages and for other advances. Other financial assets include €36.9 million (2006: €51.9 million) for recoveries on the amounts paid on the acquisition of companies. They also include receivables in the amount of €48.9 million (2006: €11.1 million) from the sale of equipment and business units.

Loans to third parties mainly comprise loans to customers in the U.S.A. in local currency maturing in 2009 and 2010.The effective rate of interest is 5.9%. The loans to third parties also include tenant's loans on individual properties.

16. Other Assets

in € millions	Dec. 31, 2007		Dec. 31, 2006	
	Maturity		Maturity	
	up to 1 year	over 1 year	up to 1 year	over 1 year
Tax refund claims (incl. VAT and other taxes)	351.0	—	189.9	—
Prepaid expenses	65.3	—	38.2	—
Others	161.0	19.0	55.3	0.9
	577.3	**19.0**	**283.4**	**0.9**

The increase in other assets is the result in particular of the acquisition of Siemens VDO.

Valuation allowances amounting to €4.2 million (2006: €1.8 million) were recognized for the probable default risk on other assets.

17. Inventories

in € millions	Dec. 31, 2007	Dec. 31, 2006
Raw materials and supplies	896.2	511.8
Work in progress	335.5	179.7
Finished goods and merchandise	1,313.0	904.0
Advances to suppliers	13.0	8.1
Advances from customers	-21.8	-6.4
	2,535.9	**1,597.2**

Valuation allowances recognized for inventories in 2007 amounted to €41.1 million (2006: €89.4 million). Inventories include amounts written down (gross inventories) of €150.0 million (2006: €140.6 million).

The increase in inventories is in particular the result of the acquisition of Siemens VDO.

18. Trade Accounts Receivable

in € millions	Dec. 31, 2007	Dec. 31, 2006
Trade accounts receivable	4,059.1	2,427.4
Allowances for doubtful accounts	-115.5	-87.1
	3,943.6	**2,340.3**

The carrying amounts of the trade accounts receivable, net of allowances for doubtful accounts, correspond to their fair values.

The Corporation increased individual valuation allowances and general portfolio allowances for trade accounts receivable in 2007 by €19.7 million (2006: €21.2 million). During the same period, €20.7 million (2006: €21.3 million) of allowances recognized in previous years was utilized, and €4.8 million (2006: €11.7 million) was reversed. The net increase of allowances for doubtful accounts was reported as other expenses. Additions from the first consolidation of subsidiaries amounted to €37.1 million (2006: €4.7 million), mostly from the acquisition of Siemens VDO. In addition, €0.1 million was reclassified to assets held for sale. Currency translation effects in 2007 amounted to -€2.6 million (2006: €3.8 million).

For the first time, receivables as of December 31, 2007, include €35.4 million from "percentage of completion" solely attributable to changes in the scope of consolidation by the acquisition of Siemens VDO. In 2007, no advance payments were received from customers for these orders. The accumulated costs and profits of construction contracts in process on the balance sheet date amounted to -€1.6 million (2006: none) and were incurred in the period since the first consolidation of Siemens VDO.

The provision for risks is calculated on the basis of Corporation-wide standards. Customer relationships are analyzed at regular intervals. Individual valuation allowances are distinguished from general portfolio allowances for financial instruments measured at amortized cost. Trade accounts receivable for which valuation allowances must be recognized are not taken into account in calculating the general portfolio allowance.

The allowance for doubtful accounts essentially includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments, and the analysis of historical losses on receivables.

Continental AG, Hanover, Continental Teves AG & Co. oHG, Frankfurt am Main, and Conti Temic microelectronic GmbH, Nuremberg, can utilize the asset-backed securitization program arranged by West LB in July 2004, with a volume of €350.0 million. The program expires in July, 2009, and was utilized by all participating companies as of the balance sheet date.

As of December 31, 2007, the relevant companies sold accounts receivable amounting to €221.4 million under this program (2006: €22.8 million). The accounts receivable sold are still recognized in the balance sheet, because the associated risks and rewards, in particular credit and default risk, have not been completely transferred. All trade accounts receivable have a maturity of less than one year.

The liabilities related to accounts receivables sold in this context amount to €279.2 million (2006: €22.8 million). In contrast to the portfolio of receivables sold, the liabilities are not reduced by the receivables already settled as of the balance sheet date; payments totaling €127.9 million (2006: €0.0 million) were recorded.

In May 2006, an ABS program for $250 million was concluded with Wachovia Capital Markets, LLC, as arranger and administrator, under which Continental Tire North America, Inc., and Continental Teves, Inc., U.S.A., are able to sell trade accounts receivable to a special purpose entity set up by Wachovia. The program has a five year term and was not utilized as of December 31, 2007.

In 2007, the contractual terms of trade accounts receivable with a carrying amount of €0.4 million (2006: €0.4 million) were renegotiated, since they would be otherwise overdue. This essentially involved extending the payment date.

The non-impaired trade accounts receivable are broken down into the following maturity buckets:

in € millions			thereof: overdue in the following maturity buckets					
December 31, 2007	Book value	thereof: not yet due	less than 15 days	15 - 29 days	30 - 59 days	60 - 89 days	90 - 119 days	more than 120 days
Trade accounts receivable	4,019.9	3,465.5	231.1	116.7	93.7	37.7	22.9	52.3
December 31, 2006								
Trade accounts receivable	2,370.3	2,129.3	84.5	78.4	30.5	16.9	11.9	18.8

[1] The difference of €39.2 million in 2007 (2006: €57.1 million) versus the previous table is the result of receivables for which individual valuation allowances are recognized.

19. Cash and cash equivalents

Cash includes all liquid funds and demand deposits. Cash equivalents are short-term, highly liquid financial investments that can be readily converted into known cash amounts and are subject to only minor fluctuations in value.

20. Assets Held for Sale

in € millions	2007	2006
Business units held for sale	584.9	—
Property, plant, and equipment held for sale	12.9	14.3
Assets held for sale	**597.8**	**14.3**

The business units held for sale principally comprise the electric motor activities, as well as other activities held for sale. They are measured at the lower of their carrying amount prior to classification of the group of assets as held for sale and the net fair value. The corresponding assets were composed of the following items:

Mio €	2007
Non-current assets	263.8
Inventories	105.2
Trade accounts receivable	193.2
Other current assets	19.4
Cash and cash equivalents	3.3
	584.9

An overview of liabilities related to the assets held for sale can be found under Note 31.

21. Equity

Number of shares outstanding	2007	2006
At January 1	146,529,127	145,864,709
Change due to conversions and exercise of options	530,044	664,418
Capital increase against cash contributions	14,652,912	–
At December 31	**161,712,083**	**146,529,127**

As part of the financing of the acquisition of Siemens VDO, Continental AG implemented a capital increase on October 30, 2007, against cash contributions of just under 10% of outstanding shares excluding shareholders' preemptive rights. 14,652,912 shares were placed with institutional investors at a price of €101.00 per share, increasing subscribed capital by €37.5 million (2006: €0.0 million). The subscribed capital also increased by €0.1 million (2006: €1.1 million) compared with the previous year through the exercise of conversion rights and by €1.3 million (2006: €0.6 million) through the exercise of stock options.

The common stock of the Company therefore amounted to €413,982,932.48 at the balance sheet date (2006: €375,114,565.12) and is composed of 161,712,083 (2006: 146,529,127) no-par value bearer shares.

Following the resolution adopted at the Annual Shareholders' Meeting on April 24, 2007, the Company had additional authorized capital stock of originally €187.5 million for the issuance of new shares against cash and/or non-cash contributions until April 23, 2012. New shares issued in 2007 against cash contributions reduced this authorized capital stock to €150.0 million, corresponding to 58,589,275 shares.

A total of 1,381,840 stock options were issued under the stock option plan set up in 1999 for members of the Executive Board and senior executives. Each option entitled the option holder to subscribe for one share. 10,000 (2006: 61,500) of the issued stock options are still outstanding. 51,500 (2006: 228,090) shares were issued in 2007 and no (2006: 6,000) stock options expired. The authorization to grant stock options under the 1999 stock option plan expired on September 1, 2004; accordingly, no further stock options may be granted under this plan.

The Annual Shareholders' Meeting on May 14, 2004 approved the 2004 stock option plan for members of the Executive Board and senior executives. The 2004 stock option plan ends on May 13, 2009. Under the plan, the Executive Board is authorized to grant a total of 3,936,000 stock options. Each option entitles the option holder to subscribe for one share. 859,880 (2006: 810,850) stock options were issued in 2007, 462,750 were exercised (2006: 0), and 116,300 expired (2006: 44,750). Of the total of 3,058,180 (2006: 2,198,300) stock options, 2,350,980 (2006: 2,070,150) are still outstanding, and a total of 244,450 (2006: 128,150) stock options have expired.

On May 19, 2004, a convertible bond for a nominal amount of €400.0 million was issued by Conti-Gummi Finance B.V., Amsterdam, the Netherlands. The convertible bond has a coupon of 1.625% and matures on May 19, 2011. Holders of the conversion rights were originally entitled to convert them into shares of Continental AG at a price of €51.00 per share, representing a total entitlement of 7,843,137 no-par value shares. The dividend increases declared for fiscal years 2004 to 2006 changed the conversion ratio in accordance with the terms of the bond. The conversion ratio now corresponds to a conversion price of €50.05 (2006: €50.65) and therefore – after including previously exercised conversion rights – entitles bondholders to subscribe for a total of 7,534,917 no-par value shares equal to a conditional capital of €19.3 million. Further reductions in the conversion price due to future dividends could lead to an increase in the utilization of conditional capital. Conversion rights amounting to €0.8 million were exercised in 2007 and resulted in the issue of 15,794 shares.

As a result of the resolution adopted at the Annual Shareholders' Meeting on June 1, 1999, the common stock was authorized to be conditionally increased by up to €4.0 million for the purpose of granting stock options under the 1999 stock option plan.

The Annual Shareholders' Meeting on May 23, 2001 resolved a further conditional capital increase, originally of €140.0 million, for the purpose of granting conversion and option rights under convertible bonds or bonds with

warrants to be issued by May 22, 2006. Under the resolution adopted at the Annual Shareholders' Meeting on May 14, 2004, €6.3 million of this amount may be used to grant stock options under the 2004 stock option plan. The Annual Shareholders' Meeting on May 5, 2006 resolved to partially cancel this conditional capital and to reduce it from €140.0 million to €31.9 million, as well as to conditionally increase the common stock by €149.0 million for the purpose of granting conversion and option rights under convertible bonds and bonds with warrants to be issued by May 4, 2011. The reduction of the conditional capital was entered in the commercial register on June 14, 2007; the new conditional capital was entered on August 17, 2007. As a result of a shareholders' action, the Hanover Regional Court nullified the resolution of the Annual Shareholders' Meeting to increase the conditional capital on February 22, 2007. On appeal the higher regional court of Celle upheld the decision. The Company has lodged a further appeal with the German Federal Court of Justice against the higher regional court's decision.

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

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

in € thousands	
Conditional capital as of January 1, 2007	**29,006**
Additions	149,229
Exercised conversion and subscription rights	-1,357
Expiration of subscription rights granted	-297
Conditional capital as of December 31, 2007	**176,581**

Under the *Aktiengesetz* (German Stock Corporation Act), the dividends distributable to the shareholders are based solely on Continental AG's net retained earnings, which amounted to €336.7 million at December 31, 2007, as reported in the annual financial statements prepared in accordance with the German Commercial Code. A dividend payout for fiscal 2007 of €2.00 per share will be proposed to the Annual Shareholders' Meeting. Assuming that the Annual Shareholders' Meeting approves the proposed dividend, the sum to be distributed amounts to €323.4 million. This corresponds to a payout ratio of 31.7% of the net income attributable to shareholders of the parent company. In 2007, a dividend of €2.00 per share was distributed for 2006.

22. Share-Based Payment

The implementation of share-based payment programs in 2007 is disclosed in Note 21 on Shareholders' Equity.

The cost of the stock option plans is reported as compensation costs and amounted to €18.9 million in 2007 (2006: €13.7 million).

1999 variable stock option plan

With the approval of the Annual Shareholders' Meeting on June 1, 1999, Continental AG adopted a variable stock option plan (1999 stock option plan) which granted stock options to certain senior executives and the Executive Board. Each option granted under this plan carries the right to subscribe for one share. These stock options may be exercised after a vesting period of three years, starting from the date on which the Executive Board (or the Supervisory Board, as appropriate) granted the options. Once vested, the options can be exercised, i.e., the corresponding number of Continental AG shares can be acquired, within certain exercise windows during the following two years.

The Continental AG variable stock option plans include a performance target as a prerequisite for the exercise of stock options. These subscription rights may only be exercised if the average market price of Continental shares in the Xetra closing auction on the Frankfurt Stock Exchange during the ten trading days prior to an exercise window is at least 15% (exercise hurdle) above the average closing price during the ten trading days prior to the issue date.

The exercise price varies in accordance with an outperformance and a performance discount. The outperformance discount is calculated on the basis of the performance of Continental's shares in comparison with the performance of the MDAX. The performance discount is calculated as a function of the relative change in the Corporation's EBIT margin.

The value of the issued stock options is determined using the Monte Carlo simulation model. This model ensures realistic allowances for the effects of the performance target as well as the performance and outperformance discount. Specifically, the model simulates the change of Continental shares against the MDAX to reflect the outperformance.

The adjustment of the exercise price by the outperformance of Continental shares against the MDAX is a market condition under IFRSs and is included only in the measurement at the grant date. The adjustment of the exercise price to the change in the return on sales (EBIT as % of sales) of the Continental Corporation is a performance condition under IFRSs and, accordingly, is not used for the measurement at the grant date. No corresponding discount is applied for measurement at the grant date. The update parameters applied to measurement dates after the grant date are based on current estimates available from independent analysts, while maintaining the other parameters.

The model used also takes into account the possibility of an early exercise of the options in all cases where the adjusted exercise price falls below 50% of the reference price and the performance target is achieved during the exercise window. Further, the model assumes that, as experience has shown, option holders who have left the Corporation exercise the option immediately after the vesting period.

The expected dividends recognized in the model for each year of the options' duration are based on published estimates by independent analysts.

The volatilities and correlation reflect historical trends and are determined based on the closing prices for Continental shares and the MDAX index at each balance sheet date corresponding to a period equivalent to the remaining term of the option rights.

Stock option plan 1999	2007		2006	
in € millions	Number of subscription rights	Average exercise price	Number of subscription rights	Average exercise price
	1,000 units	€/unit	1,000 units	€/unit
Outstanding at January 1	61.5	21.05	295.6	21.08
Exercised[1]	51.5	21.03	228.1	21.09
Expired	—	—	6.0	21.14
Outstanding at December 31	10.0	21.14	61.5	21.05
Exercisable on December 31	10.0	9.19	61.5	9.15

[1] The average exercise price was €9.15 (2006: €9.17) following deduction of the performance and outperformance discounts.

The weighted average remaining option duration is 6 months (2006: 1 year and 4 months).

2004 variable stock option plan

Continental AG introduced another variable stock option plan (2004 stock option plan) with the approval of the Annual Shareholders' Meeting on May 14, 2004. This plan replaced the 1999 stock option plan. However, there are differences in the new plan regarding the calculation of the exercise price. The DAX is used as a reference to determine the outperformance instead of the MDAX and the exercise price can include a premium if Continental's stock underperforms this reference. In addition, a ceiling has been imposed on the achievable capital gain.

Stock option plan 2004	2007		2006	
in € millions	Number of subscription rights	Average exercise price[1]	Number of subscription rights	Average exercise price[1]
	1,000 pcs	€/unit	1,000 pcs	€/unit
Outstanding at January 1	2,070.2	70.67	1,304.1	57.68
Exercised[2]	462.8	43.10	—	—
Granted	859.9	118.65	810.9	91.13
Expired	116.3	78.89	44.8	62.70
Outstanding at December 31	2,351.0	93.24	2,070.2	70.67
Exercisable on December 31	74.3	18.74	—	—

[1] For options which cannot yet be exercised, the average exercise hurdle is indicated.
[2] The average exercise price was €18.74 following deduction of the performance and outperformance discounts.

The assumptions used in calculating the fair value of the respective grants changed as follows:

	2007	2006
Reference price in €	103.17	79.24
Closing price Continental in €	104.62	80.82
Closing price DAX Index	8,050.68	5712.69
Risk-free rate (in %)	4.42	3.81
Volatility Continental (in %)	29.19	32.39
Volatility DAX (in %)	22.99	27.10
Correlation Continental/DAX	0.55	0.52
Dividend yield (in %)	2.27	1.82
Option period	5 years	5 years
Fair value at grant date in €	**37.84**	**30.84**
Fair value at balance sheet date December 31, 2007 in €	**36.18**	**30.44**
Fair value at balance sheet date December 31, 2006 in €	**—**	**31.59**

The weighted average remaining option duration is 3 years and 6 months (2006: 3 years and 8 months).

23. Provisions for Pension Liabilities and Other Post-Employment Benefits

Provisions for pension liabilities and other post-employment benefits are shown in the following balance sheet items:

in € millions	Dec. 31, 2007	Dec. 31, 2006
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	405.3	326.9
Provisions for other post-employment benefits	191.8	178.8
Provisions for similar obligations	91.5	19.9
Pension obligations	**688.6**	**525.6**
Deferred pension charges (difference between pension obligations and related funds)	77.5	43.0

Pension plans

The Corporation offers its employees pension plans in the form of defined benefits and defined contributions, either as general or individual plans. The provisions cover the obligations from defined benefit plans, in particular in Germany, the U.S.A., Canada, the UK, Switzerland, Austria, France, and Ireland.

Separate pension funds exist to fully or partially finance the Company's pension obligations for the principal plans. These fund assets may only be used to settle pension obligations. The principal funds are in the U.S.A. and the UK, as well as in Germany in 2006 following the establishment of a fund under a contractual trust arrangement (CTA). Pension funds in Germany, the U.S.A., Canada, the UK, and Switzerland were added through the acquisition of Siemens VDO. The Trust Arrangement for German employees entitled to pensions set up by Siemens was adapted to the legal construction of the Continental Corporation's CTA during the course of the integration of Siemens VDO. These plan assets are netted against the related pension provisions.

The plan assets also include, in particular in Germany, insurance annuity contracts. In addition, certain closed pension contribution funds in Germany are shown in the reconciliation of the total pension plans in accordance with IFRIC D 9 due to certain warranty risks.

in € millions	Dec. 31, 2007	Dec. 31, 2006
Pension provisions (unfunded obligations and net liabilities from obligations and related funds)	405.3	326.9
Deferred pension charges (difference between pension obligations and related funds)	77.5	43.0
Net amount recognized	**327.8**	**283.9**

The pension provisions increased by €78.4 million compared with the previous year. Deferred pension charges representing the net assets from pension obligations and related funds increased by €34.5 million. Both effects were influenced significantly by the acquisition of Siemens VDO.

The pension obligations for Germany, the U.S.A. and Canada, the UK, and other countries, as well as the amounts for the Continental Corporation as a whole, are shown in the following tables. [In the following tables, the U.S.A. and Canada are abbreviated as follows: USA/C]

The reconciliation of the changes in the defined benefit obligation and the plan assets from the beginning to the end of the year is as follows:

in € millions	2007					2006				
	Germany	USA/C	UK	Other	Total	Germany	USA	UK	Other	Total
Changes in defined benefit obligation										
Defined benefit obligation at January 1	1,496.0	666.7	171.8	84.3	**2,418.8**	1,534.6	714.2	159.0	82.1	**2,489.9**
Foreign currency translation	—	-63.6	-15.8	-0.5	**-79.9**	—	-74.5	3.6	-0.8	**-71.7**
Current service cost	34.4	2.5	4.3	4.4	**45.6**	28.9	4.0	4.0	3.7	**40.6**
Interest cost on defined benefit obligation	63.8	37.4	8.7	4.3	**114.2**	59.6	39.2	7.9	3.7	**110.4**
Vested prior plan amendments	—	—	—	0.0	**0.0**	—	4.6	—	0.2	**4.8**
Unvested prior plan amendments	—	—	—	—	**—**	—	0.0	—	0.0	**0.0**
Actuarial gains/losses from changes in assumptions	-180.9	-17.6	-15.1	-12.6	**-226.2**	-57.1	0.8	-5.8	0.3	**-61.8**
Actuarial gains/losses from experience adjustments	3.4	7.4	-1.1	0.4	**10.1**	7.8	17.4	5.8	-0.5	**30.5**
Curtailments and settlements	-0.1	8.0	—	-0.3	**7.6**	-0.8	19.5	—	-0.8	**17.9**
Net changes in the scope of consolidation	302.4	293.5	50.8	83.4	**730.1**	0.0	-15.8	—	3.7	**-12.1**
Employee contributions	—	—	1.5	0.3	**1.8**	—	0.0	1.5	0.3	**1.8**
Other changes	-1.1	1.1	-0.4	-0.1	**-0.5**	—	3.9	0.1	—	**4.0**
Benefit payments	-76.8	-43.4	-5.3	-7.1	**-132.6**	-77.0	-46.6	-4.3	-7.6	**-135.5**
Defined benefit obligation at December 31	**1,641.1**	**892.0**	**199.4**	**156.5**	**2,889.0**	**1,496.0**	**666.7**	**171.8**	**84.3**	**2,418.8**
Change in plan assets										
Fair value of plan assets at January 1	1,087.3	643.7	150.8	25.3	**1,907.1**	463.9	708.7	130.6	23.5	**1,326.7**
Foreign currency translation	—	-64.2	-16.0	0.1	**-80.1**	—	-73.0	3.1	-0.5	**-70.4**
Net changes in the scope of consolidation	276.5	277.5	69.5	66.5	**690.0**	1.3	-17.1	—	—	**-15.8**
Expected return on plan assets	49.8	50.0	10.4	1.9	**112.1**	25.7	50.9	9.0	1.5	**87.1**
Actuarial gains/losses from plan assets	-29.0	-0.9	1.4	-0.4	**-28.9**	-7.9	20.6	5.5	0.2	**18.4**
Employer contributions	1.0	20.1	6.0	3.3	**30.4**	631.7	0.2	4.3	2.5	**638.7**
Employee contributions	—	—	1.5	0.3	**1.8**	—	—	1.5	0.2	**1.7**
Curtailments and settlements	—	—	—	-0.4	**-0.4**	—	—	—	-0.1	**-0.1**
Other changes	—	0.0	-0.3	-0.9	**-1.2**	—	—	1.1	-0.1	**1.0**
Benefit payments	-28.4	-43.4	-5.3	-2.1	**-79.2**	-27.4	-46.6	-4.3	-1.9	**-80.2**
Fair value of plan assets at December 31	**1,357.2**	**882.8**	**218.0**	**93.6**	**2,551.6**	**1,087.3**	**643.7**	**150.8**	**25.3**	**1,907.1**

€2,848.2 million (2006: €2,375.9 million) of the defined benefit obligation at December 31, 2007 relates to plans that are fully or partially funded, and €40.8 million (2006: €42.9 million) relates to plans that are unfunded.

The pension plans in Switzerland and the Netherlands that were acquired with Siemens VDO will not continue in their previous form. The obligations are being outsourced to an external financial services provider.

Plan assets in Germany include the CTA assets amounting to €925.2 million (2006: €637.7 million), pension contribution fund assets of €348.7 million (2006: €365.8 million), and insurance annuity contracts amounting to €83.3 million (2006: €83.8 million). -€7.0 million of the actuarial gains and losses on plan assets in Germany in 2007 resulted from pension funds (2006: -€8.3 million), €22.2 million from the CTAs (2006: €0.2 million), and €0.0 million from the insurance annuity contracts (2006: €0.2 million).

Continental AG has pension funds for previously defined contributions in Germany that have been closed to new entrants since July 1, 1983 and March 1, 1984 respectively. At December 31, 2007, the minimum net funding requirement was exceeded: accordingly, Continental AG has no requirement to make additional contributions. The pension fund assets had a fair value of €348.7 million on December 31, 2007. The pension funds are subject to an effective minimum interest rate of 3.50%, for which Continental is ultimately liable under the *Betriebsrentengesetz* (German Law Relating to Company Pension Plans), and accordingly constitute a defined benefit pension plan in accordance with IFRIC D 9. This plan is therefore included in the total reconciliation of the defined pension provisions. However, given that only the plan members are entitled to the assets and all income, the benefit obligations are recognized in the same amount as the existing assets at fair value.

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

in € millions	December 31, 2007					December 31, 2006				
	Germany	USA/C	UK	Other	Total	Germany	USA	UK	Other	Total
Funded status[1]	-283.9	-9.2	18.6	-62.9	**-337.4**	-408.7	-23.0	-21.0	-59.0	-511.7
Unrecognized actuarial gains/losses	-8.3	44.7	-4.9	1.3	**32.8**	142.7	60.9	12.5	11.4	227.5
Unrecognized past service cost from plan amendments	—	0.2	—	0.0	**0.2**	—	0.3	—	0.0	0.3
Effect of asset limitation	—	-5.1	-18.4	—	**-23.5**	—	—	—	—	—
Reclassification to liabilities held for sale	0.1	—	—	—	**0.1**	—	—	—	—	—
Net amount recognized	**-292.1**	**30.6**	**-4.7**	**-61.6**	**-327.8**	**-266.0**	**38.2**	**-8.5**	**-47.6**	**-283.9**
The net amount recognized in the balance sheet comprises the following balance sheet items:										
Deferred pension charges	8.2	64.6	2.2	2.5	**77.5**	—	41.5	0.9	0.6	43.0
Pension provisions	-300.3	-34.0	-6.9	-64.1	**-405.3**	-266.0	-3.3	-9.4	-48.2	-326.9
Net amount recognized	**-292.1**	**30.6**	**-4.7**	**-61.6**	**-327.8**	**-266.0**	**38.2**	**-8.5**	**-47.6**	**-283.9**

[1] Difference between plan assets and benefit obligation

The pension plan of Siemens VDO Automotive Ltd., UK, reports plan assets at the end of the fiscal year that exceed the defined benefit obligation. The recognition of such an asset is limited to the present value of the benefits to the Corporation (asset ceiling). At November 30 and December 31, 2007, this present value is €0.00.

The assumptions used in measuring the pension obligations, in particular the discount factors, long-term salary growth rates, and the long-term rates of return on plan assets, are established separately for each country.

In the principal pension plans, the following weighted-average assumptions have been used:

Average valuation factors as of Dec. 31	2007				2006			
in %	Germany	USA/C	UK	Other	Germany	USA	UK	Other
Discount rate	5.60	5.73	5.90	6.05	4.40	5.75	5.00	4.82
Expected long-term return on plan assets	4.84	7.71	7.11	5.99	4.94	8.00	6.72	6.19
Long-term rate of compensation increase	3.00	3.43	3.75	3.49	3.00	3.50	3.50	3.50

[1] Excluding the pension contribution funds.

Net pension expenses can be summarized as follows:

in € millions	2007					2006				
	Germany	USA /C	UK	Other	Total	Germany	USA	UK	Other	Total
Current service cost	34.4	2.5	4.3	4.4	**45.6**	28.9	4.0	4.0	3.9	40.6
Interest on defined benefit obligation	63.8	37.4	8.7	4.3	**114.2**	59.6	39.2	7.9	3.8	110.4
Expected return on plan assets	-49.8	-50.0	-10.4	-1.9	**-112.1**	-25.7	-50.9	-9.0	-1.5	-87.1
Amortization of actuarial gains/losses	2.4	1.3	—	-0.4	**3.3**	5.5	0.7	0.4	0.7	7.3
Amortization of past service cost	0.0	0.1	—	0.0	**0.1**	—	0.5	—	0.2	0.7
Curtailments and settlements	0.0	8.0	—	0.0	**8.0**	-0.7	30.2	—	-0.7	28.8
Other pension expenses	—	-6.1	—	0.1	**-6.0**	—	12.1	—	—	12.1
Net period pension cost	**50.8**	**-6.8**	**2.6**	**6.5**	**53.1**	**67.6**	**35.8**	**3.3**	**6.4**	**113.1**

Current year curtailments and settlements are the result in particular of expenses from the closure of the Chatham location in Canada as of July 1, 2008. Curtailments and settlements in 2006 resulted in particular from additional pension entitlements as part of the suspension of tire production at the American plants in Charlotte, North Carolina, and shutdown at Mayfield, Kentucky.

A one percentage point increase or decrease in the discount rate used to discount pension obligations would have had the following impact on the pension obligations at the balance sheet date:

in € millions	Dec. 31, 2007				Dec. 31, 2006			
	Germany[1]	USA/C	UK	Other	Germany[1]	USA	UK	Other
1% increase								
Effects on service and interest costs	-2.1	1.5	-1.2	-0.4	0.5	-1.6	-0.9	-0.1
Effects on benefit obligation	-142.1	-89.4	-33.7	-13.6	-137.2	-68.8	-30.0	-8.3
1% decrease								
Effects on service and interest costs	1.9	-2.7	1.5	0.9	-1.4	2.1	1.0	1.0
Effects on benefit obligation	177.0	106.3	43.9	26.8	170.1	85.8	38.6	14.0

[1] Excluding the pension contribution funds.

Changes in the discount factor as well as the salary and pension trends do not have a linear effect on the defined benefit obligations (DBO), because of the financial models used (particularly due to the compounding of interest rates). For this reason, the net periodic pension cost derived from the DBO does not change as a result of an increase or decrease in the discount rate assumptions by the same amount. Additional service and interest costs incurred are shown with a negative sign.

Pension funds

The structure of the Corporation's plan assets is based on an asset/liability management study that includes the forecasted pension obligations and the corresponding plan assets. Investment committees regularly review the investment decisions taken and the selection of the external fund managers.

The portfolio structures of the pension plan assets at the measurement date for fiscal years 2007 and 2006, as well as the planned portfolio structure for fiscal year 2008, are as follows:

in %	Planned structure 2008				2007				2006			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA/C	UK	Other	Germany[1]	USA	UK	Other
Equity instruments	23	59	65	24	10	57	60	25	12	54	71	34
Debt securities	77	36	35	38	69	39	35	36	88	35	26	33
Real estate	—	4	—	10	1	4	1	10	—	5	1	4
Cash, cash equivalents and other	—	1	—	28	20	0	4	29	—	6	2	29
	100	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

[1] The portfolio structure of the fund assets in Germany excludes the pension contribution funds, whose assets are invested mainly in fixed-income securities.

The expected long-term return on plan assets of the individual asset types for 2007 and 2006 was as follows:

in %	2007				2006			
Type of asset	Germany[1]	USA/C	UK	Other	Germany[1]	USA	UK	Other
Equity instruments	7.10	9.10	8.16	7.45	7.10	9.50	7.50	7.40
Debt securities	3.98	5.79	5.38	6.42	4.15	6.00	5.00	6.29
Real estate	—	6.00	7.25	5.02	—	6.00	6.50	6.66
Cash, cash equivalents and other	—	6.00	4.76	4.58	—	6.00	4.00	5.04
	4.84	**7.71**	**7.11**	**5.99**	**4.94**	**8.00**	**6.72**	**6.19**

[1] The expected long-term return on the individual asset types relating to fund assets in Germany excludes the expected returns of the pension contribution funds, whose returns range from 4.00% to 4.50%, for long-term debt securities.

The reference date for plan asset measurement is December 31.

Pension funds
Contributions by the employer

The following table shows the cash contributions made by the Company to the pension funds in 2007 and 2006:

in € millions	2007					2006				
	Germany	USA/C	UK	Other	Total	Germany	USA	UK	Other	Total
Planned contributions	1.0	0.0	6.0	3.3	**10.3**	1.7	0.2	4.3	2.5	**8.7**
Special contributions	—	20.1	—	—	**20.1**	630.0	—	—	—	**630.0**

The expected contributions to the pension funds for 2008 are:

in € millions	2008 (expected)				
	Germany	USA/C	UK	Other	Total
Planned contributions	—	5.0	3.2	3.3	**11.5**

The following overview contains the pension benefit payments made in 2006 and the previous year, as well as the undiscounted, expected pension benefit payments for the next five years:

in € millions	Germany	USA/C	UK	Other	Total
Benefits paid					
2006	77.0	46.6	4.3	7.6	**135.5**
2007	76.8	43.4	5.3	7.1	**132.6**
Benefit payments as expected					
2008	90.6	57.7	4.4	7.2	**159.9**
2009	102.7	58.1	5.1	4.8	**170.7**
2010	97.7	59.1	5.5	6.2	**168.5**
2011	102.9	60.0	6.5	6.6	**176.0**
2012	102.6	57.2	7.5	7.0	**174.3**
Total of years 2013 -2017	513.9	310.6	49.6	37.0	**911.1**

The expected pension payments from 2008 onwards relate to lump-sum amounts in connection with fixed service cost benefit plans, as well as annual pension benefits. For the purposes of estimating the future payments, in those cases where employees have an option to immediately receive their benefits in cash on retirement or to opt for monthly pension payments, it has been assumed that in all cases the lump-sum will be chosen. Furthermore, the earliest eligible date for retirement has been assumed when determining future pension payments. The actual retirement date could occur later. Therefore the actual payments in future years for present plan members could be lower than the amounts assumed.

The amounts for the current and four previous periods are as follows:

	2007	2006	2005	2004	2003
Defined benefit obligation	2,889.0	2,418.8	2,489.9	1,814.5	1,616.2
Plan assets	2,551.6	1,907.1	1,326.7	696.8	650.6
Surplus/deficit	-337.4	-511.7	-1,163.2	-1,117.7	-965.6
Experience adjustments to plan liabilities	-216.1	-31.3	215.9	107.8	93.5
Experience adjustments to plan assets	-28.9	18.4	12.3	2.6	71.5

Other post-employment benefits

Certain subsidiaries – primarily in the United States and Canada – grant eligible employees healthcare and life insurance on retirement if they have fulfilled certain conditions relating to age and years of service. The amount and entitlement can be altered. Certain retirement benefits, in particular for pensions and healthcare costs, are provided in the U.S.A. for hourly-paid workers at unionized plants under the terms of collective pay agreements.

in € millions	2007	2006
Change in defined benefit obligation		
Defined benefit obligation at January 1	188.3	327.3
Foreign currency translation	-16.1	-28.3
Current service cost	1.7	2.5
Interest cost on defined benefit obligation	10.3	17.7
Actuarial gains from changes in assumptions	-6.8	-15.3
Actuarial losses from experience adjustments	14.4	63.1
Vested prior plan amendments	—	-112.6
Unvested prior plan amendments	—	-24.8
Curtailments/settlements	-42.0	-5.1
Changes in the scope of consolidation	72.0	-7.2
Other changes	3.7	—
Benefit payments	-16.7	-29.0
Defined benefit obligation at December 31	**208.8**	**188.3**
Unrecognized actuarial losses	-36.3	-34.6
Unrecognized income from plan amendments	19.3	25.1
Amount recognized on December 31	**191.8**	**178.8**

No separate plan assets have been set up for these obligations.

The increase in the defined benefit obligation is the result in particular of the acquisition of VDO, and is partially offset by curtailments in the U.S.

At the end of 2006, all hourly workers at the U.S. tire operations and retirees were notified that their maximum amount of medical coverage would be reduced further starting at the beginning of 2007. As a result of this amendment, these beneficiaries now have a standardized level of medical coverage. These plan amendments resulted in a release of provisions in 2006 for post-employment obligations of €108.8 million. Certain affected individuals filed a class-action lawsuit contesting the reduction of medical benefits at the end of 2006. An agreement is currently pending subject to U.S. Court approval, according to which the Company must make a one-time payment totaling €43.5 million as compensation. Most of the payment will be made in the following year, with payment of the remaining €14.3 million in the next seven years. The provision in the amount of €43.5 million, adjusted for the effects of currency translation, is reported under provisions for obligations similar to pensions within the pension obligations.

In addition, the medical benefits for employees, including retired former employees, will be limited in 2007. These plan adjustments resulted in a gain of €42.0 million. According to legal estimates, no approval by affected employees or retirees is required for this adjustment.

The assumptions used for the discount rate and cost increases to calculate the healthcare and life insurance benefits vary according to conditions in the U.S.A. The following weighted average assumptions were used:

Average valuation factors as of December 31 in %	2007	2006
Discount rate	5.78	5.75
Rate of increase in healthcare and life insurance benefits in the following year	9.72	10.00
Long-term rate of increase in healthcare and life insurance benefits	4.93	5.00

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

in € millions	2007	2006
Current service cost	1.7	2.5
Interest cost on defined benefit obligation	10.3	17.7
Amortization of actuarial losses	2.4	0.5
Amortization of vested prior plan amendments	-3.5	-112.6
Amortization amounts for unvested plan amendments	—	-2.9
Curtailments/settlements	-42.0	-5.1
Other costs	3.3	—
Net gain	**-27.8**	**-99.9**

The gains from curtailments and settlements are the result of plan adjustments owing to the reduction of the upper limit of medical benefits for employees in the U.S.A. The amortization amounts from plan changes in the previous year were also recognized as a result of the announcement of further reductions in medical benefits for hourly workers.

In addition, gains of €5.1 million in 2007 arose mainly from the restructuring of the U.S. tire plants.

The following table shows the effects of a 1% increase or decrease in the cost trend for healthcare and life insurance obligations:

in € millions	2007	2006
1% increase		
Effects on net cost	0.2	4.1
Effects on benefit obligation	2.9	3.3
1% decrease		
Effects on net cost	-0.2	-4.6
Effects on benefit obligation	-2.5	-7.1

A one percentage-point increase or decrease in the discount rate specified above for calculating the net cost of healthcare and life insurance benefit obligations would have had the following effect on net cost:

in € millions	2007	2006
1% increase		
Effects on service and interest costs	0.4	0.2
Effects on benefit obligation	-22.7	-19.8
1% decrease		
Effects on service and interest costs	-0.2	-0.4
Effects on benefit obligation	25.2	22.1

The following shows the payments made for other post-employment benefits in 2007 and the previous year, as well as the undiscounted expected benefit payments for the next five years:

Benefits paid in € millions	
2006	29.0
2007	16.7
Benefit payments as expected	
2008	13.5
2009	13.6
2010	13.7
2011	13.7
2012	13.7
2013 -2017	68.9

The amounts for the current and four preceding periods are as follows:

in € millions	2007	2006	2005	2004	2003
Defined benefit obligation	208.8	188.3	327.3	436.3	427.3
Deficit	-208.8	-188.3	-327.3	-436.3	-427.3
Experience adjustments to plan liabilities	-7.6	47.8	-25.5	27.8	-8.9

Provisions for obligations similar to pensions

Some companies of the Corporation have made commitments to employees for a fixed percentage of the employees' compensation. These entitlements are paid out when the employment relationship is terminated. In fiscal year 2007, the expenses for these obligations were €1.0 million (2006: €3.2 million).

The provision for obligations similar to pensions increased in particular as a result of the agreement reached with the U.S. union to make a single payment of €43.5 million; additional expenses in 2007 amounted to €49.9 million. Additionally, the provision increased as a result of the addition of Siemens VDO.

Defined contribution pension plans

Excluding social security contributions, the expenses for the defined contribution pension plans to which Continental AG contributes amounted to €25.3 million in 2007 (2006: €28.9 million).

24. Provisions for other risks

in € millions	December 31, 2007		December 31, 2006	
	Current	Non-current	Current	Non-current
Restructuring provisions	151.8	—	132.4	—
Litigation and environmental risks	—	164.1	—	162.9
Flexible early retirement contracts	—	117.5	—	108.5
Anniversary and other long-service benefits	—	74.3	—	36.2
Warranties	471.6	—	288.3	—
Other provisions	219.2	110.1	113.0	25.6
Provisions for other risks	**842.6**	**466.0**	**533.7**	**333.2**

The provisions changed during the year as follows:

in € millions	Restructuring provisions	Litigation and environmental risks	Flexible early retirement contracts	Anniversary and other long-service benefits	Warranties	Other provisions
At January 1, 2007	**132.4**	**162.9**	**108.5**	**36.2**	**288.3**	**138.6**
Additions	28.6	67.2	25.6	10.4	62.5	69.2
Utilization	-27.0	-58.4	-48.0	-1.9	-69.3	-61.9
Net changes in the scope of consolidation	30.6	4.6	41.6	35.6	230.8	211.7
Reclassification to liabilities held for sale	-3.3	0.0	-0.9	-0.3	-2.0	-1.6
Reversals	-4.9	-9.0	-5.0	-0.1	-31.6	-21.9
Interest	0.9	7.1	-4.3	-5.7	—	1.5
Foreign currency translation	-5.5	-10.3	—	0.1	-7.1	-6.3
At December 31, 2007	**151.8**	**164.1**	**117.5**	**74.3**	**471.6**	**329.3**

The additions to the restructuring provisions are related in particular to the restructuring costs incurred during the course of the continuing integration of Motorola's automotive electronics business, the relocation of the electric drives unit from Haldensleben to Berlin, the restructuring costs incurred during the sale of the furniture lamination unit of the Benecke-Kaliko business unit, and expenses related to the announcement of the discontinuation of production at Chatham, Canada.

The utilization primarily relates to the implementation of restructuring measures decided in previous years – in particular at the locations Ebbw Vale, UK, Hanover-Stöcken, and Hamburg-Harburg.

As in the previous year, the increases and utilization of the provisions for litigation and environmental risks related in particular to product liability risks from the tire activities in the U.S.A.

Provisions for the flexible early retirement contracts, as well as anniversary and other long-service benefits, were measured using a discount rate of 5.60% (2006: 4.20%). In accordance with the option under IAS 19, the interest component was not separately shown in net interest expense, but included in compensation costs as part of the cost categories as classified in the income statement; it includes the effect of the change in the interest rate of 1.4 percentage points.

The changes in provisions for warranties include utilization amounting to €69.3 million (2006: €69.7 million), and additions of €62.5 million (2006: €68.6 million), in particular for specific provisions in the automotive divisions.

The changes in the scope of consolidation are related in particular to the first consolidation of Siemens VDO. These include provisions for onerous contracts identified in the course of purchase price allocation totaling €70.2 million.

The reclassifications to liabilities held for sale are related to the sale of minor activities.

The remaining provisions include mainly provisions for risks from operations.

25. Income Tax Liabilities

Tax liabilities changed as follows:

in € millions	2007	2006
At January 1	**381.6**	**340.8**
Additions	545.6	497.0
Utilization and advance payments for the current fiscal year	-444.8	-452.5
Additions from the first consolidation of subsidiaries	72.2	0.5
Reversals	-18.6	-1.8
Foreign currency translation	-3.3	-2.4
At December 31	**532.7**	**381.6**

The changes in the scope of consolidation mainly include deferred income tax liabilities from the acquisition of Siemens VDO.

In addition to the utilization and advance payments for the current fiscal year, the changes in income tax receivables are also included in income taxes paid in the cash flow statement.

The increase in income tax liabilities from €29.1 million in 2006 to €257.9 million is the result in particular of the effects of the retrospective merger of Siemens VDO Automotive AG with Continental Automotive GmbH.

26. Indebtedness

in € millions	December 31, 2007			December 31, 2006		
	With a term of			With a term of		
	Total	up to 1 year	more than 1 year	Total	up to 1 year	more than 1 year
Bonds	856.5	446.1	410.4	852.4	—	852.4
Bank loans and overdrafts[1]	11,397.7	2,044.9	9,352.8	771.9	603.5	168.4
Derivative financial instruments	6.6	5.9	0.7	0.6	0.4	0.2
Financial lease liabilities	132.0	23.8	108.2	63.1	2.7	60.4
Liabilities on bills drawn and payable	4.2	4.2	—	0.4	0.4	—
Liabilities from asset-backed securitization programs	279.2	279.2	—	22.8	22.8	—
Liabilities from binding redemption offer to ContiTech AG shareholders[2]	—	—	—	57.1	57.1	—
Other indebtedness[3]	450.6	450.1	0.5	16.9	16.2	0.7
	13,126.8	**3,254.2**	**9,872.6**	**1,785.2**	**703.1**	**1,082.1**

[1] Thereof €4.6 million (2006: €9.9 million) secured by land charges, mortgages, and similar securities.
[2] Retrospective merger of Phoenix AG with ContiTech AG effective January 1, 2006; offsetting of the liability with the money market funds held as collateral.
[3] Other indebtedness includes €437.9 million (2006: €10.0 million) drawn down from the Commercial Paper Program.

Summary of bonds

Issuer/type	Issuing amount in € millions	Book value on Dec. 31, 2007	Coupon p.a.	Effective interest rate	Date of issue/ maturity and interest terms fixed until	Issue price
CRoA DIP Private placement[1]	70.0	70.0	4.8%[2]	5.66%	2006/July 2009	99.97%
CRoA MTN and DIP Private placements[3]	76.9	76.9	4.85% -6.50%[2]	5.4% -6.67%	2001-2006/2008	100.00%
CAG Eurobond[4]	369.2	369.2	6.88%	6.87%	2001/Dec. 2008	99.46%
CGF Convertible bond	377.1	340.4	1.63%	4.84%	2004/May 2011	100.00%
		856.5				

[1] DIP = debt issuance program
[2] Variable interest rate agreement
[3] MTN = medium-term note program
[4] Represents the amount outstanding of the original €500.0 million issue

On April 24, 2007, the dividend increase proposed for fiscal year 2006 changed the conversion ratio of the convertible bond issued by Conti-Gummi Finance B.V. in May 2004 and guaranteed by Continental AG, in accordance with the terms of the bond. The conversion ratio of 1,998.1198 shares for each €100,000 nominal value of the bond corresponds to a conversion price per share of €50.05 (previously €50.65). In March 2007, after the Annual Shareholders' Meeting, the bondholders exercised their conversion rights and converted bonds with a principal amount of €0.8 million; this reduced the original issue amount from €400.0 million to €377.1 million. The remaining value of the preferential coupon rate related to the bond is €36.7 million (2006: €46.6 million).

The conversion led to the creation of 15,794 shares of Continental AG. Claims arising from remaining fractions of shares were settled in cash. The convertible bond changed as follows in the year under review:

in € millions	2007
Nominal value of the convertible bond	377.9
Carrying amount of the equity component	-46.6
At January 1	**331.3**
Conversions at nominal value of €0.8 million less pro-rata share of the previously recognized option value	-0.7
Interest expense	9.8
At December 31	**340.4**

A €500 million eurobond was issued by Continental AG in 2001 under the €1.5 billion medium-term note program. This bond contains a covenant to increase the interest rate by 1.75% p.a. in the event and for the time that Continental AG no longer has a rating from two rating agencies or the rating for its non-subordinated unsecured liabilities drops to BB+ or lower (or Ba1 or lower).

Market values of bonds

in € millions	Book value on Dec. 31, 2007	Market value on Dec. 31, 2007	Change in market value if interest rate increased by 1%	Change in market value if interest rate decreased by 1%	Book value on Dec. 31, 2006	Market value on Dec. 31, 2006
CRoA MTN and DIP Private placements	146.9	147.1	-2.8	2.5	152.3	151.0
CAG Eurobond	369.2	381.0	-6.9	7.1	368.8	386.0
CGF Convertible bond	340.4	375.4	-15.5	16.3	331.3	379.7
	856.5	**903.5**	**-25.2**	**25.9**	**852.4**	**916.7**

The fair values of the Company's financial liabilities as of December 31, 2007 and 2006 were determined by discounting all future cash flows at the applicable interest rates for comparable instruments with the same remaining maturities. Although the convertible bond has a stock exchange listing, its fair value was also calculated through discounted cash flows in order to only measure the debt component of the convertible bond, i.e., without the value of the option. For all other primary financial instruments, the carrying amount is equivalent to the fair value.

Explanation of company names

CAG, Continental Aktiengesellschaft

CGF, Conti Gummi Finance B.V., Amsterdam, the Netherlands

Conti Benelux, Continental Benelux S.A., Zaventem, Belgium

Conti Brazil, Continental do Brasil Produtos Automotivos Ltda., Varzea Paulista, Brazil

Conti Mabor, Continental Mabor Indústria de Pneus S.A., Lousado, Portugal

Continental Automotive GmbH, Hanover, Germany

CRoA, Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.

CTSA, Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa

Conti Teves, Continental Teves Hungária Kft., Veszprém, Hungary

Siemens VDO Mechatronic GmbH & Co. KG, Stollberg, Germany

Breakdown of credit lines and available financing from banks

Company	Type	Amount of issue in € millions	Book value on Dec. 31, 2007 in € millions	Market value on Dec. 31, 2007 in € millions	Interest	Effective interest rate	Maturity
CAG, Conti Automotive, CRoA, CGF, Conti Benelux	Syndicated euroloan	12,020.2	740.0[1] 1,016.5 3,486.2 4,979.9	740.3 1,017.3 3,510.9 5,029.7	floating,Euribor + margin	5.42% 5.32% 5.37% 5.42%	2008[1] 2008[2] 2010 2012
SV Mechatronic GmbH & Co. KG	Long-term bank loan	40.0	40.0	39.8	3.31%	3.51%	2008
SV Mechatronic GmbH & Co. KG	Long-term bank loan	15.0	15.0	14.2	3.76%	3.96%	2011
CTSA	Long-term bank loan	12.7	12.7	12.7	floating, Jibar + margin	12.15%	annual repayment until 2011
CRoA	Long-term bank loan	34.0	34.0	35.5	5.53%	5.63%	2011
Conti Mabor	Long-term bank loan	22.9	22.9	22.9	floating, Euribor + margin	4.47%	2011
Conti Brazil	Long-term bank loan	40.4	40.4	32.6	8.21%	8.21%	2012
SV Mechatronic GmbH	Long-term bank loan	20.0	20.0	19.3	4.38%	4.58%	2012
Conti Teves	Long-term bank loan	47.6	47.6	47.6	5.82%	4.22%	2012
CAG	Long-term bank loan	600.0	300.0 300.0	293.2 291.9	4.67% 4.59%	4.67% 4.59%	2012 2012
Conti Brazil	Long-term bank loan	19.1	19.1	17.3	3.44%	3.44%	2013
Conti Brazil	Long-term bank loan	17.0	17.0	16.7	4.78%	4.78%	2013
Various bank lines		710.0	306.4	floating	floating	mainly < 1 year	
Credit lines and available financing from banks		**13,598.9**					
Liabilities to banks			**11,397.7**				

[1] The credit line permits an extension of any drawdown until 2012.

[2] The credit line includes an extension option until 2009.

On December 31, 2007, approved credit lines amounting to €2,201.2 million (2006: €2,361.3 million) had not been drawn down, of which €1,797.6 million (2006: €1,700.0 million) were long-term credit commitments. The loan granted by the European Investment Bank (EIB), Luxembourg, was fully drawn down in 2007.

In the year under review, the Continental Corporation utilized its commercial paper program, its asset-backed securitization programs, and its various bank lines to meet short-term credit requirements. In July 2007, two banks made a commitment to Continental AG to provide €13.5 billion to refinance the acquisition of Siemens VDO. The loan was successfully syndicated in September and October, 2007. The financing involved a total of 39 banks. To facilitate the timely repayment of debt, Continental AG placed 14.65 million new shares with institutional investors at the end of October, 2007 as part of a capital increase at a price of €101.00 per share. Thus, the loan of €13.5 billion was reduced already in December, 2007, by the amount received of just under €1.48 billion. The committed amount was accordingly reduced to €12.02 billion; €10.22 billion was drawn down on December 31, 2007.

The indebtedness of €13,126.8 million will mature in the next five years and thereafter as follows:

December 31, 2007	2008	2009	2010	2011	2012	Thereafter	Total
Total indebtedness	3,254.2[1]	225.0	3,547.4	424.1	5,598.5	77.6	13,126.8
Interest rate swaps contained therein	0.1	—	—	—	—	—	0.1

[1] Includes a drawdown payable in 2008 from a credit line valid until 2012 with a fair value of €740.3 million. Includes a drawdown payable in 2008 with a fair value of €1,017.3 million, which can be extended for one year.

December 31, 2006	2007	2008	2009	2010	2011	Thereafter	Total
Total indebtedness	703.1	469.9	92.8	20.7	431.6	67.1	1,785.2
Interest rate swaps contained therein	—	0.2	—	—	—	—	0.2

The future payment obligations resulting from financial leases are shown in the following table:

in € millions	2008	2009 to 2012	From 2013	Total
Minimum lease payments	30.7	67.0	86.0	183.7
Interest component	6.9	19.7	25.1	51.7
Financial lease liabilities	**23.8**	**47.3**	**60.9**	**132.0**

The fair value of the financial lease liabilities is €141.2 million (2006: €72.7 million). The effective interest rate of the leasing contracts lies between 5.5% and 8.4% (2006: between 6.0% and 8.3%).

27. Financial Instruments

The carrying amounts and fair values of financial assets and liabilities belonging to the various measurement categories, classified by balance sheet category, are as follows:

in € millions	Measurement category in acc. with IAS 39	Carrying amount	Fair value	Carrying amount	Fair value
		Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2006
Other investments	AfS	23.8	23.8	15.4	15.4
Derivative instruments and interest bearing investments					
Derivative instruments accounted for as hedging instruments	n.a.	8.0	8.0	1.7	1.7
Derivative instruments not accounted for as hedging instruments	HfT	19.8	19.8	32.0	32.0
Financial assets available for sale	AfS	9.8	9.8	10.7	10.7
Other receivables with a financing character	LaR	143.2	143.2	56.4	56.4
Trade accounts receivable	LaR	3,943.6	3,943.6	2,340.3	2,340.3
Other financial assets	LaR	238.3	238.3	162.6	162.6
Cash and cash equivalents[1]					
Cash and cash equivalents	LaR	2,087.9	2,087.9	512.0	512.0
Financial assets held for trading	HfT	1.7	1.7	2.1	2.1
Financial assets		**6,476.1**	**6,476.1**	**3,133.2**	**3,133.2**
Indebtedness					
Derivative instruments accounted for as hedging instruments	n.a.	0.1	0.1	0.2	0.2
Derivative instruments not accounted for as hedging instruments	HfT	6.5	6.5	0.4	0.4
Liabilities from financial leases	n.a.	132.0	141.2	63.1	72.7
Other indebtedness	FLAC	12,988.2	13,035.2	1,721.5	1,785.8
Trade accounts payable	FLAC	2,758.9	2,758.9	1,465.9	1,465.9
Other financial liabilities	FLAC	976.4	976.4	565.4	565.4
Financial liabilities		**16,862.1**	**16,920.6**	**3,816.5**	**3,890.4**

[1] The short-term portions (< 3 months) of the derivatives and interest-bearing investments are reported under the relevant items.

Abbreviations
HfT: held for trading
LaR: loans and receivables
AfS: available for sale
FLAC: financial liability at amortized cost

Financial instruments belonging to the available for sale and held for trading categories are measured at their fair value unless this cannot be reliably measured. In the latter case, the financial assets are measured at cost.

Cash and cash equivalents, trade receivables, and other financial assets belonging to the loans and receivables category, as well as trade payables and other financial liabilities, generally have short remaining maturities. As a result, the carrying amounts at the closing date approximate to the fair value.
The fair value of liabilities from financial leases corresponds to the present value of the payments associated with the liabilities based on the applicable yield curve.

The net gains and losses by measurement category were as follows:

in € millions	From interest	From remeasurement			Net gains and losses	
		At fair value	Currency translation	Impairment losses	2007	2006
Loans and receivables	57.5	—	3.6	-14.9	46.2	35.6
Financial assets available for sale	—	—	—	-0.1	-0.1	0.0
Financial assets held for trading and financial liabilities	—	15.8	—	—	15.8	23.9
Financial liabilities at amortized cost	-199.1	—	17.3	—	-181.8	-119.4
Net gains and losses	-141.6	15.8	20.9	-15.0	-119.9	-59.9

Net gains and losses reflect interest income and expense, changes in fair value through profit or loss, impairment losses, and changes in exchange rates.

Interest income from financial instruments is reported in net interest expense (see Note 8).

Gains and losses determined during remeasurement are recognized in the financial result, with the exception of allowances on trade receivables, which are recognized in other income and expense.

Gains and losses on financial assets and liabilities held for trading, that were determined during remeasurement, include both interest rate and exchange rate effects.

The changes in value of the financial assets designated as held for sale that were recognized directly in equity amounted to €1.0 million in 2007 (2006: -€0.5 million).

Collateral

As of December 31, 2007, a total of €97.8 million of financial assets had been pledged as collateral (2006: €0.0 million). Trade receivables pledged under ABS programs are presented separately under Note 18.

Financial assets pledged as collateral – including collateral that can be sold or pledged by the recipient – primarily comprise the money market fund used as collateral for the cash settlement specified for the other shareholders of ContiTech AG, Hanover, a part of a squeeze-out, which has been offset against the corresponding liability.

Hedging policy and financial derivatives

The international nature of its business activities and the resulting financing requirements means that the Corporation is exposed to exchange rate and interest rate fluctuations. Where foreign currency fluctuations are not fully compensated by offsetting delivery and payment flows, exchange rate forecasts are constantly updated to ensure that risks can be hedged as necessary in individual cases using appropriate financial instruments. In the same manner, long- and short-term interest rate movements are continuously monitored and also hedged as necessary. In addition, interest rate and currency derivatives allow debt to be accessed on every available capital market, regardless of the location at which the financing is required.

1. Guidelines and risk management

The use of hedging instruments is covered by corporate-wide guidelines, adherence to which is regularly reviewed by internal audit. As part of interest rate and currency management, maximum notional amounts are defined in order to strictly limit the risk associated with hedges. Further, only derivative financial instruments that can be included and evaluated in the risk management system may be used for hedging purposes. Financial instruments that do not meet these criteria may not be used at all. A detailed description of the risks and of risk management is to be founded in the “Risk Report” section of the Management Report.

a) Currency management

Continental compiles its subsidiaries’ actual and expected foreign currency payments at a global level for currency management purposes. These amounts represent the Corporation’s transaction exposure and are measured as the net cash flow per currency on a rolling 12-month forward basis. The currency committee convenes weekly to review and initiate hedging measures.

These may not exceed 30% of the 12-month exposure without the express permission of the Executive Board.

The Corporation's net foreign investments are generally not hedged against exchange rate fluctuations.

Foreign currency risk

The table below shows the translation-related net foreign currency risk, broken down by the key currencies concerned, as of December 31, 2007 and December 31, 2006. The effects of a 10% appreciation in the value of the euro would impact earnings as follows:

in € millions	Dec. 31, 2007			
	EUR	USD	EUR	USD
Trade accounts receivable	301.7	111.1	125.0	82.8
Net indebtedness	-67.6	-66.1	-75.0	-34.6
Trade accounts payable	-168.2	-137.0	-89.1	-93.6
FX hedging	32.0	97.0	100.0	0.0
Net exposure	97.9	5.0	60.9	-45.4
Change in cash flow following interest rate hedging measures due to 10% appreciation in the value of the euro	7.6	-0.5	6.1	4.5

Effects of translation-related currency risk

A large number of the corporate companies are located outside the euro area. Since Continental AG's reporting currency is the euro, the financial statements of these companies are translated into euros. In order to address translation-related currency effects as part of risk management, it is assumed that investments in foreign companies are generally entered into for the long term and that earnings are reinvested. Translation-related effects arising out of currency fluctuations when the value of net asset items translated into euros changes as a result of currency fluctuations are taken to equity in the consolidated financial statements.

b) Interest rate management

The Corporation's activities to manage the risk arising from variable interest rates are focused on its interest-bearing liabilities. The use of derivative financial instruments serves exclusively to manage identified interest rate risks. The Corporation is not exposed to a risk of fluctuation in the fair value of long-term financial liabilities due to market changes in fixed interest rates, as the lenders do not have the right to demand early repayment in the event of changing rates. If the Corporation has the right to redeem instruments before maturity, such redemption is only considered if this is advantageous from Continental AG's perspective.

Interest rate risk

The profile of the Continental Corporation's interest-bearing financial instruments was as follows at the balance sheet date:

in € millions	2007	2006
Fixed-interest instruments		
Financial assets	115.9	56.4
Financial liabilities	-2,508.9	-1,140.0
Floating-rate instruments		
Financial assets	2,154.5	547.8
Financial liabilities	-10,617.9	-645.2

The Continental Corporation has entered into interest rate derivatives, some of which are classified as effective cash flow hedges. As a result, a change in interest rates as of the balance sheet date would have a direct effect on the income statement (net interest expense) and on equity.

Fair value – sensitivity analysis

An increase in interest rates of 100 basis points would have led to a decline in the income statement of €1.7 million (2006: €0.0 million) and to an increase in equity in the amount of €0.9 million (2006: €1.7 million).

A decrease in interest rates of 100 basis points would have led to an increase in the income statement of €1.8 million (2006: €0.0 million) and a decrease in equity of €0.9 million (2006: €1.8 million).

Cash flow – sensitivity analysis

An increase in interest rates of 100 basis points in 2007 would have reduced net interest income by €4.9 million (2006: increase of €0.2 million).

A decrease in interest rates of 100 basis points in 2007 would have increased net interest income by €4.9 million (previous year: decrease of €0.2 million).

This analysis is based on the assumption that all other variables, and in particular exchange rates, remain unchanged. The same assumption applies to 2006.

c) Counterparty risk

Derivative financial instruments are subject to default risk to the extent that counterparties may not meet their payment obligations either in part or in full. To limit this risk, contracts are only entered into with selected banks, i.e., partners with prime ratings. In addition, internal settlement risks are minimized through the clear segregation of functional areas.

2. Liquidity risks

Liquidity risk is counteracted by a comprehensive short-term and long-term liquidity plan, taking into account existing credit lines. The financing requirements of the operating businesses are covered by equity, participation in cash pooling agreements, or bank and intercompany loans to the related subsidiaries, to the extent that this is appropriate and permitted within the respective legal and tax codes. A variety of financial instruments available on the market are used to meet corporate financing requirements. These include overnight money, term deposits, commercial paper, and bonds, as well as bilateral and syndicated loans. Where events lead to unexpected liquidity requirements, Continental AG can draw upon both existing liquidity and fixed credit lines from banks.

3. Default risk

Credit risk from trade accounts receivable and financial amounts receivable includes the risk that amounts receivable will be collected late or not at all. These risks are analyzed and monitored by central and local credit managers. The responsibilities of our central credit management function include pooled accounts receivable risk management. However, default risk cannot be excluded with absolute certainty, and any remaining risk is addressed by establishing valuation allowances on the basis of experience or charging impairment losses for specific individual risks. Default risk for primary financial amounts receivable is also limited by ensuring that agreements are only entered into with partners who have prime credit ratings or that sufficient collateral is provided. For further information, please see Note 18.

Measurement of derivative financial instruments

Derivative financial instruments are measured at their market value. The market value is determined on the basis of the fair value, which is calculated by discounting the expected cash flows, based on the yield curves.

Derivative financial instruments that met the requirements for hedge accounting were classified as financial assets and liabilities at fair value through profit or loss.

in € millions	December 31, 2007		December 31, 2006	
Market values	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Cash flow hedges (effective)	8.0	-0.1	1.7	0.2
Fair value hedges				
Interest rate options	0.2	—	—	—
Other derivatives				
Interest rate and currency swaps	4.8	—	1.3	—
Interest rate swaps	0.3	-0.7	—	—
Currency forwards	14.5	-5.8	30.7	0.4
Total of market values	**27.8**	**-6.6**	**33.7**	**0.6**
– thereof long-term	9.0	-0.7	20.3	0.2
– thereof short-term	18.7	-5.9	10.9	0.4
– thereof cash or cash equivalents	0.1	—	2.5	—
Nominal values				
Cash flow hedges		82.9		84.4
Interest rate options		10.0		0.0
Interest rate and currency swaps		121.4		30.0
Interest rate swaps		10.0		
Currency forwards		1,336.1		1,309.8
		1,560.4		**1,424.2**

Derivative financial instruments that did not qualify as highly effective hedges were classified as held for trading. In the case of highly effective hedges, Continental applies hedge accounting as set out in IAS 39. For cash flow hedges, changes in the market value of the derivatives are taken directly to other comprehensive income in total equity until the hedged item is recognized in income. The interest and currency derivatives have maturities and conditions corresponding to the underlying transactions.

Continental AG classified one interest rate swap and one cross-currency swap as a cash flow hedge. The cash flow hedges relate to the MTN private placement of $19.0 million and the DIP private placement of €70.0 million. In 2007, marking to market of these financial instruments therefore resulted in an expense of €1.5 million (2006: €0.8 million) that was taken directly to total equity.

The majority of long-term derivative financial instruments mature in 2009, and the derivative financial instruments result in future cash flows in euros, U.S. dollars, Czech koruny, and sterling in particular.

The accumulated other comprehensive income relating to the derivative financial instruments was as follows in the year under review:

in € millions	Jan. 1, 2007	Additions	Reversals	FX [1]	Dec. 31, 2007
Market value	-0.8	-0.7	0.1	-0.1	-1.5
Deferred taxes	0.3	0.2	0.0	0.0	0.5
Other comprehensive income	**-0.5**	**-0.5**	**0.1**	**-0.1**	**-1.0**

[1] Foreign currency translation.

The prospective and retrospective effectiveness of hedges is demonstrated through regular effectiveness testing. The dollar offset method is used to determine retrospective effectiveness. This calculates the ratio of the fair value or changes in cash flow of the hedged underlying to the fair value or changes in cash flow of the hedging transaction. The results of retrospective effectiveness testing fell within a range of 80% to 125%, meaning that the hedges used by the Corporation can be considered highly effective.

In the year under review, no amounts were reclassified from total equity to net income in accordance with IAS 39, as the hedging of an expected transaction did not result in the recognition of either a financial asset or a financial liability.

The Corporation does not hold any embedded derivative instruments requiring separate recognition, such as contractual payment terms in currencies other than the functional or typical trading currency.

28. Other Financial Liabilities

in € millions	Dec. 31, 2007	Dec. 31, 2006
Liabilities to associated companies	16.1	15.4
Interest payable	60.1	13.6
Liabilities for payroll and personnel related costs	388.6	210.3
Liabilities for selling expenses	397.7	293.9
Termination benefits	36.2	14.2
Purchase prices payable on company acquisitions	75.3	16.0
Other liabilities	2.4	2.0
	976.4	**565.4**

Purchase prices payable on company acquisitions in 2007 relate primarily to the long-term purchase price option for the acquisition of the remaining shares in the tire and conveyor belt business of the Matador Group in the amount of €73.5 million. In 2006, these related to the purchase price of the remaining shares in Barum Centrum Prague, which fell due in January 2007.

The increase in liabilities for personnel expenses resulted in particular from the increase in the number of employees from to the acquisition of Siemens VDO.

29. Trade Accounts Payable

The liabilities from trade accounts payable were €2,758.9 million (2006: €1,465.9 million) at the end of 2007.

Trade accounts payable are shown at historical cost. The total amount is due within one year.

The liabilities include €3.1 million (2006: none) from percentage of completion.

30. Other Liabilities

in € millions	December 31, 2007			December 31, 2006		
	Total	**Current**	**Non-current**	**Total**	**Current**	**Non-current**
Liabilities for workers' compensation	**55.5**	39.3	16.2	**51.4**	29.0	22.4
Liabilities for social security	**92.2**	92.2	—	**46.1**	46.1	—
Liabilities for vacation	**148.6**	148.6	—	**60.5**	60.5	—
Liabilities for VAT and other taxes	**196.4**	196.4	—	**95.5**	95.5	—
Deferred income	**37.6**	24.8	12.8	**14.4**	14.4	—
Other liabilities	**191.2**	177.8	13.4	**95.5**	91.1	4.4
	721.5	**679.1**	**42.4**	**363.4**	**336.6**	**26.8**

The increase in other liabilities resulted in particular from the first consolidation of Siemens VDO.

In 2007, the comparative value from 2006 shown for “other liabilities” was adjusted for deferred income.

31. Liabilities Held for Sale

The liabilities held for sale include in particular the sale of the electric motor activities to the Brose Group, as well as other activities. In 2006 there were no liabilities held for sale.

They are composed of the following items:

in € millions	December 31, 2007
Indebtedness	0.0
Provisions	33.0
Trade accounts payable	143.3
Other liabilities	66.5
Liabilities held for sale	**242.8**

Note 20 includes an overview of the liabilities held for sale, as well as other information.

Other Disclosures

32. Litigation and Compensation Claims

Various lawsuits, official investigations, administrative proceedings, and other claims against companies of the Corporation are pending, or may be initiated or asserted in the future. In Continental's opinion, these pending claims are proceedings that are related to the Corporation's normal business, with the exception of the disputes described.

The pending claims include lawsuits in the U.S.A. for property loss, personal injury, and death allegedly caused by faults in our products. Claims for material and immaterial damages, and in some cases punitive damages, are being asserted. The outcome of individual proceedings, which are generally decided by a layperson jury in a court of first instance, cannot be predicted with certainty. No assurance can be given that Continental will not incur substantial expenses as a result of the final judgments or settlements in some of these cases, or that these amounts will not exceed any provisions set up for these claims. Some subsidiaries in the U.S.A. are exposed to relatively limited claims for damages from purported health injuries allegedly caused by products containing asbestos. In addition, class-action lawsuits against subsidiaries for allegedly faulty tires have been filed at the Federal District Court in Philadelphia, Pennsylvania, U.S.A., and at a court in the state of New Jersey, U.S.A. We believe these actions to be neither admissible nor justified.

In connection with the shutdown of tire production at the Herstal facility belonging to Continental Benelux S.A., a large number of former employees had brought actions against this company and its Board of Directors before the Commercial and Labor Courts in Liege, Belgium. They were seeking material and immaterial damages, claiming that the company violated company law, labor law, and co-determination law. The Liège Commercial Court dismissed the claims. After the Liège Labor Court partially recognized some of the claims, the compensation payable by the Company was reduced again on appeal. Further appeals can be lodged against these rulings, but are not expected. Additional claims from employee representatives were completely rejected by the appellate court in parallel proceedings. In response, the plaintiffs have lodged an appeal to reverse that ruling.

Shareholders of Phoenix AG have brought actions against the resolutions adopted at the Special Shareholders' Meeting of the company held on December 28, 2004 for approval of a management and profit and loss pooling agreement and the merger agreement with ContiTech AG. The Ordinary Shareholders' Meeting of Phoenix AG on May 19, 2005 confirmed the resolutions that had been adopted on December 28, 2004. Actions have also been brought by shareholders against these confirmations of the resolutions. On December 7, 2005, the Hamburg Regional Court dismissed all claims against the confirmatory resolutions in the first instance. The Hanseatic Higher Regional Court confirmed the dismissal of the claims on February 1, 2008, and the right to appeal was denied. In addition to rescission proceedings, proceedings regarding the appropriateness of settlements and compensatory under the management and profit and loss pooling agreement and the exchange ratio established in the merger agreement are pending.

On August 22, 2007, the Annual Shareholders' Meeting of ContiTech AG approved the conclusion of a management and profit and loss pooling agreement between ContiTech AG as controlled company and ContiTech-Universe Verwaltungs-GmbH as the controlling company effective January 1, 2008 (additional remarks under Note 5). Additionally, the Annual Shareholders' Meeting of ContiTech AG resolved to squeeze out minority shareholders. Minority shareholders have filed rescission actions against both resolutions pending at the preparation date of the annual financial statements.

As announced by the Company on June 30, 2006, a shareholder has brought an action for rescission and nullification of the resolution adopted by Continental AG's Annual Shareholders' Meeting on May 5, 2006, under agenda item 9 (partial termination and granting of a new authorization to issue convertible bonds, deletion and cancellation of the existing conditional capital, and creation of new conditional capital). Two other shareholders have joined this action as partners in the dispute. The Hanover Regional Court declared the resolution of the Annual Shareholders' Meeting on February 22, 2007 null and void. This ruling was confirmed by the Higher Regional Court of Celle on November 7, 2007. The Company has lodged an appeal against this. The entry of the resolved conditional capital into the commercial register was finally approved by the Hanover Regional Court upon petition by the Company and was completed on August 17, 2007.

Unionized employees of Continental Tire North America, Inc. (CTNA) filed a class-action lawsuit against the company at the end of 2006, with the aim of reversing an amendment to its coverage of healthcare costs for retirees. The responsible court of first instance ruled in favor of the plaintiffs in an interim decision, ruling that the changes in the benefits plan should not have been unilaterally implemented in their entirety. CTNA has lodged an appeal against this decision. Additionally, the parties have now negotiated the essential substance of an amiable solution on the basis of a suggestion by the CTNA. This provides for the one-time endowment of a special benefits fund, without modifying the plan changes implemented so far. It can be presumed that subject to U.S. Court approval termination of the legal dispute will follow soon.

In connection with the acquisition of Motorola's automotive electronics business, Continental AG has initiated arbitration proceedings before an arbitration panel in New York, U.S.A., in accordance with the rules of the American Arbitration Association. The claim amounts to $54.3 million. In dispute is the failure to transfer the minimum amount of net current assets negotiated in the purchase agreement.

On May 2, 2007, Continental became aware of the fact that the antitrust authorities of the European Union, the U.S.A., and the UK have initiated investigations into alleged antitrust behavior – in particular price-fixing agreements by employees of Dunlop Oil & Marine Ltd., UK, a subsidiary of ContiTech AG, in the area of so-called offshore hoses. In the meantime, authorities in Australia, Brazil, Japan, and Korea have begun parallel investigations, all of which are still ongoing. In December, 2007, two employees of Dunlop Oil & Marine Ltd., who have since left the company, admitted before a U.S. court their participation in a price-fixing agreement, among other things, regarding offshore hoses in the U.S.A., and accepted fines and prison sentences. It cannot be ruled out that further penalties and fines will be imposed, and claims for damages asserted. Civil class-action suits for compensation for damages have been initiated in the U.S.A. The amount of the financial burden cannot be estimated on the basis of existing information.

The outcome of the pending cases or potential cases brought against subsidiaries in the future may, individually or as a whole, have a material effect on Continental's results. However, in view of the existing provisions, the obligations that may potentially result from such pending cases will not, in our opinion, have a material effect on the Corporation's net assets.

33. Non-Recognized Contingent Liabilities and Other Obligations

in € millions	Dec. 31, 2007	Dec. 31, 2006
Liabilities on bills of exchange	25.9	28.2
Liabilities on guarantees	22.5	21.1
Liabilities on warranties	12.6	4.0
Other contingent liabilities	22.6	32.5
	83.5	**85.8**

The non-recognized contingent liabilities relate primarily to guarantees for the liabilities of unconsolidated affiliated companies and third parties, as well as to contractual warranties relating to associated companies.

Continental AG may be subject to obligations relating to environmental issues under governmental laws and regulations, or as a result of various claims and proceedings that are pending or that 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 laws and regulations, the development and application of new technologies, and the identification of contaminated land or buildings for which Continental is legally liable.

Continental AG conducts recall and voluntary exchange actions for products it has sold, as prescribed by law or deemed necessary and appropriate in order to ensure customer satisfaction and compliance with its own safety standards. The Corporation's warranty provisions also include the estimated expenses as necessary for such measures. Estimates of expected expenses are based primarily on previous experience. Estimates of expected expenses are inevitably 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, which could lead to the need to adjust the previously recognized provisions. No assurance can be given that the actual expenses will not exceed existing provisions by presently undeterminable amounts. However, although the potential expenses could have a material effect on Continental AG's results, the probable amounts have been adequately provided for and therefore, in our opinion, the settlement of these obligations will not have a material effect on the Corporation's overall net assets.

In 2007, expenses for operating leases and rental agreements amounted to €100.7 million (2006: €110.4 million).

Future liabilities relating to these agreements with an original or remaining term of more than one year as of December 31, 2007 for which the Corporation is not the beneficial owner, and for which the related assets are therefore not recognized as property, plant, and equipment, are shown below for 2008 and cumulatively for the years 2009 through 2013, and cumulatively from 2013.

Operating leases and rental agreements in € millions	2008	2009 - 2013	From 2013
	138.2	295.2	146.6

Open purchase commitments for property, plant, and equipment amounted to €288.0 million (2006: €134.1 million).

34. Segment Reporting

Notes to segment reporting
In accordance with IAS 14, segment reporting is based on a risk and reward approach that reflects the internal organizational and management structure and the system of internal reporting to the Executive Board and the Supervisory Board. The operating divisions are the Corporation's primary format for reporting segment information, with geographical segments being the secondary format.

During the course of the acquisition of Siemens VDO, the Corporation's previous organizational structure was changed. The former Automotive Systems division was dissolved and brought together with the activities of Siemens VDO in the three new divisions, Chassis & Safety, Powertrain, and Interior.

The Continental Corporation's activities are carried out by the divisions as follows:

Chassis & Safety
The core of the new Chassis & Safety division is a large portion of the business of the former Automotive Systems division. This new division combines the active and passive safety activities and driver assistance systems of both companies.

Powertrain
The new Powertrain division stands for innovative and efficient systems solutions covering all aspects of powertrains. The former business areas of the Continental Corporation and Siemens VDO were united to form this division.

Interior
The focus of the new Interior division is information management between the vehicle, driver, and passengers, between vehicles, and between the vehicle and the environment. This division was formed from complementary operating units at the Continental Corporation and Siemens VDO.

Passenger and Light Truck Tires
The Passenger and Light Truck Tires division develops, manufactures, and sells tires for compact, medium-size, and full-size passenger cars, and light trucks, in addition to extended mobility systems. Motorcycle and bicycle tires are also included in this division, as well as Continental's own retail tire companies.

Commercial Vehicle Tires
The Commercial Vehicle Tires division offers truck, bus, industrial, and off-the-road tires for the most diverse service areas and application requirements.

ContiTech
The ContiTech division is the world's largest manufacturer in the field of rubber and plastics technology outside of the tire industry. The division develops and produces functional parts, components, and systems for the automotive industry and for other key sectors, such as the rail and printing industries, as well as mining, and machinery and equipment construction.

Other/consolidation
This comprises centrally managed subsidiaries and affiliates, such as holding, financing, and insurance companies, as well as the holding function of Continental AG and certain effects of consolidation. It also contains the effects on earnings of uncertain risks, particularly those in connection with contractual and similar claims or obligations representing, among other things, risks from investments currently not assignable to the individual operating units.

Internal control and reporting within the Continental Corporation is based on International Financial Reporting Standards (IFRSs) as described in Note 2. The Corporation measures the performance of its segments on the basis of their operating result (EBIT). This is expressed as the return on sales (ROS), and as the return on capital employed (ROCE), which represents EBIT as a percentage of operating assets. Intersegment sales and other proceeds are determined at arm's length prices.

For administrative services performed by centrally operated companies or by the Corporation's management, costs are calculated on an arm's length basis as rendered. Where direct allocation is possible, costs are assigned according to the services performed.

The segment assets of the divisions comprise the operating assets before the deduction of trade accounts payable.

Segment liabilities consist of the trade accounts payable as well as other liabilities and provisions relating to goods and services, but excluding tax liabilities.

Non-cash expenses/income mainly includes the changes in pension provisions apart from contributions made to the associated funds, as well as the share of profit or loss of associates and gains and losses from disposals of property, plant, and equipment, and intangible assets, as well as businesses. Capital expenditure relates to additions to property, plant, and equipment, and software.

In the segment information broken down by region, sales are allocated on the basis of the domicile of the respective customers; in contrast, capital expenditure and segment assets are allocated on the basis of the domicile of the respective companies.

in € millions	Dec. 31, 2007	Dec. 31, 2006
Total assets	**27,737.6**	**10,853.0**
less financial assets		
– cash and cash equivalents	2,199.4	571.1
– current and non-current derivatives, interest-bearing investments	71.0	33.1
– other financial assets	91.1	63.0
	2,361.5	**667.2**
less income tax receivable		
– deferred tax assets	162.6	141.4
– income tax receivable	257.9	29.1
	420.5	**170.5**
plus discounted bills for trade accounts receivable	20.4	28.2
Segment assets	**24,976.0**	**10,043.5**
less trade accounts payable	2,758.9	1,465.9
Operating assets	**22,217.1**	**8,577.6**
Total liabilities and provisions	20,881.5	6,143.1
less financial liabilities		
– current and non-current indebtedness	13,126.8	1,785.2
– interest payable	136.1	15.5
	13,262.9	**1,800.7**
less income tax liabilities		
– deferred tax liabilities	525.2	189.1
– income tax payable	532.7	381.6
	1,057.9	**570.7**
Segment liabilities	**6,560.7**	**3,771.7**

35. Earnings per share

Earnings per share are calculated as shown below:

in € millions/millions of shares	2007	2006
Net income attributable to the shareholders of the parent	1,020.6	981.9
Weighted average number of shares issued	150.4	146.2
Earnings per share in €	**6.79**	**6.72**
Net income attributable to the shareholders of the parent	1,020.6	981.9
Interest savings on convertible bonds, net of taxes	9.3	9.3
Diluted net income attributable to the shareholders of the parent	**1,029.9**	**991.2**
Weighted average number of shares issued	150.4	146.2
Dilution effect from the potential conversion of options	7.5	7.5
Dilution effect from stock option plans	0.0	0.2
Diluted weighted average number of shares	**157.9**	**153.9**
Diluted earnings per share in €	**6.52**	**6.44**

36. Events After the Balance Sheet Date

As of February 11, 2008, there were no events or developments that could have materially affected the measurement and presentation of individual asset and liability items as of December 31, 2007.

Effective January 1, 2008, the Benecke-Kaliko business unit acquired the automotive interior films unit of Renolit AG at a provisional purchase price of €8.0 million in an asset deal. The associated property, plant, and equipment will be purchased at an additional purchase price of €4.7 million during the course of 2008.

37. Auditors' Fees

For fiscal 2007, a total fee of €8.6 million (2006: €6.4 million) was agreed for the worldwide audit of the consolidated financial statements and the related standalone financial statements of the subsidiaries.

The following fees were recognized as an expense specifically for the auditors of Continental AG elected by the Annual Shareholders' Meeting:

in € millions	2007	2006
Audit of financial statements	3.5	2.8
Other assurance services	0.5	0.1
Tax advisory services	0.0	0.1
Other services provided to the parent company or its subsidiaries	0.4	0.2

These fees only relate to services directly provided to Continental AG and its German subsidiaries. The auditors elected by the Annual Shareholders' Meeting are KPMG Deutsche Treuhand-Gesellschaft AG and its registered offices.

38. Transactions with Related Parties

Remuneration of the Executive Board and the Supervisory Board

The remuneration of the Corporation's key management personnel that must be disclosed in accordance with IAS 24 comprises the remuneration of the active members of the Executive Board and the Supervisory Board.

The remuneration of the active members of the Executive Board was as follows:

in € thousands	2007	2006
Short-term benefits	12,593	12,042
Service cost relating to post-employment benefits	1,720	2,143
Payments on termination of employment contract	—	111
Share-based payment	3,035	2,056

The basic elements of the Executive Board remuneration system and the amounts granted to the Executive Board and the Supervisory Board in the year under review are explained in the Remuneration Report in the Corporate Governance section; reference is made to this in the Management Report.

In 2007, no advances or loans were granted to members of Continental AG's Executive Board or Supervisory Board.

Former members of the Executive Board and their surviving dependents received payments totaling €4.4 million in 2007 (2006: €4.5 million). Provisions for pension obligations for former members of the Executive Board and their surviving dependents amounted to €61.7 million (2006: €72.2 million).

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

in € thousands	2007	2006
Short-term benefits	2,485	4,330

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

Moreover, none of the members of the Executive Board or Supervisory Board entered into any reportable transactions with other management personnel holding key positions, or with companies in whose management or supervisory bodies these individuals are represented. This also applies for close members of the families of such individuals.

Transactions with related parties, other than subsidiaries:

in € millions	2007	2006
Income	40.6	12.3
Expenses	43.3	17.5

Income and expenses from transactions between subsidiaries and related parties are attributable solely to the ordinary business activities of the respective company and were conducted on an arm's length basis. They are essentially the result of relationships with associates. The corresponding amounts receivable from or payable to these companies are reported in the balance sheet.

A declaration of suretyship in the amount of €0.2 million (2006: none) was issued for a foreign related party.

Notice in accordance with the *Wertpapierhandelsgesetz* (WpHG - German Securities Trading Act)
Under section 160 (1) no. 8 of the *Aktiengesetz* (German Stock Corporation Act), we are obliged to reproduce the exact content of the disclosures we received during the fiscal year in accordance with section 21 (1) or (1 a) of the WpHG. Individuals whose voting rights in Continental AG reach, exceed, or fall below 3%, 5%, 10%, 25%, 50%, or 75% directly or indirectly through acquisition, sale, or in any other way must make such disclosures. As of the balance sheet date, we have been made aware that thresholds have been exceeded in the following cases:

In October 2003, The Capital Group Companies Inc., Los Angeles, U.S.A., and its subsidiary, Capital Research & Management Company, Los Angeles, U.S.A., notified us that they exceeded the threshold of 5% of the voting rights in Continental AG on September 25, 2003. The share of voting rights amounts to 5.139%. The voting rights have been assigned to Capital Research & Management Company in accordance with section 22 (1) sentence 1 no. 6 of the WpHG and The Capital Group Companies Inc. in accordance with sections 22 (1) sentence 1 no. 6 in conjunction with (1) sentences 2 and 3 of the WpHG.

On March 26, 2007, AXA Investment Managers Deutschland GmbH, Frankfurt am Main, acting of behalf of AXA S.A., Paris, France, informed us that

- the share of voting stock held by AllianceBernstein L.P., New York, U.S.A., fell below the threshold of 3% of voting rights in Continental AG on March 21, 2007, and was now 2.33%. This voting stock is attributed in accordance with section 22 (1) sentence 1 no. 6 of the WpHG.

- the share of voting rights held by AllianceBernstein Corporation, New York, U.S.A., fell below the threshold of 3% of voting rights in Continental AG on March 21, 2007, and was now 2.33%. This voting stock is attributed in accordance with section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

- the share of voting rights held by Equitable Holdings LLC, New York, U.S.A., fell below the threshold of 3% of voting rights in Continental AG on March 21, 2007, and was now 2.33%. This voting stock is attributed in accordance with section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

- the share of voting rights held by AXA Equitable Life Insurance Company, New York, U.S.A., fell below the threshold of 3% of voting rights in Continental AG on March 21, 2007, and was now 2.33%. This voting stock is attributed in accordance with section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

- the share of voting rights held by AXA Financial Services LLC, New York, U.S.A., fell below the threshold of 3% of voting rights in Continental AG on March 21, 2007, and was now 2.33%. This voting stock is attributed in accordance with section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

- the share of voting rights held by AXA Financial, Inc., New York, U.S.A., fell below the threshold of 3% of voting rights in Continental AG on March 21, 2007, and was now 2.33%. This voting stock is attributed in accordance with section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

- the share of voting rights held by AXA S.A. Paris, France, fell below the threshold of 3% of voting rights in Continental AG on March 21, 2007, and was now 2.52%. This voting stock is attributed in accordance with section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

The Europacific Growth fund, Los Angeles, U.S.A. informed us on November 7, 2007, that the company's share of voting rights had fallen below the threshold of 5% of the voting rights in Continental AG and has been 4.66% since November 2, 2007.

The share of voting rights of UBS AG Zurich, Switzerland, fell below the threshold of 5% of the voting rights in Continental AG and has been 2.36% since November 6, 2007, according to the notification dated November 12, 2007.

We were informed by Allianz SE, Munich, in a letter dated November 12, 2007, that its share of voting rights exceeded the thresholds of 3% and 5% on October 31, 2007, and was 9.27%. Voting rights attributed to Allianz SE were attributed to it via Allianz Finanzbeteiligungs GmbH, Munich, and to that company in turn by Dresdner Bank AG, Frankfurt am Main, in each case in the amount of 9.05%. Additionally, we were informed in the same letter that the share of voting rights of Allianz SE, Allianz Finanzbeteiligungs GmbH, and Dresdner Bank AG fell

below the thresholds of 5% and 3% on November 6, 2007. Allianz SE's share of voting rights has been 0.15% since then, and 0% for Allianz Beteiligungs GmbH and Dresdner Bank AG.

Marsico Capital Management, Denver, U.S.A., informed us on December 5, 2007, that the share of voting rights attributed to it exceeded the threshold of 3% and is 3.03% as of November 30, 2007. The voting rights are attributed for various clients of Marsico Capital Management.

In 2007, and up to and including February 12, 2008, the total shareholdings of the Supervisory Board and the Executive Board amounted to less than 1% of the outstanding shares of Continental AG. In fiscal year 2007, Continental AG disclosed in accordance with section 15a of the WpHG that five members of the Executive Board acquired a total of 54,000 shares from stock option plans and sold them immediately afterwards. In addition, a member of the Executive Board sold 17,420 shares, and a member of the Supervisory Board acquired 6,000 shares through stock option plans and sold them immediately afterwards.

39. German Corporate Governance Code/Declaration in Accordance with Section 161 of the *Aktiengesetz*

The declaration required in accordance with section 161 of the *Aktiengesetz* (German Stock Corporation Act) was issued by the Executive Board and the Supervisory Board on September 28, 2007 and is available to our shareholders on our following website: www.continental-corporation.com.

Further Information

Further Information

198 Responsibility Statement
199 Other Directorships – The Executive Board
200 Other Directorships – The Supervisory Board
202 Ten-Year Review – Corporation
203 Glossary of Financial Terms
C5 Financial Calendar
C5 Contact Data and Acknowledgements

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Corporation, and the management report of the Corporation includes a fair review of the development and performance of the business and the position of the Corporation, together with a description of the principal opportunities and risks associated with the expected development of the Corporation.

Hanover, February 11, 2008

Continental AG
The Executive Board

Other Directorships – The Executive Board

List of the positions held by current and former Executive Board members on statutory Supervisory Boards and on comparable controlling bodies of companies in Germany and abroad in accordance with section 285 no. 10 of the *Handelsgesetzbuch* (German Commercial Code):

Companies with no country specified are located in Germany.

Manfred Wennemer
Chairman
Passenger and Light Truck Tires Division, and Interior Division
Benecke-Kaliko AG, Hanover (Chairman) (until August 2007)*; ContiTech AG, Hanover (Chairman)*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*

Dr. Alan Hippe
Finance, Controlling, IT and Law
Hamburg-Mannheimer Versicherungs-AG, Hamburg; Hamburg-Mannheimer Sachversicherungs-AG, Hamburg; KION GROUP GmbH, Wiesbaden (since May 2007); ContiTech AG, Hanover*; CG Tire, Inc., Charlotte, North Carolina, U.S.A.*; CGT Referral Resources, Inc., Charlotte, North Carolina, U.S.A.*; Compañia Hulera Euzkadi, S.A. de C. V., Mexico D.F., Mexico*; Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Automotive Licensing Corp., Charlotte, North Carolina, U.S.A.*; Continental Llantera Potosina, S.A. de C.V., Mexico D.F., Mexico*; Continental Products Corporation, Charlotte, North Carolina, U.S.A.*; Continental Rubber of America, Corp., Wilmington, Delaware, U.S.A.*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire de Mexico, S.A. de C. V., Mexico D.F., Mexico*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tire Servicios, S.A. de C.V., Mexico D.F., Mexico*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; CTNA Holding Corp., Charlotte, North Carolina, U.S.A.*; Dynagen, Inc., Charlotte, North Carolina, U.S.A.*; Englewood Services, Inc., Charlotte, North Carolina, U.S.A.*; General Tire de Mexico, S.A. de C.V., Mexico D.F., Mexico*; General Tire International Company, Charlotte, North Carolina, U.S.A.*; The Continental General Tire Foundation, Charlotte, North Carolina, U.S.A.*

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

Dr. Karl-Thomas Neumann
Chassis & Safety Division, and Powertrain Division
SupplyOn AG, Gerlingen-Schillerhöhe; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*

Dr. Hans-Joachim Nikolin
Commercial Vehicle Tires Division,
Corporate Purchasing, Quality and Environment
TÜV Nord-Gruppe, Hamburg; Drahtcord Saar GmbH & Co. KG, Merzig; KG Deutsche Gasrußwerke GmbH & Co., Dortmund; Continental Sime Tyre Sdn. Bhd., Petaling Jaya, Malaysia*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; Continental Tyre South Africa (PTY) Limited, Port Elizabeth, South Africa*; Semperit Reifen Gesellschaft m.b.H., Traiskirchen, Austria (Chairman) (until December 2007)*

Thomas Sattelberger
Human Resources, Director of Labor Relations
Member of the Executive Board until May 2, 2007

Heinz-Gerhard Wente
Human Resources, Director of Labor Relations
Member of the Executive Board since May 3, 2007
ContiTech Antriebssysteme GmbH, Hanover*; ContiTech Schlauch GmbH, Hanover (Chairman)*; ContiTech TechnoChemie GmbH, Karben (Chairman)*; ContiTech Vibration Control GmbH, Hanover*;ContiTech Fluid Shanghai Co. Ltd., Shanghai, China*; ContiTech Grand Ocean Changchun Co. Ltd., Changchun, China*

William L. Kozyra
Deputy Member
NAFTA Region
Continental Automotive, Inc., Wilmington, Delaware, U.S.A.*; Continental Teves, Inc., Wilmington, Delaware, U.S.A.*; Continental Tire North America, Inc., Charlotte, North Carolina, U.S.A.*; ContiTech North America, Inc., Wilmington, Delaware, U.S.A.*; Temic Automotive of North America, Inc., Auburn Hills, Michigan, U.S.A.*

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

Other Directorships – The Supervisory Board

Memberships of other statutory Supervisory Boards and of comparable controlling bodies of companies in Germany and abroad in accordance with 285 no. 10 of the *Handelsgesetzbuch* (German Commercial Code):

Companies with no country specified are located in Germany.

Dr. Hubertus von Grünberg, Chairman
Member of various Supervisory Boards
Allianz Versicherungs-AG, Munich; Deutsche Telekom AG, Bonn; Deutsche Post AG, Bonn (until July 2007); MAN Aktiengesellschaft, Munich (until March 2007); ABB Ltd., Zürich, Switzerland (Chairman of the Board of Directors since May 2007); Schindler Holding AG, Hergiswil, Switzerland

Werner Bischoff*, Deputy Chairman
Member of the Executive Board of IG BCE (Mining, Chemical, and Energy Industrial Union)
Evonik Degussa GmbH, Essen (since October 2007); Evonik Industries AG, Essen (since September 2007); Hoechst GmbH, Frankfurt/Main; RWE AG, Cologne; RWE Dea AG, Hamburg (since March 2007); RWE Power AG, Essen; Sanofi-Aventis Deutschland GmbH, Frankfurt/Main

Dr. h.c. Manfred Bodin
Member of various Supervisory Boards
CeWe Color Holding AG, Oldenburg; VHV Holding AG, Hanover

Dr. Diethart Breipohl
Member of various Supervisory Boards
Arcandor AG, Essen; KME Germany AG, Osnabrück (Chairman); Atos Origin International, Paris, France; Crédit Lyonnais, Paris, France; EULER & Hermes, Paris, France

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

Dr. Michael Frenzel
Chairman of the Executive Board of TUI AG
AWD Holding AG, Hanover; AXA Konzern AG, Cologne; E.ON Energie AG, Munich; Hapag-Lloyd AG, Hamburg (Chairman)**; Hapag-Lloyd Flug GmbH, Hanover (Chairman)**; Norddeutsche Landesbank, Hanover; TUI Deutschland GmbH, Hanover (Chairman)**; Volkswagen AG, Wolfsburg; Preussag North America, Inc., Atlanta, U.S.A. (Chairman)**; TUI China Travel Co., Ltd., Beijing, China**; TUI Travel PLC, London, UK (Chairman of the Board of Non-Executive Directors since June 2007)**

Prof. Dr.-Ing. E.h. Hans-Olaf Henkel
Honorary Professor at the University of Mannheim
Bayer AG, Leverkusen; Daimler Luft- und Raumfahrt Holding AG, Munich; EPG AG, Zweibrücken; SMS GmbH, Düsseldorf; Brambles Industries Ltd., Sydney, Australia (until November 2007); Orange SA, Paris, France (until February 2007); Ringier AG, Zofingen, Switzerland

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

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

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

Jan P. Oosterveld
Member of various Supervisory Boards
Atos Origin S.A., Paris, France; Barco NV, Kortrijk, Belgium; Cookson Group Plc, London, UK; Crucell NV, Leiden, the Netherlands (Chairman)

Dr. Thorsten Reese*
Head of Corporate Quality & Environment

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

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

Fred G. Steingraber
Chairman Emeritus, A.T. Kearney, U.S.A.,
Chairman Board Advisors, U.S.A.,
Retired Chairman and CEO, A.T. Kearney, U.S.A.
Diamond Hill Financial Trends Fund, Columbus, Ohio, U.S.A.; Elkay Manufacturing, Oak Brook, Illinois, U.S.A.; 3i plc, London, UK

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

Christian Streiff, Chairman of the Managing Board of PSA Peugeot Citröen, Paris, France
ThyssenKrupp AG, Düsseldorf

Dr. Bernd W. Voss
Member of various Supervisory Boards
Allianz Lebensversicherungs-AG, Stuttgart; Bankhaus Reuschel & Co., Munich (Deputy Chairman since January 2008); Dresdner Bank AG, Frankfurt/Main; Hapag-Lloyd AG, Hamburg; OSRAM GmbH, Munich; Wacker Chemie AG, Munich; ABB Ltd., Zürich, Switzerland

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

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

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

Members of the Supervisory Board Committees

1. Chairman's Committee, and Mediation Committee required under section 27 (3) of the *Mitbestimmungsgesetz* (German Co-determination Act)
Dr. Hubertus von Grünberg, Chairman; Werner Bischoff; Dr. Diethart Breipohl; Michael Iglhaut

2. Audit Committee
Dr. Bernd W. Voss, Vorsitzender; Michael Deister; Dr. Hubertus von Grünberg; Dr. Thorsten Reese

3. Nomination Committee
Dr. Hubertus von Grünberg; Dr. Diethart Breipohl; Dr. Bernd W. Voss

Ten-Year Review – Corporation

		2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Balance sheets											
Non-current assets[1]	€ millions	17,383.9	5,877.9	5,193.8	4,953.9	4,835.0	5,102.2	5,424.4	4,718.6	4,485.0	4,179.6
Current assets[2]	€ millions	10,353.7	4,975.1	5,353.9	4,742.0	3,463.5	3,094.9	3,570.2	2,896.6	2,918.8	2,586.1
Total assets	€ millions	27,737.6	10,853.0	10,547.7	9,695.9	8,298.5	8,197.1	8,994.6	7,615.2	7,403.8	6,765.7
Shareholders' equity (excl. minority interests)	€ millions	6,583.2	4,470.8	3,574.2	2,706.2	1,983.2	1,715.2	1,546.7	1,844.1	1,760.6	1,329.1
Minority interests	€ millions	272.9	239.1	220.8	231.0	151.4	92.2	101.4	145.7	142.4	174.5
Total equity, (incl. minority interests)	€ millions	6,856.1	4,709.9	3,795.0	2,937.2	2,134.6	1,807.4	1,648.1	1,989.8	1,903.0	1,503.6
Equity ratio[3]	in %	24.7	43.4	36.0	30.3	23.9	20.9	17.2	24.2	23.8	19.6
Capital expenditure[4]	€ millions	896.9	805.0	871.8	703.0	625.8	620.0	740.8	715.2	625.6	461.5
Net indebtedness	€ millions	10,856.4	1,181.0	493.2	881.1	1,168.6	1,899.0	2,601.1	2,017.9	1,712.8	1,919.0
Gearing ratio	in %	158.3	25.1	13.0	30.0	58.9	110.7	168.2	109.4	97.3	144.4
Statements of income											
Sales	€ millions	16,619.4	14,887.0	13,837.2	12,597.4	11,534.4	11,408.3	11,233.3	10,115.0	9,132.2	6,743.2
Share of foreign sales	in %	69.2	67.6	65.8	66.8	67.0	68.4	70.4	68.9	68.6	66.4
Cost of sales[5]	in %	75.8	75.3	74.6	75.0	76.5	78.2	82.8	75.6	74.5	70.0
Research and development expenses[5]	in %	5.0	4.5	4.3	4.2	4.3	4.3	4.1	4.1	4.1	4.0
Selling expenses[5]	in %	5.5	5.7	6.1	6.2	6.2	6.4	6.3	11.1	11.6	14.4
Administrative expenses[5]	in %	2.7	3.0	3.1	3.1	3.3	3.4	3.6	3.7	3.8	4.6
EBITA	€ millions	1,675.8	1,601.9	1,507.1	1,157.4	855.2	694.3	32.8	533.0	607.3	397.7
EBITA[5]	in %	10.1	10.8	10.9	9.2	7.4	6.1	0.3	5.3	6.7	5.9
Personnel expenses	€ millions	3,652.7	3,175.2	3,054.3	3,011.7	2,681.8	2,650.2	2,867.8	2,580.8	2,387.7	1,937.1
Depreciation and amortization[6]	€ millions	814.8	699.6	741.8	667.2	603.1	670.3	891.3	654.7	576.5	395.7
Net income attributable to the shareholders of the parent	€ millions	1,020.6	981.9	929.6	716.2	314.0	226.0	-257.6	204.7	234.7	138.2
Employees (annual average)	thousands	93.9	81.6	81.1	73.7	66.5	65.1	67.0	63.5	62.6	50.2

[1] Up to 2003, this item was comprised of all items that were primarily long-term, i.e., fixed assets, investments, and other primarily long-term assets.
[2] Up to 2003, this item included all items that were primarily current assets.
[3] Since 2004, this item has included the minority interests.
[4] Capital expenditure on property, plant, equipment and software.
[5] As a percentage of sales; as of 2001, selling expenses comprise only the functional selling and logistics costs, plus IT costs.
[6] Excluding write-downs of investments.

The information for fiscal years since 2004 has been reported in accordance with IFRS, for the years 1998 to 2003 in accordance with U.S. GAAP.

Glossary of Financial Terms

Asset-Backed Securitization Program. Under such programs, trade accounts receivable are pooled for each country and sold to financing companies, who refinance the purchase by issuing commercial paper.

Capital lease. Under a capital lease, the lessor transfers the investment risk to the lessee. This means that the lessor bears only the credit risk and any agreed services. The lessee is the beneficial owner of the leased asset. Capital leases are characterized by a fixed basic term during which the lease may not be terminated by the lessee.

Continental Value Contribution (CVC). CVC represents the absolute amount of additional value created, and the Delta CVC represents the change in absolute value creation over the prior year. Value is created when the actual return (ROCE) exceeds the required minimum. The required minimum return is derived from the weighted average cost of capital (WACC) for the Continental Corporation. CVC is measured by subtracting the minimum return from the actual ROCE and multiplying the net difference by the operating assets as of the balance sheet date. This change in the absolute contribution, measured by Delta CVC, allows us to monitor the extent to which management units generate value-creating growth or employ resources efficiently.

Currency swap. Swap of principal and interest payable or receivable in one currency into similar terms in another currency. Often used when issuing bonds for which the issuing currency is not the local currency of the issuer.

Defined Benefit Obligation (DBO). DBO is defined as the present value of all vested and non-vested benefits calculated on the basis of estimated salary levels at retirement. The only actuarial method that may be used to calculate the DBO is the projected unit credit method. DBO is the same as PBO (projected benefit obligation).

Derivative financial instruments. Transactions used to manage interest rate and/or currency risks.

Dividend payout ratio. The dividend payout ratio is the ratio between the dividend for the fiscal year and the earnings per share.

EBIT. Earnings Before Interest and Taxes. EBIT represents the results of operations. Since 2002, when the amortization of goodwill was discontinued, EBITA has been equal to EBIT.

EBITA. EBIT before scheduled goodwill amortization.

FAS. Financial Accounting Standards. The accounting standards or amendments issued by the FASB.

FASB. Financial Accounting Standards Board. The authority that defines the financial accounting standards for U.S. GAAP.

Gearing ratio. The gearing ratio represents the net indebtedness divided by total equity, expressed as a percentage.

Hedging. Securing a transaction against risks, such as fluctuations in exchange rates, by entering into an offsetting hedge transaction, typically in the form of a forward contract.

IAS. International Accounting Standards. The accounting principles formerly issued by the IASB, which are still applicable in some cases.

IASB. International Accounting Standards Board. The authority that defines the International Financial Reporting Standards.

IFRIC. International Financial Reporting Interpretations Committee. Committee that reviews and determines appropriate treatment of accounting issues within the context of current IFRS and IAS.

IFRS. International Financial Reporting Standards. The accounting standards issued by the IASB.

Interest rate cap. An interest rate cap sets an upper limit for a variable interest rate in relation to a notional debt amount. To the extent that the variable interest due on the underlying debt exceeds the cap amount, the holder of the cap receives income as compensation in the amount of the difference to the cap. An up-front premium is paid as consideration for the cap.

Interest rate swap. An interest rate swap is the exchange of interest payments between two parties. For example, this allows variable interest to be exchanged for fixed interest, or vice versa.

Net indebtedness. The net amount of interest-bearing liabilities and cash and cash equivalents as recognized in the balance sheet as well as the market values of the derivative instruments.

Operating assets. Operating assets include the assets as reported in the balance sheet with discounted trade bills added back, excluding cash and cash equivalents, short and long-term derivative instruments, deferred tax assets and income tax receivable, and less trade accounts payable.

Operating lease. A form of lease that is largely similar to rental. Leased assets are recognized in the lessor's balance sheet and capitalized.

Rating. Standardized indicator for the international finance markets that assesses and classifies the creditworthiness of a debtor. The classification is the result of an economic analysis of the debtor by specialist rating companies.

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

SIC. Standing Interpretation Committee (predecessor to the IFRIC).

US GAAP. United States Generally Accepted Accounting Principles. Subdivided into binding and guiding principles.

Weighted Average Cost of Capital (WACC). The WACC represents the weighted average cost of the required return on equity and net interest-bearing liabilities.

Financial Calendar

2008	
Financials Press Conference	February 21
Analyst Conference	February 21
Interim Report as of March 31, 2008	April 29
Annual Shareholders' Meeting	April 25
Interim Report as of June 30, 2008	July 31
Interim Report as of September 30, 2008	October 30

2009	
Financials Press Conference	February
Analyst Conference	February
Interim Report as of March 31, 2009	May
Annual Shareholders' Meeting	April 23
Interim Report as of June 30, 2009	August
Interim Report as of September 30, 2009	October

Contact Data

This Annual Report is also published in German. The financial statements of Continental Aktiengesellschaft are also available in English and German.

If you wish to receive copies of any of these reports, please contact:
Continental AG, Corporate Communications
P.O. Box 169, 30001 Hanover, Germany
Phone: +49 511 938-1146, Fax: +49 511 938-1055
E-mail: prkonzern@conti.de

The entire Annual Report and the interim reports are available on the Internet at:
www.continental-corporation.com

Acknowledgements

Published by:
Continental Aktiengesellschaft, Hanover
Corporate Communications

Concept and Design:
brunsmiteisenberg werbeagentur, Hanover
Printing and Processing:
BWH GmbH, Hanover

This Annual Report has been printed on paper sourced from certified sustainable forests.

Photos:
Andreas Pohlmann, pages 6 and 7
Günter Bolzern, page 13
Other photos: dpa picture alliance

Continental Aktiengesellschaft, P.O. Box 169, 30001 Hanover, Germany
Vahrenwalder Straße 9, 30165 Hanover, Germany
Phone +49 511 938-01, Fax +49 511 938-81770, mailservice@conti.de, www.continental-corporation.com

Continental AG is an Official Sponsor of UEFA EURO 2008™.