

29 September 2006

Corporate Governance Principles of Continental AG

1. Preamble

The purpose of these Corporate Governance Principles (the "Principles") of Continental AG (the "Company") is to further a responsible management of the Company and the Continental Corporation (the "Corporation") focused on value creation. On the basis of applicable law, the German Corporate Governance Code (the "Code") and our Basics, the Principles are intended to make the governance by the Executive Board and the Supervisory Board transparent and understandable and to promote the confidence of investors, customers, employees and the general public in the management and control of the Company as a publicly listed German stock corporation. The Supervisory Board, the Executive Board and all employees of the Corporation understand the Principles as their obligation.

2. Shareholders and General Meeting

2.1 Shareholders

2.1.1 The shareholders exercise their rights, including their right to vote, in the General Meeting.

2.1.2 Each share carries one vote (§ 20 para 1 of the Articles of Incorporation).

2.2 General Meeting

2.2.1 The Executive Board submits to the General Meeting the Annual Financial Statements and the Consolidated Financial Statements. The General Meeting resolves on the appropriation of net income and the ratification of the actions of the Executive Board and of the Supervisory Board. It elects the shareholders' representatives to the Supervisory Board and the auditors.

Furthermore, the General Meeting resolves on the Articles of Incorporation, the purpose of the Company, amendments to the Articles of Incorporation and basic corporate matters such as inter-company agreements (as defined in the "Aktiengesetz" (German Stock Corporation Act)) and restructurings, the issuing of new shares and of convertible bonds and bonds with warrants, and the authorization to purchase own shares.

2.2.2 If new shares are issued, the shareholders have a preemptive right in accordance with applicable law corresponding to their share of the equity capital.

2.2.3 Each shareholder is entitled to participate in the General Meeting, to take the floor on matters on the agenda and to submit relevant questions and proposals.

2.2.4 The chairperson of the meeting is responsible for conducting the General Meeting in an expeditious manner. To this end, the chairperson is guided by the fact that an ordinary general meeting is completed after four to six hours at the latest.

2.3 Invitation to the General Meeting, Proxies

2.3.1 At least once a year the Executive Board convenes the General Meeting and proposes the agenda. A quorum of shareholders is entitled to demand the convening of a General Meeting and the extension of the agenda in accordance with applicable law.

The Executive Board does not only provide access to the reports and documents for the General Meeting, including the Annual Report, as required by law and sends them to any shareholder upon request but also publishes them on the Company's internet site together with the agenda.

2.3.2 The Company informs all domestic and foreign shareholders, shareholders' associations and financial services providers who have requested such notification in the preceding 12 months of the convening of the General Meeting together with the convening documents - by electronic means if requested.

2.3.3 The Company facilitates the exercising of the shareholders' voting rights. The Company assists the shareholders in the use of proxies. During the General Meeting, the Executive Board arranges for the possibility to appoint a representative to exercise any shareholder's voting rights in accordance with instructions.

2.3.4 The Company will review the possibility for shareholders to follow the General Meeting by way of modern communication media (e.g. the internet).

3. Cooperation between Executive Board and Supervisory Board

3.1 The Executive Board and the Supervisory Board work together closely for the benefit of the Corporation.

3.2 The Executive Board discusses with the Supervisory Board the Corporation's strategic direction and, in regular intervals, the status of the implementation of the strategy.

3.3 The Articles of Incorporation and the Supervisory Board provide for transactions of fundamental importance which require the approval of the Supervisory Board (§ 14 of the Articles of Incorporation).

- 3.4 The availability of sufficient information to the Supervisory Board is the joint responsibility of the Executive Board and the Supervisory Board.

The Executive Board informs the Supervisory Board regularly, without delay and comprehensively, of all issues relevant to the Corporation with respect to planning, development of the business, risks and risk management. The Executive Board reports on deviations of the actual business from previous plans and targets and explains the reasons therefor.

The information and reporting requirements of the Executive Board are specified in the By-Laws of the Supervisory Board. Reports of the Executive Board to the Supervisory Board are submitted, as a rule, in written (including electronic) form. Documents required for decisions of the Supervisory Board, including the Annual Financial Statements, the Consolidated Financial Statements and the Auditors' Report are sent to the members of the Supervisory Board in due time before the meeting.

- 3.5 Good corporate governance requires an open discussion between the Executive Board and the Supervisory Board as well as among the members of the Executive Board and of the Supervisory Board. Maintaining complete confidentiality is of paramount importance for this.

All board members ensure that any person who assists them observes such obligation of confidentiality in the same way.

- 3.6 If necessary, the Supervisory Board meets without the Executive Board.

- 3.7 In the event of a takeover offer, the Executive Board and the Supervisory Board will submit a statement of their reasoned position on such offer in accordance with applicable law so that the shareholders can make an informed decision.

After the announcement of a takeover offer the Executive Board will abstain from any actions outside the ordinary course of business that might prevent the success of the offer, unless the Executive Board has the right to take such action under applicable law or if such action has been authorized by the General Meeting or approved by the Supervisory Board. In making their decisions, the Executive Board and the Supervisory Board act in the best interest of the Company.

- 3.8 The Executive Board and the Supervisory Board comply with the rules of a proper corporate governance. If they violate the due care and diligence of a prudent and conscientious member of the Executive Board or of the Supervisory Board, they are liable to the Company for damages in accordance with applicable law. The directors and officers liability insurance policy for the Executive Board and the Supervisory Board provides for an appropriate deductible.

- 3.9 The granting of loans of the Corporation to members of the Executive Board or the Supervisory Board and their relatives requires the approval of the Supervisory Board.
- 3.10 The Executive Board and the Supervisory Board report annually on the Corporation's corporate governance in the Annual Report (Corporate Governance Report). This includes the explanation of deviations from the recommendations of the Code, if any. Comments will also be provided on the suggestions of the Code. Previous declarations of conformity with the Code remain available for viewing on the Company's website for five years.

4. Executive Board

4.1 Responsibilities

- 4.1.1 The Executive Board is responsible for the independent management of the Corporation. It acts in the best interest of the Corporation and is committed to increasing the sustainable value of the Corporation.
- 4.1.2 The Executive Board develops the strategic direction of the Corporation, discusses it with the Supervisory Board and ensures its implementation.
- 4.1.3 The Executive Board is responsible for the compliance with all applicable law and procures such compliance by the affiliated companies.
- 4.1.4 The Executive Board ensures an appropriate risk management and risk controlling in the Corporation.

4.2 Composition and Compensation

- 4.2.1 The Executive Board consists of more than one person and has a chair person. By-laws set forth the areas of responsibility and the cooperation within the Executive Board.
- 4.2.2 At the proposal of the committee dealing with Executive Board contracts, the full Supervisory Board discusses and reviews regularly the structure of the Executive Board compensation system.

The compensation of the members of the Executive Board is determined by the Supervisory Board in accordance with applicable law in an appropriate amount on the basis of a performance assessment taking into account any payments from affiliated companies. Criteria for determining the appropriateness of the compensation include the responsibilities of the member of the Executive Board, her/his personal performance, the performance of the Executive Board as a whole, the economic situation, the performance and outlook of the Corporation and a benchmarking with peer companies.

- 4.2.3 The total compensation of the members of the Executive Board consists of the monetary compensation elements, pension awards, other awards, especially in the event of termination of activity, fringe benefits of any kind and benefits by third parties which were promised or granted in the fiscal year with regard to executive work.

The monetary compensation elements comprise fixed and variable elements. The variable compensation elements include one-time and annually recurring components linked to the performance of the business as well as long-term incentives containing risk elements. All compensation components must be individually appropriate as well as in their aggregate.

In particular Company stock with multi-year blocking period, stock options or comparable instruments serve, in particular, as variable compensation components with long-term incentive effect and risk elements. Stock options or comparable instruments reference demanding, relevant comparative parameters. Such targets or comparative parameters will not be changed retroactively. The Supervisory Board will agree a cap for extraordinary, unforeseeable developments.

The Chairman of the Supervisory Board informs the General Meeting about the basic principles of the compensation system and any changes to them.

- 4.2.4 The total compensation of each member of the Executive Board is disclosed by name, distinguishing between non-performance related, performance related and long-term incentive components , unless otherwise resolved by the General Meeting by a three-quarters majority.
- 4.2.5 Disclosure is made in a compensation report which as part of the Corporate Governance Report describes the compensation system for Executive Board members in a plainly understandable manner.

The presentation of the particulars of a stock option plan or comparable schemes for components with a long-term incentive effect and risk character includes the value thereof. In the case of pension plans, the contribution to an accrual for pension liabilities or pension funds is stated each year.

The substantive content of severance awards for Executive Board members must be disclosed if the underlying legal structure differs not insignificantly from those granted to employees. The compensation report also includes information on the nature of the fringe benefits provided by the Company.

4.3 Conflicts of Interest

- 4.3.1 During their employment for the Corporation, members of the Executive Board are subject to a comprehensive non-competition obligation.
- 4.3.2 Members of the Executive Board and employees may not, in connection with their work, demand nor accept from third parties payments or other advantages for themselves or for any other person nor grant third parties unlawful advantages. Such obligation is further specified in the Code of Conduct of the Continental Corporation.
- 4.3.3 Members of the Executive Board are bound by the Corporation's best interests. No member of the Executive Board may pursue personal interests in her/his decisions or use business opportunities intended for the Corporation for her/himself.
- 4.3.4 All members of the Executive Board will disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Executive Board thereof. All transactions between the Corporation and the members of the Executive Board as well as related persons or companies must comply with standards customary in the sector. Important transactions shall require the approval of the Supervisory Board. § 112 German Stock Corporation Act applies.
- 4.3.5 Members of the Executive Board may take on positions outside the Corporation, especially supervisory board mandates, only with the approval of the Supervisory Board.

5. Supervisory Board

5.1 Responsibilities

- 5.1.1 The Supervisory Board is responsible for advising and supervising the Executive Board regularly in the management of the Corporation. It must be involved in decisions of fundamental importance to the Corporation.
- 5.1.2 The Supervisory Board appoints and dismisses the members of the Executive Board. Together with the Executive Board, the Supervisory Board ensures a long-term succession planning. The Supervisory Board has delegated the preparation of the appointment of a member of the Executive Board to a committee which also determines the conditions of the employment contracts of the members of the Executive Board including their compensation.

A re-appointment of a member of the Executive Board prior to one year before the end of the appointment period with a simultaneous termination of the current appointment will only take place under special circumstances. As a rule, members of the Executive Board who have reached the age of 63 will not be re-appointed.

5.1.3 The Supervisory Board has adopted its own By-Laws.

5.2 Responsibilities of the Chairman of the Supervisory Board

The Chairman of the Supervisory Board coordinates work within the Supervisory Board, chairs its meetings and represents the Supervisory Board externally.

The Chairman of the Supervisory Board also chairs the Chairman's Committee. The Chairman of the Supervisory Board does not preside the Audit Committee.

The Chairman of the Supervisory Board is in regular contact with the Executive Board, in particular its Chairman, and consults with him on strategy, development of the business and risk management of the Corporation. The Chairman of the Supervisory Board will be informed by the Chairman of the Executive Board without delay of important events which are essential for the assessment of the situation and development as well as for the management of the Corporation. The Chairman of the Supervisory Board will then inform the Supervisory Board and, if necessary, convene an extra-ordinary meeting of the Supervisory Board.

5.3 Formation of Committees

5.3.1 The Supervisory Board has formed sufficiently qualified committees. The purpose of such committees is to increase the efficiency of the Supervisory Board's work and to handle complex issues. The committee chairperson reports regularly to the Supervisory Board on the work of the respective committee.

5.3.2 The Supervisory Board has formed an Audit Committee which is responsible for issues regarding accounting and risk management, the necessary independence of the auditor, the issuing of the audit mandate to the auditor, the determination of specific focal points for the audit and the fee agreement. The Chairman of the Audit Committee has special knowledge and experience in the application of accounting principles and internal control processes. He is not a former member of the Executive Board of the Company.

5.4 Composition and Compensation

5.4.1 Nominations for the election of members of the Supervisory Board take into consideration that the Supervisory Board, at all times, will consist of members who, as a whole, have the knowledge, abilities and experience necessary to discharge their responsibilities properly and are sufficiently independent. The international activities of the Corporation and potential conflicts of interest are taken into account. Only persons who

have not reached the age of 70 at the time of the election will be nominated for appointment.

- 5.4.2 To ensure the Supervisory Board's independent advice and supervision of the Executive Board, the Supervisory Board includes what it considers an adequate number of independent members. A Supervisory Board member is considered independent, if s/he has no business or personal relations with the Company or its Executive Board which cause a conflict of interest. Not more than two former members of the Executive Board may be members of the Supervisory Board at any time, and members of the Supervisory Board will not accept directorships or similar positions or consultancies for any competitor of the Corporation.
- 5.4.3 An application for the appointment of a Supervisory Board member by the court will be limited in time to the next general meeting. The shareholders will be informed about proposed candidates for the chair of the Supervisory Board.
- 5.4.4 Each member of the Supervisory Board ensures that s/he has sufficient time to perform her/his mandates. A member of the Management Board of a publicly listed company shall not accept more than a total of five supervisory board mandates in unaffiliated listed companies.
- 5.4.5 The compensation of the members of the Supervisory Board is set forth in the Articles of Incorporation (§ 16 para. 2). It takes into consideration the responsibilities of the members of the Supervisory Board as well as the economic situation and performance of the Corporation. The chair and deputy chair positions in the Supervisory Board are also taken into account.

Members of the Supervisory Board receive fixed as well as performance related compensation (§ 16 para. 2 of the Articles of Incorporation).

The individual compensation of each member of the Supervisory Board is reported in the Corporate Governance Report, distinguishing between fixed and variable components. Other payments by the Corporation to any member of the Supervisory Board or benefits granted for services provided individually, including consulting and agency services, if any, will be reported separately in the Corporate Governance Report.

- 5.4.6 If any member of the Supervisory Board participated in less than half of the meetings of the Supervisory Board during a business year, such fact will be noted in the report of the Supervisory Board.

5.5 Conflicts of Interests

- 5.5.1 All members of the Supervisory Board are bound by the Corporation's best interests. No member of the Supervisory Board may pursue personal interests in her/his decision or use business opportunities intended for the Corporation for her/himself.
- 5.5.2 Each member of the Supervisory Board will inform the Chairman of the Supervisory Board of any conflict of interest, in particular resulting from a consulting or directorship function with customers, suppliers, lenders or other business partners of the Corporation.
- 5.5.3 In its report to the General Meeting, the Supervisory Board will report on any conflicts of interest which have occurred and the actions taken with respect thereto. Material conflicts of interest which are not merely temporary with respect to any member of the Supervisory Board will result in the termination of her/his mandate in accordance with applicable law.
- 5.5.4 Consultancy and other service or work product agreements between a member of the Supervisory Board and the Company require the Supervisory Board's approval in accordance with applicable law.

5.6 Review of Efficiency

The Supervisory Board reviews regularly the efficiency of its activities.

6. Transparency

- 6.1 The Executive Board will disclose without delay and in accordance with applicable law insider information directly related to the Company, unless it is exempted from disclosure in an individual case.
- 6.2 As soon as the Company becomes aware that any person's ownership of voting rights in the Company reaches, exceeds or decreases below 5, 10, 25, 50 or 75% of all voting rights in the Company by way of purchase, sale or any other manner, the Executive Board will disclose such fact without delay in accordance with applicable law.
- 6.3 The Company extends equal treatment to all shareholders with respect to information. All new facts disclosed to financial analysts and similar recipients will also be made available to the shareholders without delay.
- 6.4 The Company uses appropriate communication media, such as the internet, to inform shareholders and investors in a prompt and uniform manner.

- 6.5 The Company publishes any information, which has been disclosed abroad under applicable securities regulations, also domestically without delay.
- 6.6 Members of the Executive Board and the Supervisory Board and other executives who regularly have access to insider information and are authorized to take material entrepreneurial decisions, as well as persons closely related to them, will notify the Company without delay and in accordance with applicable law of the acquisition and disposal of shares in the Company or of financial instruments related thereto, in particular derivatives. This notification obligation shall apply only to purchases and disposals above 5,000 Euro per calendar year.

The shares and related financial instruments held by members of the Executive Board and the Supervisory Board will be reported, if such holdings exceed, directly or indirectly, 1% of all shares issued by the Company. If the aggregate holdings of all members of the Executive Board and the Supervisory Board exceed 1% of all shares issued by the Company, such holdings will be reported separately for the Executive Board and the Supervisory Board.

All the aforesaid information will be included in the Corporate Governance Report.

- 6.7 As part of the regular public relations activities, the Company publishes the dates of essential publications (including the Annual Report, interim reports and the General Meeting) timely in advance in a "financial calendar".
- 6.8 Information published by the Company is also available on the Company's internet site. The internet site is clearly structured. Publications are also in English.

7. Accounting and Audit of Financial Statements

7.1 Accounting

- 7.1.1 Shareholders and third parties are mainly informed by the Consolidated Financial Statements and during the business year by interim reports. The Consolidated Financial Statements and the interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS). It is the Company's goal that the Consolidated Financial Statements are publicly available within 90 days after the end of the business year; interim reports are publicly available within 45 days of the end of the relevant reporting period.
- 7.1.2 The Consolidated Financial Statements contain information on stock option programmes and similar securities-based incentive systems of the Company.

7.1.3 The Company publishes a list of third party companies in which it has a shareholding which is material for the Corporation. The following will be reported: name and headquarters of the Company, the amount of the shareholding, the amount of equity and the operating results of the past financial year. In the Consolidated Financial Statements, notes on the relationships with shareholders considered to be "related parties" pursuant to the applicable accounting regulations will be provided.

7.2 Audit of Financial Statements

7.2.1 Prior to submitting a proposal for election, the Audit Committee will obtain a statement from the proposed auditor stating whether and which business, financial, personal or other relationships exist between the auditor, its executive bodies or head auditors on the one hand and the Corporation and the members of its executive bodies on the other hand that could compromise the auditor's independence. Such statement includes to what extent other services were performed for the Corporation during the past year or which are contracted for the following year, especially in the consulting area.

The Supervisory Board agrees with the auditor that the Chairman of the Audit Committee will be informed immediately of any grounds for disqualification or partiality occurring during the audit, unless such grounds are eliminated immediately.

7.2.2 The Supervisory Board issues the mandate to the auditor and agrees the auditor's fee.

7.2.3 The Supervisory Board agrees with the auditor to report without delay on all facts and events which are important for the responsibilities of the Supervisory Board and which arise in the course of the audit.

The Supervisory Board agrees with the auditor to inform it or to note in the auditor's report if, in the course of the audit, the auditor comes across facts which show a misstatement by the Executive Board and the Supervisory Board with respect to the Code.

7.2.4 The auditor participates in the deliberations of the Supervisory Board on the Annual Financial Statements and the Consolidated Financial Statements and reports on the essential results of its audit.