Continental
Aktiengesellschaft

Annual Report

'89

We were deeply affected by the assassination of the Chairman of our Supervisory Board,

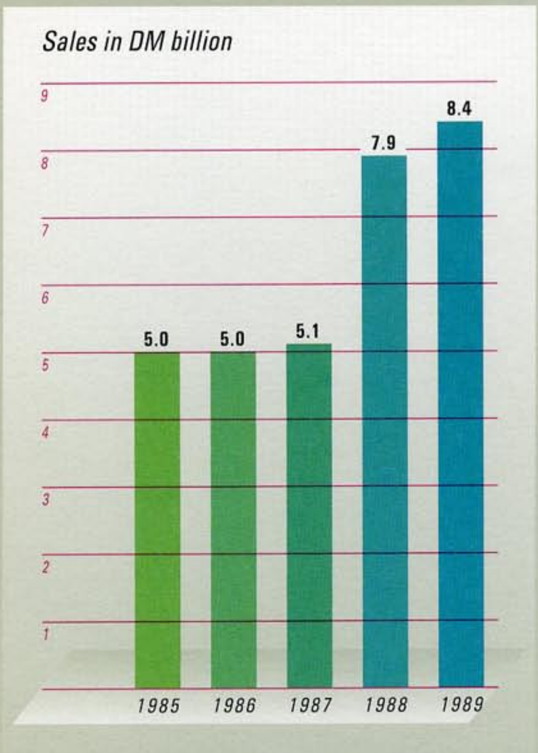
Dr. rer. pol. Dipl.-Kfm.
Alfred Herrhausen.

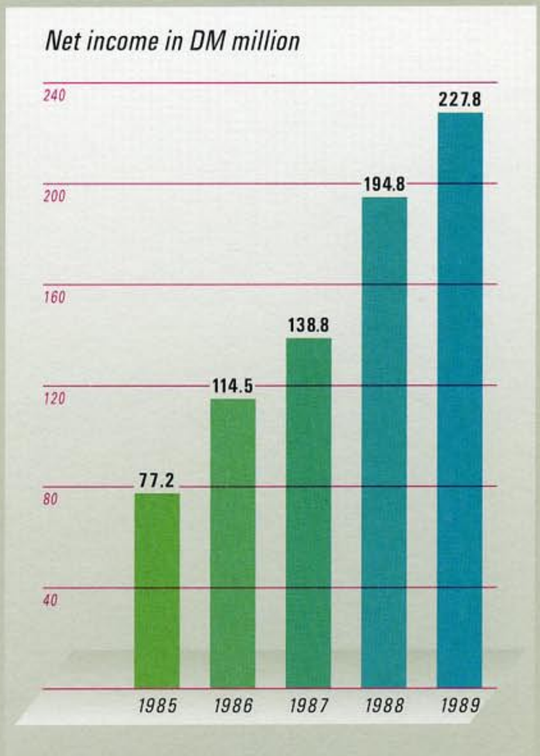
Dr. Herrhausen had headed the Supervisory Board of Continental Aktiengesellschaft since 1970. During these two decades his leadership, vision and creativity played a decisive role in shaping the Company. He guided it through the difficult times in the mid-seventies with a steady hand and was a constant source of inspiration.

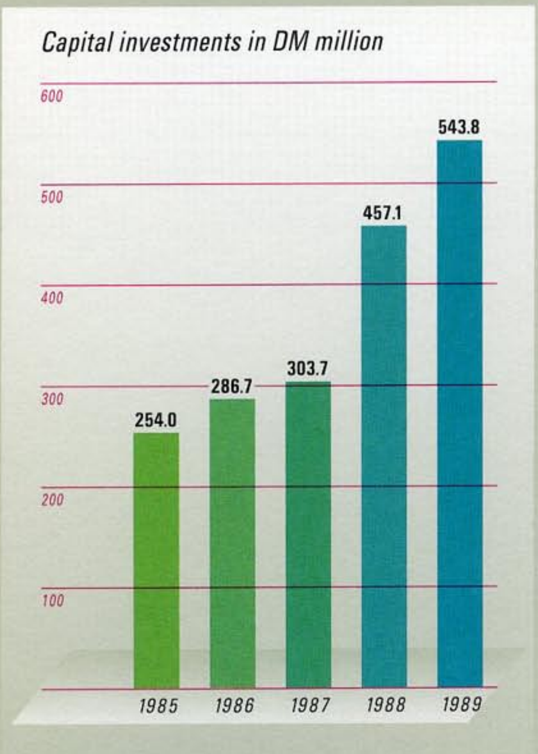
We will always owe this outstanding business leader our heartfelt gratitude.

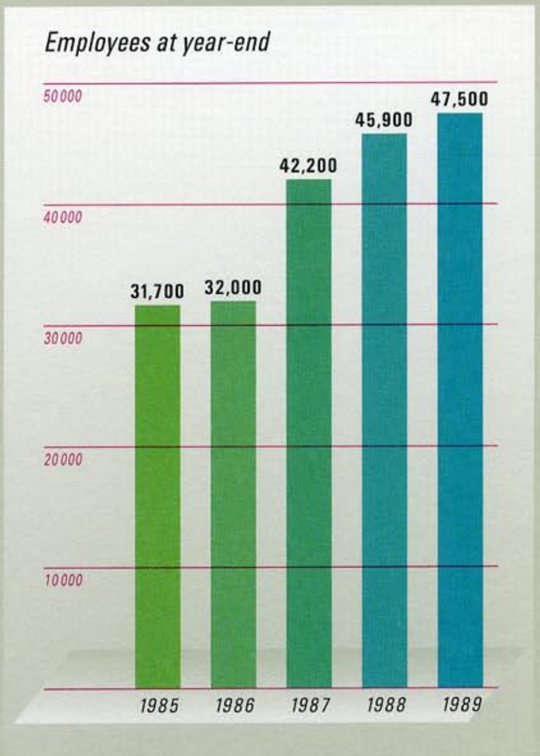
Continental Corporation at a Glance

		1985	1986	1987	1988	1989
Sales	DM million	**5,003.3**	**4,968.6**	**5,097.6**	**7,905.8**	**8,381.9**
Income before taxes	DM million	**157.2**	**263.5**	**268.4**	**338.7**	**369.3**
Income after taxes	DM million	**77.2**	**114.5**	**138.8**	**194.8**	**227.8**
Dividend paid	DM million	**29.9**	**37.5**	**48.0**	**69.2**	**69.6**
Cash flow	DM million	**303.5**	**375.9**	**464.0**	**623.4**	**604.9**
Debt ratio		**3.1**	**2.0**	**1.9**	**1.5**	**1.9**
Capital investments	DM million	**254.0**	**286.7**	**303.7**	**457.1**	**543.8**
Depreciation	DM million	**205.5**	**229.4**	**263.8**	**375.8**	**367.5**
Shareholders' equity	DM million	**638.4**	**808.0**	**1,515.8**	**1,657.9**	**1,725.3**
Equity ratio	%	**22.5**	**26.1**	**31.6**	**30.4**	**31.9**
Employees at year-end		**31,673**	**32,012**	**42,263**	**45,907**	**47,495**


Sales in DM billion
9
8
7
6
5
4
3
2
1
5.0
5.0
5.1
7.9
8.4
1985
1986
1987
1988
1989


Net income in DM million
240
200
160
120
80
40
77.2
114.5
138.8
194.8
227.8
1985
1986
1987
1988
1989


Capital investments in DM million
600
500
400
300
200
100
254.0
286.7
303.7
457.1
543.8
1985
1986
1987
1988
1989


Employees at year-end
50000
40000
30000
20000
10000
31,700
32,000
42,200
45,900
47,500
1985
1986
1987
1988
1989

Report on 1989, the Company's 118th Fiscal Year

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3000 Hanover 1
West Germany
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Telefax (511) 765-2766
Telex 92170

Members of the Supervisory Board

Alfred Herrhausen, Chairman
Member of the Board of Managing Directors, Deutsche Bank AG
† 11/30/1989

Ulrich Weiss, Chairman
Member of the Board of Managing Directors, Deutsche Bank AG
(as of 1/23/1990)

Wolfgang Schultze*),
Vice Chairman,
Vice Chairman of the Industriegewerkschaft Chemie-Papier-Keramik

Rudolf Alt*)
Chairman of the Corporate Employee Council and of the Joint Employee Council of Continental AG; Member of the Employee Council for the Stöcken Plant

Hans H. Angermueller
Of Counsel
Shearman & Sterling, New York
(as of 7/5/1989)

Adolf Bartels*)
District Manager
Industriegewerkschaft Chemie-Papier-Keramik

Werner Breitschwerdt
Member of the Supervisory Board
Daimler-Benz AG
(as of 7/5/1989)

Manfred Emcke
Management Consultant

Baron Albert Englebert
Chairman of the Board of Directors
Pneu Uniroyal Englebert S.A.
(through 7/5/1989)

Friedrich-Karl Flothow*)
Special Representative of the Executive Board for GDR Projects
(as of 7/5/1989)

Willi Goldschald*)
Chairman of the Employee Council
Vahrenwald Plant
(through 7/5/1989)

Wilhelm Helms
Legal Counsel and
Executive Director
Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
Region of Lower Saxony

Hans-Olaf Henkel
President
IBM Deutschland GmbH
(as of 7/5/1989)

Helmut Keufner*)
Chairman of the Employee Council
Northeim Plant
(as of 7/5/1989)

Richard Köhler*)
Chairman of the Employee Council
Korbach Plant

Dieter Kölling*)
Member of the Employee Council
Vahrenwald Plant
(as of 7/5/1989)

Joachim Kost*)
Head of Vehicle Interior Trim/Textile Operations
(through 7/5/1989)

Hans L. Merkle
Stuttgart
(through 7/5/1989)

Werner Mierswa*)
Chairman of the Employee Council
Continental Headquarters
(as of 7/5/1989)

Ernst Pieper
Chairman of the Managing Board
Salzgitter AG
Chairman of the Managing Board
Preussag AG

Klaus Piltz
Chairman of the Managing Board
Veba AG

Günther Saßmannshausen
Member of the Supervisory Board
Preussag AG

Friedrich Schiefer
Member of the Managing Board
Allianz Aktiengesellschaft Holding

Siegfried Schille*)
Chairman of the Employee Council for Hanover and for the Limmer Plant

Hugo Schleiermacher*)
Former Member of the Employee Council
Vahrenwald Plant
(through 7/5/1989)

Eberhard Schlesies*)
Manager of the Hanover Office
Industriegewerkschaft Chemie-Papier-Keramik

Wolfgang Seelig
Member (retired) of the Managing Board
Siemens AG
(through 7/5/1989)

Ernst Sprätz*)
Chairman of the Employee Council
Dannenberg Plant
(through 7/5/1989)

*) Employee representatives

Report of the Supervisory Board

1989 was overshadowed by the assassination of Dr. Alfred Herrhausen, Chairman of the Supervisory Board of Continental AG. Dr. Herrhausen had headed the Supervisory Board for almost twenty years, during which he exerted a decisive influence on the positive development of the Company. His death was a source of deep grief to all the members of the Supervisory Board.

At its meetings during the past year, at individual conferences, and through oral and written reports, the Supervisory Board was provided regularly with detailed information about the Company's position and progress, which it then discussed with the Executive Board.

These joint discussions were primarily concerned with the budget, medium- and long-term corporate planning, including capital investments, and basic questions about business policy and corporate structure. The Supervisory Board also ruled on those issues which require its approval under the applicable statutory provisions and the Company's bylaws.

Especially noteworthy in this connection are the conclusion of an agreement for the formation of a joint venture in Portugal between Continental AG and Mabor S.A., a local tire manufacturer, for the production of passenger tires, and the transformation of the ContiTech Group into an independent entity as of January 1, 1991.

The Supervisory Board has examined the financial statements, the management report and the proposal for the allocation of net income available for distribution and found no grounds for objection. We concur in the result of the audit by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, which has confirmed, in its capacity as independent auditor, that the accounting records and financial statements comply with the legal requirements and that the management report is consistent with the financial statements. The Supervisory Board has approved the financial statements as of December 31, 1989, prepared by the Executive Board, which are thereby definitively confirmed, and it endorses the proposal of the Executive Board regarding the allocation of net income.

The consolidated financial statements, the management report for the Corporation and the auditors' report on the consolidated financial statements were submitted to the Supervisory Board.

At our meeting on July 5, 1989, we appointed Mr. Ingolf Knaup a full member of the Executive Board, effective immediately. He will be in charge of Corporate Finance. Mr. Haimo Fortmann was appointed a deputy member of the Executive Board, responsible for Continental, Uniroyal, and Semperit Tire Manufacturing, as of January 1, 1990.

At the meeting of February 14, 1990, the Supervisory Board elected Dr. Ulrich Weiss, a member of the Board of Managing Directors of Deutsche Bank AG, as its Chairman.

Hanover, May 7, 1990

The Supervisory Board

Ulrich Weiss

Ulrich Weiss, Chairman

Members of the Executive Board

Vice Presidents

Executive Board

Horst W. Urban
Chairman

Wilhelm Borgmann
Vice Chairman,
General Tire/U.S.A.

Peter Haverbeck
ContiTech

Hans Kauth
Director of Personnel

Ingolf Knaup
Corporate Finance

Günter H. Sieber
Tire Marketing and Sales

Wilhelm P. Winterstein
Controlling and Logistics

Haimo Fortmann
Deputy Member
Tire Manufacturing
(as of 1/1/1990)

Vice Presidents

Bernd Frangenberg
Uniroyal Tire Marketing and Sales

Helmut Gieselmann
Continental Tire Marketing and Sales

Jens P. Howaldt
Law and Corporate Planning

Klaus-D. Röker
Tire Technology

Wilhelm Schäfer
Chairman of the Managing Board
Semperit Reifen AG

Dear Shareholders,

The atrocious, senseless crime that claimed Dr. Alfred Herrhausen as its victim robbed us of a man who had for many years been Chairman of our Supervisory Board. I worked with him during almost the entire time that he was playing his decisive role as one of the chief architects and administrators of our Company's destiny. It was he who brought me into the Company sixteen years ago. Dr. Herrhausen was a godsend for Continental. He had both the strength, in times of reorganization, to follow the necessary personnel and structural measures to their conclusion and the strategic vision and courage to give vigorous support to the programs designed to secure our Company's future over the long term. He was able to win over and convince any opposition, and he used this gift at all times for the benefit of the Company. Continental will not forget Dr. Herrhausen and will always honor his memory.

We are grateful to Dr. Ulrich Weiss, a member of the Board of Managing Directors of Deutsche Bank AG, for consenting to succeed Dr. Herrhausen, thereby giving tangible proof of the continuity of our business policy.

The process of concentration in the tire industry continued in 1989. Michelin acquired Uniroyal Goodrich, a major American tire company with sales of over $2 billion, thereby becoming the undisputed leader in our industry. This transaction should bring an end for the time being to the large acquisitions in the tire sector. Our Uniroyal brand, which we contractually secured over the long term for the countries outside North America when we purchased the European tire activities of Uniroyal Inc. in 1979, will not be affected by this transaction.

ContiTech is concentrating on expanding our business in Europe, so that it can continue to supply our customers in the Common Market optimally at competitive prices. Further acquisitions will undoubtedly follow the initial takeovers in France, Turkey and Spain.

The rapid political developments in Central and Eastern Europe caused us to take a searching inventory of our past and future position in this region, which has already led to preliminary negotiations. Despite all the political and economic imponderables, we shall intensify our efforts with regard to East Germany.

The process of concentration in the tire industry and the cost

pressure on car makers, who are confronted with increasingly stiffer competition from the Far East, has led to drastic price reductions and unsatisfactory earnings in our business with the automotive industry. This decline in earnings can no longer be absorbed by replacement sales. We are proceeding on the assumption that business with our most important customer, the automotive industry, will return in the future to a rational economic equilibrium.

The unsatisfactory operating income in our tire business was also due to the long strike at General Tire and another mild winter. However, the fine performance of ContiTech, significant steps to improve our infrastructure with regard to personnel and other expenses and good results in the neutral area made it possible to maintain overall income at the previous year's level.

Net income was increased by adjusting our depreciation policy to the standards prevailing throughout the world in the tire industry.

As planned, General Tire is undergoing a reorganization which requires a special injection of resources. In order to reinforce the U.S. management, Dr. Wilhelm Borgmann, the Vice Chairman of our Executive Board, took over on January 1, 1990 as President and Chief Executive Officer.

A survey of banks in Germany and abroad regarding the structure of Continental share deposits gave no indication at the end of 1989 that blocks of shares are being accumulated. Furthermore, the price of the share corresponds to the general stock exchange trend and the valuation of other large tire manufacturers. There was no concrete substantiation for the fleeting rumors of a takeover.

In view of current political developments and the dangers of strikes in the German automotive industry, it is harder to make predictions than it has been in recent years. However, we expect a generally positive trend. I will probably be able to give you more concrete information on this subject at our Annual Meeting of Shareholders, to which I cordially invite you.

Sincerely,

Horst Urban

Horst W. Urban

Economic Environment

In the 7th year of upturn, dynamic growth continues in the automotive and rubber industries.

The economies of the Western industrialized nations continued to display a healthy trend in 1989. With an overall gain of 3.5%, the gross national product was again substantially higher than in the previous year, although a slight decrease in the growth rate was apparent.

The front runner in the economic expansion was Japan, with 4.5%. On the other hand, growth was slower in the United States; although the gross national product rose by 3%, there are definite signs that the economy is likely to soften in the future.

Again in 1989, initial estimates of the West German economy's momentum proved to be too conservative. The extremely vigorous growth of 4% was due mainly to a strong rise in both foreign demand and capital spending. At 89%, capacity utilization set a new record for the period since 1970.

The West German automotive industry took full advantage of the favorable economic trend. New registrations, at 3.0 million vehicles, remained at the high level of the previous year. Strong export demand led to a 5% increase in production, for a total of 4.6 million passenger cars. Exports grew by 9%. Once again, there was a significant rise in new commercial vehicle registrations, which were up 8% over the previous year. Production increased by 3%. The share of exports amounted to 60%, remaining at the 1988 level.

Production in the worldwide automotive industry also expanded further in 1989. In passenger cars, the growth leaders were Japan, Great Britain, France and Spain, with gains of up to 10%. On the other hand, production by Japanese commercial vehicle manufacturers plunged, with a decrease of 9%.

Starting in October 1989, there was a noticeable decline in the output of the American auto makers. For the year as a whole, their sales volume was down 8%. By contrast, Japanese suppliers pushed up their market share in the United States from 22% to 25%. A large number of these Japanese cars was already being made at U.S. plants.

The German rubber industry recorded an exceptionally high production increase of 6% for 1989. The mainstay of this growth was the original equipment business, for sales of replacements were lower than had been anticipated.

Business in industrial rubber products was also highly satisfactory, with a 7% rise in volume. A particularly strong incentive came from the mechanical engineering sector, which stepped up its purchases by 10%.

The positive economic trend will continue in 1990, although the upturn seems to be losing some of its dynamism. Accordingly, the gross national product can be expected to increase by 2.5% in the industrialized countries. Above-average growth is forecast for West Germany. Private consumption should prove to be a strong motive force in the expansion, due in particular to the tax reforms that have taken effect in 1990. The political and economic developments in the Eastern European countries and the approaching deadline for European unification will probably also have a stimulating effect, although it is too early to estimate its full extent.

Management Report for the Corporation and Continental Aktiengesellschaft

Internationalization: In 1989, Continental further expanded its position through acquisitions and collaborative ventures.

Further Acceleration of the Concentration Process

The process of concentration that has been under way for several years on the world tire market continued in 1989. After its acquisition of Uniroyal Goodrich in the U.S.A., the French company Michelin is out in front of the competition with a 24% share of the world market. Goodyear and Bridgestone – now that it has purchased Firestone – come next, with 19% and 17% respectively, while the Continental Corporation, with its 8% market share, follows at a considerable distance in fourth place. The four largest tire manufacturers thus control almost 70% of the world tire market.

Michelin's strategic position on the North American market has been greatly enhanced by this purchase. And it confirms once again, from a long-term point of view, the wisdom of our acquisition of General Tire in 1987.

A concentration among distributors in both North America and Europe has also been observable for several years. The large tire manufacturers are becoming more and more interested in acquiring strategically important dealers and dealer chains, through which the distribution of their own products can be promoted or assured.

Taking Up the Challenges

Within the framework of this worldwide process of concentration, Continental, too, is continuing to expand its position.

In the summer of 1989 we signed an agreement with a Portuguese tire manufacturer, Mabor S.A. in Oporto, for the formation of a joint venture in which Continental will have a 60% interest and Mabor will retain the remaining 40%. Once the production facilities have been completed in 1993/1994, the Continental and Mabor sales organizations will be supplied, in proportion to the companies' holdings, from the daily output of 18,000 passenger tires. The tires are destined primarily for the Iberian peninsula.

In addition, performance of the contract signed in 1988 with our two Japanese partners, Yokohama Rubber Co. Ltd. and Toyo Tire & Rubber Co., for the construction of a joint U.S. plant in Mt. Vernon, Illinois, proceeded on schedule during the fiscal year. Laying of the foundation stone for the new plant took place in March 1989, and production will begin in 1992.

As far as distribution is concerned, we have succeeded in acquiring ownership or participating interests in dealers and dealer chains. We regret this process of concentration in the trade; however, we have no alternative but to pursue it.

About half of our rubber requirements is still comprised of natural rubber – a raw material that will continue to offer great potential in the future.

We were able to obtain interesting participations – or to take over entire companies – in the U.S.A., Great Britain and Germany. Our acquisition of the German tire dealer Heinrich Maurer GmbH & Co. KG, Meisenheim am Glan, with sales of about DM 50 million and 18 branch offices, took effect at the beginning of the fiscal year.

In the spring of 1989, we purchased a minority interest in a British tire dealer, Birkenshaw Tyre Ltd. ("Smiley"), Glasgow, with sales of DM 40 million and 45 sales outlets. In the U.S.A., we bought shares in Big O Tires Inc., a dealer based in Englewood, Colorado. The company has 315 outlets and sales of DM 380 million.

At the beginning of 1990, we purchased the U.K.'s second-largest dealer chain, National Tyre Service, Stockport, Manchester. Its 408 outlets account for sales of DM 400 million. This acquisition is still awaiting the approval of the British authorities.

1989: A successful year for ContiTech. A year of declining prices despite full capacity utilization at the tire plants.

Due to a serious fire which took place during May 1989 at our Spanish tire plant in the Madrid suburb of Coslada, we were unable to take advantage of all the market opportunities for industrial tires. The production is currently being shifted to our factory in Korbach, near Kassel, which already manufactures industrial tires. However, the plant in Madrid is being reconstructed to manufacture industrial products as part of ContiTech's European production complex.

"Europeanization" Continues at ContiTech

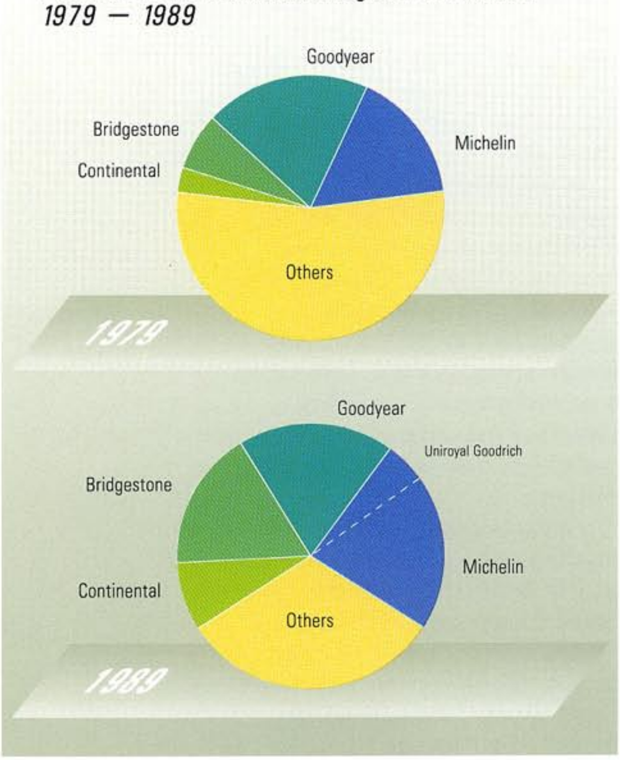
The acquisition in 1988 of the Anoflex and Soderax plants in Lyon, France, has already proved highly successful in their first full year of corporate membership. We will systematically continue with our expansion of the ContiTech Group's operations in Europe.

For example, an 80 % interest was acquired during the fiscal year in a Turkish company that manufactures hoses. Although the sales of ContiTech Kauçuk Sanayii A.Ş., Istanbul, at approximately DM 5 million, are still low, we consider it a starting point both for servicing this growing market and shipping products to other countries.

In addition, on December 1, 1989 we formed a joint venture with Elastorsa S.A., a manufacturer of extrusions located in Arnedo, Spain, in which, however, we hold only a minority interest. For the time being the new company, which is called ContiTech-Elastorsa, will sell mainly to the Spanish automotive industry.

While our acquisition and joint-venture policy in the tire sector is directed at achieving a worldwide presence, ContiTech's strategy is oriented primarily to the European market.

Process of concentration in the global tire market 1979 — 1989



Share Accumulation Rumors Unconfirmed

During the last few years, the Continental Corporation has increasingly attracted the attention of the international financial world. There are a number of reasons for this. The Company's strong growth was certainly a factor. Second, we ourselves initiated an intensive dialog with analysts and institutional investors at the world's most important financial centers, in order to expand and internationalize our shareholder base. And, third, there has been a particularly large number of acquisitions and joint ventures in the tire industry during the last few years, in which we, too, have participated.

In fiscal 1989, however, we were confronted with particularly intensive and extended speculations as to whether someone might be acquiring an interest in Continental. At times, heavy trading on the stock exchanges was

considered proof of such an activity, although our shares are not valued any higher than those of our major competitors. Despite extensive investigations, including a survey of our shareholder structure, we did not obtain any concrete information regarding any potential raiders.

One thing is clear: In the interest of the Corporation and its employees we, as a publicly held company, must retain the power to make decisions and not become dependent on others. For this reason, the Executive and Supervisory Boards recommended that the Annual Meeting of Shareholders in 1989 pass a resolution reinforcing the existing limitation on voting rights. Accordingly, a cancellation or amendment of

the voting limit as established in the bylaws would in future only be possible with three fourths of the votes cast and a majority of the capital. The Annual Meeting of Shareholders passed the resolution amending the bylaws by a majority of over 99%. A shareholder has nevertheless brought an action to set aside the resolution. This proceeding is still pending.

European Economy Stays Up, Tire Prices Go Down

Despite good business conditions and occasional delivery bottlenecks, prices are still declining in the tire market, especially in the original equipment sector. This can be explained only by the severe crowding-out that is apparent in almost every market.

Utilization of our European manufacturing capacities was stepped up by introducing both additional shifts and work on Saturdays. Capacity utilization in the plants manufacturing commercial vehicle tires was particularly high. Demand for passenger tires slowed down somewhat during the second half of the year, especially in the European replacement business. But since the original equipment business was consistently very strong, we nevertheless succeeded in increasing sales of passenger tires.

Snow tire sales, which have traditionally been an important factor in our Company's product and earnings mix, were slower than anticipated. But despite the marked decline in demand for snow tires resulting from the mild weather, we were still able to gain market shares.

Long Strike in North America

General Tire's business did not meet our expectations in 1989. Like other companies, we found that our sales volumes for original equipment were affected by the slowdown in the U.S. economy, which had an especially strong effect on demand for automobiles.

General Tire also failed to reach the goals set for 1989 in Mexico and Canada. Although the partial completion of the plant restructuring programs has already begun to increase productivity, it

Demands made by the world's vehicle makers on their suppliers have again been stepped up. Major emphasis is placed on tire technology, and comprehensive test programs are essential.

Key areas of capital spending, which was again increased in 1989, were capacity expansion, quality assurance, automation and rationalization.

has not yet produced significant improvements. A third aggravating factor was the strike at the large plant in Charlotte, North Carolina, which lasted for 67 days, causing a substantial loss of sales and thus reducing operating income by about DM 35 million.

To remedy this situation effectively and promptly implement the capital investment programs we have adopted, Wilhelm Borgmann, Vice Chairman of the Continental Executive Board, was put in charge of this company, the Corporation's largest subsidiary, as of January 1, 1990. This move should ensure that both the modernization and restructuring projects and the joint venture we have started with Yokohama and Toyo for the construction of a large truck tire plant will be carried out successfully.

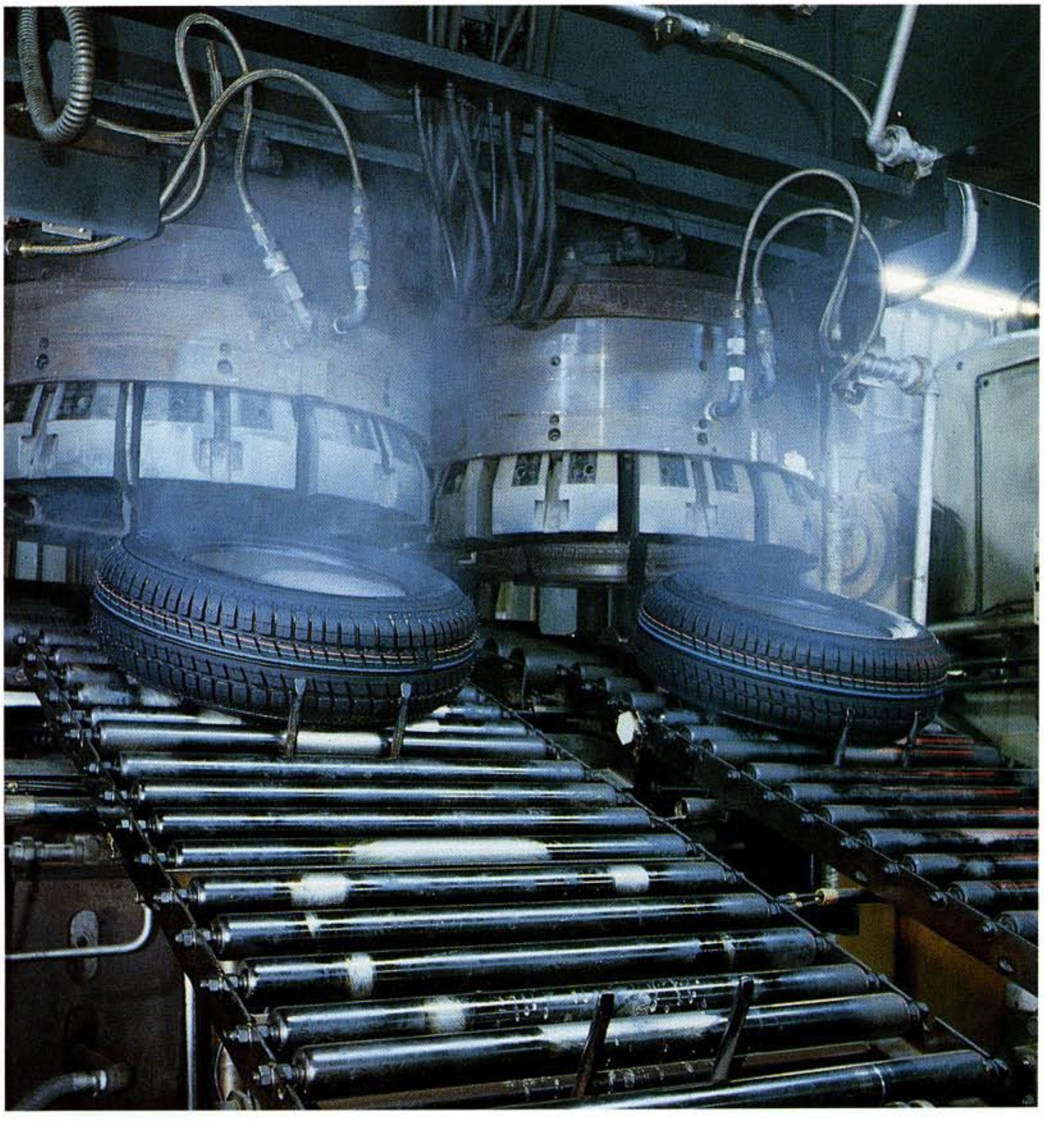
Continued Success with Industrial Products

In 1989, ContiTech continued to ride the surge which has emerged in recent years in the industrial products business. Although competition was stiff in this industry as well, we succeeded in taking full advantage of the increased demand resulting from a thriving economy. All of the Group's Operations improved their production, sales volumes, sales revenues and net income. The Molded Products and Extruded Products Business Units also made good progress, even though their earnings were unsatisfactory.

Our subsidiaries Göppinger Kaliko GmbH, Eislingen, and Techno-Chemie Kessler & Co. GmbH, Karben, and our associated company Clouth Gummiwerke AG, Cologne, improved their position, but they still have a number of problems to solve. The German Federal Cartel Office recently gave permission for us to acquire Clouth's entire capital stock.

The shift in our mix to more sophisticated products and systems continued. As our customers, particularly the car manufacturers, step up their demands for higher-quality products, we expand our delivery capability accordingly. On the other hand, we are trying to meet customer requests for cheaper standard products by suppying them to an increasing extent from foreign manufacturing facilities.

ContiTech's business cannot be compared with the tire business. While tires are mass-produced products which are virtually interchangeable, ContiTech manufactures products that meet a given customer's specific requirements. This means that ContiTech's individual Operations must have a different structure from the Tire Groups. Our competitors in the market for industrial products are for the most part much smaller businesses. We therefore decided in 1989 to separate the ContiTech Group from Continental AG, as of January 1, 1991, and to transfer it to a holding company; ContiTech's individual Business Units will be transferred to seven subsidiaries of our Corporation.



We expect that these new closed corporations will have more flexibility, greater entrepreneurial scope and more transparent spheres of responsibility.

Gratifying Sales Increase

Consolidated sales rose by 6.0% to DM 8,381.9 million (1988: DM 7,905.8 million).

Declining prices prevented a larger sales increase. In addition, the sales lost as a result of the strike at General Tire caused growth to fall short of the target amount.

Sales revenues	1989 DM million	1988 DM million	Change in%
Parent company	3,040.8	2,813.3	+ 8.1
Consolidated	8,381.9	7,905.8	+ 6.0

Tires accounted for 79.2% (1988: 80.5%) and industrial products for 20.8% (1988: 19.5%) of consolidated sales.

For the parent company, 64.3% of sales (1988: 64.9%) was attributable to tires and 35.7% (1988: 35.1%) to industrial products.

New Maneuverability Through Cost Reductions

During 1988 and 1989, we gave high priority to a diversified cost-reduction program. A "15-point plan" for cost reduction had already been launched at all the manufacturing locations of Continental AG in 1988; it was systematically continued in 1989. In addition, over the past two years we have been conducting a comprehensive "optimum infrastructure" campaign, which will extend through 1990, in order to lower our overhead. We have thus created greater latitude for ourselves to make above-average investments in such sectors as logistics, data processing and research and development.

We have also set in motion a number of programs with a view to the inception of the European single market. To control production and the flow of goods throughout the Corporation and to ensure optimum inventory management, we have begun to incorporate all the logistic interfaces for the three tire brands, including the European plants, into an EDP network. This ILS (Integrated Logistics System) will become fully operational, in a number of stages, by the end of 1991.

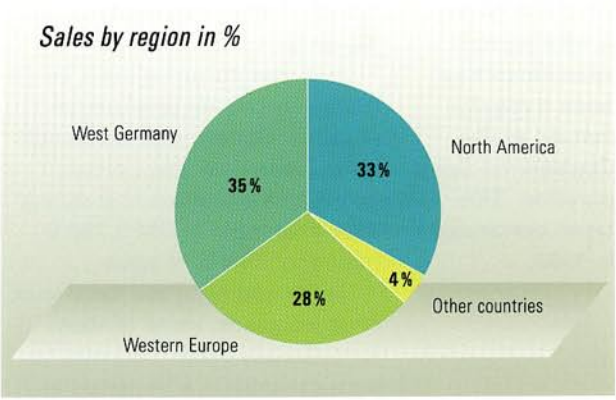
Expanded Research and Development

Total research and development expenditures rose by about 12% in 1989. In addition, we initiated a three-year program for this key sector. We are aiming at a gradual buildup of the human resources dedicated to product development, better facilities for the various units and an expansion of tire research. In the future, the basic research for every part of the Corporation will be done in Hanover. Our efforts will be concentrated on tire mechanics, new tire concepts, materials research and testing methods.

With our CRAY X-MP supercomputer in Hanover, which is linked to Uniroyal in Aachen and Semperit in Traiskirchen, it is now possible to make tire computations with the three-dimensional finite-element method* more efficiently than ever before.

We are also more than doubling the size of the "Contidrom" tire testing center near Hanover. A new building for tire experiments was completed for Uniroyal in Aachen, and Semperit, too, is receiving a new development center, to be constructed in Traiskirchen.

*) *Complex systems are broken down into measurable elements in order to calculate the deformations*



The development center for Continental tires at the Stöcken plant will be expanded.

Higher Capital Investment Budget

A glance at the Corporation's total capital investments shows a further advance over the record set in 1988. The additions of DM 543.8 million to fixed assets, including intangibles, reflect our strong capital commitment to secure and strengthen business in the European and North American markets. This represents an increase of 19.0% (DM 86.7 million) over 1988. At DM 818 million, the capital expenditures approved in 1989 – some of which, of course, will not be reflected in the balance sheet until subsequent years – were on the same high level as in the previous year. A similar amount will be spent in 1990.

While in 1988 the bulk of the capital investments approved related to the joint venture planned in the U.S.A. with Yokohama and Toyo, in 1989 a large part of the funds was allocated to the restructuring of the General Tire plants. Other investments in North America and Europe were used for expansion of manufacturing capacities, quality assurance, automation and rationalization. The capital expenditure ratio (additions to fixed assets/sales) rose from 5.8% in 1988 to 6.5% in 1989.

Opportunities: Together with our employees, we implemented programs to cut costs and improve the infrastructure, thereby providing greater latitude for investments. This process will extend through 1990, too.

Financial basis: A healthy balance sheet has been a regular feature of the Continental Corporation. This trend continued in 1989.

Trends Differ in Raw Materials Markets

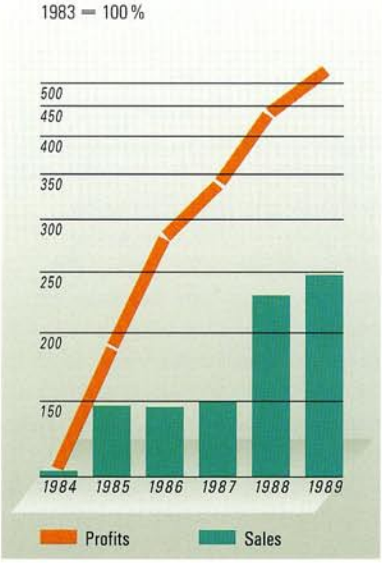
The manufacturing input for rubber and plastic products includes a relatively high proportion of raw materials. The Corporation's total materials cost during 1989 amounted to DM 3,298.8 million, or 39.4% of sales.

In the course of the fiscal year, price increases, some of them exceptionally steep, occurred for such essential raw materials as certain synthetic rubbers, carbon black, steel cord and textile cord. Natural rubber was the only material selling at lower prices than in 1988.

The rubber industry's strong worldwide gain in volume led to shortages of raw materials, with corresponding bottlenecks in delivery. Price increases were frequently the result. Also prejudicial was the increase in crude oil prices, which have a direct effect on the cost of carbon black, synthetic rubber, steel cord and basic chemicals. Our suppliers are being constantly confronted with more stringent environmental regulations, which raise their costs and trigger price increases for us on the procurement side.

Growth in sales and profits

1983 = 100%



Improved Financial Structure

The capital stock of Continental Aktiengesellschaft increased by DM 2.3 million, amounting to DM 435.0 million at December 31, 1989. In addition, there is conditionally authorized capital in the amount of DM 212.5 million.

The AG's shareholders' equity rose by DM 39.8 million to DM 1,641.1 million and financed 61.7% (1988: 63.0%) of total assets.

Consolidated shareholders' equity increased by DM 67.4 million to DM 1,725.3 million and amounts to 31.9% (1988: 30.4%) of total assets.

Higher Net Income

As in previous years, the fierce crowding-out made it impossible, in all but a few cases, to pass increased costs for raw materials and personnel on to our customers.

On the other hand, positive effects were again generated by the sharp rise in volume, improved productivity, cost-reduction programs and an even better product mix. Although five years ago standard tires still accounted for about 82% of total tire sales, their share was only 66% in 1989.

Nevertheless, the Tire Group, whose activities are centered in Europe with the Continental, Uniroyal and Semperit brands, came just short of the previous year's earnings. Due to the strike and the difficult market conditions in North America, General Tire's net income was lower than in 1988, but it again operated at a sizable profit. On the other hand, ContiTech, which had already shown an improvement in 1988, posted a further significant increase in earnings and, after years of reorganization, is now making a solid contribution to consolidated net income.

Consolidated earnings before income taxes increased, rising to DM 369.3 million (1988: DM 338.7 million). After income taxes had been deducted, net income amounted to DM 227.8 million, a gain of DM 33.0 million or 16.9% over the previous year. This also reflects the change from declining-balance to straight-line depreciation.

The parent company's earnings before taxes amounted to DM 156.8 million (1988: DM 163.7 million) and its net income to DM 81.2 million (1988: 80.9 million). Net income available for distribution was DM 71.0 million, as against DM 70.4 million in 1988.

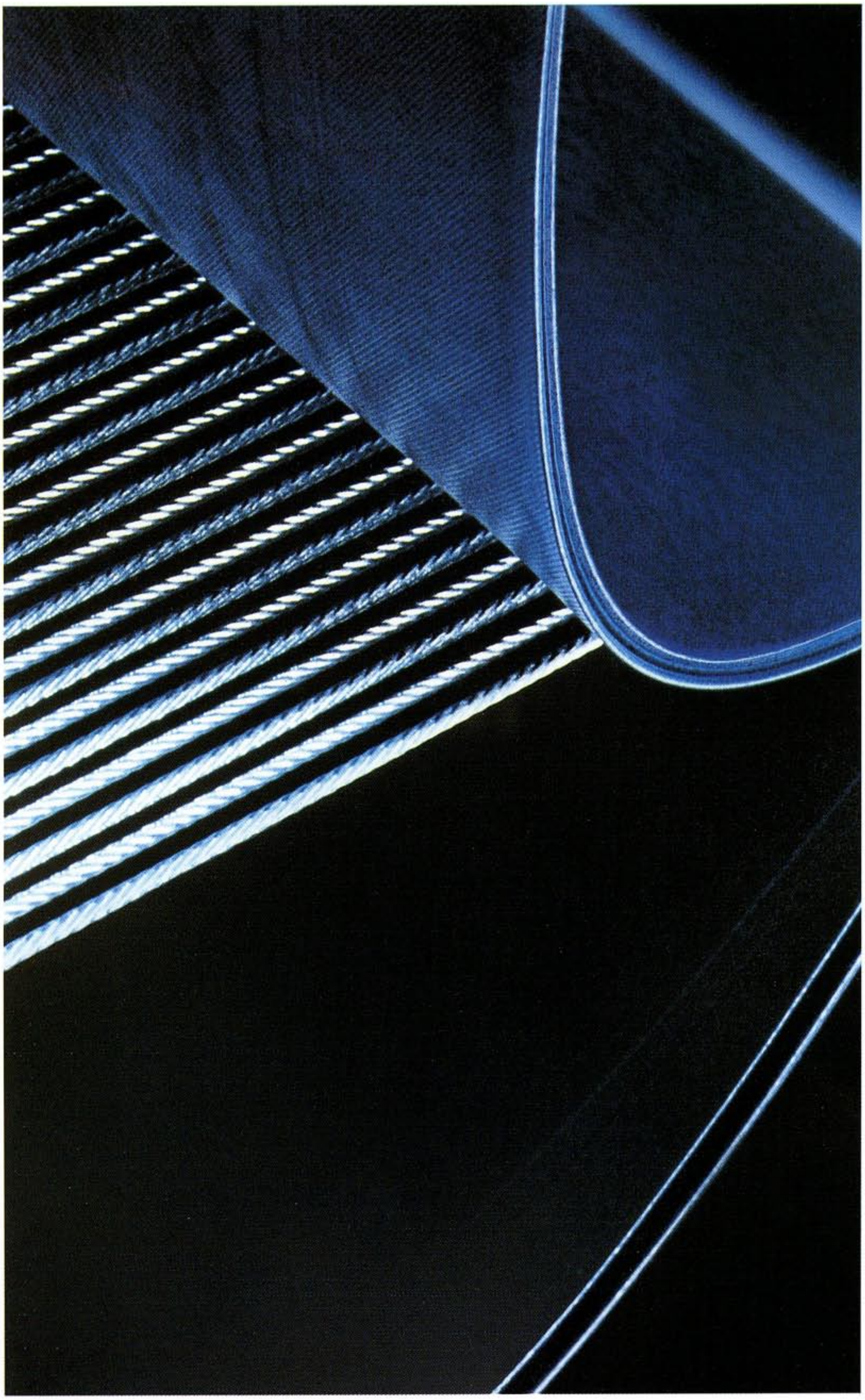
Dividend Proposal

The Administration proposes to the Shareholders' Meeting that DM 69.6 million of the net income available for distribution be used to pay a dividend of DM 8.00 (16%) on each share with a par value of DM 50.00, and that the balance of DM 1.4 million be carried forward.

Thanks to Our Employees

1989 was a difficult year, but ultimately, taking all the positive and negative factors into account, a successful one. Once again, substantial gains in volume and strong countercurrents in the market required the full dedication of all our employees and executives. The programs to reduce costs and improve our organizational structure also continued to make strong demands on the personnel.

We would therefore like to thank sincerely all those working for the Corporation for the willing effort and creativity which enabled us to solve these problems. This includes those employees who retired during 1989. Our thanks go also to the employee representatives in the plants, as well as the Joint Employee Council and



the Corporate Employee Council. Once again it always proved possible, for the welfare of the Company as a whole, to find solutions that were ultimately acceptable to both sides.

Outlook

Economic forecasts for 1990 are predicting a continuation of the favorable business climate, with the German economy providing particularly strong momentum in Europe. In North America, however, a slowdown is anticipated, which will also have a negative impact on the sales prospects of the local automotive industries. On the other hand, the picture looks somewhat brighter for the Japanese vehicle makers, who are already manufacturing at 10 different locations in the U.S.A. and Canada.

We assume that demand will remain at the high levels reached in 1988 and 1989. While volume growth will probably be satisfactory on the whole, it cannot be expected that the price wars will decrease in virulence.

For 1990 we anticipate a further sales increase and a satisfactory profit.

In steel cord manufacturing, parallel steel cables are treated to give good adhesion and covered with textile reinforced rubber before going into the cold press.

Tire Group

Continental, Uniroyal Englebert, Semperit

Progress: Longer machine operating times enhance our competitive ability on the international marketplace and create new jobs.

In 1989, overall demand from the European automotive industry was brisk, while the replacement business gradually slowed down. Unit sales of passenger tires rose by 3%, and sales volumes of light and heavy truck tires by 6% and 10%, respectively.

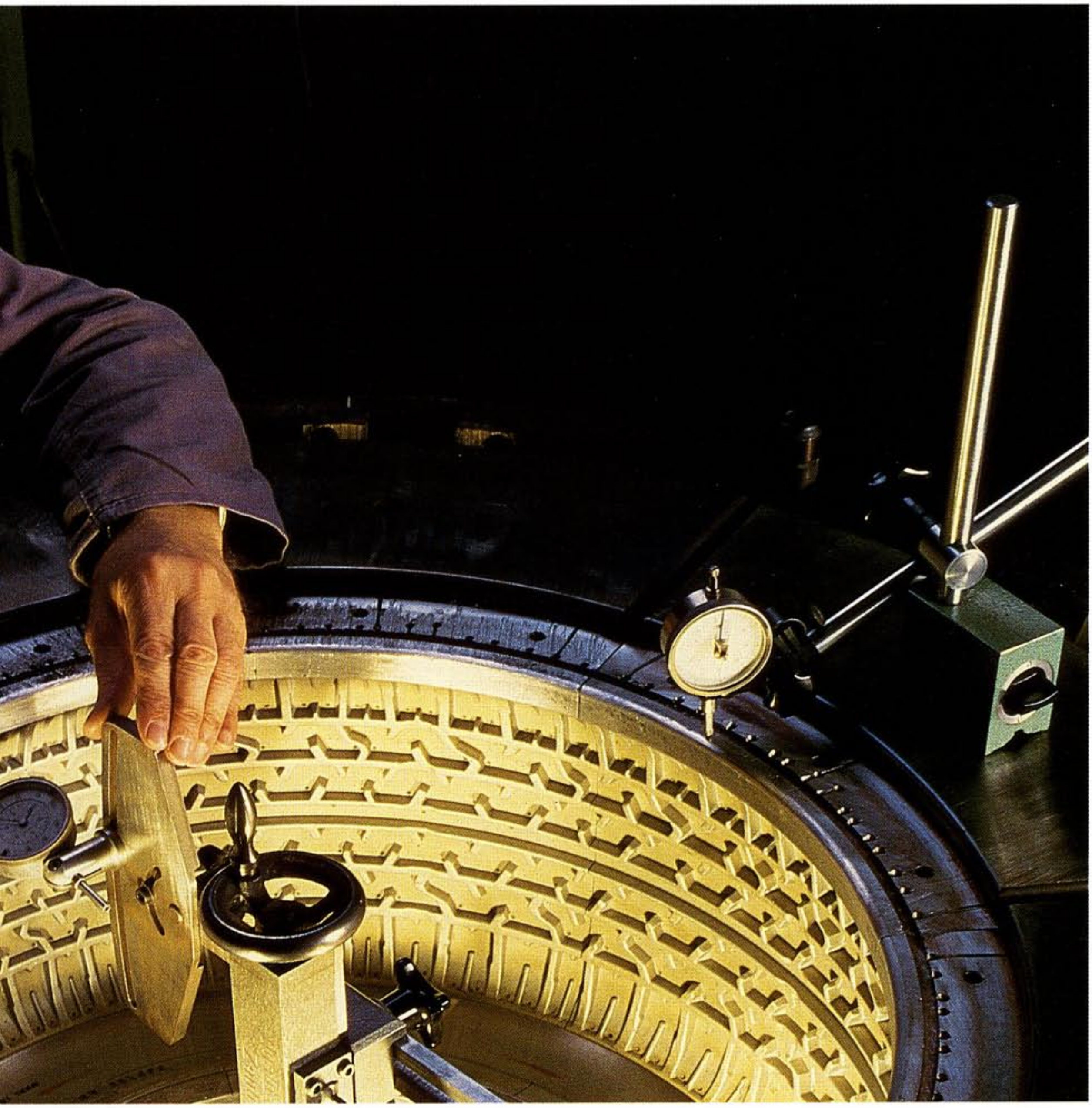
Full Utilization of Manufacturing Facilities

In the fall of 1989, we introduced the 6-day workweek at the Hanover-Stöcken plant. The continuous work model (a 7-day workweek with 5 shifts) that we were attempting to introduce at the Aachen plant, with the support of the staff, the Employee Councils and the unions, unfortunately did not become a reality. The government of the State of North Rhine-Westphalia refused to permit us to make more efficient use of these capacities, which would have caused a decided improvement in our competitiveness and created about 400 new jobs. In the fall, the Korbach plant near Kassel increased its capacity by introducing a 16th shift. In addition, we started to restructure and expand our Irish plant in Dublin during the second half of the year.

Shares Gained in Important Markets

The three tire brands increased their consolidated sales by 6.9% to DM 4,063.2 million, but it was impossible to reach the previous year's operating income, because higher costs could not be passed on to customers by means of price increases. Nevertheless, it is gratifying to note that against stiff competition, we achieved above-average growth in those Western European countries where the Corporation's market position is not yet sufficiently strong — that is, the U.K., Spain, Italy and Belgium. In 1989, the Corporation succeeded in strengthening its position in West Germany, its most important market, especially in passenger tires, heavy truck tires and flatbed tires.

We increased marketing expenditures in 1989 for the Continental, Uniroyal and Semperit brands whose markets are primarily in Western Europe. Production of the ContiTireSystem (CTS) started at the Hanover-Stöcken plant in the fall of 1989. We are supplying Mercedes-Benz with complete wheels as an option for the roadster, but the number of units sold is still small.



Most people are unaware of the high quality requirements involved in tire production. Here a tire mold is being measured.

Dealer Organizations

We are devoting special attention to the expansion of our dealerships outside West Germany. With the acquisition of National Tyre Service (NTS), U.K., we have succeeded in taking a strategically important step in this significant market.

Revenues in this part of the Tire Group, not including those generated by the Corporation's own brands, amounted to DM 439.1 million (1988: DM 406.5 million). They stemmed from the sale of other manufacturers' products, as well as retreading services and automotive accessories.

Our aim is to assure a broader distribution of our tire products in this market in order to support and strengthen the services provided by regular tire dealers.

Earnings at Vergölst, a large dealer organization whose activities are centered in West Germany, were unsatisfactory. They were affected by the mild winter and the difficult business climate for retreads. However, progress was made in further expanding our service business.

Continental Division

Successful: Our business in the German replacement sector again made a good contribution to earnings.

1989 was a successful year for the Continental Division. Worldwide, we sold more passenger and truck tires than ever before, thus gaining additional shares in important target markets. Sales rose by 7.0% to DM 1,675.4 million.

Prices Drop for Original Equipment

Business with the automotive industry became increasingly international during 1989. Although prices declined sharply, we gained market shares in the face of stiff competition. We benefited from the good business climate to strengthen supplier relationships with our customers. For this reason, we participated again in the world's largest international automobile show — the IAA — in Frankfurt.

Trends Vary in Replacement Business

Sales volumes differed in the various replacement markets. Business continued to be good in Germany, and our position improved. Among the neighboring European markets, the U.K. in particular, to which we devoted special attention, met our ambitious goals. Progress was also made in other countries, reflected primarily in higher unit sales of stylish low-profile and high-performance tires. Sales and earnings rose as a result of the growth in volume. We shall continue to expand this product segment in the future by means of carefully targeted marketing efforts.

To increase the penetration of the Continental brand and intensify the tire-consciousness of consumers, we conducted an intercity competition, "The Golden Valve." We found that Nuremberg is the city in which drivers come the closest to using optimum pressure in their tires.

Opportunities East and West

The acquisition of General Tire has now made the Continental name familiar in North America, too, and business in the U.S. market continued to develop well. Delivery bottlenecks prevented us from taking full advantage of further opportunities for expansion. The significant earnings growth in this market was stimulated by the improvement in foreign exchange rates compared with 1988. We expect that sales and net income will remain strong in 1990.

The positive developments in Eastern Europe will open up new opportunities for us in the future. Cultural and geographical affinities enhance the possibilities for partnership with the Eastern European rubber industry. We have made appropriate preparations, and discussions about a possible collaboration have already taken place.

New Passenger Tires

Trade journals, dealers and consumers responded enthusiastically to our new ContiSportContact high-speed tire. We shall enlarge the range of sizes and thereby achieve an above-average gain in volume. One positive factor is the way the trend to low-profile tires is spreading increasingly from the German market to the other European countries.

Although the market in West Germany was shrinking, a new snow tire enabled Continental to strengthen its leading position in this product segment. Even though dealers' stocks were high and the winter was again lacking in snow, we recorded a slight increase in our market share. Good test results reported in the media helped to win over dealers and consumers.

Surge in Commercial Vehicle Tires

The economy's continuing prosperity also had a favorable effect on unit sales of our truck tires. We posted exceptionally high growth rates, particularly in

the West German, British and American replacement markets, and we expect that the good trend will continue. However, prices – and therefore earnings – were unsatisfactory.

In our industrial tire business, volumes in almost all the markets were higher than in the previous year. Market shares rose in original equipment and replacements, with

a corresponding improvement in earnings.

Business with agricultural tires was satisfactory. The product spectrum is being constantly expanded and adjusted to the more stringent environmental requirements of our customers. The shift of manufacturing operations for major product lines within Hanover and, in some cases, to Yugoslavia was successfully completed in 1989.

More Cycle Tires

Bicycles are far and away the most popular means of individual transport in the world. In West Germany alone, there are about 40 million of them. We have carved out substantial shares in the vigorously growing market for high-quality specialty tires. Motorcycle tires also posted a gain.

More than 100 auto journalists from Germany, Austria and Switzerland used the opportunity to test our new snow tire on the Tystig glacier in Norway; their response was excellent.

Expertise: Uniroyal is a recognized and successful partner to the automotive industry and its development engineers.

In 1989, Uniroyal Englebert boosted its sales in every product group and reported increased market shares in many of the European countries. Sales rose by 7.1 % to DM 1,054.8 million.

Progress with Commercial Vehicle Tires

Modernization of manufacturing at the Herstal plant in Belgium and the development of application-oriented tread patterns led to significant progress in business with commercial vehicle tires. We improved the position of Uniroyal tires in such key markets as West Germany, Italy and Austria; good growth rates were also recorded in Great Britain and the Benelux countries. Uniroyal achieved a noteworthy technical advance with the development of a new flatbed tire. In addition to having the smallest possible diameter, which is crucial for the available space and loaded height on flatbed vehicles, these tires offer a load capacity never before achieved.

In contrast with its heavy truck tires, Uniroyal's small truck and pick-up tires have traditionally occupied a leading position among the corporate brands. A further increase in market shares enabled Uniroyal to improve this position in the most important countries. The price trend, however, as in almost all our markets, was unsatisfactory.

Computer-based analysis of a tire's behavior has to be confirmed in practice. Noise level measurement is just one of the many different testing procedures.

Strength in Original Equipment

During the fiscal year, the makers of many new car models granted Uniroyal the engineering approval they require as a condition for supplying them with tires. These models include top-of-the-line automobiles and large limousines made by German manufacturers. But the Division was also successful in supplying original equipment for small and medium-sized European cars. We regard this as a testimony to Uniroyal's reliability and exceptional quality.

In 1988, our Aachen plant was the first recipient from the tire industry of Ford's "Q1 Award" for outstanding suppliers. In 1989, the Uniroyal plants in Clairoix, France, and Newbridge, Scotland, also received this award. All the Uniroyal plants that produce passenger tires have thus been accorded this high distinction.

Varying Results in the Replacement Business

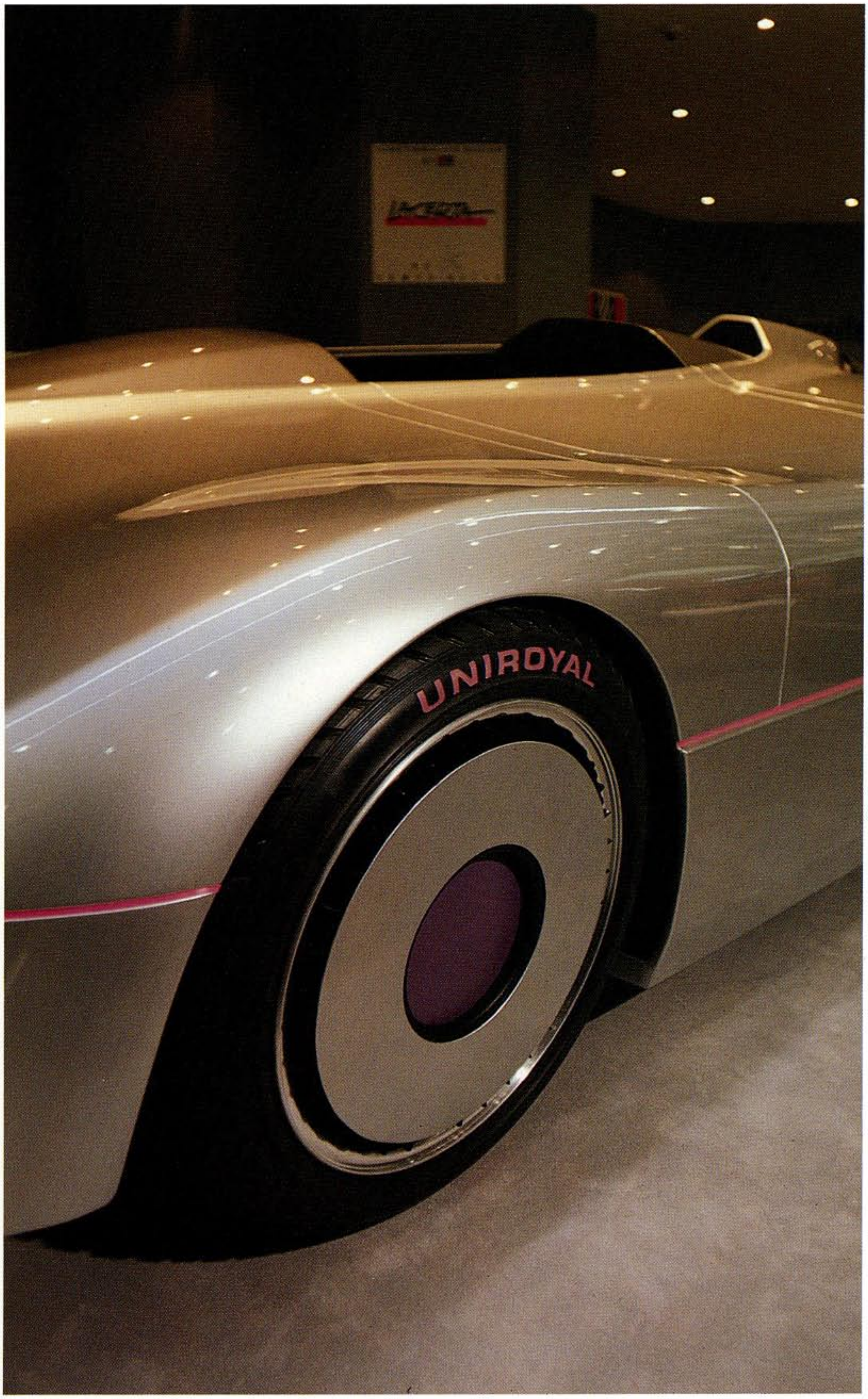
Our rain tires posted good growth rates throughout Europe in terms of both volume and market share. Particularly noteworthy is the sharp rise in volumes of low-profile and ultra-low-profile tires on the German market. However, due to the weather conditions, business with snow tires was disappointing. Despite gratifying test results and no-snow insurance introduced as a sales promotion, consumer demand was less than satisfactory.

Intensified Marketing

Numerous marketing measures were used to support the Uniroyal brand and promote its distribution by tire dealers. "Uniroyal Plus," a new information service published each month for the owners of tire businesses, not only reports on current industry trends, but also gives practical tips on business management, financing and personnel questions, as well as advertising and sales promotion.

This transfer of know-how to medium-sized tire dealers is designed to help insure a versatile approach to marketing problems.

The curriculum offered in our new training center is also serving to improve customer relations. In its first year of existence, 2,640 participants attended courses in the workshop and seminar rooms at Herstal, Belgium. Tire dealers and trucking company personnel came from every part of Europe, as well as from the U.S.A., China, Japan and Taiwan. At the same time, we continued the pan-European training program for sales representatives, in order to further enhance their counseling abilities. The Europe-wide flat-tire service, computerized performance testing on the customer's vehicle and the new European training center in Herstal are additional elements in



our commercial vehicle service package, which has become as important for consumers and dealers as the product itself.

A high point of the fiscal year was our presence at the world's most prestigious automobile show – the IAA – in Frankfurt am Main. Landmark features included not only the world premiere of a sports car on our stand, but also the presentation of its tire system. We aroused great interest with our ultra-low-profile high-speed tires. Their innovative directional tread gives them a higher potential than conventional tread patterns, particularly in terms of their traction on wet surfaces.

Our commitment to traffic safety goes far beyond the subject of tires. For years now, Uniroyal's traffic research projects have been followed closely both by traffic experts and the press. The topic on which we focused during the fiscal year – traffic noise – was the timely occasion for symposia in a number of European countries. A new feature is the Uniroyal campaign for safety among young drivers. Together with the German Traffic Council, we are giving driver education courses to 18-to-25-year-olds, a problem group with an especially high accident risk.

Futuristic vision of a sports car with specially designed high-performance tires. One of the attractions at the Frankfurt Automobile Show.

Looking back: Semperit has made good progress during its 5 years of corporate membership.

Semperit Reifen AG also made further substantial improvements in both volume and revenues during 1989. We succeeded in increasing sales by 6.2% to DM 893.9 million, mainly as a result of the introduction and marketing of new high-quality products and an overall gain in unit sales.

Heavy Investments in Traiskirchen and Dublin

During the fiscal year the modernization and restructuring of Traiskirchen, Austria, the Corporation's second-largest European plant , was largely completed. As agreed when we took over Semperit in 1985, a total of DM 200 million has now been invested. Based on this new plant structure, we expect further gains in productivity for the future.

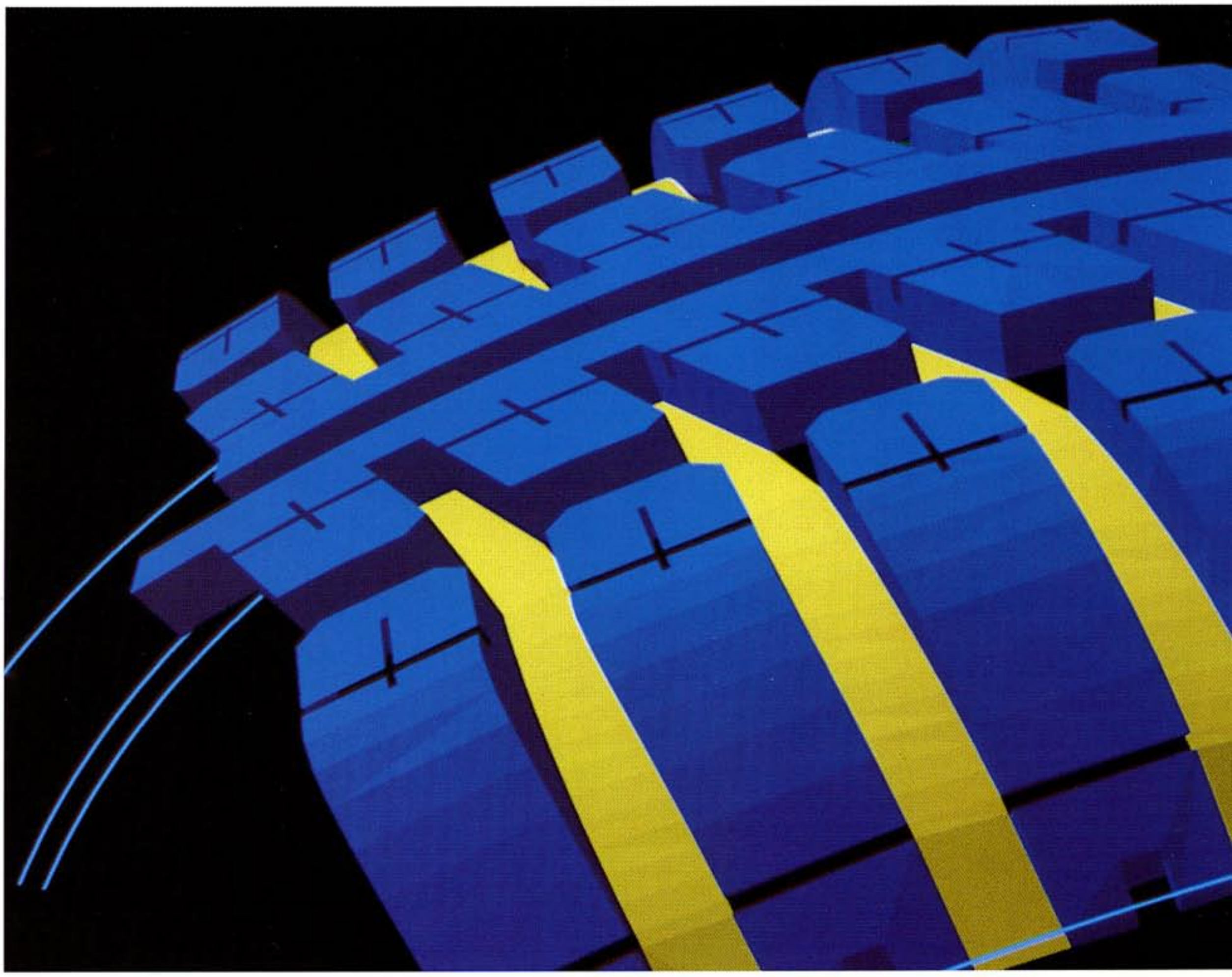
Also designed to increase industrial efficiency and quality was the capital investment program we have instituted at the Dublin plant, Ireland, amounting to over DM 60 million. In addition to an expansion of capacity to 14,000 tires a day, this project includes the changeover to a 6.5-day work-week. Part of the restructuring program was already launched in 1989.

Successful Joint Venture in the East

Despite all the difficulties in the Yugoslavian political and economic system, the collaboration that was initiated more than 20 years ago with the Yugoslavian Sava/Semperit company in Kranj, Slovenia, is proving to be a successful partnership. Experts cite this company, in which Semperit has a minority interest of 27.8%, as a model for future East/West joint ventures. Despite the differing political systems, the two companies have understood how to satisfy the market requirements.

This plant unit manufactures passenger and truck tires with the Sava and Semperit brand names under license from Semperit. A continual flow of both development and production know-how

TOP-SPEED's special tread pattern, and its shoulder design in particular, provide fast water dispersion and reduce tire noise.



ensures high quality and productivity. The same quality assurance systems that are applied to Semperit's own products are also used in the joint venture and regularly checked. Because of the high performance standard that has been achieved, even German automobile manufacturers equip their vehicles with tires from this plant.

Sava/Semperit made a positive contribution to the earnings of Semperit Reifen AG.

Success with New Passenger Tires

Semperit has developed a new high-performance tire known as "Top-Speed" for vehicles in the faster categories. We have already begun to introduce it in Austria, Semperit's home market, where it immediately captured substantial market shares in this segment. Accelerated water dispersion and optimum noise suppression are the result of incorporating the latest features of air-flow dynamics. Trade journals and well-known newspapers discussed this new development in detail and gave it a very high rating.

During 1990, "Top-Speed" will be systematically introduced in other European markets, including Germany, Switzerland, the Benelux countries, Great Britain and France.

The continuing good trend in our business with the Japanese automotive industry is also due to the introduction of this new product family.

In Austria, despite the mild winter, we succeeded in posting record volumes for a new snow tire.This tire combines the latest advances in siping with the most recent findings in chemistry and rubber technology. The trade press has confirmed this tire's excellent product characteristics, singling out its low noise levels, unusual in a snow tire, for special appreciation. We therefore expect that business will be equally good in 1990, even in those markets where we will be introducing the tire for the first time.

High Capacity Utilization for Commercial Vehicle Tires

In 1989 we mobilized all our reserve capacity, with special shifts and overtime, in order to be able once again to surpass the previous year's high production figures and sales volumes for commercial vehicle tires. This was a response to the enthusiasm displayed on the part of both industry and international trade for a product with an optimum cost/benefit ratio, which,in terms of practical motor vehicle operation, means lower costs per mile.

Minimizing noise in commercial vehicle tires is becoming a special challenge for the tire industry.

Our engineers and designers have succeeded in developing new types of tires which meet the requirements for lower noise levels, combining a longer service life with optimum traction. We welcome the new, stringent standards that are the result of an environmentally conscious policy. However, it is essential for politicians and industrialists to reach a prompt understanding with regard to the requirements, so that rational development programs can be initiated.

Winner of Government Prize

The Austrian Government has awarded Semperit its prize for outstanding achievements in the field of product innovation and product quality. With the prize comes the Austrian Seal of Quality, which is issued by the country's independent Plastics Institute following product tests.

Looking ahead: We expect significant progress for the Corporation's largest subsidiary in 1990 and 1991.

The General Tire companies' sales volumes and earnings were strongly affected by the strike at the Charlotte plant in North Carolina, where 20% of our North American tire manufacturing capacity is located. This plant is an important manufacturing facility for radial passenger tires. Since production declined in the U.S. automotive industry, our business was unsatisfactory in terms of both volume and prices. Despite this, sales revenues edged up by 1.2% to DM 2,528.4 million (1988: DM 2,498.3 million). However, this improvement can only be attributed to the increase in the rate of the $ against the DM that averaged about 7% in 1989.

Brisk Replacement Business

The prevailing mood in the replacement markets was positive in 1989. Bias-ply tires sold considerably less well, while sales of radial tires improved. We are pleased to note that General Tire was able to gain market shares in the U.S. with radial truck tires and in Canada with passenger and light truck tires. The loss of production caused by the strike made it impossible to take full advantage of all the sales opportunities.

Exports to non-American markets progressed well. They will continue to increase, making additional demands on the manufacturing capacities of our American plants. A capital investment program has been instituted to improve our supply capability.

Intensified Sales Activities

The General brand is still playing a subordinate role on the North American replacement markets. Our goal is therefore to obtain more dealers to distribute our tires. In 1989 we made good progress in this endeavor.

Our interest in "Big O Tires," a large tire trading company in Colorado, provides us with additional sales opportunities. The acquisition of Scheid Tires Centers in Indianapolis and of a major Canadian dealer chain with close to 70 sales outlets will also make a strong contribution. In addition, we have signed cooperation and supply agreements with new partners, which should cause the sales volume of General tires in the replacement market to improve during 1990. We shall continue to develop our dealer relationships over the long term for our mutual benefit.

To increase the penetration of the General brand, we have decided to mount an advertising campaign which should open up new sales opportunities for us in key markets.

An agreement concluded with "Hoosier Racing Tires," an independent company in Lakeville, Indiana, for the manufacture of sports car tires, will enable us to increase our participation in the popular "Trans Am Races" in the U.S.A.

Expansion in Original Equipment

While the U.S. passenger car makers recorded a decline in sales volume, Japanese companies manufacturing in the U.S.A. posted a gain. We attach great importance to the original equipment business. Unlike the replacement markets, which continue to be dominated by strong private brands, the original equipment business offers us an opportunity to bring the General brand directly to the customer. In 1989 we succeeded in strengthening our position not only with the U.S. automotive industry in Detroit, but also with our Asian customers who have U.S. plants. In addition, we were able for the first time to establish a supply relationship with the largest auto maker in Korea. However, despite rising costs, price reductions were unavoidable in the U.S.A. because of stiff competition.

In 1989, General Tire received top quality awards from General Motors and Nissan/U.S.A. This shows the progress that has resulted from the quality program implemented throughout the company. All the employees, in every unit and at every level, have committed themselves to this program.

4WD vehicles for leisure are highly popular all over the world. General Tire is well represented in this market segment.

More for R&D in the U.S.A.

We plan to expand the research and development capacities at General Tire, just as we have done for our European units. By 1992, the facilities will be further enlarged, and the work force will be increased. This will primarily affect the Akron development center, which is being equipped, for example, with powerful new computer systems in order to shorten the time from product conception to engineering approval by the automotive industry. New simulation programs have to a large extent eliminated the necessity of manufacturing and testing each individual tire variation during the preliminary phase of the development process.

We have expanded our test track in Uvalde, Texas, by adding a new handling course for testing the principal performance characteristics of tires on different types of vehicles.

Further Expansion of Capacity

In March 1989, the foundation stone was laid for the joint venture in Mt. Vernon, Illinois, which is being planned with Toyo and Yokohama. The construction of the new plant is proceeding on schedule, and we expect to start production at the beginning of 1992. This manufacturing facility will be one of the most modern plants for the production of commercial vehicle tires. Capacity for passenger tires was expanded at both Charlotte and Mt. Vernon, where new jobs were created. The modern manufacturing equipment is designed to improve product quality.

Major restructuring programs are being carried out at the Mayfield plant in Kentucky and the Barrie plant in Ontario, Canada, to streamline and modernize production.

At our Mexican plant in San Luis Potosí, we are converting the manufacturing facilities for passenger and light truck tires to radial tires. Both capacity and quality standards will be enhanced, so that we will be able to increase supplies to the Mexican automotive industry.

Joint American Market

The Canadian, Mexican and U.S. markets are merging to an increasing extent. Ever since we acquired General Tire, we have therefore regarded the North American market as a single strategic unit. We are formulating our integrated plans for development, production and sales accordingly.

Quality check on a giant tire for earth-moving and mining equipment.

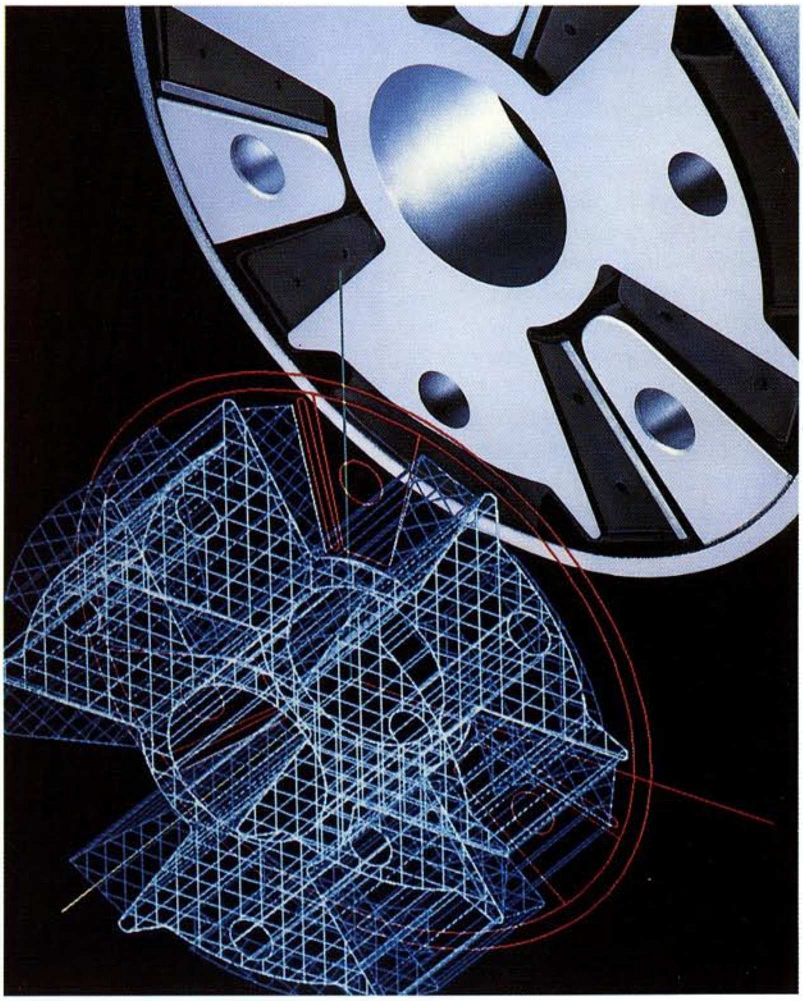
Proof: The considerable investments we have been making during recent years in ContiTech – our non-tire products group – have proved rewarding.

Fine Earnings Growth

The ContiTech Group, which manufactures industrial products made of rubber and plastic for a large number of applications, had sales of DM 1,726.1 million in 1989. This corresponds to a gain of 13.5% compared with the previous year's figure, which, however, included sales of the French Anoflex companies for only eight months. Growth exceeded the industry average.

Earnings were equally gratifying; thriving business in almost all the customer industries, as well as a number of internal cost-reduction measures, caused a marked improvement over the previous year.

The organizational realignment of the 16 Business Units and subsidiaries into four customer and product-oriented Operations, which took place at the beginning of the year, has turned out well. It is a necessary preliminary stage in the process of putting them on an independent basis, which will be accomplished in 1991.



Development of a flexible coupling for the power train of a passenger vehicle.

Strict Requirements

The demands made by our customers, and the automotive industry in particular, continue to increase. Quality at competitive prices on every level of performance is the goal we must achieve. Since auto makers are reducing their inventories, the services we must provide frequently extend beyond the rapid development of products and technologies and the delivery of sophisticated products and systems, to encompass logistics as well. In addition, just-in-time delivery presupposes a zero defect rate, since quality control on the part of the auto maker is eliminated, and even the slightest deviation from the specifications can bring production to a standstill.

The restructuring measures at our Limmer and Vahrenwald plants in Hanover are practically completed. In the near future, we will dispose of the plant space that is no longer needed.

The Group benefited from the seventh year of record business in the German automotive industry, and all four Operations earned a profit. The net income at most of our 16 Business Units ranged from good to excellent. However, four of them, although they are now operating in the black, must still improve their profitability considerably in order to meet our standards.

Automobile Interiors and Textiles

Göppinger Kaliko GmbH, which specializes in molded products, especially roof-headlinings for passenger cars, as well as sheeting and imitation leather, continued to strengthen its market position.

The trend to ready-made roof-headlinings on a polyurethane basis is continuing. Göppinger Kaliko manufactures four types for this market segment and will start up the production of new ones in 1990. A licensing agreement was signed with a Spanish company to supply the Spanish vehicle industry with ready-made roof-headlinings.

The company is promoting new special industrial sheeting for decorating purposes and lining materials, to replace existing sheeting and imitation leathers which are being phased out.

Together with the sales increase, cost-reduction measures and gratifying progress in streamlining brought about a significant improvement in earnings.

Bamberger Kaliko GmbH posted a strong sales increase in 1989, especially outside Germany. The company maintained its market position and, in the case of materials for window blinds, improved it substantially. Earnings, however, were heavily burdened by start-up costs for the new plant.

Uniroyal Englebert Textilcord S.A., Luxembourg, again operated at full capacity in 1989, although demand for tire cord fabrics declined slightly during the last six months of the year. In view of the fine prospects for the future, capital expenditures to increase capacity and productivity will continue.

Flockgarn GmbH, Rheydt, did not quite achieve the previous year's sales volume, but earned a good profit.

The Cushioning Products Business Unit continued to make good progress. Capacities at the Mendig plant in Rhineland-Palatinate, which produces high-quality seat padding elements made of natural fibers and latex, are fully utilized. The Gohfeld plant in North Rhine-Westphalia, which manufactures polyurethane foam slab stock, continues to specialize in complex cushioning systems for car seats and upholstered furniture.

Hoses and Hose Assemblies

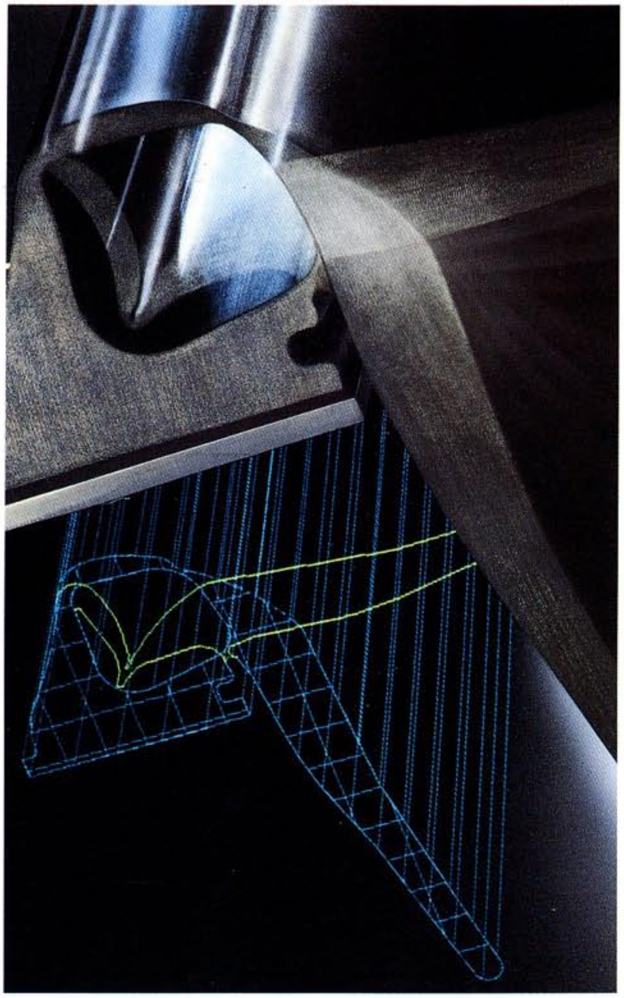
For the first time, sales of the Hose Business Unit passed the DM 200 million mark. Increased concentration on hoses for comfortable car interiors met with the success we had anticipated. Business with less sophisticated hoses was affected by price-cutting on the part of competitors from Southern Europe.

In developing our fuel line systems and coolant circuits, we pay special attention to environmental requirements.

Demand for high-quality hose assemblies for the mechanical engineering and automotive industries pushed Techno-Chemie Kessler & Co. GmbH to the limits of its production capacity. In order to meet stricter market requirements in terms of quality and delivery deadlines, appropriate capacity expansions have been initiated.

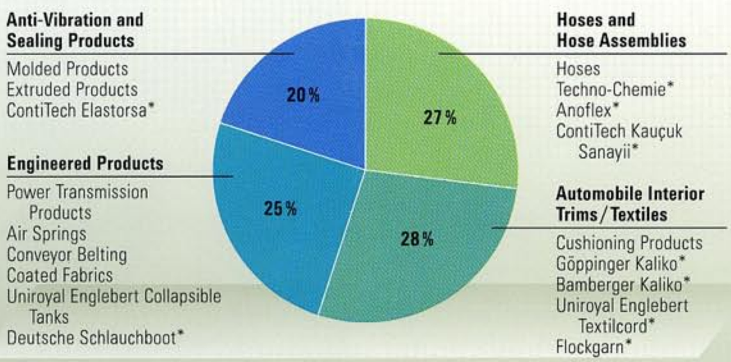
Unusually large sales increases were recorded by our French subsidiary Anoflex/Soderax, based on shipments of hose assemblies to traditional customers in France and Germany for their new car models, as well as to new customers in Sweden, Spain and Great Britain. Capital investments were increased substantially. A new plant is scheduled to open in mid-1990.

In May 1989, our Hose and Hose Assembly Operations acquired an interest in a Turkish hose manufacturer now known as ContiTech Kauçuk Sanayii AŞ. We are in the process of transferring our know-how to this company and expanding its production.



One of our latest developments is CONTIMATIC®, a pneumatically controlled elastomer extrusion.

ContiTech Group sales by operations in 1989



* subsidiaries

High-tech: The future of ContiTech lies with technologically advanced products and systems.

Anti-Vibration and Sealing Products

Molded Products was the first of the ContiTech Business Units to receive the "Q1 Award" from Ford of Europe. The Limmer plant was honored "as a particularly reliable supplier of top-quality products," which is a prerequisite for future shipments to this customer throughout Europe.

Despite the sales increase, earnings are not yet satisfactory. This will necessitate further adjustments in the cost structure.

Sales and earnings of the Extruded Products Business Unit are on the rise. Capacity bottlenecks have been eliminated by extending the workweek. The proportion of innovative, sophisticated products has increased. Nevertheless, further streamlining measures are needed in order to improve earnings over the long term.

In 1990, investments will be made to expand the newly acquired Spanish company ContiTech-Elastorsa, which manufactures extrusions for the automotive industry.

Engineered Products

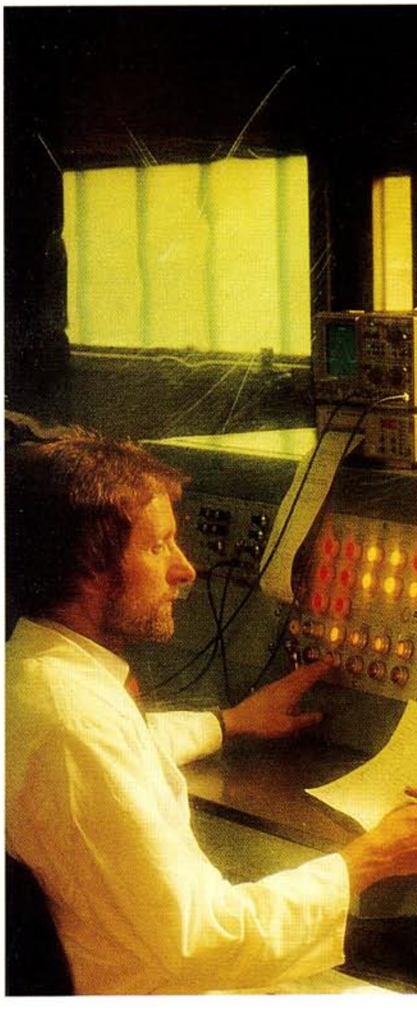
A healthy order volume enabled the Power Transmission Products Business Unit to operate at full capacity and made it necessary to introduce 18 weekly shifts for almost all its product lines. Thanks to work of consistently high quality and intensive product development for high-tech segments, the market position continued to improve. Substantial sales increases, combined with a favorable cost structure, resulted in gratifying earnings.

The Air Springs Business Unit continued to make steady progress. Since more and more commercial vehicles are being equipped with air spring systems instead of the traditional steel spring systems and business in the European commercial vehicle industry was excellent, sales rose sharply. A full-load-bearing rear-axle air spring, offered as a special option for the Volkswagen "Passat," provided an entry into the European passenger car market. The use of our air springs in the French TGV super-high-speed train, which set a world record of 300 mph, once again confirmed this Unit's leading position in the railway sector.

Increased orders for the Conveyor Belting Business Unit led to the use of as many as 18 shifts per week. Although price competition continued to be stiff, the Unit operated at a profit, due to its improved cost structure.

The Coated Fabrics Business Unit opened up new markets with its printing blankets and other sophisticated products and reported a strong order inflow. Due to the high level of quality, we were able to expand our position against the competition and to again earn a profit.

The heavy volume of orders at our subsidiary Deutsche Schlauchbootfabrik in Eschershausen led to bottlenecks, which we overcame by expanding the facilities and increasing the staff. Sales increases in Germany and abroad produced a further improvement in the company's good earnings.



Employees

During the past fiscal year, we again increased the number of our employees. This was attributable to the acquisition of several new companies and to higher order volumes in all the corporate sectors. On December 31, 1989, there were 47,495 people working for the Corporation, or 1,588 more than a year earlier. For the first time in many years, the personnel at the parent company also grew, rising by 4.8% to 15,910.

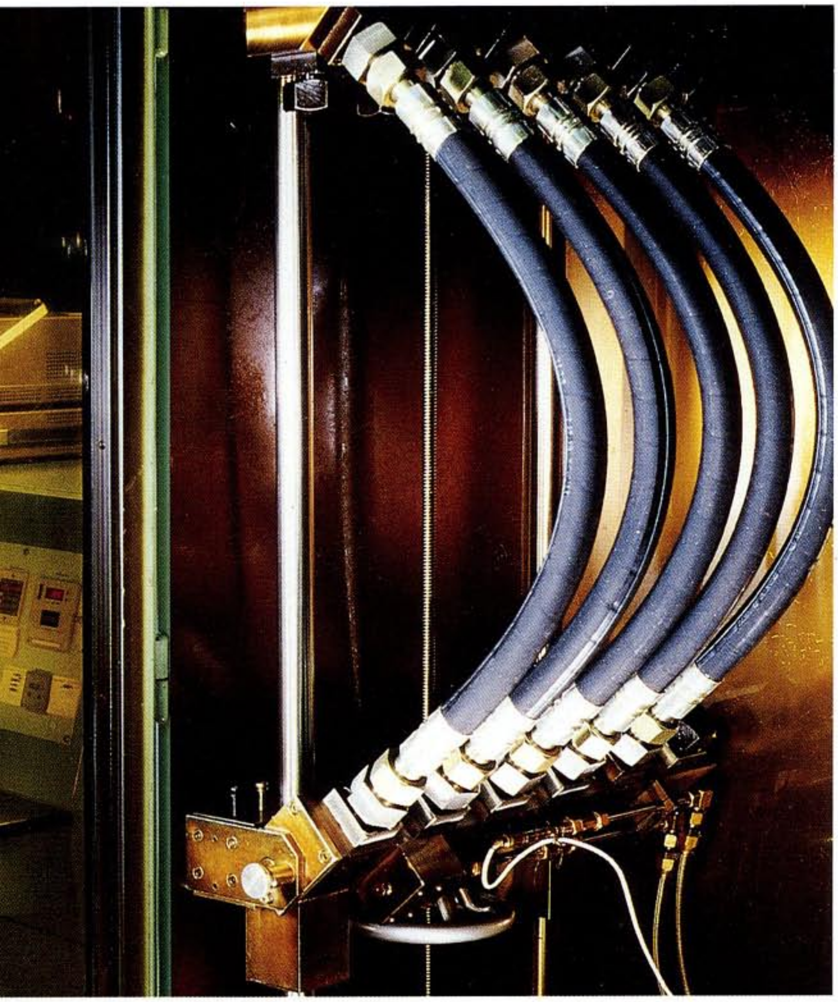
In West Germany, we had 22,430 employees working for us on December 31, 1989, representing 47.2% of the total work force, compared with 11,852 in other European countries and 13,213 in North America and elsewhere in the world.

The following chart gives a breakdown of our employees by country of origin, indicating the change over the previous year:

	1989	1988
Germany	19,093	17,684
U.S.A.	9,607	9,340
France	3,736	3,418
Austria	3,565	3,659
Turkey	2,074	1,976
Great Britain	1,424	1,365
Mexico	1,420	1,678
Belgium	1,202	1,041
Morocco	913	797
Canada	803	822

Through agreements with the Employee Councils and the unions, we succeeded in keeping the rise in personnel costs within limits. This provided the latitude to build up the work force at precisely those points where the most serious qualitative and quantitative bottlenecks had been identified.

Growth: The number of employees in West Germany also went up.



CONTI ASYMFLEX® hydraulic hoses: Specially trained staff monitor electronic testing of their impulse strength.

Dialog with Employee Representatives

In 1989 we continued to conduct an intensive dialog with the employee representatives. Discussions about a structure for the ContiTech Group led to mutually satisfactory solutions of the problems of personnel policy related to its reorganization. At General Tire, we concluded new collective bargaining agreements upon the expiration of the 3-year cycle for the plants in Charlotte, North Carolina, and Barrie, Ontario. The agreement at Charlotte was signed only after a 67-day strike.

Top Priorities: Executives, Training and Continuing Education

The great diversity of tasks facing our Corporation makes particular demands on our executives. In spite of intensified efforts to advance our own junior staff by means of a company-wide personnel development program, it is taking a long time to close the gap between our requirements and the supply of executives within the Corporation. We have therefore increased our exertions to attract experienced managers. We are well aware that the growth and the future of our Corporation are critically dependent upon the availability of qualified managerial personnel.

Training and continuing education have been steadily upgraded. Strong emphasis has been placed on opening up our senior and junior executives to strategic insights, multicultural issues and global viewpoints – in other words, topics that are not directly related to

Room for improvement: The illness rate of employees at our German plants is higher than at our plants in other countries.

their functions. In addition, for executive trainees, the focus was on the transmission of management skills and the deepening of operational knowledge.

As in the past, we gave high priority to vocational training. In the 90s, the supply of apprentices will fall short of demand. We must take prompt action to deal with this problem from both a qualitative and a quantitative point of view. Continental will intensify training for women in the "male trades." The experience we have gained in a number of pilot projects is proving to be a valuable basis. On December 31, 1989, 607 young women and men were employed as apprentices, at 23 different locations.

Decline in On-the-Job Safety

Our efforts to improve occupational safety at our facilities were unsuccessful in 1989. At Continental AG, the index for on-the-job accidents per million working hours rose slightly, from 18.0 in 1988 to 18.2 in 1989. Many of our subsidiaries, and General Tire in particular, also show a negative trend, which we intend to counter with even greater intensity in the future.

In order to deal still more effectively with the changing problems posed for our internal environmental protection program with regard to the handling of hazardous materials, we have consolidated our Medical Services, our Occupational Safety Department and our Industrial Hygiene Department into a single organizational unit.

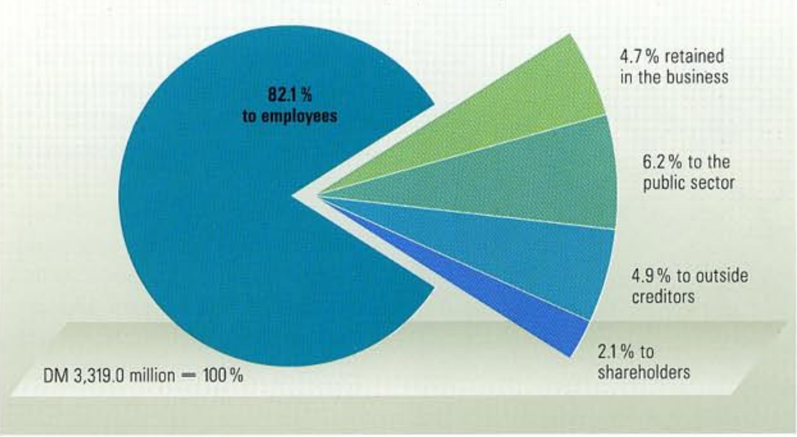
Personnel Expense per Hour Worked Rises Only Slightly

Corporate personnel expense (wages, salaries, social welfare contributions, and expenses for pension plans and other employee benefits) rose from DM 2,532.2 million in 1988 to DM 2,724.8 million in 1989, corresponding to an increase of 7.6%. At Continental AG, personnel expense per hour worked changed from DM 37.89 to DM 38.49. Total corporate personnel expense per employee went up from DM 55,371 to DM 57,830, while at Continental AG it increased from DM 61,132 to DM 62,030.

Illness Rates Leave Room for Improvement

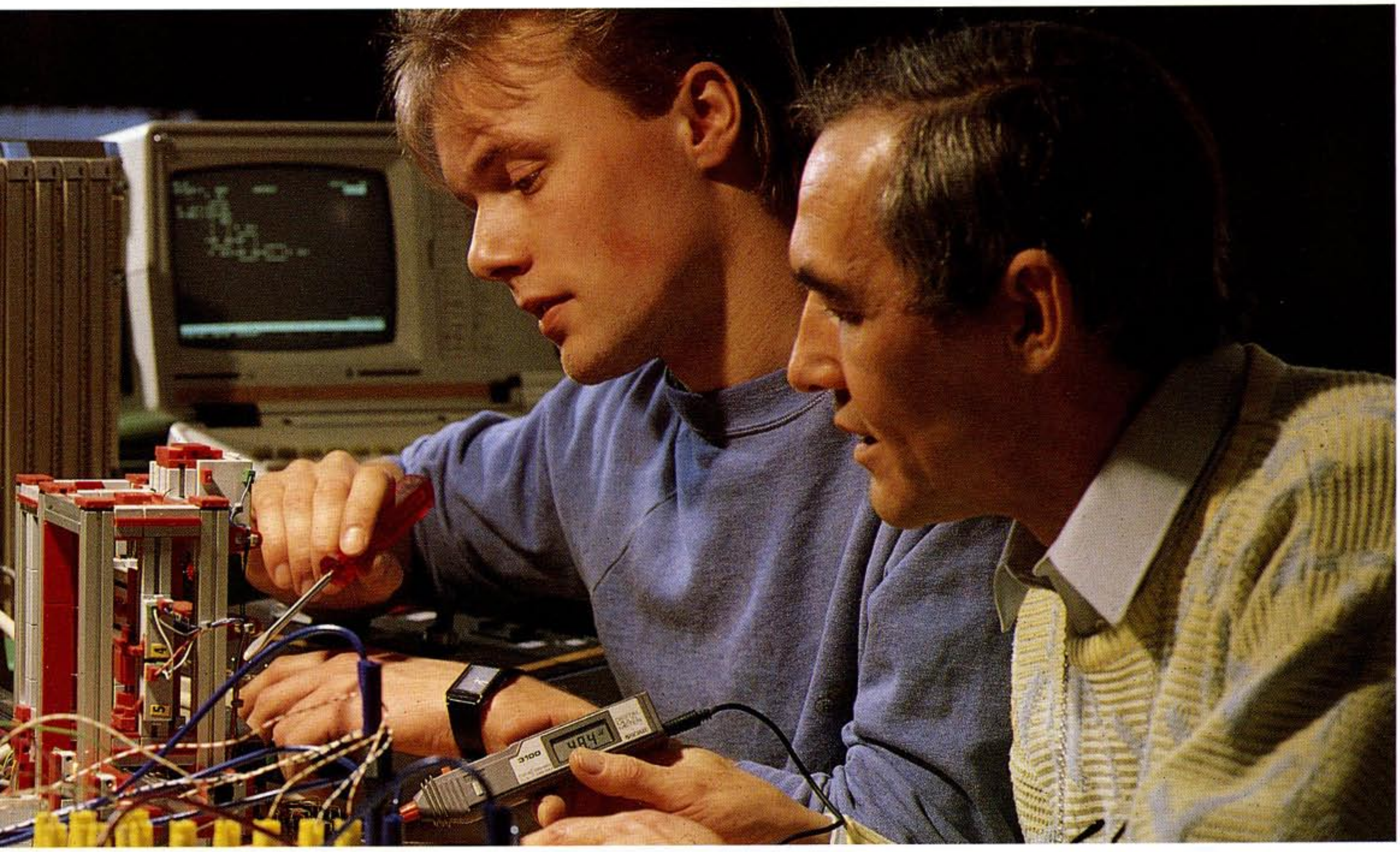
Since sick pay is a substantial part of the cost of labor in West Germany, the rate of illness requires our special attention. Absenteeism due to illness at Continental AG improved slightly, dropping from 7.6% in 1988 to about 7.5% in 1989, with a range from 7.1% to 8.6% at the individual plants. Conversely, our other German companies, with two exceptions, were all at or above the 8-percent mark, and some of them showed increases over the previous year. At the companies in other European countries, however, the illness rates lie between 3.9% at Clairoix to 6.2% at Newbridge.

Distribution of value added in 1989 (Corporation)



Company Suggestion Plans

In most of the companies belonging to our Corporation, suggestion plans have a long and successful tradition. At Continental AG, 3,941 suggestions were submitted, or 9.7% more than in 1988, and cash awards rose by



Qualified vocational training by experienced instructors is playing an ever greater role in developing the skills needed at today's workplace.

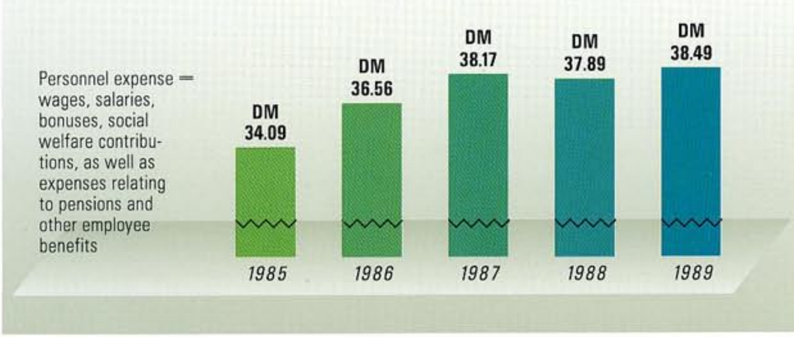
8.6% to DM 782,000. The high point of the year was a suggestion made by a woman working at the Vahrenwald plant, for which she received an award of DM 104,000.

Corporate Culture

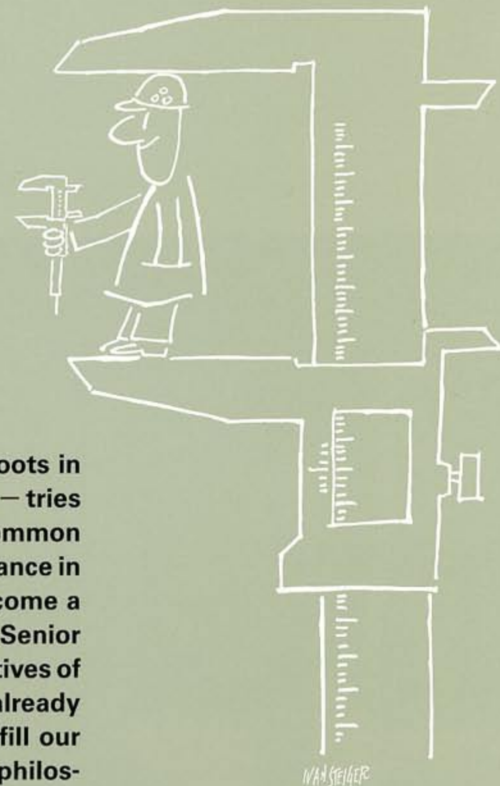
Due to the nature of its growth, our Company has many roots, traditions and styles of management. To harmonize them and intensify their positive features will be a task for all the Corporation's executives. In order to lay a foundation for these efforts, an international team of our executives has formulated seven "basics" – that is, principles for the guidance of the Corporation. At a workshop within the upper management circle, these rules of behavior have been discussed, supplemented and then established as a canon for the entire Corporation. In 1989, we also drew up new strategic corporate guidelines on standards and objectives for all our operating units and executives.

Business procedures, executive development, and training programs must from now on be attuned to these guidelines. We believe that by this means we have found a basis for meeting the challenges of the future successfully and with a united front.

Personnel expense per hour worked at the parent company



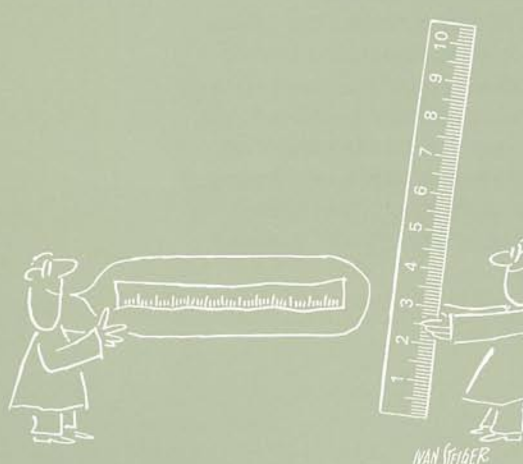
BASICS



Continental – a multinational corporation with deep roots in the history of its various formerly unconnected companies – tries to find its way into a unified and successful future. Common understanding of leading principles is of the utmost importance in enabling every member of Continental Corporation to become a real teamplayer. The Basics were written down by a team of Senior Managers and discussed in a joint workshop with all Executives of Continental. They are visions. In many cases our vision is already reality, yet in other situations effort is still required to fulfill our principles. We feel these Basics express the beliefs and philosophy by which we run our business. We agree to and propose these Basics and aim to encourage everyone to live up to them.

We are Committed to Quality

Quality means meeting our customers' current and future needs. To guarantee top quality products requires "total quality" work and service throughout the organization. Commitment to quality is our main priority.



It is our vision that:

– Everybody in our company takes responsibility for quality to the benefit of the customer, internally as well as externally. This requires an ongoing process of continually improving the quality of our workmanship and products.

– "Made by the Continental Corporation" becomes a synonym for quality products and service.

– We do not have any deviation between customer needs and our supplies, and that our customers can trust in the quality of our products and services.

– Our machinery, processes, working systems and instruments represent the leading edge in their field.

From basic beliefs to realization of the vision

To enable us to achieve our high quality image we have to address some specific issues. These are:

– We invest in qualification and motivation of our employees as key issues to achieve quality.

– We want to build our quality through listening to our customers.

– We aim to strictly keep to the rule that quality starts with development.

– We control quality at each step of the realization process.

– We make continuous efforts to improve quality through companywide quality improvement programs including suggestion boxes, team approaches, quality circles, commitment to excellence, auto-control and problem solving groups.

– We take care that quality is not only a question of the technical departments. Quality needs commitment in each and every function.

– We encourage people to be committed to and work with self-control for the result of their work. This enables high quality results to become a day-to-day reality in internal and external customer relations.

– We encourage management to improve quality by making it a permanent part of the goal setting process.

We are Committed to our Customers

Our customers' wishes are the maxims for our actions. In a sense they are our employers and we depend on them for our pay. We do everything in our power which will make the customers happy.

It is our vision:

— That everybody within our organization is ready and capable of responding to every wish of our customers.

— That we live within a Corporation where everybody thinks and acts in terms of "market-in", instead of "product-out", and in which our customers' needs and wishes are the landmark for our activities.

— To be an organization that trusts in long-term, stable relations with its customers. We strive for a well-balanced partnership with mutual benefits.

From basic beliefs to realization of the vision

In the 70's we witnessed the dramatic change to customer orientation. We have already made progress, but there is still more to be done. We have to work on the following areas in particular:

— We inform our employees about our customers, their needs, expectations, and requests.

— We review the existing systems, so that they support our spirit of customer commitment.

— We actively work against red tape and reduce bureaucracy to a bare minimum so that our organization can quickly respond to our customers' needs.

— We strive to develop in each of us the ability to listen to our customers' wishes.

— We encourage our executives to establish high standards for customer satisfaction, and to give living examples of service mentality.

We are Committed to our Employees

Our employees are the major resource for our market success. Therefore, the leadership style used in our Corporation has to develop and promote motivated individuals and excellently performing employees.

It is our vision that people give their best when they:

— Can contribute to meaningful tasks.

— Work in an atmosphere where effort is recognized and performance appreciated.

— Get chances for personal growth and advancement.

— Are trusted in advance, accepted as experts in their field and respected as individuals.

— Experience a positive approach to settling conflicts.

From basic beliefs to realization of the vision

Our company, and probably the complete rubber industry of the past, was not particularly employee-orientated, but that has changed. Today our business requires a new type of co-worker who is highly trained and positively motivated. That means:

— We strive to restructure tasks, so that meaningful work and job satisfaction will be possible.

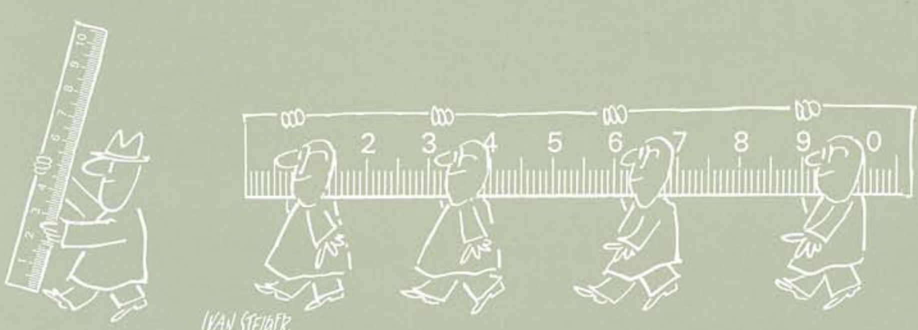
— We concentrate on the realization of our personnel development system in order to give life-long learning opportunities and advancement to all employees.

— Our managers communicate clearly and openly and encourage their people to voice their opinions freely. We speak positively about our people, the company as a whole, and our products.

— We strive to respect national origin and maintain cultural heritage at each of our various locations.

— Goals are set and mutually agreed in order to ensure commitment.

— We try to improve working conditions wherever necessary, for an optimal job environment is a prerequisite for good performance.



We are Committed to Profit

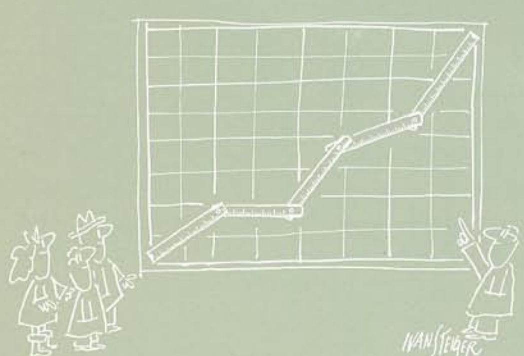
The well-being of our Corporation depends upon the financial performance of the Corporation and our future development.

It is our vision that:

— We earn enough money to pay for the necessary investments in our business, to enable our employees to benefit from our continuing growth and to give our shareholders a good return every year.

— Although we are obliged to achieve good financial results every year, we recognize the need for long-term profit planning to guarantee our future.

— Each of us controls his own actions and we should regularly consider how we can act to increase profits or minimize losses.



From basic beliefs to realization of the vision

An improvement towards entrepreneurship can be achieved through the following activities:

— We continue to develop suitable strategies for all our business units, and inform our employees for better orientation of their actions.

— We train our people in continuously improved handling of the question "does it increase our profits or minimize losses?"

— We encourage and train our employees to behave as entrepreneurs. We take care that they get the freedom to act consequently.

— We encourage our executives to keep their people informed about the financial situation of our company so that they get feedback for further orientation of their actions.

We are Committed to Cost Control

Cost is a strategic issue for our Corporation. It is our overall aim to do better at a lower cost level. The way in which we deal with the cost factor will unquestionably influence our competitiveness and success.

It is our vision that:

— We have the leadership for the lowest cost within our business field.

— Under no circumstances should low cost lead to disadvantages for our customers.

— Everyone is aware of the continuous need to act cost-consciously.

From basic beliefs to realization of the vision

Over the years we have learned how to handle cost and did a good job. However, as the competition is forcing us to set the pace, we have to:

— Support projects only if a sufficient payback is to be expected.

— Focus our expenditure on strictly business-related issues.

— Spread our specific sense of cost orientation throughout the Corporation, especially making clear that it does not mean cutting cost "at all costs", and that we have to consider a multitude of cost factors, including the long-term ones.

— Fight actively the hidden cost factors resulting from bureaucracy, organizational frictions, survival of rituals, taboos, authoritarian obedience, resting on our laurels, unprepared meetings, etc.

— Find new, more efficient business procedures which create even better results at a lower cost level.

— Encourage our executives to make cost control an ongoing component of their leadership role.

We are Committed to Innovation

Commitment to innovation is a basic prerequisite for successful competition in a global market. The ultimate strategic issue is to achieve a breakthrough of our innovative forces at all levels, functions, and ranks. Innovation is not restricted to products, but can be achieved at each place of work at every level of the organization.

It is our vision:

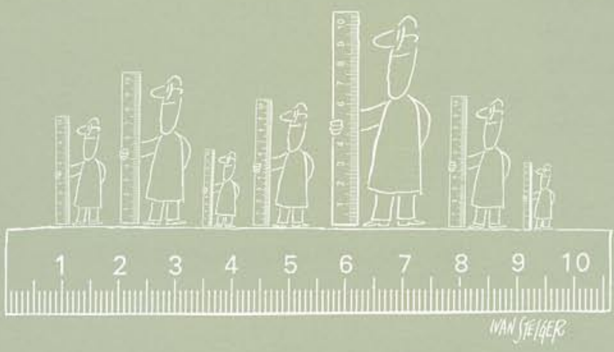
— To be contacted as professionals and innovative partners whenever our customers have problems or questions concerning our business field.

— To be experts in anticipating future customer needs in our business field.

— To have a corporate climate which is open to change, and in which experimentation is encouraged.

— That every employee, either directly or indirectly, continually seeks and puts forward ideas for improvement.

The combination of management guidance and effective implementation of employee innovation will ensure our company's positive progress on all fronts.



From basic beliefs to realization of the vision

There were difficult situations in our past which we overcame by means of innovative products, processes, and attitudes throughout our Corporation, virtues which we wish to cultivate.

— We demand of our executives that they encourage their people to take risks, to think in new ways, to experiment, to be open to change, to reward new ideas, professionalism, and autonomy, and to show tolerance for the exceptional.

— We request everybody in our Corporation to improve his managerial competence, so that new ideas can be realized to their full potential.

— We support approaches in which our people can directly contribute with their ideas to the success of our organization, such as quality circles, suggestion systems, new patterns of work organization, flatter hierarchical structures, and organizational development projects.

We are Committed to Globalization

We are well aware of the key issues of economy of scale, a concentration of global competition and major customers expecting us to work with them around the world.

It is our vision:

— To be well-known as a global player in our business field.

— To have employees well-versed in the way of the world and of cosmopolitan attitudes.

— To automatically include influences from global business as being a normal part of our strategies, policies, and day-to-day actions.

— To live in a Corporation which understands itself as a "good citizen", respecting the national particularities, the rules, legal limits, and being aware that we have to take care of our environment.

From basic beliefs to realization of the vision

Our historical path has been that of successful national enterprises. Operating at a global level entails an uncompromising change in corporate orientation, which is exactly what we are working towards. We mainly have to focus:

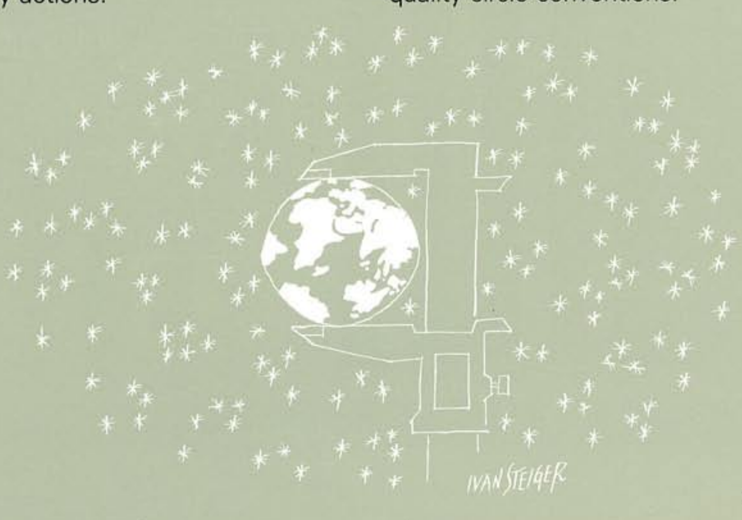
— On systematic education and training of professionals coping with global requirements.

— On continuation of the decentralization process of our business units.

— On development of global policies and business rules enabling the business units to orientate within our Corporation and its strategies.

— On support of our employees in developing their language skills.

— On know-how transfer and mobilization of the potential from within our Corporation. We encourage work with cross-functional problem solving groups, multinational conferences, and quality circle conventions.



Dividend at a High Level

The net income for the fiscal year permits us to propose a dividend for 1989 of DM 8.00 per share of DM 50.00, the same as in the previous year, to the Shareholders' Meeting. Including the tax credit, the payout to domestic shareholders amounts to DM 12.50 per share.

Slight Increase in Payout over 1988

Since the capital stock entitled to the dividend totals DM 435.0 million, DM 69.6 (1988: DM 69.2) million will be required for the distribution. The dividend will thus require 85.7% of the net income of Continental Aktiengesellschaft, compared with 85.5% in the previous year.

The payout comes to 30.6% (1988: 35.5%) of the consolidated net income. However, if allowance is made for the changed method of depreciation compared with 1988, the comparable payout rate is 34.6%.

Price Trend

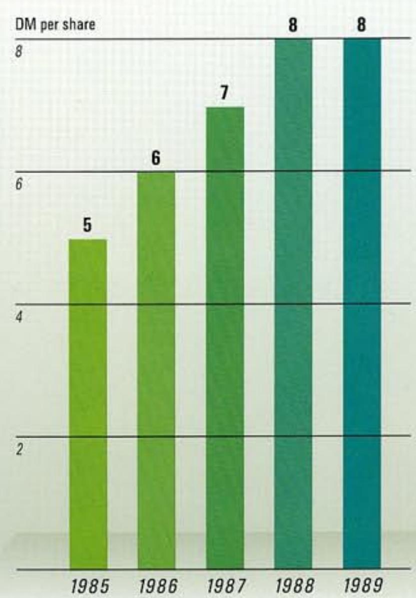
Toward the end of 1989, an increasingly powerful upswing occurred on the German stock market. Euphoria over the events in Eastern Europe as well as the sustained vigor of economic activity, primarily in West Germany, caused the Frankfurter Allgemeine Zeitung's share price index to rise from 549.86 at the beginning of 1989 to 740.93 at the end of the year.

During the first weeks of 1990, the trend continued unabated, with only a brief interruption caused by the rapid rise in interest rates triggered by the upcoming conference on currency unification.

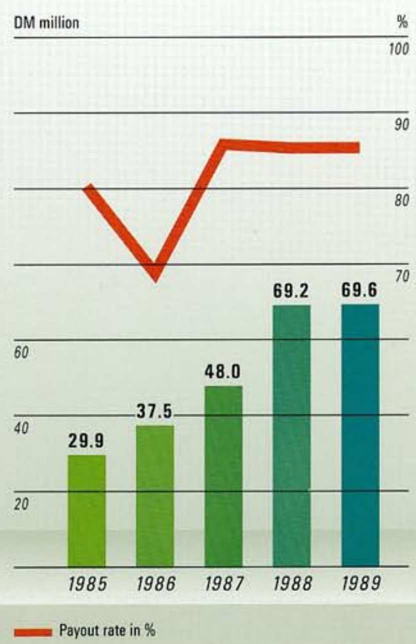
At the beginning of 1989 the Continental share was still being quoted at DM 271.50; during the following months it dropped to DM 236.50.

From May on, there was a steep increase, peaking at DM 358.20 on November 6, 1989. The year-end quotation for the Continental share was DM 322.00. During the first quarter of 1990, the share price fluctuated at a level slightly below the year-end amount.

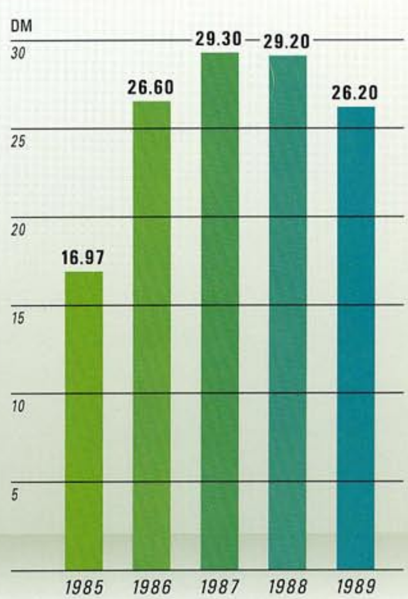
Cash dividends



Amounts distributed to shareholders



Earnings per share according to DVFA



Strong Share Liquidity

The Continental share is listed on all eight German stock exchanges and four other stock exchanges in Europe. In addition, since May 1989 the share has been traded in the U.S.A. in the form of a sponsored ADR (American Depositary Receipts) program.

In 1989, total sales of shares on the German stock exchanges amounted to DM 1,242.1 billion. During that same period DM 20.3 billion or about 1.6% (1988: 1.9%) of total sales was attributable to the Continental share. The capital stock was turned over 7.6 times in 1989, compared with 5.5 times in the previous year, making the Continental share one of the most liquid securities on the German stock market.

Broader International Ownership of the Continental Share

According to a survey conducted at the end of 1989, Continental shares were being held in more than 47,000 depositaries in 87 countries.

A similar analysis in September 1986 showed that Continental shares were being held in about 42,000 depositaries in over 60 countries. In contrast with 1986, the 1989 survey revealed that somewhat more than half of the capital stock is held by Germans. Foreign holdings continue to be located primarily in Great Britain and Switzerland. The 1989 survey gave no indication of any kind that any substantial blocks of shares were being accumulated.

*Continental share price development**

*average of the month's highest and lowest prices

Earnings According to the DVFA

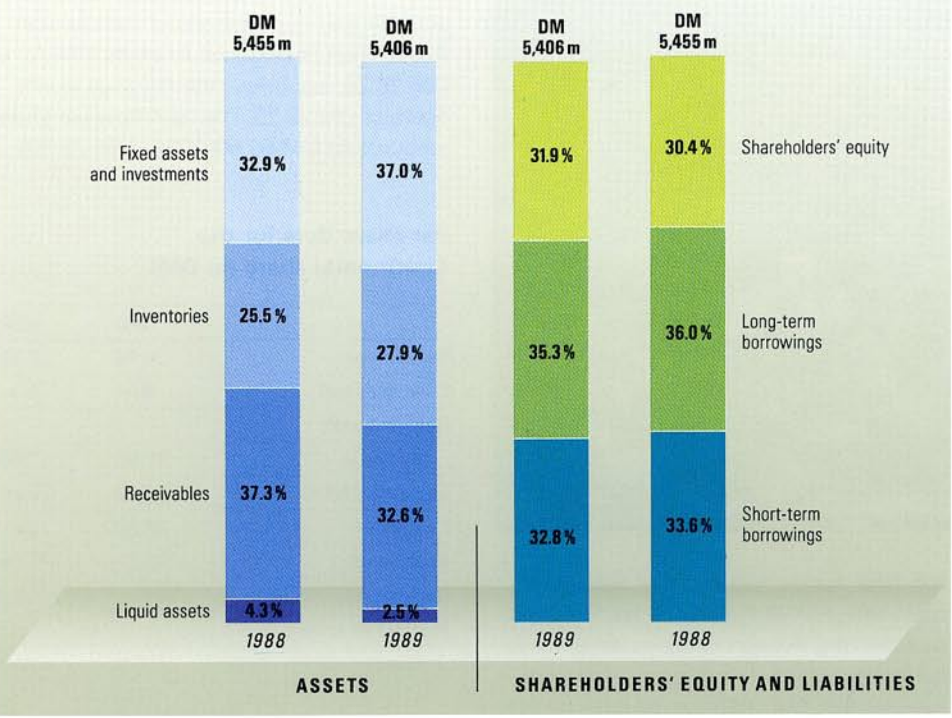
The 1989 per-share earnings computed according to the methods of the German Association of Financial Analysts (DVFA), at DM 26.20, are below the previous year's figure of DM 29.20. The cash flow per share amounts to DM 69.50 (1988: DM 72.00).

Per-share data for the Continental share (in DM)

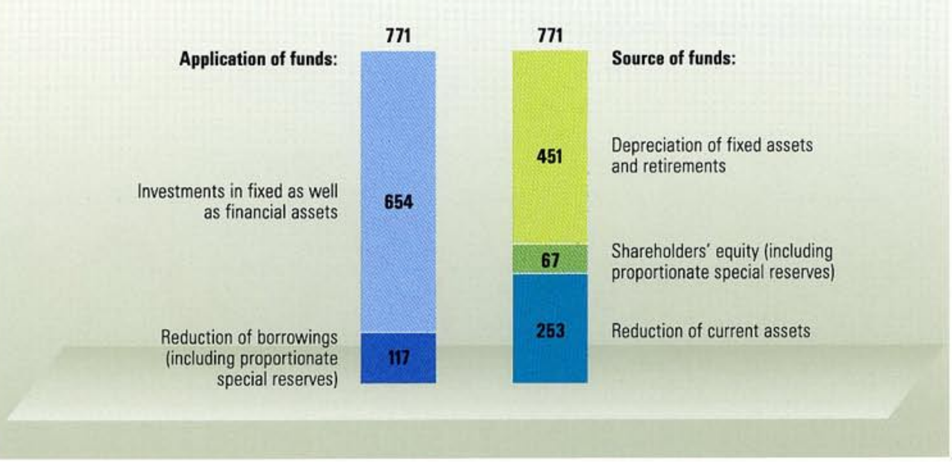
	1989	1988
Net income	26.19	22.51
Cash dividend	8.—	8.—
Dividend with tax credit	12.50	12.50
Earnings (DVFA)	26.20	29.20
Cash flow	69.50	72.—
Book value	198.31	191.60
Market price (12/31)	322.—	271.50
Number of shares at year-end (in thousands)	8,700	8,653

Assets, Financial Position and Earnings of the Corporation

Structure of the consolidated balance sheet



Corporate financing in 1989 (DM million)



Changes Compared with 1988

Consolidated sales for 1989 were up DM 476.1 million, or 6.0%, over 1988. DM 53.5 million of this amount was attributable to companies included for the first time.

Improved Balance Sheet Structure and Financial Position

Although sales rose by 6%, total assets decreased by 0.9% to DM 5,405.9 million on December 31, 1989.

Fixed assets and investments increased from 32.9% to 37.0% of total assets. The increase in fixed assets and investments was divided almost equally between investments and property, plant and equipment.

Among our current assets, inventories rose by 8.2%, while trade accounts receivable were down 15.1%. The net result was a reduction of 6.3% or DM 225.5 million in current assets. This was due both to the effects of foreign exchange rates and to the failure of tire sales for the last quarter to meet our expectations.

Consolidated shareholders' equity, including the equity portion of special reserves, increased by DM 67.4 million.

After a decline in the previous year, the equity ratio rose from 30.4% to 31.9% during 1989. It thus continues to lie within the standard range for internationally active companies. The equity ratio of Continental Aktiengesellschaft was 61.7%, as against 63.0% in 1988.

Indebtedness increased by DM 103.1 million, amounting to 53.9% (1988: 49.8%) of shareholders' equity. The capital turnover rate improved from 1.5 to 1.6.

The solid balance sheet structure of the Continental Corporation is also apparent in the fact that a high proportion of fixed assets, investments and inventories continues to be financed by shareholders' equity and long-term borrowings.

Continental Corporation		
	12/31/1989	12/31/1988
Total assets (DM million)		
Fixed assets and	5,405.9	5,454.9
investments (%)*	37.0	32.9
Current assets (%)*	63.0	67.1
Equity ratio (%)*		
– Consolidated	31.9	30.4
– Continental AG	61.7	63.0
Indebtedness (DM million)	929.5	826.4
Capital turnover	1.6	1.5
Long-term financing		
of fixed assets,		
investments		
and inventories (%)	103.7	113.6
Self-financing (%)	94.4	112.3
Liquidity ratio (%)	105.0	119.9

* As a % of total assets

In 1989, additions to fixed assets and investments were again fully financed by the cash flow.

Improved Earnings and Liquidity

1989 net income was up DM 33.0 million, or 16.9%, over the previous year. It should be remembered that for the first time the straight-line method was used uniformly throughout the Corporation to depreciate additions to fixed assets. This resulted in a gain of DM 26.7 million in earnings before and after taxes. On a comparative basis, the net income amounts to DM 201.1 million, an increase of 3.2% over 1988.

Sales rose by 6% (1988 on a comparative basis: 6.1%); in other words, twice as fast as adjusted net income. Like the slight increase in the ratio of manufacturing costs to sales, this is a further reflection of the continuing worldwide pressure on prices and costs in our industry, especially with regard to tires.

While capacities were fully utilized and volumes rose substantially, it was not possible to pass on the higher costs in our prices. In the tire sector in particular, the competition obliged us to make substantial price concessions.

The steadily growing intensity of international competition is making it necessary to expand our sales organization, distribution facilities and advertising. This explains the above-average increase in distribution costs.

Cost-containment measures led to a reduction of 5.6% in administrative expenses. However, this was far from compensating for the hikes in cost of sales and selling expenses.

At 41.3%, the income tax ratio for the Corporation, adjusted for the effects of the change in the depreciation method, remained roughly at the previous year's level.

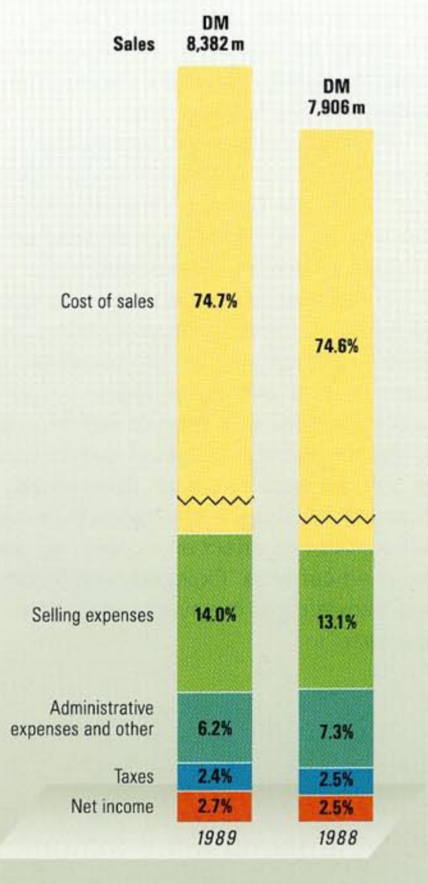
The net profit margin, at 2.7%, was slightly higher than in the previous year; however, without the change in the depreciation method, it would have amounted to only 2.4%.

Disregarding the change in depreciation method, the return on shareholders' equity comes to 11.7%.

The cash flow decreased by 3.0%, and its proportion of sales dropped to 7.2%.

For the first time in a number of years, the debt ratio rose slightly, reaching 1.9. In other words, the net indebtedness of the Corporation is equivalent to 1.9 times the cash flow.

Structure of the consolidated statement of income (DM million)



Continental Corporation		
	1989	1988
Sales (DM million)	8,381.9	7,905.8
Net income (DM million)	227.8	194.8
Cost of sales (%)*	74.7	74.6
Selling expenses (%)*	14.0	13.1
Administrative		
expenses (%)*	5.7	6.4
Income tax ratio (%)	38.3	42.5
Net profit margin (%)	2.7	2.5
Return on shareholders'		
equity (%)	13.2	11.8
Cash flow (DM million)	604.9	623.4
Cash flow (%)*	7.2	7.9
Interest ratio (%)	1.3	1.0
Debt ratio	1.9	1.5
Personnel expense		
(DM million)	2,724.8	2,532.2
Cost of materials		
(DM million)	3,298.8	3,111.7

* As a % of sales

Notes to the 1989 Consolidated Financial Statements and the Financial Statements of Continental Aktiengesellschaft

Scope of Consolidation

The consolidated financial statements include, in addition to Continental Aktiengesellschaft, all domestic and foreign companies in which Continental Aktiengesellschaft has a direct or indirect interest of more than 20%.

We have consolidated 39 domestic and 70 foreign companies. 4 domestic and 8 foreign companies were added in 1989.

Retirement benefit organizations and a few companies whose property, debts, expenses, and income, individually and collectively, are of only minor significance in the asset, financial, and earnings position of the Corporation are not consolidated.

Principles of Consolidation

96 subsidiaries, whose financial statements are prepared according to principles of accounting and valuation that are uniform throughout the Corporation, are fully consolidated. With the exception of a few smaller companies, all the financial statements included are prepared as of the date of the Corporation's financial statements. The assets and liabilities of our subsidiaries are entered in the consolidated balance sheet, instead of their book value. The cost of our investment is offset against our interest in the shareholders' equity of the subsidiary on the date of acquisition. When the book value of our investment in a company is higher than the Corporation's interest in its shareholders' equity, the company's undisclosed reserves, primarily those relating to land, have been added in its balance sheet. Any remaining goodwill items are deducted from consolidated retained earnings. Appropriate adjustments are made for interests not held by the parent company in fully consolidated companies.

12 associated companies are valued by the equity method. If the acquisition cost exceeds the Corporation's interest in the shareholders' equity of the associated company, the remaining goodwill items (again, after undisclosed reserves in land have been taken into account) are deducted from consolidated retained earnings. The Corporation's share in the net income of these companies is included in the consolidated statement of income as part of net income from investment in other companies.

Receivables, liabilities, income, and expenses among the fully consolidated companies are eliminated.

Intercompany profits are eliminated when valuing consolidated inventories; intercompany profits relating to fixed assets are not eliminated, because they are insignificant.

Whenever consolidation procedures result in profits or losses, an allowance is made for deferred taxes.

Foreign Currency Translation

We translate receivables and liabilities in foreign currency at the rate prevailing on the date they are entered on the books for the first time, or, if they have been hedged by forward exchange transactions, at the forward rates.

Provisions charged to income are made for losses resulting from foreign exchange rate fluctuations and not yet realized on the balance sheet date; unrealized profits are disregarded.

In the financial statements of foreign companies, the balance sheet items, including the net income, are translated at the year-end rate. We eliminate upward adjustments due to inflation before translating the balance sheets of subsidiaries in soft-currency countries. Differences from the previous year's translations are offset, with no effect on income, against retained earnings. Expenses and income are translated at the average rates for the year.

Principles of Accounting and Valuation

Assets

Acquired intangible assets are carried at acquisition cost and amortized by the straight-line method over their useful life.

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation. In the individual financial statements of our domestic and foreign companies, the special depreciation permitted by the tax laws is taken insofar as required by the controlling nature of the commercial balance sheet.

Continental Aktiengesellschaft uses the declining balance method to depreciate movable fixed assets, while the straight-line method is used for all other fixed assets. We change over from the declining balance method to the straight-line method as soon as this leads to higher depreciation.

In previous years, we had already been using the straight-line method in the consolidated financial statements to depreciate about two thirds of additions to fixed assets. In 1989, pursuant to internationally accepted accounting principles, we applied this method to all additions throughout the entire Corporation. The special depreciation for tax purposes that is permitted in individual countries is no longer taken in the consolidated financial statements.

The following table shows the useful life used as a basis for depreciating the major categories of property, plant and equipment:

Buildings up to 33 years

Technical facilities and machinery
10 years

Plant and office equipment
4 to 7 years

Molds up to 4 years

Additions to movable assets made during the first six months of the year are depreciated at the full annual rate, and those made during the last six months at half the annual rate. Minor fixed assets are written off completely in the year of acquisition.

These depreciation rules are applied by each of the domestic and foreign companies as of the date it became part of the Corporation.

Interests in affiliates and other companies held as investments are valued at acquisition cost, less the necessary writedowns.

Interest-bearing loans granted are shown at face value; loans which bear little or no interest are discounted to their cash value.

Inventories are valued at the lower of acquisition/manufacturing cost or market. Manufacturing cost includes individual costs, as well as a proportion of material and production overhead and depreciation. Appropriate adjustments are made for declines in value due to reduced usability or prolonged storage.

In valuing receivables and miscellaneous assets, we make reasonable allowances to cover all perceivable individual risks, as well as lump-sum deductions to cover the general credit risk.

Marketable securities are valued at the lower of cost or market.

We again took all the extraordinary depreciation and writedowns, as well as the depreciation and writedowns for tax purposes, which were taken in previous years on our fixed assets, investments, and current assets.

Discounts and issue costs of loans and bonds are shown as prepaid expenses and amortized over the term of the individual loans and bonds.

Shareholders' Equity and Liabilities

Provisions based on sound business judgment are set up for all perceivable risks, undetermined obligations and impending losses.

At our German companies, the provisions for pension plans and similar obligations are set up at a 6% interest rate, on the basis of actuarial computations in accordance with the statutory method.

Pension commitments and similar obligations of foreign companies are also computed according to actuarial principles, discounted to the present value at the interest rates prevailing in the respective countries, and covered by appropriate provisions for pension plans or by pension funds. Employee claims for severance benefits under national laws have also been taken into account.

The pension obligations of American companies have been valued according to the stricter valuation rules that have been in force in the U.S.A. since 1987.

The U.S. obligations of General Tire Inc., Akron, Ohio, for post-retirement medical benefits are fully covered by provisions computed according to actuarial principles.

Provisions for deferred repairs to be carried out in 1990 are established in the amount of the probable cost.

When there are temporary differences between the values determined according to the tax laws and those appearing on the commercial balance sheets of the individual companies, which are prepared according to valuation principles that are uniform throughout the Corporation, deferred taxes may result. We show the latter only when they are reflected in provisions for future tax expense.

Liabilities are stated at the redemption amount.

Notes to the Balance Sheet

Assets

Fixed Assets and Investments

The separate categories of fixed assets and investments that are combined in the balance sheets and the changes in them during the fiscal year are shown on pages 56 and 57. The various assets are shown according to the gross value method, in other words, at the original acquisition or manufacturing cost or at the residual book value at the time of acquisition.

(1) Intangible Assets

The additions relate mainly to software supplied from outside sources and advances to suppliers.

(2) Property, Plant and Equipment

Additions to fixed assets consisted mainly of new machinery and molds to maintain and safeguard our technical and economic capability, to expand capacities, to streamline operations, to boost productivity, and to assure the quality of our products. Retirements consisted of land that was not needed for our operations and of technologically and economically obsolete machinery and facilities.

The initial consolidation of new companies caused an increase of DM 4.2 million (1988: DM 37.8 million) in property, plant and equipment.

The other additions are shown in the table below:

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Tires	66,266	225,934	70,622	254,062
General Tire	—	208,858	—	90,881
Industrial Products	51,613	79,713	54,770	89,570
Other	17,810	17,926	13,148	13,166
	135,689	532,431	138,540	447,679

(3) Investments

Interests in affiliated companies included in the balance sheet of Continental Aktiengesellschaft increased by DM 466.7 million. Additions consisted primarily of the initial capitalization of Continental Coordination Center S.A., Herstal, Belgium, in the amount of DM 200.0 million, as well as capital increases at General Tire Inc., Akron, Ohio, U.S.A., and General Tire Canada Ltd., Barrie, Ontario, Canada, to finance extensive capital investment programs. Other capital increases of a smaller scope took place at General Tire de Mexico S.A., Mexico City, Mexico, Semperit (Ireland) Ltd., Dublin, Ireland, and a number of smaller companies. In addition, we acquired further shares in Semperit Reifen Aktiengesellschaft, Vienna, Austria. The Corporation increased its investments in other companies; particularly noteworthy was the purchase of an interest in Kwik-Fit Plc Holding, Edinburgh, Scotland. A list of the major companies included in the Continental Corporation can be found on page 58 of this report.

The securities we hold as investments consist primarily of fixed-interest government obligations, which are used to cover provisions shown in the Austrian companies' balance sheets for retirement claims of employees. Loans granted include residential construction loans to employees, financing contributions to utility companies, and other loans.

(4) Inventories

The increase in the Corporation's inventories reflects the additional stocks kept on hand as our sales increase and the effect of the unsatisfactory snow tire business in Europe.

	12/31/1989		12/31/1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Raw materials and supplies	98,533	304,497	92,665	289,496
Work in process	74,815	177,587	67,776	180,348
Finished goods and merchandise	214,086	1,021,625	209,688	919,317
Advances to suppliers	3,258	4,040	1,065	4,040
Advances from customers	977	978	–	–
	389,715	1,506,771	371,194	1,393,201

(5) Receivables and Other Assets

Of the parent company's trade accounts receivable in the amount of DM 181.3 million, 71.8% is attributable to domestic customers and 28.2% to customers abroad. The decline in consolidated trade accounts receivable is due in part to sluggish tire sales in the last quarter and falling foreign exchange rates.

Continental AG		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1989	1 year	12/31/1988	1 year
Trade accounts receivable	181,323	985	182,180	1,070
Receivables from affiliated companies	108,241	–	226,477	–
Receivables from companies in which participations are held	133	–	646	–
Other assets	32,101	11,115	20,184	9,520
	321,798	12,100	429,487	10,590

Consolidated		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1989	1 year	12/31/1988	1 year
Trade accounts receivable	1,200,559	4,747	1,414,319	1,585
Receivables from affiliated companies	7,875	–	4,482	–
Receivables from companies in which participations are held	3,074	–	3,989	–
Other assets	174,704	15,598	173,408	14,395
	1,386,212	20,345	1,596,198	15,980

(6) Marketable Securities

The portfolio consists almost exclusively of fixed-interest securities. Those denominated in foreign currencies have been hedged. Our marketable securities serve as a temporary investment for excess liquidity.

(7) Liquid Assets

The parent company's liquid assets and marketable securities were sharply reduced as a result of our heavy investments. The Corporation's marketable securities and liquid assets still total DM 473.3 million (1988: DM 602.4 million).

	12/31/1989		12/31/1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Checks	11,803	17,635	9,877	12,433
Cash on hand, deposits at the Bundesbank and in postal checking accounts	1,799	6,748	1,573	5,459
Cash in banks	11,028	109,696	186,610	217,148
	24,630	134,079	198,060	235,040

(8) Prepaid Expenses

Miscellaneous prepaid expenses consist mainly of the costs of the bond issues of 1985, 1986, and 1987 which have not yet been amortized.

	12/31/1989		12/31/1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Discount on loans/bonds	–	4,848	17	5,594
Miscellaneous	518	36,244	729	62,604
	518	41,092	746	68,198

Shareholders' Equity and Liabilities

(9) Subscribed Capital

The subscribed capital has increased slightly since 1988, due to the exercise of option rights.

The Company still has authorized capital available in the amount of DM 10.0 million for the issue of employee shares. The change in the conditionally authorized capital is shown in the table below.

Type	No. of shares	Par value per share in DM	Capital stock in DM
Common shares	405,821	1,000	405,821,000
Common shares	171,569	100	17,156,900
Common shares	240,878	50	12,043,900
			435,021,800

	DM 000
Conditionally authorized capital as of 12/31/1988	214,888
Utilization	
warrants attached to 1984/94 bonds	505
1986 convertible loan notes	1,862
Conditionally authorized capital as of 12/31/1989	212,521

(10) Capital Reserves

This item includes amounts received upon the issuance of shares in excess of their par value (premiums) totaling DM 724.9 million, as well as proceeds totaling DM 231.3 million from the sale of option rights. Capital reserves increased by DM 8.7 million as the result of option rights exercised during 1989.

(11) Retained Earnings

DM 000	Continental AG	Consolidated
As of 12/31/1988	129,699	76,721
Goodwill	–	– 49,291
Differences from currency translation	–	– 44,793
Other	–	– 7,406
Allocation from net income	12,000	+ 158,539
As of 12/31/1989	141,699	133,770

Necessary adjustments in the balance sheet of the Mexican subsidiary we acquired in 1988 caused a reduction of DM 17.0 million in consolidated shareholders' equity.

(12) Minority Interests

This item shows the interests of outsiders in capital and earnings, including, in particular, interests in our joint venture, GTY Tire Company, Akron, Ohio, U.S.A., and in Semperit Reifen Aktiengesellschaft, Vienna, Austria.

(13) Reserve for Retirement Benefits

The reserve for retirement benefits was set up to compensate for shortfalls in the provision for pension plans. It was reduced, according to schedule, by DM 0.5 million to DM 3.7 million. The shortfall cannot be made up until later for tax purposes and relates exclusively to the balance sheet of Continental Aktiengesellschaft.

(14) Special Reserves

The special reserve pursuant to § 3 Foreign Investment Act for losses of foreign subsidiaries, which appears in the annual financial statements of the parent company, is no longer shown in the consolidated financial statements. This avoids a duplication of an expense item in the individual balance sheets of the companies involved and in the reserves of Continental Aktiengesellschaft. The tax saving accruing to the parent company as a result of these losses was neutralized in the Corporation as a whole.

	12/31/1989		12/31/1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Reserve under § 3, Foreign Investment Act	84,312	38,265	50,675	50,675
Reserve under § 6b, Income Tax Act	–	289	–	362
Reserve under § 52 Par. 8, Income Tax Act	940	1,425	1,175	1,782
Governmental capital investment subsidies	–	60,988	–	69,447
Other	4,137	17,136	3,189	4,658
	89,389	118,103	55,039	126,924

(15) Provisions

The Corporation's provisions for pensions and similar obligations were slightly lower than in 1988. The normal allocations were offset by reductions due to the effects of foreign exchange rates and decreases at General Tire Inc., Akron, Ohio, U.S.A. An agreement concluded by this company during 1989, providing for stricter limits on future payments of medical expenses for its retirees, made it possible to reduce the corresponding provisions.

At two of our retirement benefit organizations, there is a shortfall of DM 22.1 million in the coverage of pension obligations to employees. The provisions at four other German companies have been funded only to the maximum amount permitted for tax purposes.

Higher prepayments permitted a reduction in provisions for taxes, which include amounts relating both to the current fiscal year and to previous years.

Provisions for deferred taxes in the individual financial statements, after deduction of the net prepaid taxes arising from consolidation procedures, amounted to DM 2.1 million.

Miscellaneous provisions consist mainly of provisions for personnel cost, major repairs, warranties, bonuses, premiums payable to the Workmen's Compensation Board, risks on discounted notes, obligations to pay early retirement benefits and compensation in connection with part-time work by older employees, and service anniversary bonuses.

	12/31/1989		12/31/1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Provisions for pensions and similar obligations	206,374	636,626	194,281	642,622
Provisions for taxes	53,144	92,265	88,036	130,525
Miscellaneous provisions	188,817	657,908	211,550	721,843
	448,335	1,386,799	493,867	1,494,990

(16) Liabilities

Continental AG		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1989	1 year	5 years	12/31/1988	1 year	5 years
Bonds, convertible*	71,508	230	1,278	71,894	344	71,550
Bank borrowings	60,828	49,306	–	18,450	3,600	–
Advances from customers	849	849	–	1,995	1,995	–
Trade accounts payable	147,887	147,502	–	130,105	128,474	–
Payables to affiliated companies	137,288	123,489	13,799	51,628	38,786	12,842
Payables to companies in which participations are held	5,823	5,823	–	6,564	6,564	–
Other liabilities*	89,904	81,879	–	129,388	118,354	2,000
tax liabilities	(17,821)	–	–	(23,476)	–	–
liabilities relating to social security and similar obligations	(21,577)	–	–	(13,231)	–	–
	514,087	409,078	15,077	410,024	298,117	86,392

* total amount secured by land charges and mortgages: DM 81.0 million

Consolidated		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1989	1 year	5 years	12/31/1988	1 year	5 years
Bonds, convertible*	704,258	230	634,028	724,088	344	723,744
Bank borrowings*	561,922	404,246	59,040	504,794	328,169	60,564
Advances from customers	3,457	3,457	–	5,874	5,874	–
Trade accounts payable	540,102	539,717	–	532,353	530,722	–
Liabilities on acceptances and notes payable	55,389	55,310	–	86,516	86,366	–
Payables to affiliated companies	10,948	1,348	–	9,758	1,213	–
Payables to companies in which participations are held	6,228	6,192	–	12,363	12,363	–
Other liabilities*	372,265	321,200	21,950	387,344	335,231	14,675
tax liabilities	(64,808)	–	–	(73,430)	–	–
liabilities relating to social security and similar obligations	(72,226)	–	–	(56,155)	–	–
	2,254,569	1,331,700	715,018	2,263,090	1,300,282	798,983

*amount secured by land charges, mortgages and comparable collateral: DM 127.2 million

Guarantees and Other Commitments

The contingent liabilities on notes result from discounting trade bills. With the exception of DM 4.1 million, Continental Aktiengesellschaft's liabilities under guarantees and warranties relate to liabilities of subsidiaries and other companies held as investments, in particular guarantees in the amount of DM 652.6 million for capital market financing by Conti-Gummi Finance B.V., Amsterdam, Netherlands, and Continental Rubber of America Corp., Wilmington, Delaware, U.S.A.

	12/31/1989		12/31/1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Acceptance liability	113,843	279,379	123,834	247,503
due to affiliated companies	38,006	–	49,488	–
Liabilities on guarantees	700,567	31,219	729,662	25,532
Liabilities on warranties	5,094	12,737	3,776	134
Liability on shares in cooperatives	82	82	82	82

Other Financial Obligations

Liabilities under rental and leasing agreements relate primarily to real estate used for business activities. The breakdown for 1990 and later years is as follows:

DM 000	Continental AG	Consolidated
Rental and leasing agreements	63,478	352,802
Purchase commitments	43,500	190,702

Notes to the Statement of Income

(17) Sales

Continental AG DM million	1989	1988	Change in %
Analysis by sector			
Tires	1,809.7	1,680.9	+ 7.7
Industrial Products	1,003.9	909.6	+ 10.4
Other sales	227.2	222.8	+ 2.0
	3,040.8	2,813.3	+ 8.1
Analysis by geographical area			
West Germany	1,882.6	1,776.7	+ 6.0
Europe (without West Germany)	868.6	793.3	+ 9.5
Non-European countries	289.6	243.3	+ 19.0

Consolidated DM million	1989	1988	Change in %
Analysis by sector			
Tires			
Continental	1,675.4	1,566.5	+ 7.0
Uniroyal Englebert	1,054.8	985.2	+ 7.1
Semperit	893.9	841.8	+ 6.2
Merchandise and services	439.1	406.5	+ 8.0
General Tire	2,528.4	2,498.3	+ 1.2
Industrial Products	1,726.1	1,520.7	+ 13.5
Other sales	64.2	86.8	− 26.0
	8,381.9	7,905.8	+ 6.0
Analysis by geographical area			
West Germany	2,931.2	2,821.3	+ 3.9
Europe (without West Germany)	2,315.4	2,158.7	+ 7.3
North America	2,758.1	2,672.3	+ 3.2
Other countries	377.2	253.5	+ 48.8

(18) Cost of Sales

This item includes the manufacturing cost of our own products, as well as the cost of merchandise purchased for resale.

Manufacturing costs comprise both direct costs, such as expenses for materials, personnel and energy, and indirect costs, such as depreciation of production equipment, repairs, and research and development expense. Neither interest payments nor taxes chargeable as expenses are included.

Cost of sales rose slightly compared with the previous year, reflecting the persisting price and cost pressure during 1989.

(19) Selling Expenses

These include the costs of the sales organization, distribution, and advertising. Due to the expansion of our sales organization and growing requirements in increasingly difficult markets, selling expenses were considerably higher than in the previous year.

(20) Administrative Expenses

This item consists primarily of personnel and other expenses which cannot be directly allocated to production or sales. These expenses decreased in both absolute and relative terms. A variety of cost-containment measures carried out during the fiscal year had a correspondingly positive effect.

(21) Other Operating Income

In addition to current income from rentals and leasing, and other sideline operations, other operating income includes indemnification paid by insurance companies and income attributable to other fiscal years.

For the parent company, this item consists mainly of cost apportionments received from other companies belonging to the Corporation.

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Gains on the disposal of fixed assets and investments	2,435	10,753	2,540	26,972
Credit to income from the reversal of provisions	7,400	33,559	426	19,791
Credit to income from the reduction of the general bad debt reserve	—	2,014	—	369
Credit to income from the reversal of special reserves	12,645	32,456	11,664	29,109
Miscellaneous income	106,843	85,294	85,052	89,872
	129,323	164,076	99,682	166,113

(22) Other Operating Expenses

The allocation to special reserves relates primarily to General Tire Canada Ltd., Barrie, Ontario, Canada, and General Tire de Mexico S.A., Mexico City, Mexico. The miscellaneous expenses consist primarily of expenses relating to sideline operations, and, at the parent company, also of the cost apportionments paid to other companies belonging to the Corporation.

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Losses on the disposal of fixed assets and investments	306	4,315	731	2,357
Losses on the disposal of current assets (except inventories)	257	22,818	2,048	27,110
Allocation to special reserves	46,995	1,278	15,719	15,899
Miscellaneous expenses	89,374	62,940	85,427	98,325
	136,932	91,351	103,925	143,691

(23) Net Income from Investments and Financial Activities

Continental Aktiengesellschaft's net income from investment in other companies includes DM 30.8 million (1988: DM 40.5 million) from profit-and-loss transfer agreements and dividends of domestic companies. The net interest expense of the Corporation amounted to 1.3% (1988: 1.0%) of sales.

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net income from investments				
Income under profit-and-loss				
transfer agreements	24,892	2	26,705	2
Income from investments				
from affiliated companies	6,510	453	12,317	367
from associated companies	1,799	2,721	1,449	3,200
from other companies	–	712	–	35
Losses absorbed under profit-and-				
loss transfer agreements	– 2,352	–	–	–
	30,849	3,888	40,471	3,604

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net interest expense				
Income from other securities and				
loans included in investments				
from affiliated companies	–	–	–	–
from other companies	568	2,935	220	3,046
Other interest and similar income				
from affiliated companies	17,008	32	10,802	76
from other companies	14,801	51,854	13,210	43,368
Interest and similar expenses				
paid to affiliated companies	– 13,337	– 584	– 8,933	– 516
paid to other companies	– 34,462	– 161,676	– 17,270	– 125,206
	– 15,422	– 107,439	– 1,971	– 79,232

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Writedowns on investments				
and marketable securities				
Writedowns on investments	–	– 1,099	– 21,025	– 23,589
Writedowns on marketable securities	– 5,930	– 11,886	– 1,730	– 4,073
	– 5,930	– 12,985	– 22,755	– 27,662
Net income from investments				
and financial activities	+ 9,497	– 116,536	+ 15,745	– 103,290

(24) Taxes

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
On income	75,612	141,476	82,849	143,917
Other taxes	17,527	62,677	15,307	54,398
	93,139	204,153	98,156	198,315

(25) Minority Interests in Earnings

This item shows the profits and losses relating to outsiders at home and abroad.

Miscellaneous Data

Cost of Materials

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Cost of raw materials and supplies and merchandise	1,347,077	3,035,180	1,219,013	2,890,471
Cost of outside services	195,168	263,658	173,097	221,246
	1,542,245	3,298,838	1,392,110	3,111,717

Personnel Expense

	1989		1988	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Wages and salaries	796,484	2,185,244	758,281	1,993,459
Social welfare contributions and expenses related to pensions and other employee benefits	164,100	539,536	166,203	538,728
expenses for pensions	25,122	66,690	32,727	68,235
	960,584	2,724,780	924,484	2,532,187

Number of employees (quarterly average)	Continental AG	Consolidated
Salaried employees	4,444	10,967
Wage earners	11,042	35,882
	15,486	46,849

Depreciation, Amortization and Writedowns

Amortization on intangible assets, depreciation on property, plant and equipment, and writedowns on investments, computed in accordance with the principles of commercial law, are shown in the table "Changes in Fixed Assets and Investments" (pages 56 and 57).

They include special depreciation for tax purposes in the amount of DM 1.0 million for the Corporation and DM 9.4 million for Continental Aktiengesellschaft (§§ 6b, Income Tax Act; 82d, Income Tax Directives; 3, FRG/GDR Border Area Assistance Act; 7d, Income Tax Act; 14, Berlin Promotion Law). Additional depreciation taken for tax purposes with respect to 1989 and the previous fiscal years (for example, pursuant to § 3, FRG/GDR Border Area Assistance Act or § 6b, Income Tax Act) will result in a future credit in the parent company's statement of income, and, to some extent, in the consolidated statement of income as well.

Remuneration of the Supervisory Board and the Executive Board

Provided that the Shareholders' Meeting on June 27, 1990 approves the proposed dividend, DM 984,000 will be spent for the Supervisory Board, DM 7,318,000 (including remuneration paid by subsidiary companies) for the Executive Board, and DM 2,074,000 for former members of the Executive Board and their surviving dependents.

DM 14,894,000 has been set aside for pension commitments to former members of the Executive Board and their surviving dependents.

Proposed Allocation of Net Income

Proposal for the allocation of the net income available for distribution

The net income available for distribution amounts to	**DM 70,983,629**
The Supervisory and Executive Boards recommend that the Shareholders' Meeting approve payment of a dividend of DM 8.00 on each share with a par value of DM 50.00, or	**DM 69,603,488**
The remaining amount of	**DM 1,380,141**
is to be carried forward.	

Hanover, April 17, 1990

Continental Aktiengesellschaft
The Executive Board

Horst W. Urban	Wilhelm Borgmann	Peter Haverbeck	Hans Kauth
Ingolf Knaup	Günter H. Sieber	Wilhelm P. Winterstein	Haimo Fortmann

Continental Aktiengesellschaft
Consolidated Balance Sheet at December 31, 1989

Assets	See Note No.	DM 000	12/31/1989 DM 000	12/31/1988 DM 000
Fixed assets and investments				
Intangible assets	(1)	11,944		7,771
Property, plant and equipment	(2)	1,797,125		1,687,557
Investments	(3)	189,428		99,616
			1,998,497	**1,794,944**
Current assets				
Inventories	(4)	1,506,771		1,393,201
Receivables and other assets	(5)	1,386,212		1,596,198
Marketable securities	(6)	339,219		367,366
Liquid assets	(7)	134,079		235,040
			3,366,281	**3,591,805**
Prepaid expenses	(8)		**41,092**	**68,198**
			5,405,870	**5,454,947**

Shareholders' equity and liabilities	See Note No.	DM 000	12/31/1989 DM 000	12/31/1988 DM 000
Shareholders' equity				
Subscribed capital	(9)	435,022		432,655
Capital reserves	(10)	956,240		947,498
Retained earnings	(11)	133,770		76,721
Minority interests	(12)	46,692		38,409
Reserve for retirement benefits	(13)	3,691		4,235
Net income available for distribution		70,984		70,425
			1,646,399	**1,569,943**
Special reserves	(14)		**118,103**	**126,924**
Provisions	(15)		**1,386,799**	**1,494,990**
Liabilities	(16)		**2,254,569**	**2,263,090**
			5,405,870	**5,454,947**

Continental Aktiengesellschaft
Consolidated Statement of Income for the period from January 1 to December 31, 1989

	See Note No.	DM 000	1989 DM 000	1988 DM 000
Sales	(17)		**8,381,860**	**7,905,816**
Cost of sales	(18)	6,256,858		5,895,042
Gross profit on sales			**2,125,002**	**2,010,774**
Selling expenses	(19)	1,174,268		1,033,942
Administrative expenses	(20)	474,932		502,862
Other operating income	(21)	164,076		166,113
Other operating expenses	(22)	91,351		143,691
Net income from investments and financial activities	(23)	– 116,536		– 103,290
Net income from regular business activities			**431,991**	**393,102**
Taxes	(24)	204,153		198,315
Net income for the year			**227,838**	**194,787**
Balance brought forward from previous year			1,199	832
Minority interests in earnings	(25)		– 58	+ 3,670
Withdrawal from the reserve for retirement benefits			+ 544	+ 695
Change in reserves			– 158,539	– 129,559
Net income available for distribution			**70,984**	**70,425**

Based on an audit performed in accordance with our professional duties, the consolidated financial statements comply with the legal regulations. The consolidated financial statements present, in compliance with required accounting principles, a true and fair view of the net worth, financial position and results of the Corporation. The management report for the Corporation is in agreement with the consolidated financial statements.

Berlin/Hanover, April 17, 1990

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter — Certified Public Accountant

Kirste — Certified Public Accountant

Continental Aktiengesellschaft
Balance Sheet at December 31, 1989

Assets	See Note No.	DM 000	12/31/1989 DM 000	12/31/1988 DM 000
Fixed assets and investments				
Intangible assets	(1)	6,867		1,469
Property, plant and equipment	(2)	387,212		380,383
Investments	(3)	1,495,230		1,027,688
			1,889,309	**1,409,540**
Current assets				
Inventories	(4)	389,715		371,194
Receivables and other assets	(5)	321,798		429,487
Marketable securities	(6)	33,477		134,415
Liquid assets	(7)	24,630		198,060
			769,620	**1,133,156**
Prepaid expenses	(8)		**518**	**746**
			2,659,447	**2,543,442**

Shareholders' equity and liabilities	See Note No.	DM 000	12/31/1989 DM 000	12/31/1988 DM 000
Shareholders' equity				
Subscribed capital	(9)	435,022		432,655
Capital reserves	(10)	956,240		947,498
Retained earnings	(11)	141,699		129,699
Reserve for retirement benefits	(13)	3,691		4,235
Net income available for distribution		70,984		70,425
			1,607,636	**1,584,512**
Special reserves	(14)		**89,389**	**55,039**
Provisions	(15)		**448,335**	**493,867**
Liabilities	(16)		**514,087**	**410,024**
			2,659,447	**2,543,442**

Continental Aktiengesellschaft
Statement of Income for the period from January 1 to December 31, 1989

	See Note No.	DM 000	1989 DM 000	1988 DM 000
Sales	(17)		**3,040,811**	**2,813,346**
Cost of sales	(18)	2,477,275		2,260,606
Gross profit on sales			**563,536**	**552,740**
Selling expenses	(19)	216,462		201,141
Administrative expenses	(20)	174,582		184,047
Other operating income	(21)	129,323		99,682
Other operating expenses	(22)	136,932		103,925
Net income from investments and financial activities	(23)	+ 9,497		+ 15,745
Net income from regular business activities			**174,380**	**179,054**
Taxes	(24)	93,139		98,156
Net income for the year			**81,241**	**80,898**
Balance brought forward from previous year			1,199	832
Withdrawal from the reserve for retirement benefits			+ 544	+ 695
Transfers to retained earnings			− 12,000	− 12,000
Net income available for distribution			**70,984**	**70,425**

Based on an audit performed in accordance with our professional duties, the accounting records and the financial statements comply with the legal regulations. The financial statements present, in compliance with required accounting principles, a true and fair view of the net worth, financial position and results of the company. The management report is in agreement with the financial statements.

Berlin/Hanover, April 17, 1990

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Kirste
Certified Public Accountant	Certified Public Accountant

Changes in **Consolidated** Fixed Assets and Investments

	Acquisition/Manufacturing Cost					Depreciation				Net value	
	As of 1/1/1989 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1989 DM 000	As of 1/1/1989 DM 000	Additions DM 000	Retire-ments DM 000	As of 12/31/1989 DM 000	As of 12/31/1989 DM 000	As of 12/31/1988 DM 000
I. Intangibles											
Concessions, industrial and similar rights and assets and licenses in such rights and assets	6,312			4,397	1,915	4,821	1,407	4,462	1,766	149	1,491
Other intangible assets	13,872	7,197	621	1,462	20,228	8,393	5,206	855	12,744	7,484	5,479
Payments to suppliers	801	4,131	−621		4,311					4,311	801
	20,985	**11,328**		**5,859**	**26,454**	**13,214**	**6,613**	**5,317**	**14,510**	**11,944**	**7,771**
II. Property, plant and equipment											
Land, land rights and buildings including buildings on third party land	1,059,645	48,473	45,780	27,221	1,126,677	458,773	36,930	5,561	490,142	636,535	600,872
Technical equipment and machines	2,470,411	150,430	85,298	102,689	2,603,450	1,748,139	211,172	78,916	1,880,395	723,055	722,272
Other equipment, factory and office equipment	835,143	118,196	18,809	54,407	917,741	629,972	115,105	46,253	698,824	218,917	205,171
Payments to suppliers and assets under construction	159,242	222,397	−149,887	13,134	218,618					218,618	159,242
	4,524,441	**539,496**		**197,451**	**4,866,486**	**2,836,884**	**363,207**	**130,730**	**3,069,361**	**1,797,125**	**1,687,557**
III. Investments											
Shares in affiliated companies	1,222	114		220	1,116	328		171	157	959	894
Loans to affiliated companies	47				47	47			47		
Shares in associated companies	59,288	4,164		1,192	62,260	22,825			22,825	39,435	36,463
Loans to associated companies		6,837			6,837					6,837	
Investments	5,204	86,871	401	7	92,469	732		7	725	91,744	4,472
Securities included in investments	21,487	1,475		910	22,052	68	729		797	21,255	21,419
Other loans	40,868	6,602	−401	13,292	33,777	4,500	550	471	4,579	29,198	36,368
	128,116	**106,063**		**15,621**	**218,558**	**28,500**	**1,279**	**649**	**29,130**	**189,428**	**99,616**
	4,673,542	**656,887**		**218,931**	**5,111,498**	**2,878,598**	**371,099**	**136,696**	**3,113,001**	**1,998,497**	**1,794,944**

Changes in Fixed Assets and Investments of Continental Aktiengesellschaft

	Acquisition/Manufacturing Cost					Depreciation				Net value	
	As of 1/1/1989 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1989 DM 000	As of 1/1/1989 DM 000	Additions DM 000	Retire-ments DM 000	As of 12/31/1989 DM 000	As of 12/31/1989 DM 000	As of 12/31/1988 DM 000
I. Intangibles											
Other intangible assets	3,878	4,180	439		8,497	2,858	2,882		5,740	2,757	1,020
Payments to suppliers	449	4,100	−439		4,110					4,110	449
	4,327	**8,280**			**12,607**	**2,858**	**2,882**		**5,740**	**6,867**	**1,469**
II. Property, plant and equipment											
Land, land rights and buildings including buildings on third party land	358,964	11,527	30,131	810	399,812	255,581	9,981	452	265,110	134,702	103,383
Technical equipment and machines	1,107,355	40,650	12,640	18,661	1,141,984	944,045	68,943	18,059	994,929	147,055	163,310
Other equipment, factory and office equipment	386,103	52,919	3,511	14,186	428,347	325,127	48,075	13,285	359,917	68,430	60,976
Payments to suppliers and assets under construction	52,714	30,593	−46,282		37,025					37,025	52,714
	1,905,136	**135,689**		**33,657**	**2,007,168**	**1,524,753**	**126,999**	**31,796**	**1,619,956**	**387,212**	**380,383**
III. Investments											
Shares in affiliated companies	993,019	466,746			1,459,765	5,216			5,216	1,454,549	987,803
Investments	47,166				47,166	21,025			21,025	26,141	26,141
Other loans	13,770	1,241		448	14,563	26		3	23	14,540	13,744
	1,053,955	**467,987**		**448**	**1,521,494**	**26,267**		**3**	**26,264**	**1,495,230**	**1,027,688**
	2,963,418	**611,956**		**34,105**	**3,541,269**	**1,553,878**	**129,881**	**31,799**	**1,651,960**	**1,889,309**	**1,409,540**

Major Companies of the Continental Corporation at December 31, 1989

Company	Corporate interest in %	Shareholders' equity DM 000	Net income DM 000
I. Affiliated companies			
1. Domestic companies (according to accounting and valuation principles uniform throughout the Corporation)			
Uniroyal Englebert Reifen GmbH, Aachen	100.0	55,246	794*
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	8,285	1,587
Göppinger Kaliko GmbH, Eislingen	96.3	34,825	632*
Bamberger Kaliko GmbH, Bamberg	96.3	4,254	83*
Techno-Chemie Kessler & Co. GmbH, Karben	100.0	18,100	2,256
Deutsche Semperit GmbH, Munich	100.0	17,264	872
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	95.0	5,858	2,619
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	3,962	465
2. Foreign companies (according to accounting and valuation principles uniform throughout the Corporation)			
SICUP SARL, Sarreguemines/France	100.0	147,180	20,284
CUP SNC, Roissy/France	100.0	19,749	2,898
Société des Flexibles Anoflex SA, Caluire/France	100.0	11,521	1,432
Société des Raccords Anoflex SA, Villeurbanne/France	100.0	3,986	1,564
Semperit Reifen Aktiengesellschaft, Vienna/Austria	95.0	231,427	33,578
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	34,052	467
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	46,335	5,882
Continental Industrias del Caucho SA, Coslada, Madrid/Spain	100.0	20,895	2,618
Semperit (Ireland) Ltd., Dublin/Ireland	100.0	14,661	– 1,281
Uniroyal Englebert Tyres Ltd., Newbridge/UK	100.0	62,921	1,479
General Tire Inc., Akron, Ohio/USA	100.0	474,789	47,694
General Tire Canada Ltd., Barrie, Ontario/Canada	100.0	96,694	– 24,102
General Tire & Rubber Company of Morocco, Casablanca/Morocco	52.2	7,967	7,156
General Tire de Mexico SA de C.V., Mexico City/Mexico	99.1	18,266	– 3,936
C.U.P. Gummi Gesellschaft mbH, Vösendorf/Austria	95.0	1,695	– 27*
C.U.P. Ltd., West Drayton/UK	100.0	24,054	2,697
Semperit (UK) Ltd., Slough/UK	95.0	9,613	838
Uniroyal Englebert Daek A/S, Copenhagen/Denmark	100.0	1,403	591
C & S Rubber AB, Solna/Sweden	100.0	2,923	737
Continental Caoutchouc (Suisse) SA, Zurich/Switzerland	100.0	12,464	793
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	7,426	767
Semperit (Schweiz) AG, Dietikon/Switzerland	100.0	14,771	796
Continental Italia S.p.A., Milan/Italy	100.0	7,503	602
Continental Products Corporation, Lyndhurst/N.J./USA	98.4	14,293	1,364
II. Associated companies			
Clouth Gummiwerke AG, Cologne	50.0	– 10,827	4,287
KG Deutsche Gasrusswerke GmbH & Co., Dortmund	31.9	16,500	1,500
Deutsche Gasrusswerke GmbH, Dortmund	34.8	260	10
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	23,054	2,054
Drahtcord Saar Geschäftsführung GmbH, Merzig/Saar	50.0	67	7
SAVA-Semperit, Kranj/Yugoslavia	26.4	81,578	2,663
Compañia Ecuatoriana del Caucho, Cuenca/Ecuador	35.8	14,607	987

A complete list of the companies of the Continental Corporation and those of Continental Aktiengesellschaft has been filed with the Commercial Register of the Hanover District Court. The list is also available for inspection by the shareholders of Continental Aktiengesellschaft at the Company's business premises.

* Profit-and-loss transfer agreements exist with these companies.

Continental Corporation

Tire Group (Continental, Uniroyal, Semperit)

Production and Sales

- Continental Plant Hanover-Stöcken
- Continental Plant Korbach
- Continental Plant Sarreguemines / France
- Continental Plant Coslada / Madrid / Spain
- Uniroyal Plant Aachen
- Uniroyal Plant Herstal-lez-Liège / Belgium
- Uniroyal Plant Clairoix / France
- Uniroyal Plant Newbridge / United Kingdom
- Semperit Plant Traiskirchen / Austria
- Semperit Plant Dublin / Ireland
- Semperit Plant Kranj / Yugoslavia □
- KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund □
- Drahtcord Saar GmbH & Co. KG, Merzig / Saar □

Dealer Organizations in

- Germany
- Austria
- United Kingdom
- Ireland
- Switzerland
- Liechtenstein

ContiTech Group

Production and Sales

- Continental Plant Hanover-Limmer
- Continental Plant Hanover-Vahrenwald
- Continental Plant Northeim
- Continental Plant Korbach
- Continental Plant Dannenberg
- Continental Plant Gohfeld
- Continental Plant Mendig
- Techno-Chemie Kessler & Co. GmbH, Karben, Berlin
- Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen
- KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf
- Kaliko Companies, Eislingen, Bamberg, Überherrn
- Uniroyal Englebert Textilcord S.A., Steinfort / Luxembourg
- Flockgarn GmbH, Hanover, Rheydt
- Clouth Gummiwerke AG, Cologne □
- Anoflex Companies, Lyon / France
- ContiTech-Elastorsa S.A., Arnedo / Spain □
- ContiTech Kauçuk Sanayii A.Ş., Istanbul / Turkey

General Tire Group

Production and Sales

- Plant Mayfield, Kentucky / U.S.A.
- Plant Charlotte, North Carolina / U.S.A.
- Plant Mt. Vernon, Illinois / U.S.A.
- Plant Bryan, Ohio / U.S.A.
- Plant Odessa, Texas / U.S.A.
- Plant Barnesville, Georgia / U.S.A.
- Plant Barrie, Ontario / Canada
- Plant Mexico D. F. / Mexico
- Plant San Luis Potosi / Mexico
- Plant Casablanca / Morocco
- Mabor – Manufactura Nacional de Borracha S.A.R.L., Lousado / Portugal □
- Compañia Ecuatoriana del Caucho, Cuenca / Ecuador □
- Manufactura de Borracha S.A.R.L., Maputo / Mozambique □
- The General Tyre & Rubber Company of Pakistan Ltd., Karachi / Pakistan □
- General Tyre East Africa Ltd., Arusha / Tanzania □

Dealer Organizations in

- U.S.A.
- Canada

Sales Companies

- Continental Caoutchouc (Suisse) SA, Zurich / Switzerland
- Continental Italia S.p.A., Milan / Italy
- C & S Rubber AB, Solna / Sweden
- Continental Products Corporation, Lyndhurst, N.J. / U.S.A.
- Pneu Uniroyal-Englebert S.A., Geneva / Switzerland
- Uniroyal Englebert Daek A/S, Copenhagen / Denmark
- Uniroyal Englebert Tyre Trading GmbH, Aachen
- C.U.P. SNC, Roissy / France
- C.U.P. Ltd., West Drayton / United Kingdom
- C.U.P. Gummi Gesellschaft mbH, Vösendorf / Austria
- Deutsche Semperit GmbH, Munich
- Semperit (Sales) Ltd., Dublin / Ireland
- Semperit (Schweiz) AG, Dietikon / Switzerland
- Semperit (UK) Ltd., Slough / United Kingdom

□ Interest of 50% or less

At December 31, 1989

Continental Corporation
Ten Year Survey

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Balance sheet											
Fixed assets and investments	DM million	809.3	827.2	815.7	782.9	764.9	1075.3	1063.6	1647.0	1794.9	1998.5
Current assets	DM million	1215.2	1145.3	1103.0	1104.5	1200.8	1761.9	2029.5	3156.2	3660.0	3407.4
Balance sheet total	DM million	2024.5	1972.5	1918.7	1887.4	1965.7	2837.2	3093.1	4803.2	5454.9	5405.9
Shareholders' equity	DM million	418.6	401.9	420.6	442.7	522.2	638.4	808.0	1515.8	1657.9	1725.3
Long-term debt	DM million	742.9	729.4	694.3	680.1	692.6	965.2	998.9	1541.6	1644.3	1598.6
Investments	DM million	149.2	158.4	131.9	128.2	149.8	254.0	286.7	303.7	457.1	543.8
Equity ratio	%	20.7	20.4	21.9	23.5	26.6	22.5	26.1	31.6	30.4	31.9
Long-term financing of fixed assets, investments and inventories	%	81.8	83.7	84.2	88.3	91.2	86.3	103.8	118.6	113.6	103.7
Total indebtedness	DM million	915.7	909.8	806.4	695.0	594.0	992.5	741.2	672.7	826.4	929.5
Self-financing ratio	%	116.6	69.1	133.0	170.4	143.5	113.1	126.7	150.9	112.3	94.4
Liquidity ratio	%	67.2	71.0	71.1	77.7	82.1	76.4	104.3	134.7	119.9	105.0
Statement of income											
Sales	DM million	3159.7	3229.0	3248.8	3387.2	3534.0	5003.3	4968.6	5097.6	7905.8	8381.9
Foreign markets' share	%	37.0	38.0	37.3	36.4	40.1	49.9	48.3	47.5	64.3	65.0
Cost of sales[1]	%								71.1	74.6	74.7
Selling expenses[1]	%								14.9	13.1	14.0
Administrative expenses[1]	%								7.0	6.4	5.7
Cost of materials	DM million	1373.2	1335.0	1361.3	1420.0	1569.4	2311.8	1981.9	2027.5	3111.7	3298.8
Personnel expense	DM million	1278.3	1276.3	1283.2	1288.2	1334.8	1693.8	1778.5	1878.4	2532.2	2724.8
Depreciation	DM million	115.4	120.0	123.8	135.5	150.8	205.5	229.4	263.8	375.8	367.5
Cash flow	DM million	161.4	108.2	144.2	190.7	204.9	303.5	375.9	464.0	623.4	604.9
Value added	DM million	1480.2	1426.1	1476.3	1486.3	1519.0	1982.4	2161.8	2267.4	3051.0	3319.0
Net income	DM million	26.1	− 17.8	18.3	40.2	41.2	77.2	114.5	138.8	194.8	227.8
Employees											
Annual average	000	31.3	29.6	28.2	27.1	26.3	31.7	31.9	32.3	45.4	47.5

[1] As a % of sales

Continental Aktiengesellschaft
Ten Year Survey

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Balance sheet											
Fixed assets and investments	DM million	670.9	704.6	701.4	663.7	677.7	750.0	761.7	1358.3	1409.5	1889.3
Current assets	DM million	539.6	530.3	513.1	492.2	527.0	631.4	741.0	1115.2	1133.9	770.1
Balance sheet total	DM million	1210.5	1234.9	1214.5	1155.9	1204.7	1381.4	1502.4	2473.5	2543.4	2659.4
Shareholders' equity	DM million	399.1	406.8	418.3	419.3	480.6	499.2	667.1	1567.2	1601.3	1641.1
Long-term debt	DM million	467.7	449.1	429.9	415.2	413.7	457.8	402.0	375.3	344.4	367.4
Investments	DM million	80.8	90.2	66.1	58.9	85.4	102.2	102.6	121.0	140.8	144.0
Equity ratio	%	33.0	32.9	34.4	36.3	39.9	36.1	44.4	63.4	63.0	61.7
Long-term financing of fixed assets, investments and inventories	%	89.5	88.7	88.7	92.7	94.7	90.9	105.5	122.8	116.7	92.8
Total indebtedness	DM million	429.5	409.6	373.6	288.0	233.7	250.5	192.9	+ 139.6	+ 171.0	99.1
Self-financing ratio	%	76.7	58.2	121.1	226.2	102.0	78.9	146.6	31.5	103.5	35.0
Liquidity ratio	%	67.3	68.3	66.6	76.4	81.5	74.7	117.0	192.7	163.6	69.7
Statement of income											
Sales	DM million	1817.2	1823.9	1866.3	1992.7	2079.3	2312.9	2391.0	2423.1	2813.3	3040.8
Foreign markets' share	%	28.5	29.3	28.6	28.2	33.4	34.4	35.4	36.2	36.8	38.1
Cost of sales[1]	%								80.4	80.4	81.5
Selling expenses[1]	%								7.9	7.1	7.1
Administrative expenses[1]	%								7.4	6.5	5.7
Cost of materials	DM million	813.4	825.3	835.3	893.8	998.0	1152.2	1107.2	1088.6	1392.1	1542.2
Personnel expense	DM million	764.2	745.7	753.4	766.3	790.0	846.7	895.2	928.6	924.5	960.6
Depreciation	DM million	65.2	69.5	73.5	78.7	85.5	105.5	111.2	121.8	134.9	129.9
Cash flow	DM million	105.7	73.6	89.5	122.8	120.7	158.1	209.9	263.4	262.4	282.5
Value added	DM million	884.5	838.6	847.7	865.3	886.2	971.4	1071.9	1122.2	1129.8	1182.8
Net income	DM million	12.7	0.2	3.9	15.1	18.3	37.2	55.0	55.8	80.9	81.2
Dividend paid	DM million	13.5	—	—	16.2	17.9	29.9	37.5	48.0	69.2	69.6
Employees											
Annual average	000	18.3	17.4	16.3	15.6	15.4	15.5	15.4	15.3	15.1	15.9

[1] As a % of sales

Selected Financial Terms

Affiliated companies. See the explanations with regard to → associated companies.

Annual financial statements. For corporations, the annual financial statements consist of the balance sheet, the statement of income and the → notes. This is also true of the consolidated financial statements. On the other hand, the (consolidated) → management report is not a part of the consolidated financial statements.

Associated companies, participations, affiliated companies. Participations are interests in other companies that have been acquired in order to form a permanent relationship with the acquiring company's business. If the participation in a company is greater than 50%, the company will ordinarily be included as a fully consolidated affiliate in the consolidated financial statements of the parent company (→ consolidation). Companies in which the parent company or a company controlled by it holds an interest of between 20% and 50% are referred to as → associated companies. In the consolidated financial statements, the book value of the participation is updated to reflect the change in the company's net income for the year, so that, as a rule, the value entered in the consolidated balance sheet corresponds to the parent company's interest in the → share-holders' equity (→ equity method).

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

Capital reserves. The capital reserves consist primarily of amounts received upon the issuance of shares (increase of the → subscribed capital) in excess of their par value. Also shown here is the amount paid upon the issue of debt securities for conversion rights and warrants to acquire shares.

Capital turnover rate. The capital turnover rate indicates the amount of capital that was used to achieve the sales. It is equivalent to the ratio of the net sales to the entire capital (total assets).

Cash flow. Cash flow is defined in different ways by different companies. We compute the cash flow on the basis of the → DVFA earnings formula. It is essentially the sum of net income, depreciation, the increase or decrease in special reserves, the balance of aperiodic income and expenses, and the long-term provisions. Customarily, a company uses its cash flow for capital investments, debt amortization and dividend payments.

Conditionally authorized capital. This item indicates the amount up to which holders of convertible debentures or option rights can acquire newly issued shares of a company and thereby participate in a capital increase previously authorized by the shareholders' meeting.

Consolidation. By consolidation, we mean the integration of individual financial statements, which are prepared according to uniform accounting and valuation rules, into a single set of financial statements for a group of companies. For this purpose, the following are to be offset against one another: the book value of the parent company's interests in the consolidated subsidiaries against the corresponding portion of their → shareholders' equity, intercompany receivables against intercompany liabilities, and income from the supply of goods and services within the Corporation against the corresponding expenses. Profits from the supply of goods and services within the → Corporation must be eliminated, unless they have been realized through the resale of the goods in question to third parties.

Corporation. The term Corporation as used in this annual report is an economic entity, consisting of several legally independent companies that are under the uniform control of a parent company. The parent company can exercise the control function, among other reasons because it is entitled to a majority of the votes or because it can appoint a majority of the members of an administrative, management or supervisory body or because of a control agreement concluded with a subsidiary.

Cost of sales method. In this method used for preparing the statement of income, the expenses attributable to sales are divided according to the manufacturing, selling, and administrative functions. In the total cost method, on the other hand, these expenses are shown as costs for the period and, depending on their original nature, as expenditures for materials, personnel, depreciation, etc.

Current assets. This item comprises all the short- and medium-term assets of a company, for example inventories, trade accounts receivable, cash on hand, and bank accounts.

Debt ratio. The debt ratio is the ratio of net indebtedness (borrowings less provisions for pension plans, monetary → current assets and advances from customers) to the → cash flow. It shows how quickly the net indebtedness can be paid back from the → cash flow.

Deferred taxes. The income taxes to be paid by a company are computed according to its taxable income. If this income is different from that shown on the published balance sheet, the taxes will be either too high or too low with respect to the published earnings. An accounting entry for deferred taxes is set up to compensate for the difference in those cases in which it is clear that the difference in question will be eliminated in the course of time. A provision for deferred taxes is established if less tax has been paid than would be due on the basis of the published earnings. The difference may (but need not) be entered on the asset side if too much tax has been paid. If, due to consolidation measures, the consolidated income is too high or too low in comparison with the consolidated income tax expense, deferred taxes must be included in the consolidated financial statements. In contrast to individual financial statements, the consolidated financial statements must show a positive deferred tax balance on the asset side, if it is the result of consolidation measures.

DVFA earnings. The DVFA (German Association of Financial Analysts and Investment Counselors) is an organization consisting of representatives of German banks, whose objective is to eliminate the effects of extraordinary and aperiodic influences on the earnings of corporations listed on the stock exchange. Investors are thereby provided with a uniform basis for comparison over the course of time and with other companies.

Equity method. The method used to value → associated companies in the consolidated financial statements is referred to as the equity method. The figure entered in the balance sheet is based on the portion of the company's → shareholders' equity that corresponds to the → participations held. However, this figure must not exceed the original acquisition cost of the → participation.

Equity ratio. The equity ratio is the relationship of the → shareholders' equity, including the equity portion of → special reserves, to total assets.

Fixed assets and investments. Fixed assets and investments comprise the assets intended for long-term use within the company, such as land, buildings, machinery and interests in other companies.

Indebtedness. Indebtedness is computed by deducting liquid assets from interest-bearing liabilities.

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

Long-term financing. The degree to which → fixed assets and investments plus inventories are financed by → shareholders' equity and long-term borrowings provides information about the company's long-term financing. If the ratio exceeds 100%, the long-term financing of → fixed assets and investments plus inventories is considered adequate.

Management report. The management report supplements the → annual financial statements by reporting on the company's progress and position. It also includes information on any particularly important events that have occurred after the closing of the fiscal year, the trends anticipated for the new fiscal year and the company's research and development activities. As is customary, our management report combines the information on Continental Aktiengesellschaft and the → Corporation.

Minority interests. For interests in consolidated subsidiaries which do not belong to the parent company, a corresponding item must be entered in the consolidated balance sheet as part of → shareholders' equity. In the consolidated statement of income, the interest of the minority shareholders in the net income or loss must be shown separately.

Notes. In addition to explanations of the items on the balance sheet and the statement of income, the notes contain obligatory information, such as the financial obligations not shown in the balance sheet. Included in this additional information is a presentation of the principles of accounting and valuation that have been employed.

Participations. See the explanations with regard to → associated companies.

Retained earnings. This term designates all the amounts from the net income of the past or previous fiscal years that have been retained within the → Corporation.

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

Shareholders' equity. Shareholders' equity includes the → subscribed capital, the → capital reserves, the → retained earnings and the net income available for distribution.

Special reserves. These items, included in shareholders' equity and liabilities, can be set up pursuant to the tax laws. They are not taxed until they are reversed. They are used to promote certain objectives that are desirable from the point of view of economic policy. Examples include reserves established under the German Foreign Investment Act.

Statement of change in financial position. This table gives information about financial data in addition to the → cash flow, particularly with regard to the source and application of funds.

Subscribed capital. The subscribed capital is the amount for which the shareholders of a corporation can be held liable to its creditors.

Tax credit. The term "tax credit" refers to the certificate given to German shareholders with regard to the corporate income tax payable by the company upon distribution of a dividend. This tax is always equal to 36% of the net income before deduction of the corporate income tax. In other words, if, from a net income of DM 100.00, a shareholder receives a dividend of DM 64.00, the company must pay DM 36.00 to the Internal Revenue Service. To avoid double taxation of the distribution, the shareholder receives a tax credit in the amount of the tax of DM 36.00 paid by the company. The dividend and tax credit add up to a total taxable income for the shareholder in the amount of DM 100.00, with the tax credit being treated as a prepayment on the shareholder's personal tax liability. Another prepayment is the capital yield tax, which amounts to 25% of the cash payment, or, in our example, DM 16.00.

Value added. Value added is the increase that a company's activities produce in the value of its products. It is computed as the difference between corporate performance (sales plus all other income) and the input provided by suppliers, such as merchandise purchased for resale and energy. The value added account shows the extent to which employees, shareholders and lenders, and the government participate in the value added by the company. Part of the value added, namely the portion of net income that is not distributed as a dividend, remains in the company.

The Annual Report is also published in German. A shorter version is available in French or German.

To obtain a copy of either publication, please contact:

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