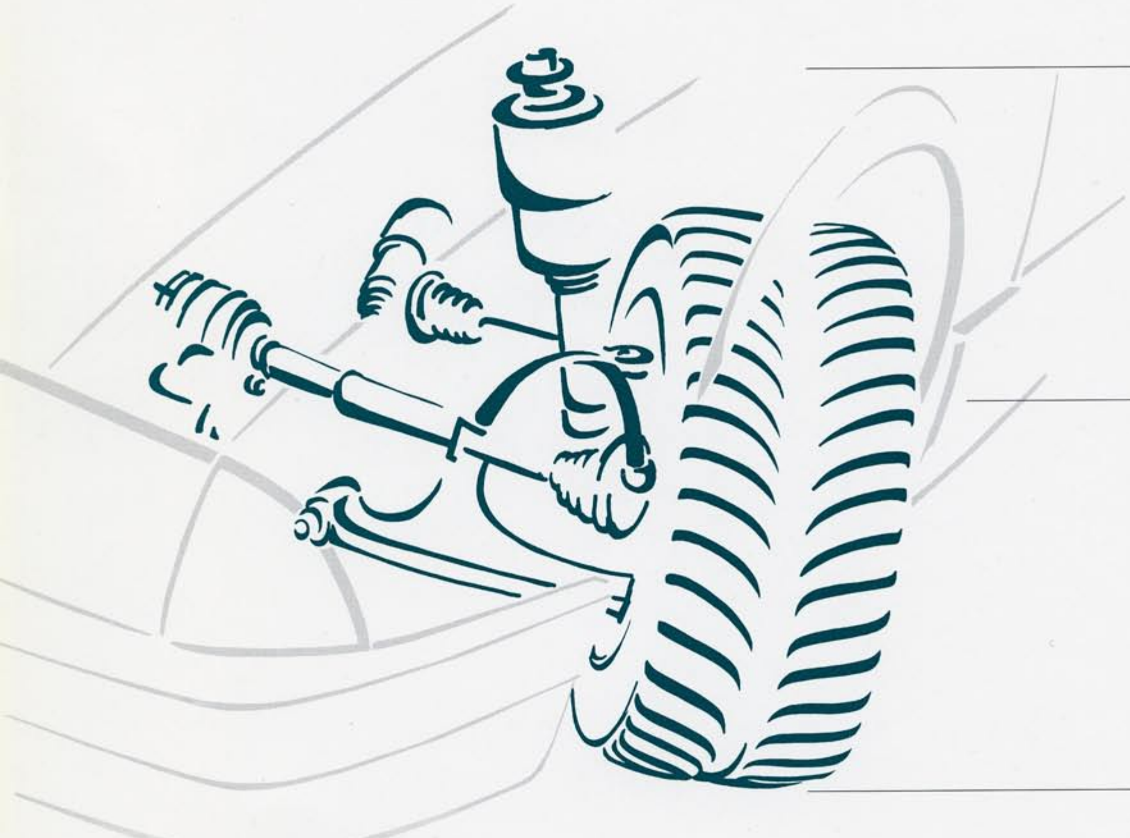
ANNUAL REPORT 1992

Continental
Aktiengesellschaft



A CORPORATE STRATEGY IN TUNE WITH THE ENVIRONMENT

In our "Basics", the compilation of our corporate philosophy, we have expressed our "Commitment to Environmental Care" as follows:

"Our aim is to make sure that our business objectives are in harmony with environmental interests. We constantly monitor all of our operations for environmental compatibility.

We encourage our employees to make their personal contribution to environmental protection and thus, simultaneously, to the success of our Company."

Read about our accomplishments in environmental protection on page 30.

EcoContact clearly illustrates the way in which the pursuit of ecological objectives can lead directly to products which are also superior when measured by economic criteria.

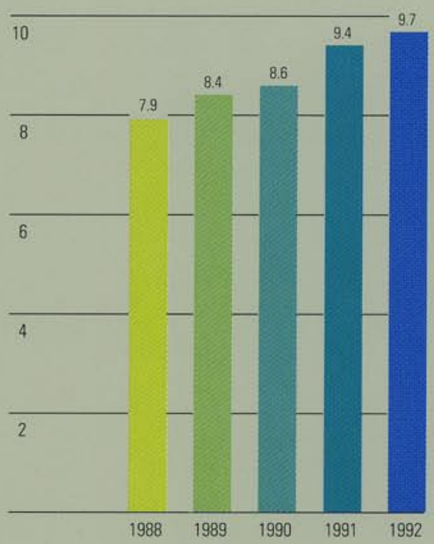
CONTINENTAL CORPORATION AT A GLANCE

		1988	1989	1990	1991
Sales	DM million	7,905.8	8,381.9	8,551.0	9,376.9
Income/loss before taxes	DM million	338.7	369.3	153.3	− 122.9
Income/loss after taxes	DM million	194.8	227.8	93.4	− 128.2
Dividend paid	DM million	69.2	69.6	35.1	–
Cash flow	DM million	623.4	604.9	510.0	526.1
Debt ratio		1.5	1.9	3.5	4.7
Capital expenditure on property, plant and equipment	DM million	447.7	532.4	689.5	829.3
Depreciation	DM million	375.8	367.5	378.0	531.0
Shareholders' equity	DM million	1,657.9	1,725.3	1,742.2	1,514.7
Equity ratio	in %	30.4	31.9	28.2	22.8
Employees at year-end		45,907	47,495	51,064	49,877
Share price (high)	DM	273.0	358.2	345.5	251.5
Share price (low)	DM	169.5	236.5	189.5	180.0

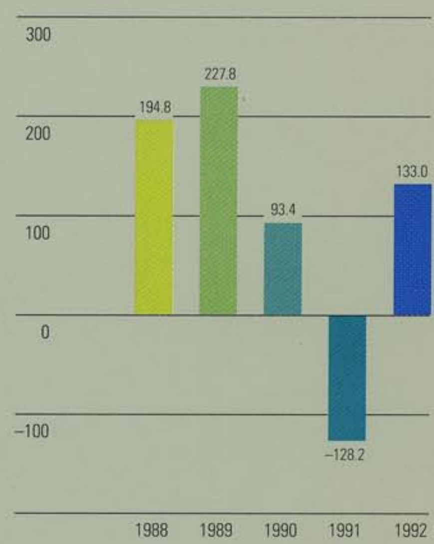
Cover illustration:
The future belongs to suppliers of complete systems. As a manufacturer of tires, air springs, anti-vibration and sealing systems, hose assemblies and vehicle interiors, we are in an excellent position to benefit from this trend.

1992
9,689.9
155.2
133.0
—
701.4
3.8
709.3
502.6
1,617.1
22.9
50,581
281.0
184.5

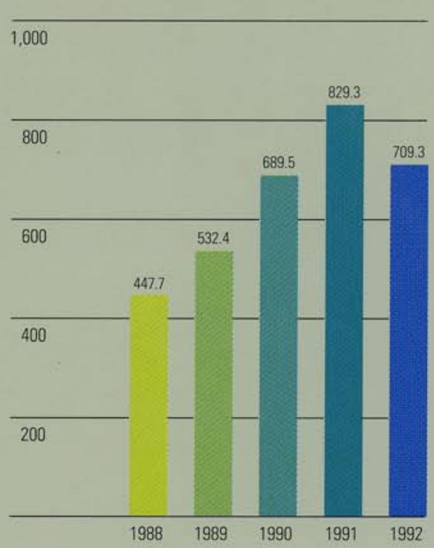
Sales in DM billion



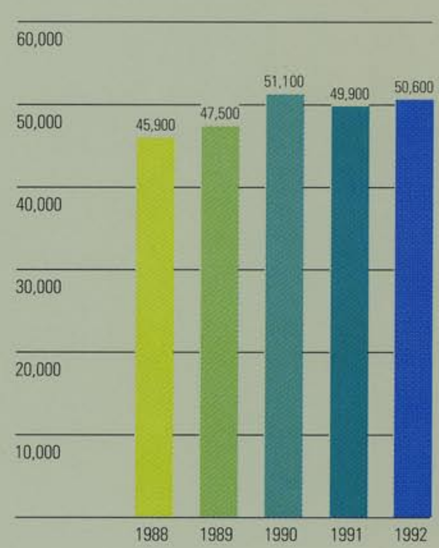
Net income/loss in DM million



Capital expenditure on property, plant and equipment in DM million



Employees at year-end



REPORT ON 1992, THE COMPANY'S 121st FISCAL YEAR

Dear Shareholders,

To a large extent, the 1992 financial statements correspond to our expectations. After the exceptionally high charges of 1991, we are now once again operating at a substantial profit. The improvement in operating income is due primarily to the General Tire Group, which was able, as planned, to halve its losses, and to the Passenger Tire and ContiTech Groups. The Commercial Vehicle Tire Group, on the other hand, did not succeed in reaching the goals we had set for it.

In North America and Europe, the trend in the automotive industry and the economy in general was negative, especially in Germany. This situation will deteriorate further in 1993. Against this background, Continental recorded an above-average gain in sales, volume and earnings in the first half of 1992, and a more modest result in the second. With the exception of commercial vehicle tire production, our plants in Europe and North America operated at full capacity. On both these continents, for some years now, we have made flexible use of weekend shifts. It is our declared intention to become a technological and cost leader in our industry, offering tires and industrial rubber products attuned to the needs of our customers and earning an appropriate return for our shareholders through the dedication of our employees. We made substantial progress toward this goal in 1992, but there is still plenty to do, if we are to realize all the synergies inherent in our tire operations, which expanded greatly – due mainly to acquisitions – in the 80's. For example, we plan to have all the plants adopt the methods of the one that proves to be most cost-efficient. At present, the standard of comparison is being established by our new truck tire plant in Mt. Vernon, Illinois, where the work is organized with Japanese-style efficiency.

The reorganization of our European tire business into two customer-oriented Groups responsible for their own results – Passenger Tires, Tire Marketing and Sales and Commercial Vehicle Tires, Environment and Tire Research – has been successfully accomplished and is beginning to bear fruit. We are taking this approach one step further, within the Groups themselves, by delegating responsibility for results, insofar as possible, to the individual market organizations and production facilities. Thanks to the radical restructuring of the General Tire Group, which has likewise been divided into largely independent business units for passenger tires and commercial vehicle tires, we can expect that this Group will reach the breakeven point during 1993. The ContiTech Group has already benefited in recent years from making the individual business units responsible for their own customers and markets and is continuing to implement this policy on a systematic basis.

In August 1992, we lost our colleague Mr. Haimo Fortmann after a severe, protracted illness. He had been a member of the Executive Board since January 1, 1990. With his rich experience and team spirit, he had been a source of great inspiration to the Company, particularly in the field of manufacturing, and contributed significantly to its progress. We shall not forget him.

The beginning of 1993 saw drastic declines in both production and volume in the German automotive industry and, to a less pronounced extent, in its European counterpart. Events in Germany are being strongly influenced by failure to overcome the political, economic and social problems resulting from the reunification, which in turn has repercussions on all our neighbors in Europe as they move toward the single market. On the assumption that a recovery is not to be expected before 1994, we are taking every possible measure – in particular, the reduction of weekend shifts – to adjust our production to the market situation. Experience has shown that the tire replacement markets remain stable at times when new registrations are on the wane. Despite our close links to the German automotive industry, we are therefore looking forward to further developments in 1993 with cautious optimism. We expect that Continental will also derive some benefit from the economic revival in North America, in which our General Tire Group should participate.

At the beginning of April 1993, Pirelli definitively disposed of its holding in Continental shares and options. With the backing of the Deutsche Bank, and the valuable assistance of the Lower Saxony government and the Norddeutsche Landesbank, a 33.25% block of our shares was placed with a number of institutional investors. Mediobanca retained just under 5% as a capital investment. This has brought a significant chapter in the history of Continental to a satisfactory conclusion for all concerned. We thank all those who were actively involved in solving this difficult task for the support and the trust they have shown in Continental.

At our Annual Meeting of Shareholders – to which, on behalf of the Administration, we cordially invite you – I should be able to give you more detailed information about the course of our business in 1993.

Sincerely,

Hubertus von Grünberg

MEMBERS OF THE SUPERVISORY BOARD

Ulrich Weiss, Chairman
Member of the Board of Managing Directors, Deutsche Bank AG

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

Rudolf Alt*
Member of the Employee Council
Stöcken Plant
(through 12/31/1992)

Hans H. Angermueller
Of Counsel
Shearman & Sterling, New York

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

Diethart Breipohl
Member of the Board of Management
Allianz AG Holding
(as of 7/3/1992)

Werner Breitschwerdt
Member of the Supervisory Board
Daimler-Benz AG

Friedrich-Karl Flothow*
Head of Manufacturing Services

Wilhelm Helms
Legal Counsel and Notary Public

Hans-Olaf Henkel
President
IBM Deutschland GmbH

Wilfried Hilverkus*
Member of the Employee Council
Stöcken Plant
(as of 2/11/1993)

Helmut Keufner*
Chairman of the Employee Council
Northeim Plant

Richard Köhler*
Chairman of the Corporate Employee Council and of the Employee Council for the Korbach Plant

Dieter Kölling*
Member of the Employee Council
Vahrenwald Plant

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

Ernst Pieper
Chairman of the Managing Board
Preussag AG

Günther Saßmannshausen
Member of the Supervisory Board
Preussag AG

Friedrich Schiefer
Managing Director
Robert Bosch GmbH
(through 7/3/1992)

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

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

Dieter Ullsperger
Businessman

Giuseppe Vita
Chairman of the Managing Board
Schering AG

* Employee representatives

Through oral and written reports, at its meetings and at individual conferences, the Supervisory Board was regularly provided during the past fiscal year with detailed information about the position of the Company and its subsidiaries and associated companies and about all major business transactions. It then discussed this information with the Executive Board.

The main topics of these discussions were the budget, medium- and long-term corporate planning, including capital investment projects, and basic questions about business policy and corporate structure, capacity utilization and earnings. In addition, we decided the issues which must be submitted for our approval under the applicable statutory provisions and the Company's bylaws.

Especially noteworthy was the Supervisory Board's approval during the 1992 fiscal year of the acquisition of a majority interest in a joint venture with Barum, Otrokovice.

The Supervisory Board agreed in writing to the increase of the capital stock by DM 0.9 million through the issue of employee stock.

We have 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.

The Supervisory Board concurs in the result of the audit of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, 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, 1992, 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 auditor's report on the consolidated financial statements were submitted to the Supervisory Board.

On July 3, 1992, Dr. Friedrich Schiefer, Managing Director of Robert Bosch GmbH, resigned from the Supervisory Board, of which he had been a member for eight years. We wish to express our special thanks to him for his constructive contributions. The Annual Meeting of Shareholders of July 3, 1992, elected Dr. Diethart Breipohl, a member of the Board of Management of Allianz AG Holding, to the Supervisory Board.

At the end of the fiscal year, Mr. Rudolf Alt retired and therefore resigned his position as employee representative on the Supervisory Board. We wish to express our thanks to him for more than 13 years of cooperative work. At the Executive Board's request, on February 11, 1993, Mr. Wilfried Hilverkus was appointed as his successor by order of the Hanover District Court.

During fiscal 1992, we were sad to learn of the death of a valuable member of the Executive Board. Mr. Haimo Fortmann, who had been a member of Continental AG's Executive Board since January 1, 1990, most recently as the head of the General Services Group, died on August 12, 1992. We owe him special thanks for his dedicated service to the Continental Corporation, and we will always honor his memory.

On May 3, 1993, Mr. Günter H. Sieber withdrew by mutual agreement from Continental AG's Executive Board, of which he had been a member since November 1, 1987. We wish to express our special thanks to Mr. Sieber for his 13 years of valuable service at Continental and Semperit Reifen AG. On the same day, we appointed Mr. Wilhelm Schäfer, Chairman of the Managing Board of Semperit Reifen AG, as a member of the Executive Board of Continental AG in charge of the Passenger Tire Group/Tire Marketing and Sales. Mr. Schäfer already served on the Executive Board from 1975 to 1987.

Hanover, May 3, 1993

The Supervisory Board

Ulrich Weiss

Ulrich Weiss, Chairman

MEMBERS OF THE EXECUTIVE BOARD

VICE PRESIDENTS


Hubertus von Grünberg


Wilhelm P. Winterstein


Peter Haverbeck


Hans Kauth


Alan L. Ockene


Klaus-D. Röker


Günter H. Sieber


Wilhelm Schäfer

Executive Board

Hubertus von Grünberg
Chairman

Wilhelm P. Winterstein
Vice Chairman
Finance and Controlling

Haimo Fortmann
General Services
† 8/12/1992

Peter Haverbeck
ContiTech

Hans Kauth
Director of Personnel

Ingolf Knaup
Corporate Finance
(through 2/29/1992)

Alan L. Ockene
General Tire

Klaus-D. Röker
Commercial Vehicle Tires/
Environment and Tire Research

Günter H. Sieber
Passenger Tires/
Tire Marketing and Sales
(through 5/3/1993)

Wilhelm Schäfer
Passenger Tires/
Tire Marketing and Sales
(as of 5/3/1993)

Vice Presidents

Bernd Frangenberg
Marketing and Sales
Uniroyal Tires/OE

Helmut Gieselmann
Marketing and Sales
Continental Tires

Jens P. Howaldt
Law and Corporate Planning

Wilhelm Schäfer
Chairman of the Managing Board
Semperit Reifen AG
(through 5/3/1993)

ECONOMIC ENVIRONMENT

The world economy was marked by increasing insecurity during 1992. Although the growth of the gross domestic product of the industrialized countries had been forecast at 2.2%, it ultimately rose by barely 1.5%.

In Germany as well, economic growth – 1.5% in a declining trend – was even weaker than the mid-year predictions. High interest rates and uncertainty about the financing of the reunification had an inhibiting effect on business development. A slight decrease in gross domestic product is now expected for 1993.

Despite a gain in private consumption and investment in equipment, there was still no sign of a lasting economic recovery in the United States. However, the experts assume that a definite upturn will occur during the current year. In Japan, growth slowed considerably in 1992, to only 1.5%; a modest improvement is anticipated in 1993.

In Great Britain and Sweden, the hoped-for recovery did not materialize. A further decline is expected in Sweden during 1993, but there may be a slight revival in the British economy.

During the fiscal year, passenger car production rose 2% in Western Europe and 4.8% in the United States. Japanese automobile production decreased, while the German output rose by 3.2%. New registrations in Germany remained at the same very high level as in 1991. This is attributable to special factors such as the increase in the value-added tax, the expiration of the tax deduction for vehicles with catalytic converters, and stepped-up sales promotion by the car makers.

New registrations and production of passenger cars in Western Europe are expected to drop by about 10% in 1993, with an even more marked decline for output in Germany. On the other hand, estimates call for a gain of 8% in passenger-car production in the United States.

In Western Europe, new registrations of commercial vehicles will continue to decrease, by 6 to 8%. According to the latest forecasts, the drop in Germany may even exceed 20%.

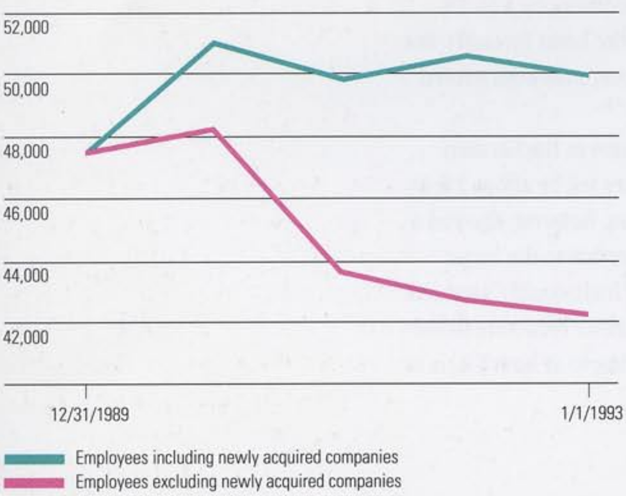
Sales volume in the German rubber industry fell by about 2% in 1992. Revenues, however, showed a slight increase, due to the larger proportion of high-quality products. For 1993, a further reduction in volume, amounting to at least 5%, is to be expected.

MANAGEMENT REPORT FOR THE CORPORATION AND CONTINENTAL AKTIENGESELLSCHAFT

Back in the Black — Precautionary Measures Pay Off

Although sales in the first half of 1992 were almost 8% higher than in the previous year, fluctuating exchange rates and deteriorating economic conditions affected our business in the last six months, so that the sales gain for the year as a whole came to only 3%. If the exchange rates had remained constant, sales would have risen by about 5%.

Trend in the Corporation's work force



Consolidated earnings showed a positive trend, though they, too, decreased significantly in the second half. Overall, the Corporation returned to profitability, after the loss recorded in 1991.

We armed ourselves against adverse conditions early on — in the good years — by carefully tailored programs to boost our productivity and reduce our overhead. Without taking newly acquired companies into account, our work force has decreased steadily between 1990 and January 1, 1993 by over 5,000 employees, although the business volume has increased significantly.

In addition, to handle the increase in volume, a great number of individual programs were carried out, both in the Groups and in the central administration, to help the entire Company adjust its efficiency to less favorable conditions.

Protecting the Voting Rights Limitation

For Continental, one important result of the Annual Meeting of Shareholders on July 3, 1992 was that the renewed motion to eliminate the voting rights limitation did not receive the required majority. However, an action was brought to have the resolution of the Annual Shareholders' Meeting set aside.

At the end of May 1992, the Hanover Superior Court had already allowed the action brought by a shareholder to have the resolution set aside that was passed at the Special Shareholders' Meeting of March 13, 1991 and seeks to lift the voting rights limitation. This decision was appealed against.

The amendment to the Articles of Incorporation resolved upon at the Annual Shareholders' Meeting of July 5, 1989, making it more difficult to revoke the voting rights limitation, was entered in the Commercial Register of the Hanover District Court on September 21, 1992. Prior to that, the Celle Supreme Court had dismissed on appeal the action brought by a shareholder to have the resolution of the Shareholders' Meeting set aside. An appeal against this judgment was taken to the Federal Supreme Court. As the amendment has been entered in the Commercial Register, any further motions to eliminate the voting rights limitation can only be passed by a majority of 75% of the votes cast and of the capital stock represented.

In April 1993, all pending actions and appeals were settled by compromise.

Turnaround at General Tire Planned for 1993

As a countercyclical measure, we have invested in state-of-the-art equipment at General Tire, while improving its organization, manufacturing and products. Almost all the commercial vehicle tires have meanwhile been changed over from the old-fashioned bias-ply to modern radial technology. We have achieved a breakthrough in quality and productivity. The turnaround in the U.S.A. would not have been possible without closing the unprofitable plant in Barrie, Canada, which, of course, was reflected in a heavy charge against 1991 earnings. Our new joint venture with Grupo Carso in Mexico will permit us – with no strain on our financial resources – to establish a new strategic position for the Continental and General brands in that country. The joint venture also includes the sale of General Tire de Mexico, consisting of two small factories, to Grupo Carso in order to improve efficiency.

Improvements in Europe

Although for the past few years the focus of our capital spending was the U.S.A., since 1991 it has shifted to Europe, and here, too, the positive effects are plainly visible. We have restructured and modernized our two tire plants in Herstal, Belgium, and Dublin, Ireland, and they are no longer operating at a loss. We will shortly have cost-efficient factories in Lousado, Portugal, and Otrokovice in the Czech Republic, as a result of our Continental-Mabor and Barum-Continental projects. Effective March 1, 1993 we took over 76% of the shares in the newly established joint venture with Barum, the tire manufacturer.

Following our acquisition of the remaining shares of Nivis Tyre AB, Göteborg, Sweden, we successfully integrated the Viking and Gislaved tires into our product spectrum. This has enabled us to take over the market leadership in the Scandinavian countries.

Balanced Corporate Structure

The structure of the Corporation is fundamentally balanced. One fourth of its revenues is earned by ContiTech, a Group that is less concerned with standard products than with customer-specific solutions.

Another 25% of consolidated sales is attributable to North America. The remaining half stems from sales of tires in Europe. Of this amount, almost two thirds is earned in the replacement market and only one third is accounted for by sales of original equipment. The prices of tires sold to the automotive industry cover only a fraction of their cost.

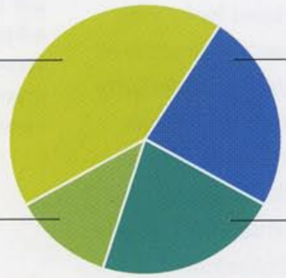
Only in the replacement business could the price increases required to compensate for higher personnel and administrative expense be implemented during 1992. We are trying to compensate for this by intensifying the sales promotion of sophisticated products. At ContiTech, this means new hose and air spring systems, as well as other high-tech, environmentally compatible equipment; our leading-edge tires include AquaContact, EcoContact, high-performance tires from Uniroyal and Semperit, as well as new snow tires and truck tires.

Prices for Materials Hold Steady

The Corporation's total purchases of materials for 1992 came to DM 3,918.2 million, or 40.4% of sales. Prices for raw materials remained at essentially the same level as in the previous year. For environmental reasons, we are using reusable steel containers for incoming raw materials, at no additional expense. Our Singapore purchasing company for natural rubber has proved its worth in terms of quality assurance, cost reduction and the acquisition of know-how.

New plants at cost-efficient locations are important additions to the structure of our manufacturing operations.

Sales by Group
in %



Further Rise in Sales

Growth in sales less than planned due to fluctuating exchange rates.

Consolidated sales grew by 3.3%, or DM 313.0 million, to DM 9,689.9 million, compared with DM 9,376.9 million in 1991. DM 452.1 million was attributable to companies consolidated for the first time.

The Passenger and Commercial Vehicle Tire Groups achieved sales of DM 5,126.1 million (+ 7.1%) in 1992, with their Continental, Uniroyal, Semperit, Gislaved and Viking brands. At ContiTech, sales increased by 1.4% to DM 2,285.4 million; General Tire's sales, expressed in U.S. dollars, rose by 1.9% to $1,348 million.

Sales revenues	1992 DM million	1991 DM million	Change in %
Parent company	3,334.4	3,271.6	+ 1.9
Consolidated	9,689.9	9,376.9	+ 3.3

Tires accounted for 76.0% (1991: 75.5%) of consolidated sales, and industrial rubber products for 24.0% (1991: 24.5%).

Streamlined Capital Spending

Additions to property, plant and equipment were reduced to DM 709.3 million, compared with DM 829.3 million in 1991. Capital expenditures approved in 1992 – some of which, however, will not be reflected in the balance sheet until 1993 or later – amounted to DM 659 million (1991: DM 569 million). A major part of this increase was due to the Barum project, which will be carried out between 1993 and 1995. As we had intended, the capital expenditure ratio dropped from 8.8% in 1991 to 7.3% and has thus reached the desired level.

Equity Ratio

After an insignificant increase of DM 2.1 million, the capital stock of Continental AG came to DM 441.3 million at December 31, 1992. In addition, the AG has conditionally authorized capital amounting to DM 212.2 million, of which DM 60.0 million has not yet been used. The capital authorized for the issue of employee stock is DM 14.1 million, after DM 0.9 million worth of employee shares had been issued in 1992.

Consolidated shareholders' equity increased by DM 102.4 million to DM 1,617.1 million and amounts to 22.9% of total assets, compared with 22.8% in 1991.

Earnings

Continental's earnings for 1992 were, on the whole, satisfactory. Consolidated net income came to DM 133.0 million, compared with a deficit of DM 128.2 million in 1991. Continental AG earned a net income of DM 38.0 million, following a deficit of DM 417.1 million in the previous year.

No Dividend

In view of the difficult economic environment and the problems that the Company has only just surmounted, the Administration considers it premature to resume dividend payments for fiscal 1992.

The Administration therefore proposes that the net income available for distribution in the amount of DM 19.5 million be transferred to retained earnings, in order to strengthen our shareholders' equity, which will benefit all the Company's shareholders in the long run.

Decentralization for Closer Contact with Customers

At the beginning of 1992, we changed the previous system of function-oriented responsibilities on the Executive Board to a divisional structure. By this means, responsibility for results has been distributed among four Groups, while the Executive Board assumes the overall corporate responsibility.

The consolidation of responsibility for the results of the different product areas speeds up decision-making and promotes efficient goal-realization by eliminating functional barriers. At the same time, our focus on products is bringing us closer to the market, so that we can react faster and with greater flexibility.

Passenger Tire Group, Tire Marketing and Sales

On the whole, thanks to a healthy replacement business, an advantageous product mix and measures taken to increase efficiency, we were able to achieve the goals we had set for the fiscal year.

During the first six months of the year, soaring sales created delivery bottlenecks, but the second half was marked by a growth in inventories, which in some cases was quite drastic. We were forced to adjust capacity utilization to the changed market situation, which was due primarily to short-time working instituted by the automotive industry at the end of 1992.

Multi-Brand Policy Remains in Place

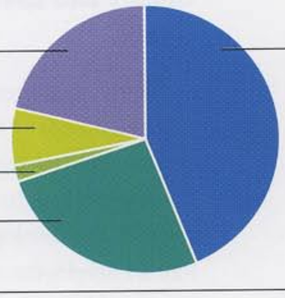
In order to develop as many synergies as possible, while simultaneously satisfying our customers' desires, we have consolidated our European marketing and sales functions in the Passenger Tire Group. The Commercial Vehicle Tire Group has authority to give the marketing and sales departments instructions about the products for which it is responsible. The profile of the brands is unaffected by this new structure. As in the past, the Corporation's tire brands, like for example Continental, Uniroyal and Semperit, are in charge of their own sales. Unstinting attention to customers, together with brand independence and service orientation continues to be a key element in our new approach to market operations.

Further Progress with Our Own Dealer Organizations

Besides marketing our products successfully through independent tire dealers, we have our own dealer network in Europe, the second largest of its kind, with almost a thousand locations. The acquisition of the entire capital stock of Birkenshaw Tyre Co. Ltd. ("Smiley"), a dealer chain which is active in Scotland and northern England, is in line with our strategy of achieving the broadest possible market presence. In future, we expect sales to grow at above-average rates, particularly for NTS (National Tyre Service Ltd.) in the U.K. Vergölst, our German dealer organization, has systematically expanded its activities in the five new German states to become the market leader, with the most extensive service network.

During the past fiscal year, sales of the dealer organizations increased steadily, although the snow-tire business, which depends to a large degree on weather conditions, fell short of our scheduled goals. Nevertheless, sales volumes of the Corporation's products grew at above-average rates. The dealer organizations operated at a profit, and results continued to improve.

Passenger and Commercial Vehicle Tire Groups
Sales by brand



Commercial Vehicle Tire Group, Environment and Tire Research

In Europe, the Commercial Vehicle Tires, Environment and Tire Research Group now has operating responsibility for our truck, industrial, agricultural and cycle tires. In addition, the Group supervises and coordinates quality, environmental affairs and tire research for the entire Corporation.

Consolidation of profit responsibility for the product areas of passenger and commercial vehicle tires.

Business with truck tires experienced two radically different phases during the fiscal year. The sales increase during the first half did not suffice to bring sales for the year as a whole up to the 1991 level. Nor did the Group succeed as yet in improving its earnings.

Research, Development, Quality and Environmental Affairs

Decentralized development for the product areas. Centralized research for the Corporation.

Continental's reorganization into two Groups — Passenger Tires and Commercial Vehicle Tires — has also affected the organization of research and development. Decentralized development units have been established for each Group, while research is being carried out by a single central source. This flatter organization, with its short decision paths, will allow us to respond faster to market demands.

The Corporation's new quality and environmental affairs function reflects the integration of our environmental protection efforts into our quality philosophy. Quality is improving in all areas, as our customers confirmed to us during the quality checks carried out in 1992.

Finding uses for scrap tires is becoming a matter of increasing public concern, and we are playing a major part in the Pan-European activities of our industry. We are the first tire manufacturer to form a tire disposal company, which has already started helping tire dealers — and, when necessary, dealers in industrial rubber products as well — with their disposal problems.

General Tire Group

Despite the slow start of the economic recovery, General Tire took a major step toward regaining profitability during the fiscal year.

On Target

Sales volumes increased for both passenger and truck tires. The plant for heavy truck tires in Mt. Vernon, Illinois, which we built together with our Japanese partners, continuously improved its capacity utilization during the fiscal year. It is expected to reach full capacity during the first quarter of 1993.

In addition, the Group became leaner in terms of personnel, the product mix improved significantly, and the renewal of the product lines and revamping of the manufacturing facilities made positive contributions.

New High-Grade Products

We presented "Genseal", a new technologically sophisticated premium passenger tire, to the public. It includes a sealant patented by General Tire that considerably reduces the likelihood of punctures, thereby increasing useful life and driving safety.

These new tires, the focus of a broad-based national advertising campaign, are being marketed as "The Family Tire."

With its Passenger Car/Light Truck Tire and Heavy Truck Tire Business Units, General Tire has adopted a new structure similar to the organization of our European tire business. Both Units are responsible for the financial results of their original equipment and replacement businesses. One of the first positive effects of the new structure is that "Hydro 2000", the new tire to combat aquaplaning, was developed and launched on the market in the shortest time possible.

ContiTech Group

In an increasingly difficult business environment, the trend for the companies of the ContiTech Group was positive with a few exceptions.

During the past fiscal year, our capital expenditures were focused on environmentally compatible products for which we see excellent opportunities in the market. In order to satisfy customers who want to reduce the vertical integration of their production, we created a Group-wide "systems business" work group. In the plants, teamwork is increasing and hierarchies are being eliminated, in order to make better use of our employees' creativity by getting them more involved.

New Structure Instituted

Although the Group's companies were made legally independent in 1991, they continued to act in the name and on behalf of Continental AG until January 1, 1993. Since that date, they have been selling their products for their own account. This marks one more advance in terms of flexibility, market contact and customer service for our companies doing business under the ContiTech name.

Also on January 1, 1993, we transferred the activities of ContiTech Förder- und Beschichtungstechnik GmbH to two new companies, ContiTech Transportbandsysteme GmbH and ContiTech Elastomer-Beschichtungen GmbH.

Thanks to Our Employees

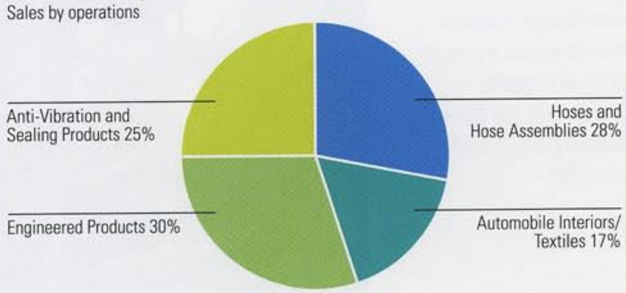
The income recorded in 1992 is the result of hard work performed in a competitive environment that presented great challenges for the Corporation's employees. We wish to thank them all for their achievement in 1992. The good result reflects the dedication and sense of responsibility not only of our employees and executives, but also of the Employee Councils and employee representatives. Our thanks must include as well all those who retired in 1992.

Outlook

We expect that business conditions will become much more difficult in 1993. In Europe, we are trying to offset losses of volume in the automotive industry by special sales efforts and by adjusting production to the market opportunities. To protect our earnings, we are further reducing costs and continuously increasing the proportion of products with greater technological sophistication.

The continued recovery of our American subsidiary General Tire is having a positive effect on consolidated earnings. The slow but steady revival of the U.S. economy appears to be confirmed, and General Tire will benefit accordingly. In 1993, Continental-Mabor will start producing our tires, and the Barum-Continental joint venture is already planning to manufacture a considerable number of passenger tires for the Corporation in 1993, thereby strengthening our position in Central and Eastern Europe.

ContiTech Group
Sales by operations



MORE INFORMATION ABOUT FISCAL 1992

Electronic control of production data is also used during vulcanization to ensure a consistently high quality standard at our Mount Vernon (Illinois) truck tire plant.

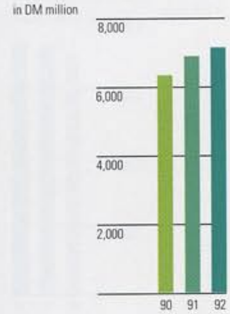
TIRES

During 1992, our Corporation produced and sold a total of 61.7 million passenger tires and 3.9 million light and heavy truck tires under various brands in Europe and North America, our main markets. This represented a gain of 6% in each case. The expansion in the truck-tire business was due primarily to improved U.S. market conditions and to the strong increase in shipments of truck tires produced by our new joint venture in the U.S.A.

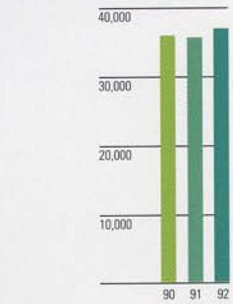
With a share of approximately 8% of the worldwide tire market, we are in fourth place among the major competitors.

The deteriorating economic climate, the opening up of the Eastern European markets and the price increases achieved in the replacement business paved the way for a flood of cheap imports. On the other hand, the growing demand for greater product performance and variety is unmistakable, even though business in the high-performance passenger tire segment is slowing down, after many years of a brisk upward trend. Fortunately, our sales grew faster than the market as a whole, so that we have gained additional market shares in this profitable sector.

Consolidated tire sales
in DM million



Tire business employees



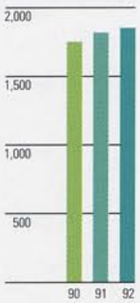
Tight Logistics and More Information Processing

The restructuring of our Pan-European distribution logistics is designed to streamline procedures, with a corresponding reduction in costs, and above all, to improve the reliability of our delivery system. Despite the expansion of our product spectrum, we are optimizing inventory control in order to enhance supply capability. The first results of this project are very encouraging.

During the fiscal year, we carried out basic capital expenditures and other measures to strengthen information processing within the plants and throughout the Corporation. We made good progress in providing informational support to the plants and the research and development department, where a new super computer has been installed. More intensive participation by factory employees is helping us to use data and improve processes more efficiently. In order to bring the plants into closer contact with the constantly changing markets, we upgraded the central computer and equipped it with improved software. The number of customers taking advantage of the fast, reliable and economical exchange of data is also on the rise.

Continental

Continental sales
in DM million



The Continental Division maintained its position in an increasingly competitive environment. Sales rose by 1.2% to DM 1,841.9 million.

Tires for Environmentally Conscious Drivers

To supply our customers successfully in the original-equipment and replacement business, we need exact information about their requirements and priorities. Then we can systematically convert this information into consumer-oriented products and marketing programs.

For example, Continental was the first manufacturer to develop and introduce a tire conceived with strict regard for ecological criteria. Due to a pronounced reduction in rolling resistance, a decrease in tire weight, increased use of replaceable raw materials like natural rubber and a longer useful life, the Conti-EcoContact is more economical for the consumer and more friendly to the environment. With this product we are targeting a broad group of consumers in Central Europe.

Growth in Western Europe – A Foothold in Eastern Europe

We were able to expand our bases in the major Western European markets, especially in the high-tech, high-performance segments. In the new German states, we maintained our position as leading manufacturer and best-known brand, so that our initial investments are starting to pay off.

In Poland and Hungary, where we see great sales potential, we achieved our first successes in the deluxe market segments.

Drivers of performance-plus cars with low-profile tires have special requirements. For them, we have developed and marketed Aqua-Contact, a product that systematically reduces the dangers of wet roads and aquaplaning. This is a top tire for sporty, but safety-conscious, driving.

A successful television campaign has given a strong impetus to our business with low-profile tires. This campaign has recently been expanded to almost all the major European markets, and our consumer surveys indicate that it will steadily improve the image and recognition of Continental tires.

Unit sales of snow tires did not quite match the high level of 1991, particularly during the last few weeks of the year, when the weather was unusually mild. For the first time, we ran a TV spot for snow tires in key markets, which helped to boost their sales.

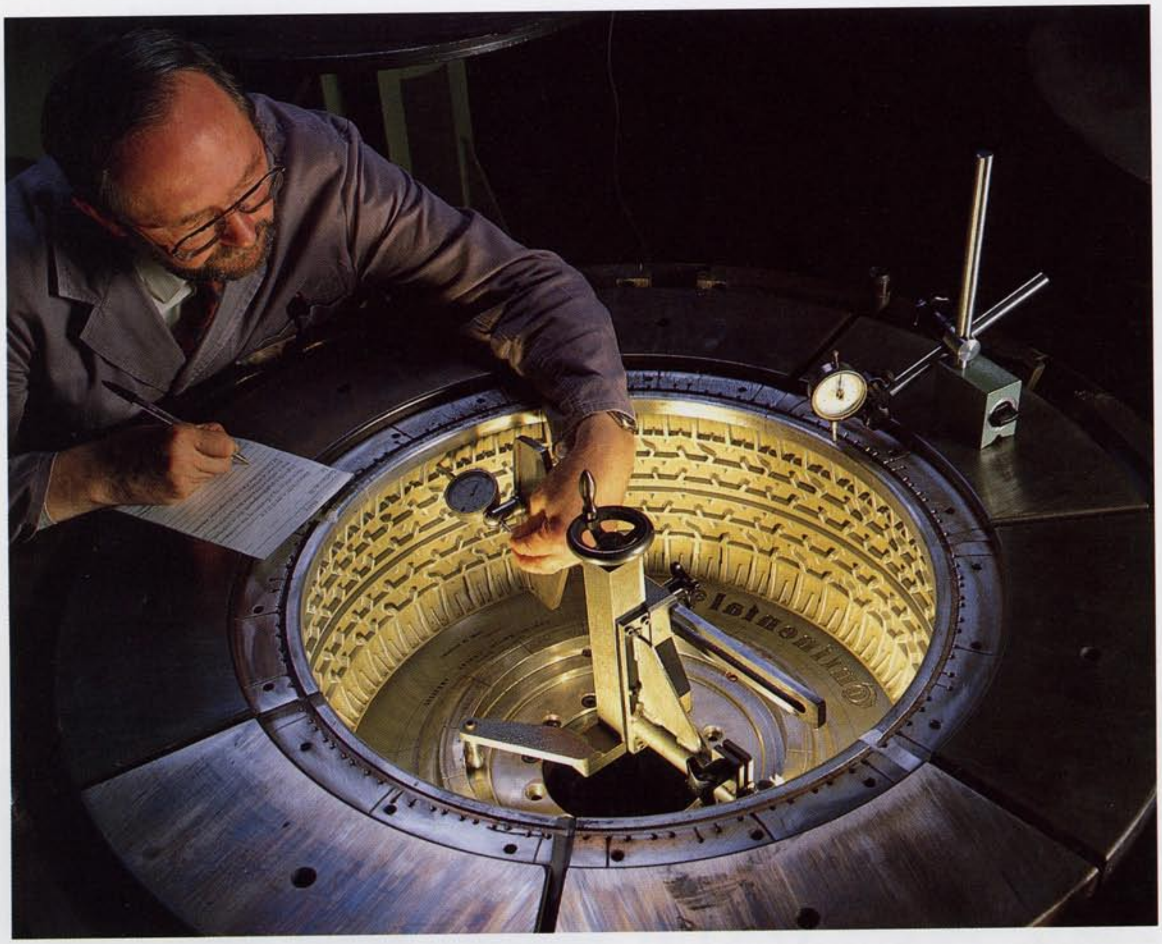
Many New Products for Commercial Vehicles

We expect our new products and service concepts for commercial vehicles to be very successful. Just in time for the fall season, after comprehensive tests to prove the validity of the product concept, we introduced a new traction tire for use in long-distance traffic on all the European markets. Our own expectations regarding sales volumes and, in particular, our customers' expectations concerning quality were fully met by the new tread; as a result, we will now introduce additional sizes.

Continental has established itself as the market leader throughout Europe in the field of truck tire emergency service. EuroService, developed especially for large international truck fleets, started operation in 1990 and has since been expanded, enabling us to increase business with large international consumers.

Renowned manufacturers are testing innovative truck tires with low aspect ratios for new vehicle generations. From the very beginning, we have been a trailblazer in this area.

At the European "Truck Racing '92" championship, vehicles equipped with Continental tires won in all categories, including "King C".



Absolute precision during mold construction is vital to tire uniformity.

Optimal Use of Resources – Retreading in Our Own Plants

On the basis of recent surveys about consumer requirements and marketing possibilities, we are intensifying our retreading activities for truck tires under the "Contire" trademark. On the one hand, we want to help conserve resources and, on the other, to offer our customers top-quality retreads on Continental carcasses as an alternative to new Continental tires. As a first step, this retreaded tire, with its ecological advantages, has been offered on three European markets; in 1993, it will be introduced in other countries.

The expansion of our retreading business increases the value of our comparatively expensive carcasses for dealers and consumers alike.

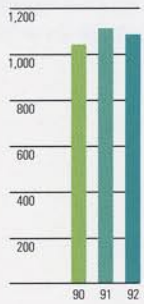
Industrial, Agricultural and Cycle Tires

Industrial and agricultural tires were also affected by the worsening economic conditions, but we were able to maintain our shares in the shrinking markets. We are counteracting high production costs in Central Europe by systematically shifting the manufacture of labor-intensive products to suitable locations in Eastern Europe and the Far East.

We scored spectacular successes with our cycle tires at the Olympic games in Barcelona: All the medals awarded to Germany and the majority of the medals in the bicycle races were won on our tires.

UNIROYAL

Uniroyal sales
in DM million

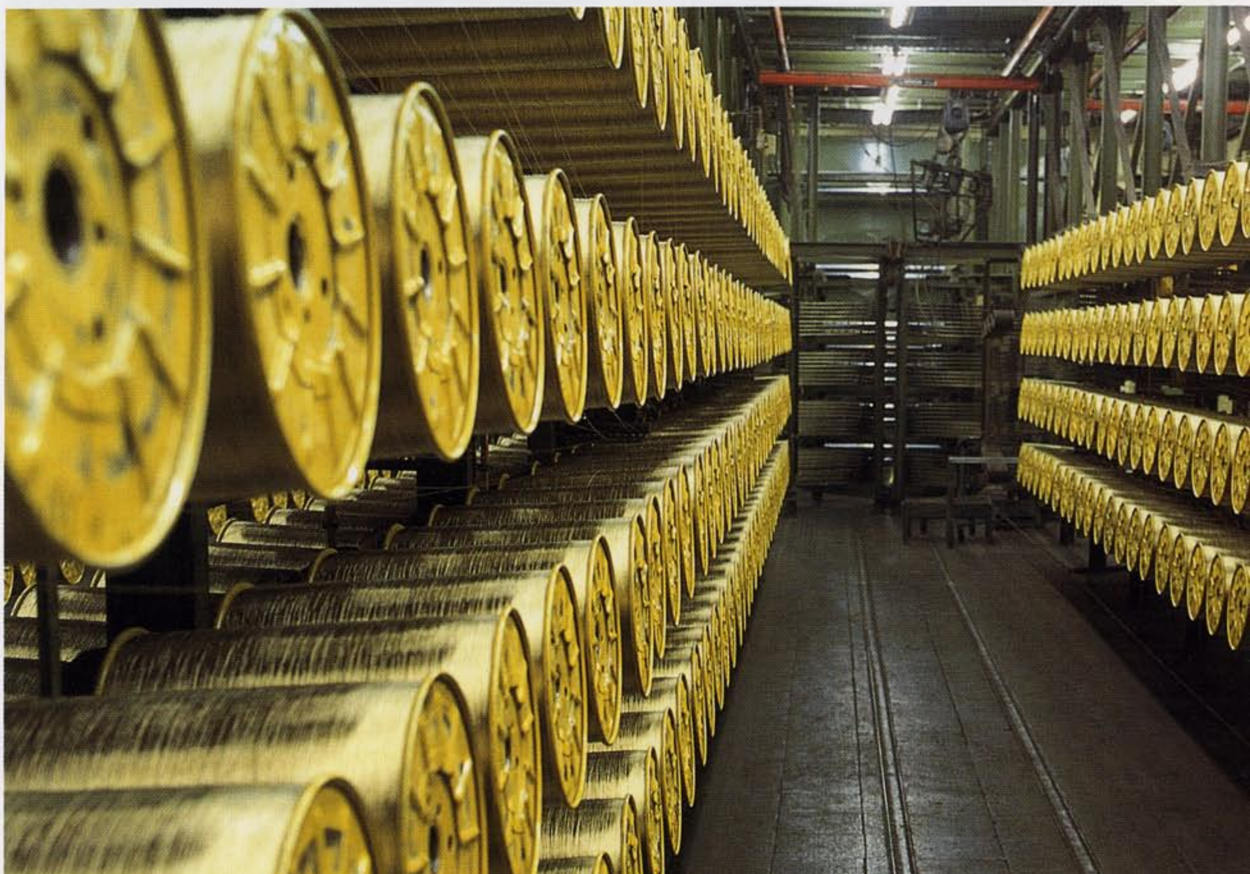


Uniroyal's 1992 sales volume came close to the previous year's level. Revenues dropped 2.4% to DM 1,085.4 million. Business with the automotive industry, which suffered from severe pressure on prices, was unsatisfactory. On the other hand, sales to European dealers, especially of the new super rain tire in the top segment, showed a positive trend.

The adverse effect of the increased inflow of imported brands was particularly noticeable in the market for standard passenger and small truck tires. Despite the acknowledged high quality of our products, we were not able to maintain our market shares in every country. On the other hand, Uniroyal managed to stabilize the volume of heavy truck tires, even though demand in general declined. Sales volumes of snow tires fell somewhat short of the excellent results achieved in 1991. Due to the weather conditions, dealers have been left with large inventories of all makes of snow tires, which will affect business in 1993.

New "rallye RTT-1"

Uniroyal is now offering tire dealers a new sports car tire with a directional tread. Known as the "rallye RTT-1," it features a novel and most attractive tread. To meet the requirements of sports car enthusiasts, we have developed a top product providing maximum safety on wet roads. It is available in extra-wide sizes for cars with a potential speed of more than 150 mph. Market surveys have shown that customers would like a special tire that is particularly well-suited to their vehicle. The presentation of the product on the racetrack in Zolder, Belgium, resulted in exceptionally favorable reports in the European press and on TV. As expected, there was a good inflow of orders for the tire from dealers.



Even Greater Demand for Individuality

In the briskly growing market for vehicle retrofitting, increasing individualization with alloy wheels, outsize tires and chassis tuning presents both practical and legal questions. The countless restrictions and options on a market that has grown beyond comprehension are more than either car owners or dealers can be expected to handle. Through specially selected outlets, Uniroyal is therefore offering an "Individual Tuning System" (IT'S). A four-step program, tailored to the individual car models, shows all aspects of the retrofitting – from wheels and tires to expert lowering of the vehicle – so that car owners can understand what is involved. Together with leading wheel and chassis manufacturers, we carefully match all the components and sell them as a complete system.

Successful Communication

For some years now, we have used a creative new advertising concept to address customers for the Uniroyal brand. Our imaginative TV spots with the monkeys have greatly improved the brand's image and recognition in Europe.

The Uniroyal traffic research project, which was carried out for the 17th time in 1992, has become an indispensable instrument for traffic safety. The media in Germany showed great interest in the "pedestrian" survey, which was presented in Berlin during the fiscal year. Since this study was for the first time extended throughout the EC, it also aroused a widespread response in other countries.

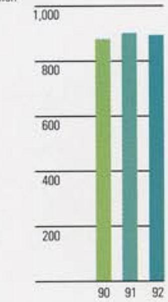
Steel cord is an indispensable reinforcing component of modern radial tires. The wires run from the creel to the calender for rubberizing.

SEMPERIT

Semperit's sales declined slightly by 1.1% to DM 889.8 million.

Business with tire dealers expanded; above-average growth rates were recorded in unit sales of light truck tires. As a result of the automotive industry's shrinking production, the OEM business did not reach the previous year's level. This did not have a strong effect overall, thanks to the considerably higher proportion of replacement business. Sales of heavy truck tires were nevertheless unsatisfactory. Large expenditures for development have enabled us to modernize and renew more than 50% of the product spectrum over the past two years. These seed investments will pay off in the years ahead.

Semperit sales
in DM million



New Passenger Tire: Top-Life M 701

Just in time for the start of the season, Semperit introduced a new summer tire for speed categories up to 120 mph. This tire has been developed according to special safety and environmental criteria. The tread pattern and carcass structure are designed primarily to prevent the dreaded and dangerous aquaplaning. Made for middle-market cars, the tire is economical and offers increased safety and comfort.

It was presented to the European trade press in the spring of 1992 and received a universally positive response. Sales to dealers met our expectations.

Commitment to Total Quality

More than 500 employees familiarized themselves in training courses, conferences and workshops with our total quality philosophy. Numerous projects have already been carried out by 100 teams engaged in total quality assignments. The goals are to kindle the employees' enthusiasm by including them to a larger extent in the information and decision-making processes, to increase productivity and to reduce costs. This novel approach toward achieving new quality standards will be continued.

In order to enhance customer satisfaction – the ultimate goal of the quality concept – we built a logistics center in Traiskirchen, which has enabled us to optimize inventory planning and transport control. In addition, a new customer service center was opened, where employees and dealers, including those from Eastern European markets, are being trained. Semperit has developed special marketing and sales concepts for Hungary, the Czech Republic and Slovenia, which form the basis for its future success in these countries.

Good Business with Snow Tires

We are happy to report that sales of Semperit snow tires exceeded the previous year's level, thanks to the close partnership with tire dealers in the most important markets. Despite the lack of snow, demand for snow tires was brisk. Our surveys showed that about 80 % of all vehicles in Austria were equipped with these specialty tires.

Gislaved
VIKING

The home markets of Gislaved and Viking are mainly in Sweden, Norway and Finland. In 1992, these countries suffered their worst recession of the postwar period, which was marked by high unemployment figures. The two brands contributed about DM 300 million to consolidated sales.

Manufacturing Locations Now Include Scandinavia

Drastic devaluations of the currencies of all three countries produced a gratifying increase in the

After cooling briefly, the vulcanized tires are conveyed to the final inspection point.

competitive strength of Scandinavian industry, compared with the Central European factories. Our plant in Gislaved benefited from this trend, and also made progress in terms of manufacturing costs and product quality. We are particularly pleased that of all our European plants, the Gislaved manufacturing location has the lowest rate of absenteeism due to illness.

Since 1989, the tire markets in Northern Europe have been shrinking severely, and in 1992, because of another mild winter, the snow tire business, which is traditionally of great importance, was bad as well. Despite this difficult market situation, we succeeded in maintaining, and in some cases even improving, our market shares in the Nordic countries.

At the beginning of 1993, all the former Nivis companies were renamed "Continental". In Norway, we took over the importer of Uniroyal tires; in addition we integrated the Semperit brand into our Scandinavian organization in Norway and Finland.

GENERAL TIRE

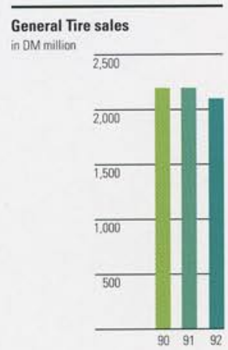
The restructuring and reorganization measures initiated during 1991 had a positive effect on General Tire's operating income.

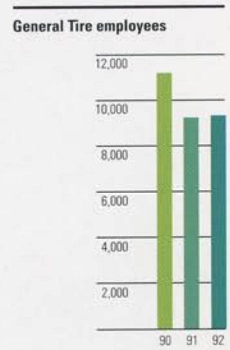
Teams formed in the plants enabled product and process development and production control to work closely together. This has led to a lasting improvement in communications among the groups involved and to considerable acceleration in the implementation of the measures they resolve upon. Our customers benefit from the consequent shortening of the product development cycle.

Exemplary Cost Structure at Mt. Vernon

The production of heavy truck tires of the most advanced design that has recently been commenced at the Mt. Vernon plant embodies considerable improvements in product quality and cost structure. This was reflected in an above-average increase in unit sales of truck and bus tires with the General brand. The combination of American, Japanese and European corporate culture in a joint venture has proved its worth.

However, we also attribute the improvement in the earnings situation to innovative new products. By the end of 1993, within a period of only two years, we will have replaced 80% of all the passenger and light truck tires with new versions. Our goal is to concentrate on selling products with higher value added and to fill niches in the market.





Good Business with Dealer Chains

To strengthen the General and Continental brands, we have taken on additional dealers in areas where we did not previously have a strong presence. As regards General Tire's replacement business, we attach great importance to our supply relationships with large user chains. Encouraged by the strong growth of this distribution channel, we are planning to expand this business in 1993. For Continental, we intend to intensify the marketing of heavy service tires for large fleets of trucks.

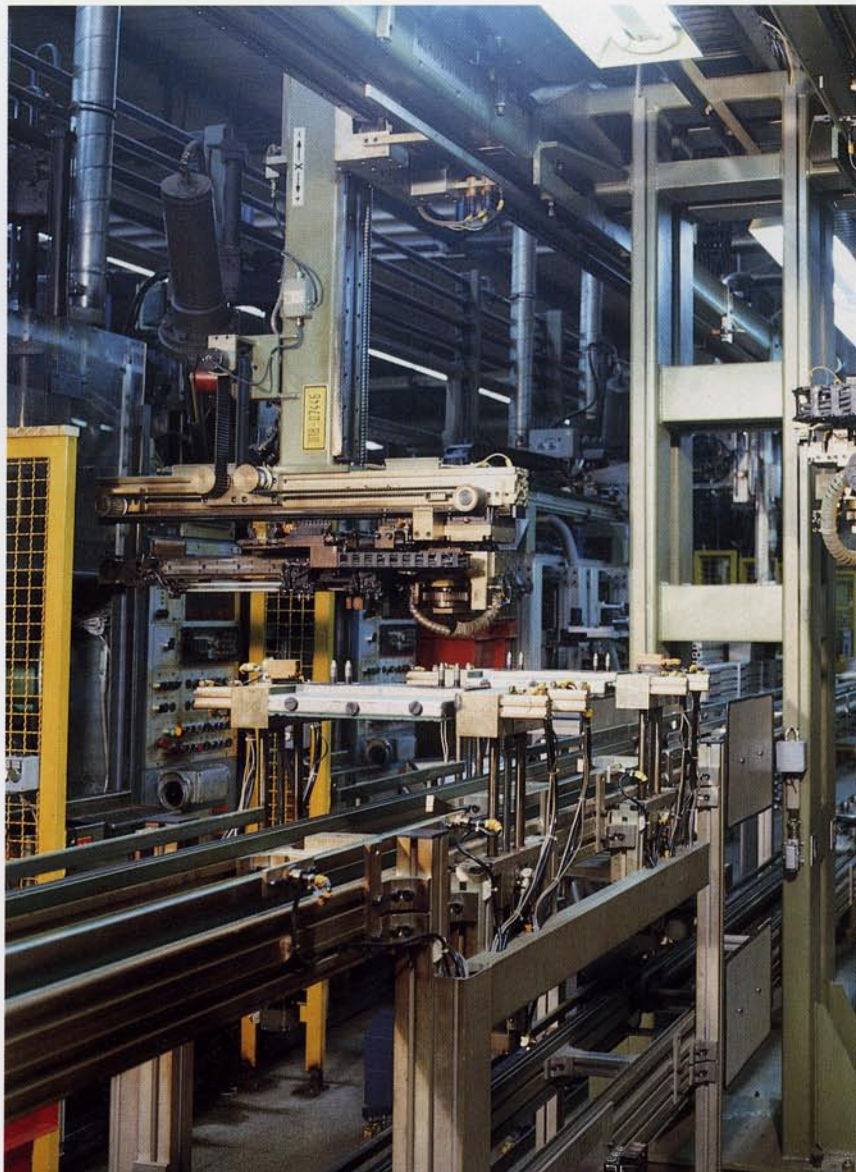
We formed a joint venture with Corporación Industrial Llantera, S.A. de C.V., which belongs to our Mexican partner Grupo Carso, in order to better supply the Mexican automotive industry and local dealers. The company has a dense network of tire outlets all over Mexico. In the future, we want to sell Continental tires in this fast growing market, in addition to the General brand.

Proactive Environmental Protection

The tire cord plant in Barnesville, Georgia, continues to prosper. Capacity is fully utilized, and earnings are good. For environmental protection reasons, filter systems have been installed to trap emissions. With the help of government authorities, our synthetic rubber factory in Odessa, Texas, has made some progress in solving its environmental problems, which we have been trying to eliminate for some time.

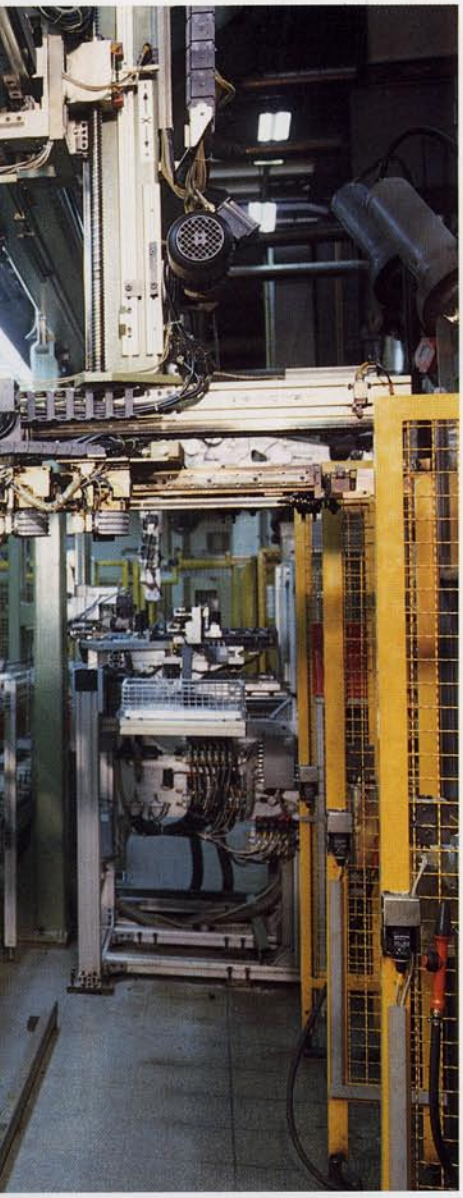
Positive Future

General Tire intends to close fiscal 1993 without a loss. In addition to the various restructuring measures, General Tire's strong position in the original equipment market should have a positive effect, since passenger car production in the U.S.A. is expected to expand by 8%.



CONTITECH®

Fully automated manufacturing of engine mounts for the motor industry.



ContiTech is using various methods to help conserve resources. The elimination of defective batches and rejects is dictated by the market's insistence on quality and the related economic advantages. The recovery of production auxiliaries is becoming more and more important. Some of the reclaimed rubber, for example, can be fed back into the production cycle to a limited extent. Similarly, recycled material can be used for active environmental protection, such as vibration- and soundproofing in rail-based transport systems and catching liquid pollutants, like heating oil, with absorptive mats.

Automobile Interiors/Textiles

Weak demand in Eastern Europe, declining sales volumes in the U.S.A. and the downturn in Germany during the fourth quarter caused Göppinger Kaliko GmbH to fall short of its sales and earnings goals. To counteract this trend, we initiated systematic programs to lower costs and step up productivity, without, however, curtailing our high capital investments in the development of new products and processes.

Bamberger Kaliko GmbH was able to compensate partially for its decreased sales volume in Germany with good business abroad. Due to exchange rate fluctuations, revenues were lower than in 1991, but earnings remained at a high level. Output was adjusted by short-time work and other measures.

As in the preceding years, Flockgarn GmbH posted a healthy increase in sales revenues. It is now equipped with sufficient capacity to meet the rising demand of the automotive industry for Rallytex® flock yarns for seat-cover materials. Earnings were gratifying.

Soft markets in Germany for motor vehicles and upholstered furniture caused stagnation in the sales of ContiTech Formpolster. Prices continued to be unsatisfactory. Nevertheless, extensive efficiency measures enabled the company to earn a good profit.

Hoses and Hose Assemblies

The production facilities for filling-station and automotive hoses at ContiTech Schlauch's Korbach and Northeim plants operated at

ContiTech sales
in DM million

ContiTech employees

Car roof weatherstrips are complicated extrusions requiring state-of-the-art production technology.

extremely high capacities. Customer demand for special hoses could only be met by hiring additional staff at Korbach and using weekend shifts. A number of renowned vehicle makers reported good results from their quality tests; in particular Korbach and Northeim received a "Q 1 Award" from one of our major European customers.

Techno-Chemie Kessler & Co. GmbH posted strong sales gains with its assemblies for the automotive industry. High capacity utilization and enrichment of the product mix with technically more sophisticated systems resulted in satisfactory earnings.

A substantial increase in sales of automotive hose assemblies — especially in its home market — enabled our French hose coupling company Anoflex S.A. to offset in full the revenues lost through the divestiture of a production facility for hydraulic hose assemblies. However, due to high start-up costs for new products, earnings were lower than had been expected. In Spain, Anoflex Iberia failed to achieve its sales goal because of delays by our Spanish customers in approving products and/or factories. The income earned in the last half of 1992 was not sufficient to compensate for the losses incurred as a result of inadequate capacity utilization in the first six months.

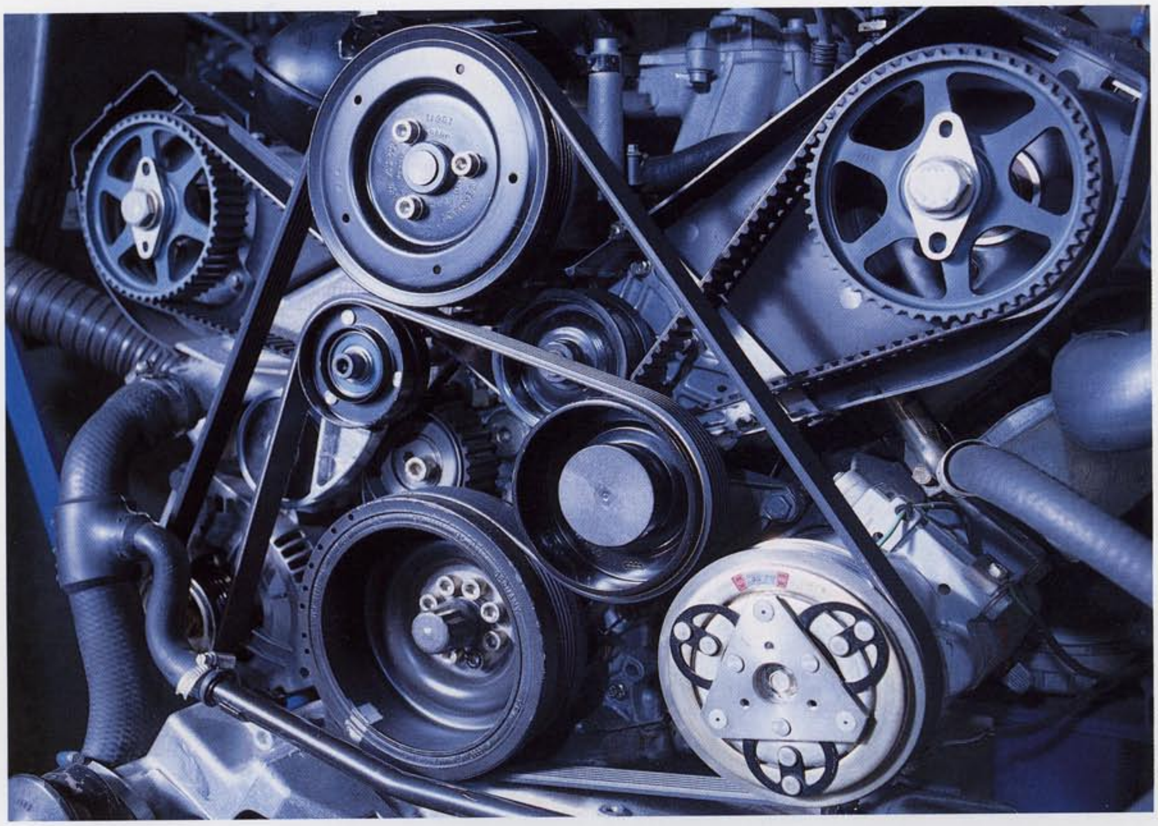
In spite of the recession in Sweden, our local hose coupling company Hycop AB recorded sharp increases in its sales to the Swedish vehicle manufacturers. This success was based on the development of hose assemblies for air-conditioners that operate with an environmentally compatible substitute for the coolant Freon.

Anti-Vibration and Sealing Products

ContiTech Formteile continued to streamline its manufacturing program and improve its efficiency, with a correspondingly positive effect on its earnings, which, however, remain far from satisfactory.

The measures commenced last year at ContiTech Profile to consolidate its locations and to develop and manufacture new products have improved the earnings situation, but the company is still operating at a loss.

ContiTech Elastorsa S.A., Spain, built a new extruding plant as the basis for the major sales expansion it has planned. The most important



A wide variety of drive elements for mechanical engineering and automotive applications.

European automotive companies are already being supplied from Spain.

Engineered Products

With its up-to-the-minute product range, ContiTech Antriebssysteme took full advantage of the vehicle makers' shift to higher-quality drive elements, while continuing to expand its exports to other industries. The vigorous gain in sales made it necessary to enlarge manufacturing capacities. Structural improvements in administration and production also contributed to a gratifying net income.

ContiTech Luftfedersysteme suffered considerably during 1992 from the decline in European commercial vehicle and axle production and was unable to achieve its sales and earnings targets. The development of air springs for a French automotive customer was successfully completed, and delivery has begun. Productivity was enhanced by a pilot project in teamwork, which met with great success and will be extended to other production sectors.

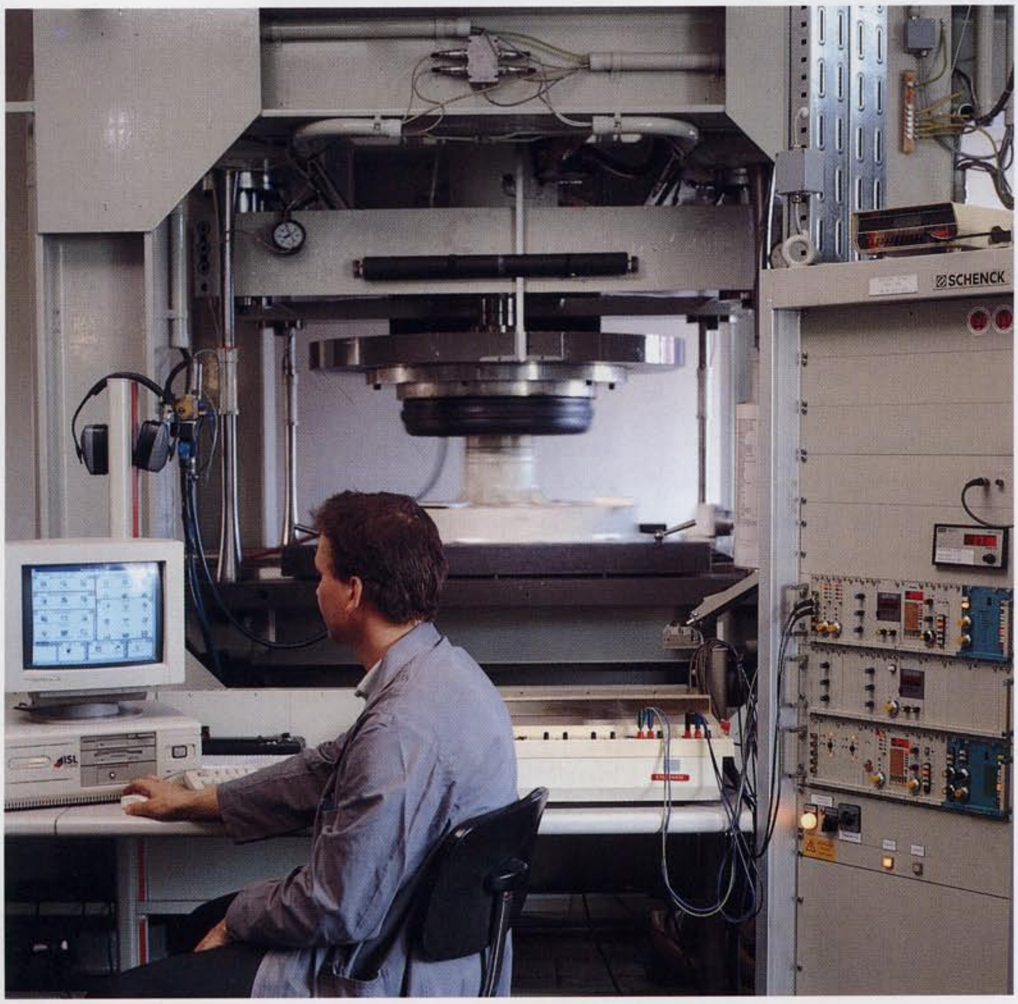
A bad fourth quarter, marked by turbulent exchange-rate fluctuations and restricted purchasing in Germany, prevented the conveyor belting division of ContiTech Förder- und Beschichtungstechnik from fulfilling our expectations for 1992. Nevertheless, purposeful cost-reduction measures made it possible to report a profit.

The establishment of three branches in the new German states during the fiscal year has paid off for KA-RI-FIX Transportband-Technik GmbH, which is engaged in servicing conveyor belts; these branches are already making a contribution to its earnings.

Despite the difficult environment, sales of the coated fabrics division were higher than in the previous year, and its earnings continued to be very good. The division has embarked on a program to lower its costs still further by optimizing production cycles and drastically reducing the number of manufacturing steps.

Diminished sales of military equipment, the virtual discontinuance of major orders from the Commonwealth of Independent States (CIS) and foreign currency problems in its export business had negative effects on both capacity utilization and earnings at Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co KG. Though sales were off target, the company reported a profit.

Sophisticated measuring techniques in air-spring performance testing and quality monitoring.



Clouth Gummiwerke AG and ContiTech AGES S.p.A.

Due to eliminations from its product spectrum and the transfer of certain product groups to other ContiTech companies, Clouth Gummiwerke AG was unable to maintain its sales at the previous year's level. The costs of restructuring, among other things, prevented Clouth from reaching its earnings goal; the results, however, were significantly better than in 1991.

IMAS S.A. in Greece, which is chiefly engaged in manufacturing conveyor belts, earned a satisfactory net income, based on a slight increase in sales and good capacity utilization.

Sales of ContiTech AGES S.p.A., which is strongly dependent on the Italian automotive industry, declined during 1992, although at a slower rate than those of the industry itself. This was due in part to the opening up of markets outside Italy. Although many steps were taken to improve earnings, including a reduction of the work force, increased productivity and the use of subcontractors to lower costs, they remained unsatisfactory.

New Companies Cause Growth in Work Force

After a decline in the number of employees during 1991, the Corporation's work force at December 31, 1992 showed an increase of 704 (+ 1.4%), for a total of 50,581 people. This is due primarily to the acquisition of Nivis, with 1,213 employees, and the Smiley tire dealer chain with 371. Both companies are being consolidated for the first time in 1992. In addition, Uniroyal Aachen added 331 employees through the introduction of weekend-shifts, and General Tire added 366 in connection with our joint venture in Mt. Vernon. At most of the other companies, reductions of personnel were prevented by higher production volumes. On the other hand, the work force for the Corporation as a whole, excluding the newly acquired companies, was reduced by 911.

More than 80% of our employees (40,576) work in Europe, 22,604 of them in Germany. The work force in the other European countries grew by 1,206; in Germany, it decreased by 600.

A comparison over the two-year period from 1991 to 1992 makes the trend still clearer: While the number of employees in Germany decreased by 1,466, the number in Europe rose by 2,962. This reflects not only the internationalization of our activities, but also the reduced attractiveness of Germany as a location for industry.

The table below shows the trend in the number of employees from the most important countries of origin:

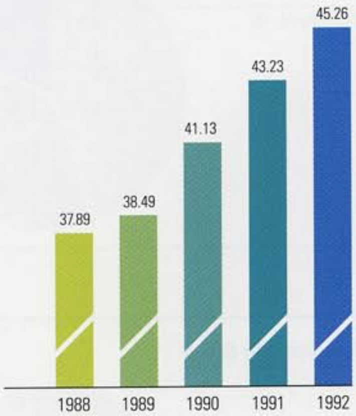
	1992	1991
Germany	18,655	19,239
U.S.A.	8,255	7,891
Great Britain	3,917	3,635
France	3,598	3,527
Austria	3,208	3,177
Turkey	2,159	2,228
Italy	1,469	1,523
Mexico	1,016	1,146
Portugal	1,076	1,075
Belgium	1,105	1,072

Rise in Personnel Expense

The Corporation's personnel expense (wages, salaries, social welfare contributions, and expenses for pension plans and other employee benefits) rose from DM 3,236.4 million to DM 3,343.3 million. Personnel expense per hour worked at Continental AG, including the ContiTech companies, changed from DM 43.23 to DM 45.26 (+ 4.7%); within the Corporation, it amounted to DM 37.71 (− 2.7%). The Corporation's total personnel expense per employee rose from DM 62,957 to DM 65,632 (+ 4.2%); at Continental AG, including the ContiTech companies, it increased from DM 66,784 to DM 70,968 (+ 6.3%).

Personnel expense per hour worked at the parent company including the ContiTech companies
in DM

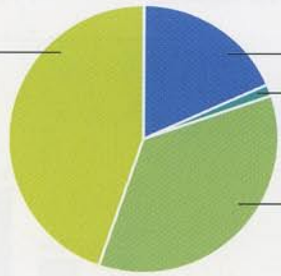
Personnel expense = wages, salaries, bonuses, social welfare contributions, as well as expenses relating to pensions and other benefits



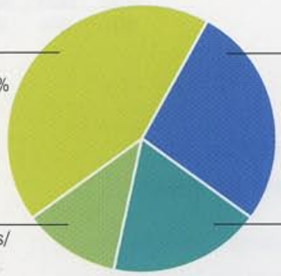
Operational Orientation of the Personnel Function

The organizational restructuring of the Corporation at the beginning of the year into a management holding company and operating Groups with independent responsibility for their results has also resulted in a reorientation of the personnel function. The operating Groups have been allocated all the resources they need to achieve their appointed goals — including the personnel function. The holding company has been assigned the functional guidance of the operational personnel departments. The holding company's responsibilities also include personnel issues at the top management level, general guidelines for compensation and the assurance of a systematic personnel development program.

Employees by region



Employees by Group



Employee Representatives

During the past year, our work with the employee representatives was again marked by an attitude of objectivity and cooperation. We were especially concerned with questions that arose in connection with the transfer of employees to the newly formed ContiTech companies, with the reorganization of the Employee Councils that was required as a result, and with structural problems relating to employees not covered by collective bargaining agreements. Our international information program has continued, and, for the second time in recent years, we invited employee representatives of the most important European companies to a Euro-forum. All the negotiations involving collective bargaining agreements were conducted without confrontation – fortunately including those in Charlotte, North Carolina, which had been acrimonious for some time past.

On-the-Job Safety

For the first time in four years, we can report a reduction in workplace accidents at the German manufacturing facilities of Continental AG and ContiTech. The overall decrease was 20%, with improvements of up to 43% at individual companies. Despite this positive trend, the performance of our German facilities in terms of work hours lost is mediocre, compared with the foreign companies.

Training and Continuing Education

In 1992, we continued our training and continuing education programs, with special emphasis on two important aspects. On the one hand, the increasingly international orientation of the Corporation requires an appropriate response in terms of continuing education. We have further refined our junior management training program, to incorporate international experience and specific projects. On the other hand, the introduction of lean production and a lean organization requires factory employees to have new knowledge and new skills. This has been – and will continue to be – another focus for our training activities.

Internships

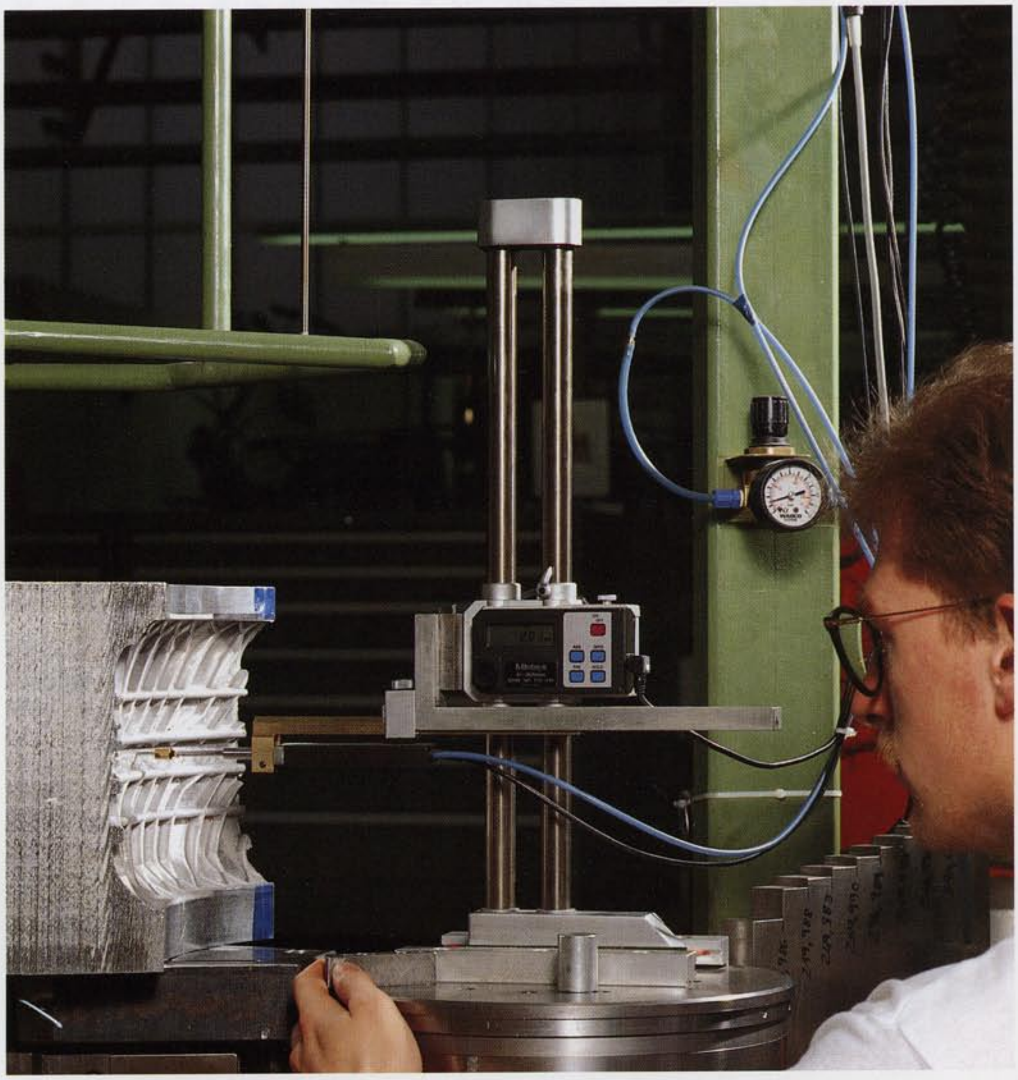
We have successfully continued our efforts to assure qualified junior staff by carrying out personnel marketing measures, and in particular, by implementing a systematic program for interns. This program also constitutes a means of bridging the gap between formal education and work activity. In 1992, a total of more than 290 students and school pupils specializing in technical and commercial fields were able to acquire on-the-job experience through internships, as well as work on study projects and dissertations. Assignments within the Company ranged from two-week practical training courses to nine-month project-related schemes.

As a result of their fine achievements, twelve students were given the opportunity to work in one of our companies abroad. Over one third of our newly-hired graduates had participated in the Company's practical training program during their studies.

Employee Shares

The Annual Meeting of Shareholders held on July 3, 1992 authorized the Executive Board to increase the capital stock by issuing employee shares with a value of up to DM 15 million.

Accordingly, in 1992 we offered our employees the opportunity to acquire up to five employee shares at a preferential price of DM 98.00 per share. The offer was extended to the employees of Continental AG and its German subsidiaries. 18,930 shares were subscribed by 3,794 employees. This required DM 0.9 million of the DM 15 million that had been made available. We will continue to sell employee shares at advantageous prices.



The extremely close tolerances for the individual segments of a tire mold are rechecked before delivery to production.

Basics

In 1989, our senior staff and the Executive Board formulated and enacted basic principles of conduct both within the Company and outside it. In order to give concrete testimony of the further development of the corporate culture in our day-to-day business we added a section entitled "Commitment to Environmental Care" to our "Basics" during 1992.

The ideas we refer to as "Basics" have, of course, not yet been fully realized. Nevertheless, they play an important part in our deliberations, especially when there is an unacceptable discrepancy between our goals and the reality.

Great demands are made on our natural environment by the

A Corporate Strategy in Tune with the Environment

removal of raw materials and the manufacture, use and disposal of industrial products. To ensure its continued existence, the human race must therefore succeed in finding new ideas and concepts to protect that environment.

1

With its 50,000 employees, our Company is part of modern industrial society and among those called upon to take responsibility for solving environmental problems. On the one hand, our tires and industrial rubber products help to supply the needs of mankind; on the other, they also contribute to the pollution of the environment.

We regard environmental protection as the task of optimizing the relationship between the needs of civilization and its natural surroundings. Although the basic level of the compromise between industry and nature is determined by society as a whole, there is still a wide margin for initiative on the part of each individual – and of each business enterprise, as well.

Continental has cast its vote for proactive environmental protection, as a means of ensuring success in the achievement of its corporate objectives. It is our intent to create technical solutions with convincing advantages for our customers in terms of price and quality, which at the same time are ecologically sound. This is also opening up new fields of business for us.

Environmental protection is a matter of concern during the entire lifetime of our products, from their planning, development and manufacture within our Company, through their utilization by our customers, to their disposal when their service life is over.

We would like to give some examples to show where we stand today and the course we shall follow in the future.

Products with Definite Ecological Advantages in Use

The main characteristic of EcoContact, our new environment-friendly tire for passenger cars, is its significantly lower rolling resistance compared with other tires. During the life of a set of tires, this means a saving of about 200 liters of fuel, with a corresponding reduction in CO_2 emissions. In addition, EcoContact has a 10% longer service life,

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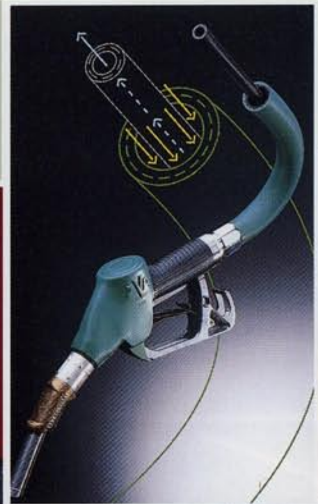


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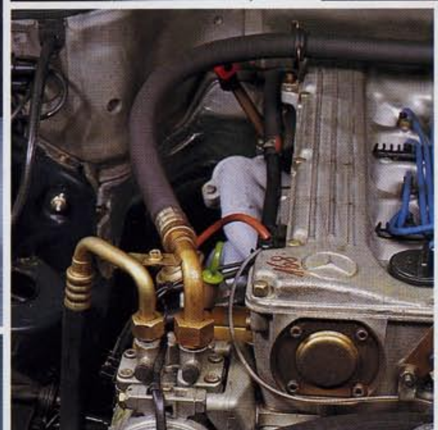

10% lower weight, a considerably larger proportion of the renewable raw material natural rubber, and outstanding retreadability.

EcoContact clearly illustrates the way in which the pursuit of ecological objectives can lead directly to products which are also superior when measured by economic criteria: With EcoContact, the cost-advantage ratio — in other words, the comparison of price to fuel saving — is demonstrably positive.

We have also achieved a low level of rolling resistance for our truck tires. Moreover, our newest drive-axle tire, the HD 75, has a service life that is about 30% longer than its predecessor, and it makes approximately 3 decibels less noise.

Our new filling-station hoses are designed as a "hose within a hose," so that the fuel vapors are channeled back into the underground tank. This prevents the escape of noxious vapors, saves energy and avoids pollution.

Permeation in our polyamide-lined coolant hoses is reduced by a factor of 50. These extremely liquid-tight hoses play a key role in preventing the loss of coolant in automobile air-conditioning systems.

The products made by Göppinger Kaliko from its new TEPEO material are distinguished by a 40% reduction in weight. Since they can be recycled, they make a significant contribution to resource conservation, and there are no problems connected with their disposal. TEPEO is used not only in vehicle construction for dashboards, door linings, center consoles and seat backrests, but also for handbags and satchels.

Ecologically Sound Raw Materials

Today, natural rubber, a renewable raw material, constitutes about 30% of our rubber mixtures. In EcoContact, our new environment-friendly tire for passenger cars, we deliberately increased the proportion of natural rubber.

Wherever we can, we are replacing raw materials that pollute the environment. CFHCs (chlorinated fluorohydrocarbons) were formerly used as production auxiliaries. Now our manufacturing is totally free of these substances.

Under certain circumstances, a number of rubber chemicals can produce nitrosamines. At the beginning of 1993, we replaced these chemicals entirely with other raw materials in our tire production. At ContiTech, technical considerations have made the phaseout more difficult.

We plan to make increasing use of production residues and scrap, in the form of rubber crumb, for manufacturing new

1 — The environment-friendly EcoContact

2 — More mileage and less noise — the HD 75 truck tire

3 — Vapor-recovery hose for filling stations

4 — Satchels made from the new TEPEO material

5 — Leakproof coolant hoses for automotive air-conditioners

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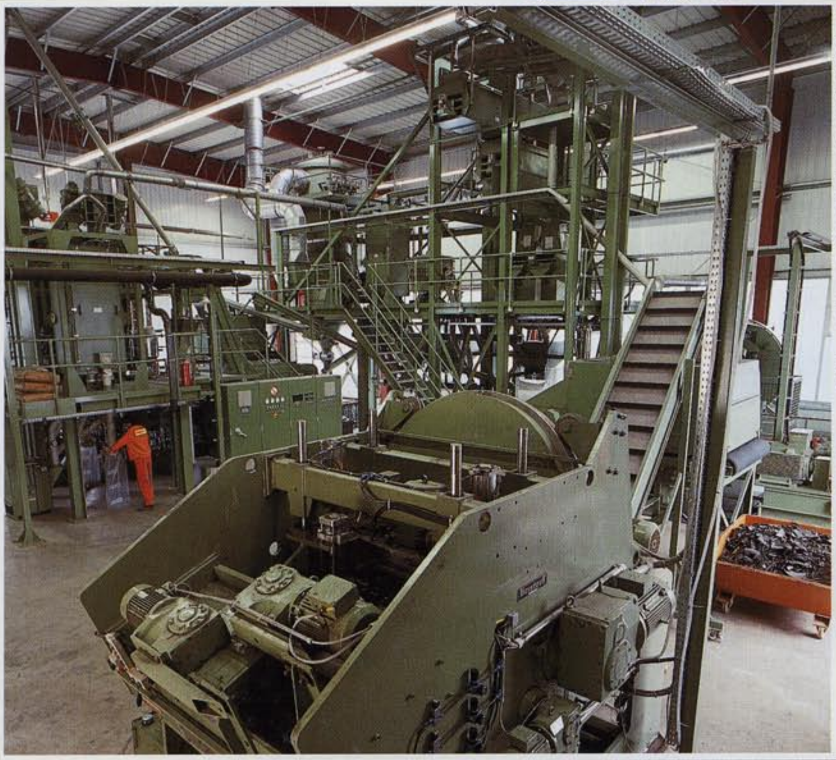

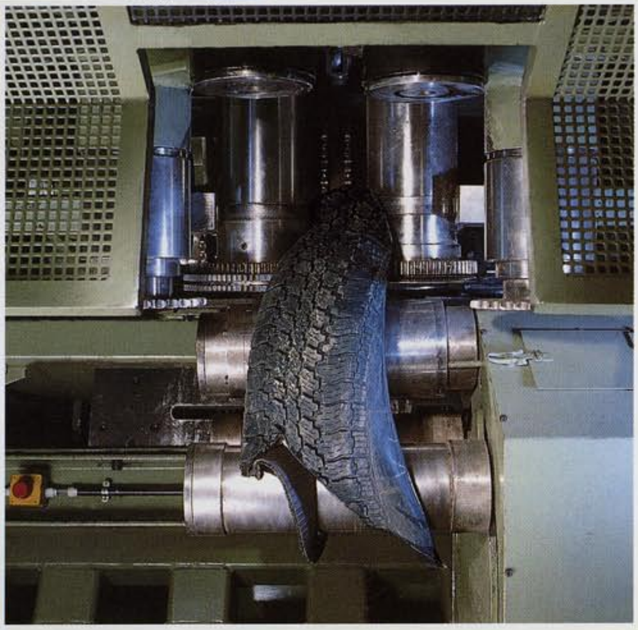
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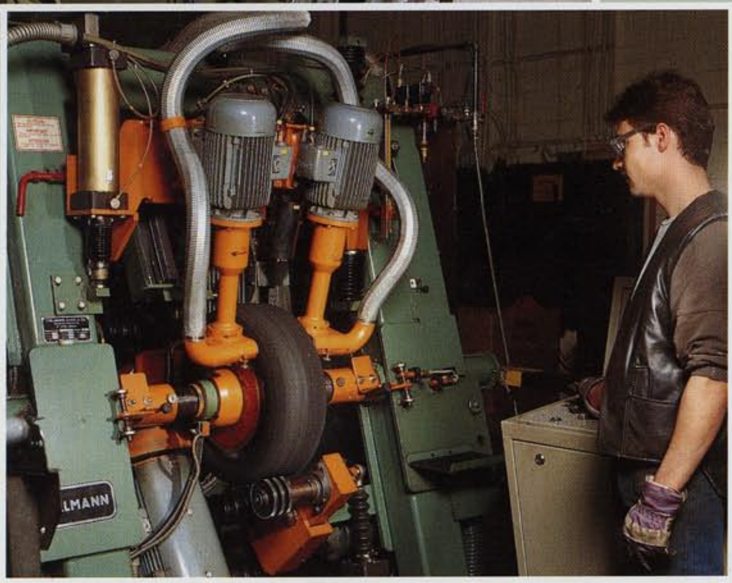


1 — Retreaded for a second lease on life: The Contire truck tire

2 — Machine for producing rubber crumb

3 — Crushing old tires for recycling

4 — Remaining tread rubber is ground away prior to retreading

products. We have already had notable successes with extrusions, drive elements, cushioning products, air-spring systems and conveyor belts.

Although there are quite narrow limits to the use of old rubber in new products, we are already including proportions of recyclates ranging from 10 to 12% in specific applications.

We are producing mats for vibration isolation and soundproofing in rail-based traffic, as well as absorption mats for oils and lubricants, which are made largely of old rubber. Both these products also have a function in environmental protection.

Environmental Protection in Production

In this traditional arena of environmental protection, our primary accomplishment has been a substantial reduction in emissions.

At the new power plant in Hanover which we operate jointly with VW and the City of Hanover, we have created optimum conditions for energy production through the cogeneration of electricity and heat.

At other locations, we are using natural gas as a fuel, instead of coal and oil, thus reducing emissions by as much as 90%.

In our production processes as well, emissions have been drastically reduced, especially those resulting from solvents containing hydrocarbons. Wherever possible, we have replaced HC-based solvents with aqueous ones in our tire manufacturing.

We have eliminated emissions in the production of our coated fabrics by having the manufacture, transport and return of solutions and pastes all take place in a single closed container.

We have developed our own method of reprocessing residues of solutions and pastes. The solvents are fully recovered and the rubber residue is further processed as granules. We are also allowing other companies to use the equipment.

Our second important concern in production is reducing waste by collecting leftover materials. At our plants, 12 different types of these materials are now being separately collected so that they can be properly recycled.

The collection of waste is not limited to our production facilities. At our administrative headquarters, wastepaper and other materials are sorted and recycled. When constructing exhibition booths, we have discarded the "throwaway" approach in favor of modular building units and system components, without making any compromises in the quality of our stands.

Recycling and Disposal of Scrap Tires and Old Rubber

Our Vergölst subsidiary is one of the major retreading companies in Europe.

Retreading can save up to 75% of the material that would be required for a new tire. Only the tread and a part of the sidewall are replaced. Today, about 50% of all truck tires are retreaded; for passenger cars, the percentage is somewhere around 12% and could be increased to about 20%.

Certain ContiTech products can also be given a new lease on life by reprocessing. In the case of rubber-metal combinations, at least the metal part can frequently be used again.

After two — or sometimes even three — lives, our products finally end up as old rubber or scrap tires. Due to the lack of possible applications, only a small part can be reprocessed as rubber crumb. Rubber, however, is too valuable for the dump.

Therefore, scrap tires are now being used — especially in Germany — as a source of thermal energy for the cement industry, where they replace fossil fuels. This appears to be a sensible means of disposal over the medium term.

In the future, we see possibilities for raw-material recycling processes in which rubber is decomposed by a suitable method into hydrocarbons, which can then be reused as primary materials.

We are also not only working on major research programs of our own for the reuse and disposal of old rubber, but also participating in similar projects with other rubber processors through the GAVS (Gesellschaft für Altgummi Verwertungs-Systeme).

In 1992, in order to provide our customers with a reliable means of disposing of their used tires, we founded a tire disposal company, REG, as our contribution to the collection and proper disposal of used tires.

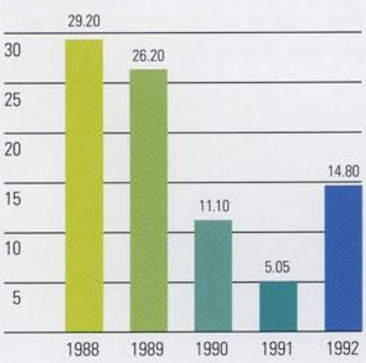
Conclusion:

Prevention, reduction and recycling — these are our ecological goals in every phase of the life of our products, from design, planning, development, manufacture, use and reuse until their ultimate disposal.

Dividend

As the large deficit for 1991 could only be covered by drawing on capital reserves and completely exhausting retained earnings, the Administration proposes to the Shareholders' Meeting that the net income for 1992 be accumulated in order to replenish the reserves.

Earnings per share according to DVFA/SG*
in DM



* DVFA up to 1989

Price Trend

Due mainly to declining interest rates on the capital markets at the end of 1991 and positive business forecasts, sentiment on the German stock markets during the first six months of 1992 was preponderantly bullish. The German share index (DAX) rose by about 6.9% to 1,687.49 in January alone, reached 1,811.57, its high for the year, as early as May 25, 1992, and closed at 1,752.63 on June 30.

However, the Bundesbank's decision to raise the discount rate to a record high of 8.75% as of July 17, 1992, triggered a decline in share prices, in some cases very pronounced, in the last six months of the year. Not until November and December was a degree of stabilization achieved. By October 6, the DAX had declined to 1,420.30; it closed the year at 1,505.05, considerably below its annual average of 1,615.94.

On the first trading day of 1992, the Continental share stood at DM 205.80, slightly below the quotation of DM 207.00 on December 31, 1991. In the following months the price rose, reaching a high of DM 281.00 on April 24, but in the general decline during the second half of 1992, the Continental share dropped to a considerably lower level. Its bottom price for 1992, DM 184.50, was quoted on November 2, and it closed the year at DM 198.00.

In the first quarter of 1993, the German stock markets have staged a recovery, with the price of the Continental share increasing to DM 229.50 on February 12. After that, the price declined to DM 213.00 on March 31 in the light of generally negative expectations for the automotive industry.

International Listings

The Continental share is listed on all eight German stock exchanges and on four other floor-trading stock exchanges in Europe.

In addition, since May 1989, it has been traded in the U.S.A. in the form of a sponsored ADR (American Depositary Receipt). In the City of London, the share has been quoted since the beginning of 1991 as part of a market-maker system known as "SEAQ" (Stock Exchange Automatic Quotes).

High Share Liquidity

Total sales of German shares on the German stock exchanges amounted to DM 1,337.9 billion in 1992. DM 6.91 billion or about 0.52% (1991: 0.69%) of these sales was attributable to the Continental share. The Continental share thus continues to be a highly liquid Euro equity investment.

Earnings According to the DVFA/SG

1992 per-share earnings, computed according to the methods of the German Association of Financial Analysts (DVFA/SG), at DM 14.80, were higher than the previous year's figure of DM 5.05. Cash flow per share amounts to DM 79.50 (1991: DM 59.90).

Employee Shares

In pursuance of a long-term program for the issue of employee shares, Continental AG sold a total of 18,930 shares to employees in the fall of 1992.

Investor Relations and PR

In order to ensure that the Corporation would be well supplied with capital over the long term, Continental has always paid special attention to its shareholders' desire for information. By means of press releases, letters to the shareholders, brochures and annual reports, Continental regularly supplies up-to-the-minute information on company strategies, medium-term corporate planning, capital investment programs and key figures. Financial presentations and round-table discussions with German and international analysts and investors have long been part of our daily routine. For many years, Continental has been submitting its DVFA/SG earnings to the Committee on Methods for comment.

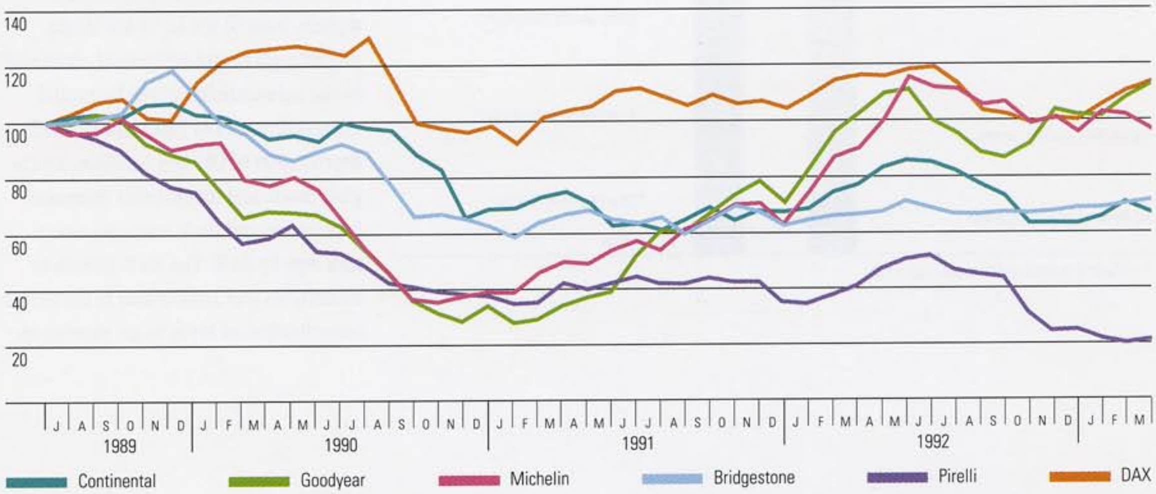
Our frank, comprehensive information policy is designed to strengthen the relationship of trust we have established with our shareholders, potential investors and financial analysts. This, in turn, results in a correct evaluation of the Continental share and its wide distribution among international investors — to everyone's benefit. In addition, the identity of the Corporation and its products is enhanced on a worldwide scale.

Key Figures for the Continental Share
(in DM per share)

	1988	1989	1990	1991	1992
Net income/loss	22.50	26.20	10.60	− 14.60	15.10
Dividend	8.00	8.00	4.00	0	0
Dividend with tax credit	12.50	12.50	6.25	0	0
DVFA/SG earnings	29.20	26.20	11.10	5.05	14.80
Cash flow	72.00	69.50	58.05	59.90	79.50
Book value	191.60	198.30	198.40	172.40	183.20
Market price (12/31)	271.50	322.00	207.00	207.00	198.00
Number of shares at year-end (in thousands)	8,653	8,700	8,782	8,785	8,826

Share price development since June 30, 1989 *

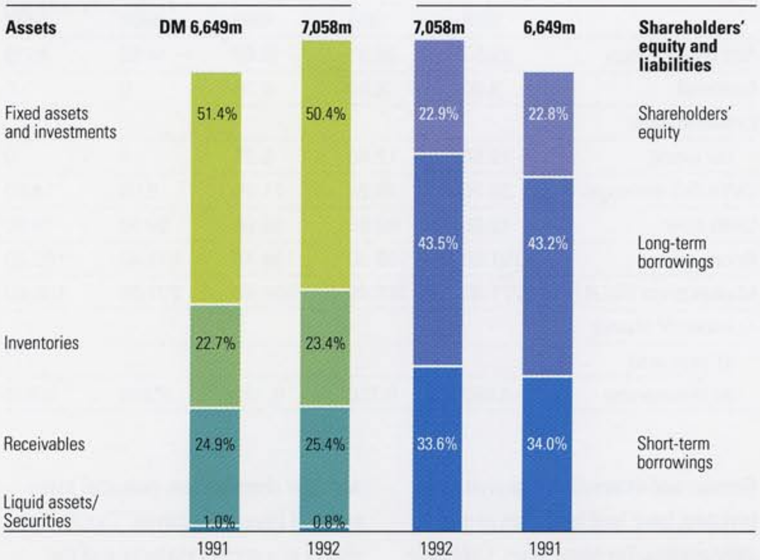
June 30, 1989 = 100%



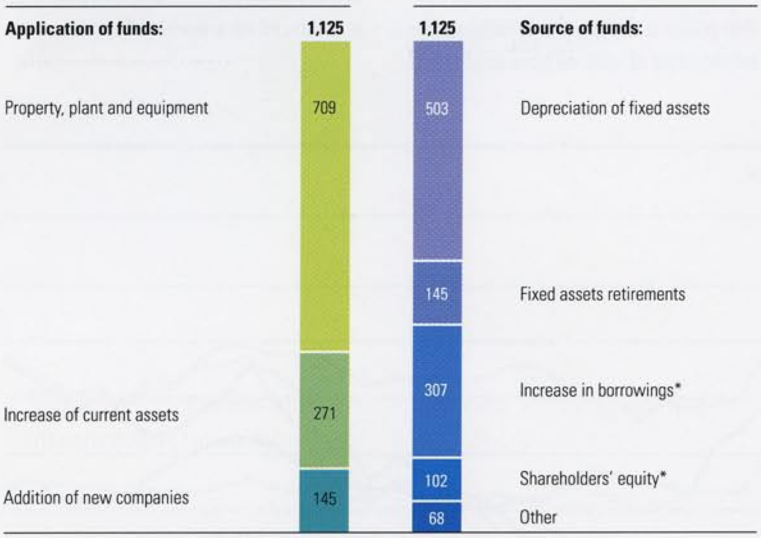
* average of the month's highest and lowest price

ASSETS, FINANCIAL POSITION AND EARNINGS OF THE CORPORATION

Structure of the consolidated balance sheet



Corporate financing in 1992 (DM million)



* including proportionate special reserves

Changes Compared with 1991

Consolidated sales for 1992 rose by DM 313.0 million, or 3.3%. DM 452.1 million of these sales was attributable to the Nivis group, and Smiley Birkenshaw Tyre Co. Ltd., Glasgow, U.K., which were fully consolidated for the first time. Without the new companies, consolidated sales would have been 1.5% lower than in 1991.

Sales of the General Tire Group, expressed in U.S. dollars, rose by 1.9% over 1991, but due to the decline in the average annual currency translation rate, this gain was not reflected in consolidated sales.

Balance Sheet Structure and Financial Position

With a growth rate of 6.1%, total assets increased considerably faster than sales, reaching DM 7,057.8 million on December 31, 1992.

Companies included for the first time accounted for DM 251.4 million of the gain in total assets. On a comparable basis, total assets grew by only 2.4%.

The proportion of fixed assets and investments to total assets declined slightly, from 51.4% to 50.4%. While property, plant and equipment continued to rise substantially, driven by capital expenditures of DM 709.3 million with depreciation of DM 465.3 million, intangible assets and investments decreased. Inventories and trade accounts receivable rose by 7.6%. The 9.4% growth in inventories was attributable to the initial consolidation of Nivis, to an increase in stock at Continental Aktiengesellschaft, caused mainly by the reduction in snow tire sales, and to a build-up at General Tire, as North American dealers reduced their stock to normal levels.

Consolidated shareholders' equity, including the equity portion of special reserves, rose by DM 102.4 million, or 6.8%. This produced a slight increase in the equity ratio, from 22.8% to 22.9%. The equity ratio of Continental Aktiengesellschaft was 38.7%, as against 41.4% in 1991, clearly reflecting the fact that Continental AG has been acting increasingly as a holding company during the past few years.

Provisions again showed a slight increase and now amount to 27.8% of total assets. It should be noted that only part of the provisions made in 1991 for restructuring programs has been used. Therefore, on the balance sheet at December 31, 1992, the provisions for restructuring measures, which include those made in 1992, are higher than in 1991. Indebtedness rose by DM 263.9 million, reaching 149% (1991: 142%) of shareholders' equity. DM 145.8 million of the increase in indebtedness is attributable to the acquisition of new companies and DM 86.7 million to the net additions to property, plant and equipment (excluding the new companies). The capital turnover rate remained constant at 1.4. The balance sheet structure of the Continental Corporation continues to be strong, as shown by the fact that a high proportion of fixed assets, investments and inventories (90.0%) was again financed by shareholders' equity and long-term borrowings. In 1992, 98.9% of capital expenditures were financed by the cash flow (1991: 63.4%).

Continental Corporation					
In millions of DM	1988	1989	1990	1991	1992
Cash flow					
Net income					
before income taxes	338.7	369.3	153.3	− 122.9	155.2
Depreciation on property,					
plant and equipment					
and intangible assets	375.8	367.5	378.0	531.0	502.6
Other deductions from					
income, which do not					
affect cash flow	52.8	9.6	38.6	123.3	65.8
Income taxes	− 143.9	− 141.5	− 59.9	− 5.3	− 22.2
Cash flow	623.4	604.9	510.0	526.1	701.4
Acquisition of					
new companies	− 112.7	− 118.3	− 353.0	− 470.5	− 145.8
Capital investment	− 447.7	− 532.4	− 689.5	− 829.3	− 709.3
Divestitures	30.2	88.8	168.4	292.3	144.8
Other changes	− 246.9	− 146.1	− 252.3	− 125.6	− 255.0
Change in					
indebtedness	− 153.7	− 103.1	− 616.4	− 607.0	− 263.9

Improved Earnings and Liquidity

Net income for 1992 represents an increase of DM 261.2 million compared with the previous year. Net income before extraordinary expenses and income taxes rose by DM 113.1 million, while extraordinary expenses decreased by DM 165.0 million.

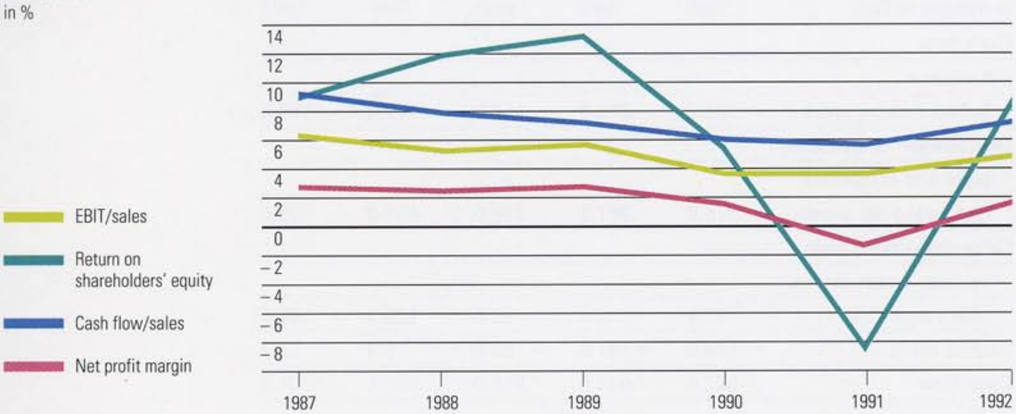
With sales rising by 3.3% to DM 9.7 billion, operating income was up 41.5% over 1991. The turnaround at General Tire, which has proceeded as planned, made a major contribution, although General Tire's overall result continues to be unsatisfactory. While there were slight improvements at ContiTech and in the passenger tire sector, the truck tire business has not yet met our expectations. Competitive pressure is still causing us to conclude unsatisfactory contracts with the automotive industry.

Despite slightly lower average interest rates, net income from investments and financial activities declined, because of the further increase in indebtedness incurred in 1992 in connection with the heavy outlays for fixed assets and acquisitions.

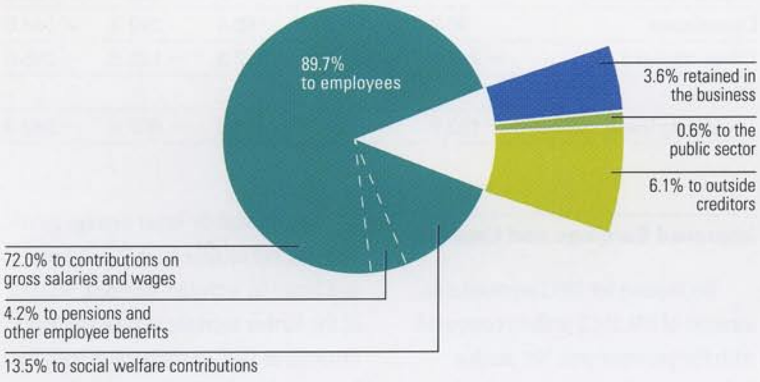
Extraordinary charges consisted mainly of further provisions for restructuring measures designed to continue the turnaround at General Tire.

If the extraordinary expenses are disregarded, the net profit margin and the return on shareholders' equity are considerably higher than in 1991. Accordingly, income before interest, income taxes and extraordinary charges (EBIT) rose by DM 133.5 million (39.9%) to DM 468.3 million (1991: DM 334.8 million).

EBIT/sales
in %



Distribution of value added in 1992 (Corporation)
DM 3,725.2 million = 100%



Continental Corporation				
In millions of DM	1992	1991	Change	in %
Source of value added				
Sales	9,689.9	9,376.9	313.0	3.3
Other income	204.7	246.6	− 41.9	− 17.0
Corporate performance	**9,894.6**	**9,623.5**	**271.1**	**2.8**
Cost of materials	− 3,918.2	− 3,655.3	− 262.9	− 7.2
Depreciation (total)	− 502.8	− 531.8	29.0	5.5
Other input from outsiders	− 1,748.4	− 2,116.6	368.2	17.4
Value added	**3,725.2**	**3,319.8**	**405.4**	**12.2**
Distribution of value added				
Personnel expense	3,343.3	3,236.4	106.9	3.3
Interest	226.7	206.3	20.4	9.9
Income taxes	22.2	5.3	16.9	318.9
Net income	133.0	− 128.2	261.2	
Value added	**3,725.2**	**3,319.8**	**405.4**	**12.2**

The cash flow increased substantially compared with the previous year, reaching the record level of DM 701.4 million. Its proportion of sales rose from 5.6% to 7.2%.

The debt ratio declined to 3.8 in 1992 as a result of lower capital expenditures and restraint with regard to acquisitions.

Value Added

The Corporation's performance increased by DM 271.1 million, or 2.8%. After deducting input from other sources, value added amounts to DM 3,725.2 million. This is DM 405.4 million more than in 1991, or an increase of 12.2%.

Value added was distributed as follows: Personnel expense accounted for 89.7%, 6.1% went for interest and 0.6% for income taxes. There remained a net income of DM 133.0 million (3.6%), including consolidated net earnings, which is to be allocated to consolidated reserves in order to increase the Corporation's capital resources.

MAJOR COMPANIES OF THE CONTINENTAL CORPORATION

Company	Corporate interest in %	Shareholders' equity DM 000	Net income / loss 1992 DM 000	Net income / loss 1991 DM 000	Sales 1992 DM 000	Employees 12/31/1992
I. Affiliated companies (according to accounting and valuation principles uniform throughout the Corporation)						
1. Domestic companies						
Uniroyal Englebert Reifen GmbH, Aachen	100.0	216,347	2,285 *	3,260 *	612,345	2,278
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	14	– 1,240	1,512	223,158	–
Göppinger Kaliko GmbH, Eislingen	96.3	36,657	491 *	1,002 *	215,979	1,013
Bamberger Kaliko GmbH, Bamberg	96.3	4,493	73 *	73 *	45,567	181
Deutsche Semperit GmbH, Munich	100.0	17,321	1,692	4,770	221,589	111
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	100.0	7,376	4,253	5,576	36,416	245
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	1,869	688	1,419	28,500	160
Clouth Gummiwerke AG, Cologne	100.0	– 41,290	– 3,076	– 34,105	190,532	923
2. Foreign companies						
Continental Holding France SARL, Sarreguemines/France	100.0	183,166	23,254	2,495	–	–
SICUP SNC, Sarreguemines/France	100.0	81,271	15,922	18,038	536,102	1,106
Société des Flexibles Anoflex SA, Caluire/France	99.9	32,636	1,572	3,226	195,517	1,036
Semperit Reifen Aktiengesellschaft, Vienna/Austria	95.0	366,981	62,293	54,969	969,474	3,031
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	58,493	3,632	– 8,918	454,071	1,075
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	56,359	10,068	6,557	118,266	259
Continental Industrias del Caucho SA, Coslada, Madrid/Spain	100.0	16,726	10	– 4,554	86,298	202
Continental Mabor Industria de Pneus S.A., Lousado/Portugal	60.0	55,469	– 6,325	– 4,100	68,025	938
Semperit (Ireland) Ltd., Dublin/Ireland	100.0	48,258	12,871	– 10,989	168,358	745
Continental Tyre & Rubber Group Ltd., West Drayton/UK	100.0	31,156	3,603	4,779	319,411	298
Uniroyal Englebert Tyres Ltd., Newbridge/UK	100.0	324,805	8,319	2,005	205,487	1,055
National Tyre Service Ltd., Stockport/UK	100.0	37,840	1,782	1,446	440,806	2,002
General Tire Inc., Akron, Ohio/USA	100.0	223,572	– 36,168	– 203,039	2,025,296	8,236
General Tire Canada Inc., Barrie, Ontario/Canada	100.0	3,161	1,339	– 140,245	102,806	51
General Tire & Rubber Company of Morocco, Casablanca/Morocco	53.1	18,228	4,077	5,309	71,336	702
C.U.P. SNC, Roissy/France	100.0	27,562	2,212	3,809	295,072	304
Continental Caoutchouc (Suisse) S.A., Zurich/Switzerland	100.0	15,080	1,171	1,014	63,850	81
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	9,761	919	673	48,427	18
Semperit (Schweiz) AG, Dietikon/Switzerland	100.0	15,830	310	312	20,178	29
Continental Italia S.p.A., Milan/Italy	100.0	7,796	502	854	98,232	95
ContiTech AGES S.p.A., Santena/Italy	100.0	67,769	– 5,585	– 8,215	154,153	880
Hycop AB, Motala/Sweden	100.0	3,068	180	– 856	37,842	154
Continental Coordination Center S.A., Herstal-lez-Liège/Belgium	100.0	332,260	31,286	26,147	–	17
Birkenshaw Tyre Co. Ltd. (Smiley), Glasgow/UK	100.0	6,523	– 1,018	–	25,110	371
Nivis Tyre AB, Göteborg/Sweden (Continental Däck Norden AB as of 1/1/1993)	100.0	44,476	3,834	–	310,540	867
II. Associated companies						
KG Deutsche Gasrusswerke GmbH & Co., Dortmund	32.1	16,500	1,500	1,500	111,891	
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	22,938	1,938	1,526	137,857	
SAVA-Semperit, Kranj/Slovenia	27.8	176,813	126	423	245,338	
Compania Ecuatoriana del Caucho, Cuenca/Ecuador	35.8	24,262	6,195	8,197	84,531	

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.

* After profit/loss transfer

CONTINENTAL AKTIENGESELLSCHAFT
CONSOLIDATED BALANCE SHEET

Assets	See Note No.	12/31/1992 DM 000	12/31/1991 DM 000
Fixed assets and investments			
Intangible assets	(1)	679,213	759,931
Property, plant and equipment	(2)	2,756,740	2,498,375
Investments	(3)	118,384	158,535
		3,554,337	**3,416,841**
Current assets			
Inventories	(4)	1,651,585	1,509,293
Receivables and other assets	(5)	1,757,633	1,620,455
Marketable securities		6,070	963
Liquid assets	(6)	51,746	66,286
		3,467,034	**3,196,997**
Prepaid expenses	(7)	**36,444**	**35,421**
		7,057,815	**6,649,259**

Shareholders' equity and liabilities	See Note No.	12/31/1992 DM 000	12/31/1991 DM 000
Shareholders' equity			
Subscribed capital	(8)	441,301	439,227
Consolidated reserves	(11)	1,002,879	935,146
Minority interests	(12)	120,325	96,590
Reserve for retirement benefits	(13)	2,081	2,495
Net income available for distribution		19,507	–
		1,586,093	**1,473,458**
Special reserves	(14)	**33,997**	**45,752**
Provisions	(15)	**1,958,960**	**1,909,349**
Liabilities	(16)	**3,478,765**	**3,220,700**
		7,057,815	**6,649,259**

CONTINENTAL AKTIENGESELLSCHAFT
CONSOLIDATED STATEMENT OF INCOME

	See Note No.	1992 DM 000	1991 DM 000
Sales	(17)	**9,689,870**	**9,376,924**
Cost of sales	(18)	7,089,096	7,006,176
Gross profit on sales		**2,600,774**	**2,370,748**
Selling expenses	(19)	1,453,666	1,382,712
Administrative expenses	(20)	649,593	609,055
Other operating income	(21)	197,062	236,118
Other operating expenses	(22)	230,626	287,111
Net income from investments and financial activities	(23)	– 219,047	– 196,188
Net income from regular business activities		**244,904**	**131,800**
Extraordinary charges	(24)	– 89,689	– 254,656
Taxes on income and profits		– 22,201	– 5,297
Net income/loss for the year		**+ 133,014**	**– 128,153**
Balance brought forward from previous year		–	1,255
Minority interests in earnings	(25)	+ 2,317	+ 628
Change in consolidated reserves		– 116,238	+ 125,904
Withdrawal from the reserve for retirement benefits		+ 414	+ 366
Net income available for distribution		**19,507**	–

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.

Hanover, May 3, 1993

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Kirste
Certified Public Accountant	Certified Public Accountant

CONTINENTAL AKTIENGESELLSCHAFT
BALANCE SHEET

Assets	See Note No.	12/31/1992 DM 000	12/31/1991 DM 000
Fixed assets and investments			
Intangible assets	(1)	21,776	15,494
Property, plant and equipment	(2)	447,713	416,469
Investments	(3)	1,733,950	1,642,164
		2,203,439	**2,074,127**
Current assets			
Inventories	(4)	463,212	405,185
Receivables and other assets	(5)	398,435	313,662
Liquid assets	(6)	9,538	14,440
		871,185	**733,287**
Prepaid expenses	(7)	**1,322**	**2,287**
		3,075,946	**2,809,701**

Shareholders' equity and liabilities	See Note No.	12/31/1992 DM 000	12/31/1991 DM 000
Shareholders' equity			
Subscribed capital	(8)	441,301	439,227
Capital reserves	(9)	701,429	696,637
Retained earnings	(10)	18,900	–
Reserve for retirement benefits	(13)	2,081	2,495
Net income available for distribution		19,507	–
		1,183,218	**1,138,359**
Special reserves	(14)	**16,208**	**50,279**
Provisions	(15)	**546,049**	**435,473**
Liabilities	(16)	**1,330,471**	**1,185,590**
		3,075,946	**2,809,701**

CONTINENTAL AKTIENGESELLSCHAFT
STATEMENT OF INCOME

	See Note No.	1992 DM 000	1991 DM 000
Sales	(17)	**3,334,423**	**3,271,624**
Cost of sales	(18)	2,746,424	2,649,192
Gross profit on sales		**587,999**	**622,432**
Selling expenses	(19)	253,698	241,681
Administrative expenses	(20)	194,894	186,347
Other operating income	(21)	203,898	169,862
Other operating expenses	(22)	195,279	173,001
Net income from investments and financial activities	(23)	– 47,772	– 10,468
Net income from regular business activities		**100,254**	**180,797**
Extraordinary charges	(24)	– 62,000	– 602,673
Taxes on income and profits		– 261	+ 4,739
Net income/loss for the year		**37,993**	**– 417,137**
Balance brought forward from previous year		–	1,255
Withdrawal from capital reserves		–	265,817
Change in retained earnings		– 18,900	+ 149,699
Withdrawal from the reserve for retirement benefits		+ 414	+ 366
Net income available for distribution		**19,507**	–

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 Continental Aktiengesellschaft, Hanover. The management report is in agreement with the financial statements.

Hanover, May 3, 1993

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 1/1/1992	Additions	Reclassi-fications	Retire-ments	As of 12/31/1992	As of 1/1/1992	Additions	Reclassi-fications	Retire-ments	As of 12/31/1992	As of 12/31/1992	As of 12/31/1991
	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000
I. Intangibles												
Concessions, industrial and similar rights and assets and licenses in such rights and assets	54,707	16,110	2,646	2,182	71,281	35,021	14,266	−26	2,107	47,154	24,127	19,686
Goodwill	766,643	51,685	−2,861	54,765	760,702	31,504	80,389		310	111,583	649,119	735,139
Payments to suppliers	5,106	3,530	−2,653	16	5,967						5,967	5,106
	826,456	**71,325**	**−2,868**	**56,963**	**837,950**	**66,525**	**94,655**	**−26**	**2,417**	**158,737**	**679,213**	**759,931**
II. Property, plant and equipment												
Land, land rights and buildings including buildings on third party land	1,314,806	111,058	20,043	65,939	1,379,968	583,583	44,252	257	23,976	604,116	775,852	731,223
Technical equipment and machines	3,379,821	390,385	282,005	214,848	3,837,363	2,283,039	312,417	−39	114,146	2,481,271	1,356,092	1,096,782
Other equipment, factory and office equipment	1,222,303	212,725	36,666	92,409	1,379,285	894,431	196,989	−192	77,003	1,014,225	365,060	327,872
Payments to suppliers and assets under construction	342,757	259,707	−338,707	4,021	259,736	259	126		385		259,736	342,498
	6,259,687	**973,875**	**7**	**377,217**	**6,856,352**	**3,761,312**	**553,784**	**26**	**215,510**	**4,099,612**	**2,756,740**	**2,498,375**
III. Investments												
Shares in affiliated companies	2,430	640	2,861	2,861	3,070	1,391				1,391	1,679	1,039
Shares in associated companies	98,515	4,211		42,304	60,422	1,717	178			1,895	58,527	96,798
Investments	6,207	165		708	5,664	835			692	143	5,521	5,372
Securities included in investments	23,302	1,701		566	24,437	2,198	5		10	2,193	22,244	21,104
Other loans	36,566	1,676		5,585	32,657	3,314	−36		147	3,131	29,526	33,252
Other financial assets	1,149	173		298	1,024	179			42	137	887	970
	168,169	**8,566**	**2,861**	**52,322**	**127,274**	**9,634**	**147**		**891**	**8,890**	**118,384**	**158,535**
	7,254,312	**1,053,766**		**486,502**	**7,821,576**	**3,837,471**	**648,586**		**218,818**	**4,267,239**	**3,554,337**	**3,416,841**

CHANGES IN FIXED ASSETS AND INVESTMENTS OF CONTINENTAL AKTIENGESELLSCHAFT

	Acquisition/Manufacturing cost					Depreciation				Net value	
	As of 1/1/1992	Additions	Reclassi-fications	Retire-ments	As of 12/31/1992	As of 1/1/1992	Additions	Retire-ments	As of 12/31/1992	As of 12/31/1992	As of 12/31/1991
	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000
I. Intangibles											
Concessions, industrial and similar rights and assets and licenses in such rights and assets	24,908	11,411	1,799	711	37,407	13,593	8,250	707	21,136	16,271	11,315
Payments to suppliers	4,179	3,125	− 1,799		5,505					5,505	4,179
	29,087	**14,536**		**711**	**42,912**	**13,593**	**8,250**	**707**	**21,136**	**21,776**	**15,494**
II. Property, plant and equipment											
Land, land rights and buildings including buildings on third party land	378,511	14,350	2,743	1,281	394,323	274,194	20,121	1,241	293,074	101,249	104,317
Technical equipment and machines	1,233,651	71,677	23,810	25,419	1,303,719	1,061,517	77,329	24,407	1,114,439	189,280	172,134
Other equipment, factory and office equipment	520,881	71,874	7,887	23,634	577,008	429,743	62,063	20,602	471,204	105,804	91,138
Payments to suppliers and assets under construction	48,880	36,940	− 34,440		51,380					51,380	48,880
	2,181,923	**194,841**		**50,334**	**2,326,430**	**1,765,454**	**159,513**	**46,250**	**1,878,717**	**447,713**	**416,469**
III. Investments											
Shares in affiliated companies	2,190,560	152,261	49,502	55,898	2,336,425	642,214	2,592		644,806	1,691,619	1,548,346
Investments	77,300		− 49,502		27,798					27,798	77,300
Other loans	16,535	523		2,511	14,547	17		3	14	14,533	16,518
	2,284,395	**152,784**		**58,409**	**2,378,770**	**642,231**	**2,592**	**3**	**644,820**	**1,733,950**	**1,642,164**
	4,495,405	**362,161**		**109,454**	**4,748,112**	**2,421,278**	**170,355**	**46,960**	**2,544,673**	**2,203,439**	**2,074,127**

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 159 domestic and foreign companies in addition to the parent company. Seven companies were added in 1992. Three companies are no longer included, because they were merged with other consolidated companies. As a result of the sale of its shares at the beginning of 1993, one company has been consolidated only with regard to the statement of income; its balance sheet items are not included.

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

133 subsidiaries, whose financial statements are prepared according to accounting and valuation principles that are uniform throughout the Corporation, are fully consolidated. With the exception of a few small companies, all of 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 acquisition cost 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 relating to land, have been added in its balance sheet. Any remaining goodwill has been capitalized as goodwill in the consolidated financial statements.

Appropriate adjustments for minority interests are made for interests not held by the parent company in fully consolidated companies.

26 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 company's undisclosed reserves, primarily those in land, have been added. Any remaining goodwill items are capitalized in the consolidated financial statements. 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 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

Receivables and liabilities in foreign currency are translated at the rate prevailing on the date they are entered in the books for the first time, or, if they have been hedged, at the forward rates.

Losses resulting from foreign exchange that have not yet been realized on the balance sheet date are covered by provisions charged against income; unrealized profits are disregarded.

In the financial statements of foreign companies, the balance sheet items, including net income, are translated at the rate prevailing on the balance-sheet date. Differences from the previous year's translations are offset, with no effect on income, against retained earnings.

Income and expenses 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 anticipated useful life. Capitalized goodwill resulting from the acquisition of companies is deducted in instalments from retained earnings on the balance sheet, over periods estimated individually at from 10 to 20 years.

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation. Interest paid by the Corporation on loans used to finance the construction of new tire factories is capitalized and included with these assets.

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 cumulative depreciation. Any special depreciation permitted by the tax laws has been taken in the financial statements of Continental Aktiengesellschaft, since they form the basis of the balance sheet prepared in accordance with the tax regulations. In the consolidated financial statements, additions are depreciated by the straight-line method.

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

Buildings up to 33 years (additions from 1990 on, up to 25 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.

Interests in affiliates and other companies held as investments are valued at acquisition cost, less any 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 carried at the lower of acquisition/manufacturing cost or market. Manufacturing cost includes direct costs and a proportional part of indirect material and production overhead, as well as 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 risks, including lump-sum provisions to cover the general credit risk.

Insofar as is permissible, we have continued to take all the extraordinary depreciation and writedowns, as well as the depreciation and writedowns for tax purposes, which were taken in previous years on 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 calculated 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 obligations of General Tire Inc., Akron, Ohio, for post-retirement medical benefits in the U.S.A. are fully covered by provisions computed according to actuarial principles. Furthermore, in accordance with the U.S. regulation that is applicable as of 1993, we made a provision on the consolidated balance sheet for the retirees and vested work force, as well as the non-vested employees.

As a rule, provisions for repairs that have been postponed to the subsequent year are established in the amount of the probable cost. Depending on their nature, some of the provisions made for large repairs, environmental protection measures and, in particular, necessary structural improvements constitute extraordinary expenses. When there are temporary differences between the values of the individual companies' assets and liabilities as determined according to the tax laws and those appearing in their balance sheets, which are prepared according to valuation principles that are uniform throughout the Corporation, deferred taxes may result. We have provided for the latter only insofar as they are expected to result in a future tax expense.

Liabilities are stated at the redemption amount.

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 44 and 45. The various assets are shown according to the gross value method at the original acquisition or manufacturing cost, or at the residual book value at the time of acquisition.

(1) Intangible Assets

The additions in the amount of DM 71.3 million consist mainly of the goodwill from the acquisition of Nivis Tyre AB, Göteborg, Sweden, and Smiley Birkenshaw Tyre Co. Ltd., Glasgow, U.K. This item also includes the goodwill acquired for consideration by the consolidated companies. Goodwill of this kind is charged against income.

Franchises, operating licenses, industrial property and similar rights and values, and licenses under such rights, as well as advances to suppliers, relate almost exclusively to EDP software supplied from outside sources.

(2) Property, Plant and Equipment

Additions to fixed assets consisted mainly of new machinery and molds to maintain and safeguard our technical and economic capabilities, to expand capacities, to streamline operations, to boost productivity, and to assure the quality of our products. Retirements consisted for the most part 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 171.6 million (DM 260.1 million, less accrued depreciation of DM 88.5 million) in property, plant and equipment.

The other additions are shown in the table below:

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Tires (CUS)	104,784	418,135	89,058	361,021
General Tire	–	139,976	–	314,491
ContiTech	69,495	134,975	79,159	138,519
Other	20,562	20,687	15,265	15,288
	194,841	713,773	183,482	829,319

(3) Investments

On the balance sheet of Continental Aktiengesellschaft, interests in affiliated companies increased as a result of the acquisition of a 51% interest in Nivis Tyre AB, Göteborg, Sweden, the capital increases at Uniroyal Englebert Reifen GmbH, Aachen, and Uniroyal Englebert Tyres Ltd., Newbridge, U.K., to finance the acquisition of National Tyre Service Ltd., Stockport, U.K., and the capital increase at Continental Mabor Industria des Pneus S.A., Lousado, Portugal. The retirement concerns the shares of General Tire de Mexico SA de C.V., Mexico City, Mexico, which are shown under other assets since they were sold at the beginning of 1993. A list of the major companies included in the Continental Corporation is presented on page 39 of this report. The 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 securities we hold as investments consist primarily of fixed-interest government obligations, which are used to cover provisions 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

	As of 12/31/1992		As of 12/31/1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Raw materials and supplies	89,785	308,617	87,976	291,231
Work in process	86,305	194,821	84,664	196,763
Finished goods and merchandise	288,172	1,146,955	232,810	1,018,565
Advances to suppliers	756	3,135	2,282	5,498
Advances from customers	1,806	1,943	2,547	2,764
	463,212	1,651,585	405,185	1,509,293

The growth in consolidated inventories was attributable mainly to the increase in inventories at Continental Aktiengesellschaft and, in the amount of DM 65.0 million, to the initial consolidation of the Nivis group.

(5) Receivables and Other Assets

Continental AG		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1992	1 year	12/31/1991	1 year
Trade accounts receivable	178,931	823	189,363	730
Receivables from affiliated companies	106,517	–	88,547	–
Receivables from companies in which participations are held	1,704	–	1,617	–
Other assets	111,283	17,560	34,135	17,938
	398,435	18,383	313,662	18,668

Consolidated		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1992	1 year	12/31/1991	1 year
Trade accounts receivable	1,410,906	3,997	1,337,412	10,220
Receivables from affiliated companies	10,986	–	10,222	17
Receivables from companies in which participations are held	11,274	–	21,143	–
Other assets	324,467	25,111	251,678	27,216
	1,757,633	29,108	1,620,455	37,453

Of the parent company's trade accounts receivable, 76.7% is attributable to domestic customers and 23.3% to customers abroad. The DM 73.5 million increase in consolidated trade accounts receivable reflects the addition of DM 81.9 million due to the initial consolidation of new companies.

(6) Liquid Assets

	As of 12/31/1992		As of 12/31/1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Checks	2,799	4,833	3,659	5,500
Cash on hand, deposits at the Bundesbank and in postal checking accounts	3,271	7,503	1,649	7,090
Cash in banks	3,468	39,410	9,132	53,696
	9,538	51,746	14,440	66,286

(7) Prepaid Expenses

	As of 12/31/1992		As of 12/31/1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Discount on loans/bonds	–	3,068	–	4,041
Miscellaneous	1,322	33,376	2,287	31,380
	1,322	36,444	2,287	35,421

Miscellaneous prepaid expenses consist mainly of unamortized costs of the bond issues in 1985, 1986 and 1987.

Shareholders' Equity and Liabilities

(8) Subscribed Capital

The subscribed capital has increased slightly since 1991, due to the exercise of conversion and option rights.

After the resolution passed at the Annual Meeting of Shareholders on July 3, 1992, the Company had authorized capital of DM 15.0 million available for the issue of employee shares. Employee shares with a total par value of DM 0.9 million were issued, so that the authorized capital decreased to DM 14.1 million.

Type	No. of shares	Par value per share in DM	Capital stock in DM
Common shares	411,143	1,000	411,143,000
Common shares	171,588	100	17,158,800
Common shares	259,976	50	12,998,800
			441,300,600

DM 152.2 million of the conditionally authorized capital of DM 212.2 million has been applied to cover new conversion and option rights. A further DM 60.0 million will be available until June 22, 1993 for the issuance of convertible debentures and/or bonds with warrants attached.

The change in the conditionally authorized capital is shown in the following table:

	DM 000
Conditionally authorized capital as of 12/31/1991	213,316
Utilization: warrants attached to 1984/1994 bonds	965
convertible debentures	163
Conditionally authorized capital as of 12/31/1992	212,188

Information according to Section 20, Subsections 1 and 2, German Stock Corporation Law:

1. On April 30, 1992, Mediobanca Banca di Credito Finanziario SpA, Milan, Italy (hereinafter referred to as "Mediobanca") informed us that

a) Mediobanca itself owns shares of our Company with a total par value of DM 21,750,000.00 and has an option to purchase additional shares of our Company with a total par value of DM 116,066,100.00, and that

b) Mediobanca has granted Pirelli SpA, Milan, Italy (hereinafter referred to as "Pirelli SpA") an option to purchase all the shares of our Company that are owned by Mediobanca itself and for which it has a purchase option.

Upon our inquiry, Pirelli SpA confirmed that the purchase options mentioned above under b) granted it by Mediobanca, are included in the options to purchase shares of our Company with a total par value of DM 146,516,100.00, about which Pirelli SpA had informed us on January 20, 1992 (cf. notice in Federal Gazette No. 25 of February 6, 1992 and Continental AG's Annual Report for 1991, page 43).

2. On July 1, 1992, Pirelli Finance (Channel Islands) Ltd., St. Helier, Jersey, Channel Islands (hereinafter referred to as "Pirelli Finance") informed us that it holds options to purchase shares of our Company with a total par value of DM 137,816,100.00.

3. On July 1, 1992, Pirelli SpA informed us that it had acquired the options to purchase the shares of our Company with a total par value of DM 146,516,100.00, mentioned in the notice of January 20, 1992 (cf. notice in Federal Gazette No. 25 of February 6, 1992 and Continental AG's Annual Report for 1991, page 43) for the account of its wholly owned subsidiary Pirelli Finance and that it has now transferred these purchase options to Pirelli Finance. In the same letter, Pirelli SpA informed us – as an emendation of its communication of January 20, 1992 – that it now owns the following shares:

a) the shares of our Company held by Pirelli SpA itself, with a total par value of DM 5,000.00;

b) the options held by Pirelli SpA itself to purchase shares of our Company with a total par value of DM 8,700,000.00;

c) the shares of our Company with a total par value of DM 21,953,050.00, held by Pirelli Verwaltungsgesellschaft mbH, a company controlled by Pirelli SpA;

d) the purchase options mentioned above under item 2, held by Pirelli Finance, a company controlled by Pirelli SpA.

4. On July 1, 1992, Société Internationale Pirelli S.A., Basel, Switzerland (hereinafter referred to as "S.I.P.") informed us that Pirelli SpA is a company controlled by S.I.P. and that, as a result, the shares and purchase options mentioned above under items 2 and 3 belong to S.I.P as well.

5. On July 1, 1992, Pirelli & C. S.a.p.a., Milan, Italy (hereinafter referred to as "Pirelli & C.") informed us that Pirelli SpA is a company controlled by Pirelli & C. and that, as a result, the shares and purchase options mentioned above under items 2 and 3 belong to Pirelli & C. as well.

Pursuant to Section 20, Subsection 2, German Stock Corporation Law, the shares for which a company has a purchase option must be added to the shares it holds in order to compute the amount of its participations. Therefore, the participations listed above under items 1 to 5 represent in each case more than 25% of our Company's stock.

The notice mentioned under item 1 was published in Federal Gazette No. 95 of May 21, 1992, and the notices mentioned under items 2, 3, 4 and 5 in Federal Gazette No. 147 of August 8, 1992.

(9) Capital Reserves

DM 000			Continental AG
	As of 1/1/1992	Change	As of 12/31/1992
Premium from the issue of shares			
in excess of their par value	722,540	–	722,540
Withdrawal in 1991 to cover losses	265,817	–	265,817
Premium paid upon the exercise of warrants attached			
to bonds issued in 1984, 1986, 1987	228,933	1,331	230,264
Premium paid upon the conversion of the 1986/1996			
convertible debentures	10,981	517	11,498
Premium from the issue of employee shares	–	2,944	2,944
	696,637	4,792	701,429

(10) Retained Earnings

DM 000	Continental AG
As of 12/31/1991	–
Allocation from net income	18,900
As of 12/31/1992	18,900

(11) Consolidated Reserves

DM 000		Consolidated
As of 12/31/1991		935,146
Differences resulting from currency translation	+	3,664
Amortization of goodwill	–	56,432
Other	+	4,263
Allocation from net income	+	116,238
As of 12/31/1992		1,002,879

In the consolidated financial statements, we have combined capital reserves and retained earnings, in order to give a clearer picture of the Corporation's net worth.

(12) Minority Interests

This item shows the interests of outsiders in capital and earnings, which consist mainly of the holdings of the Japanese partners in our joint venture GTY Tire Company, Akron, Ohio, U.S.A.

(13) Reserve for Retirement Benefits

The parent company's reserve for retirement benefits was established to compensate for shortfalls in the provision for pension plans, which cannot yet be made up for tax purposes. This reserve was reduced, according to schedule, by DM 0.4 million to DM 2.1 million.

(14) Special Reserves

	As of 12/31/1992		As of 12/31/1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Reserve under Sect. 3, Foreign Investment Act	1,809	1,290	23,494	2,830
Reserve under Sect. 6b, Income Tax Act	12,685	–	24,779	–
Reserve under Sect. 52, Subsect. 8, Income Tax Act	235	357	470	713
Governmental capital investment subsidies	–	30,871	–	40,673
Other	1,479	1,479	1,536	1,536
	16,208	33,997	50,279	45,752

The decrease in the special reserve pursuant to Section 3, Foreign Investment Act, relates to the sale of General Tire Mexico at the beginning of 1993.

The decrease in the parent company's reserve pursuant to Section 6b, Income Tax Act, is attributable to the transfer to factory buildings of the reserve established in 1991 from the book profits generated by the sale of the high-rise administrative building at Königsworther Platz in Hanover.

The Corporation's special reserves are divided into an equity portion of DM 31.0 million and a debt portion of DM 3.0 million, representing deferred taxes, which will be paid in due course when the reserves are eliminated. Including the shareholders' equity of DM 1,586.1 million (1991: DM 1,473.5 million) shown on the balance sheet, the Corporation's total actual shareholders' equity amounts to DM 1,617.1 million (1991: DM 1,514.7 million), and the equity ratio to 22.9%.

(15) Provisions

	As of 12/31/1992		As of 12/31/1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Provisions for pensions and similar obligations	219,788	948,660	204,349	973,836
Provisions for taxes	18,652	61,793	18,498	44,146
Miscellaneous provisions	307,609	948,507	212,626	891,367
	546,049	1,958,960	435,473	1,909,349

At two of our retirement benefit organizations, there is a shortfall of DM 22.7 million in the coverage of pension obligations. The provisions at five other German companies have been funded only to the maximum amount permitted for tax purposes.

Net prepaid taxes arising from consolidation procedures exceed the provisions for deferred taxes in the individual financial statements by DM 1.5 million.

The increase in miscellaneous provisions is due to the establishment of provisions for restructuring measures and for various risks that were re-evaluated. The miscellaneous provisions now cover all perceivable risks and other undetermined obligations. In addition to these provisions, they consist mainly of provisions for warranties, bonuses, personnel and social welfare payments, deferred repairs and service anniversaries.

(16) Liabilities

Continental AG		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1992	1 year	5 years	12/31/1991	1 year	5 years
Bonds, convertible*	72,416	339	885	72,477	351	897
Bank borrowings	633,428	469,570	115	494,910	490,436	103
Trade accounts payable	139,200	139,200	–	140,337	140,337	–
Payables to affiliated companies	384,261	367,143	17,118	369,957	354,026	15,931
Payables to companies in which participations are held	5,002	5,002	–	5,407	5,407	–
Other liabilities*	96,164	94,164	–	102,502	98,496	–
tax liabilities	(10,016)	–	–	(23,119)	–	–
liabilities relating to social security and similar obligations	(18,937)	–	–	(15,332)	–	–
	1,330,471	1,075,418	18,118	1,185,590	1,089,053	16,931

* total amount secured by mortgages: DM 74.0 million.

Consolidated		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1992	1 year	5 years	12/31/1991	1 year	5 years
Bonds, convertible*	701,500	339	193,783	871,096	350	450,507
Bank borrowings	1,544,702	626,191	71,120	1,095,030	580,773	37,356
Advances from customers	1,469	1,456	–	5,638	5,638	–
Trade accounts payable	691,533	677,750	–	650,109	635,951	–
Liabilities on acceptances and notes payable	15,425	15,425	–	55,110	55,110	–
Payables to affiliated companies	14,493	3 698	–	12,007	412	–
Payables to companies in which participations are held	8,709	8,673	–	6,289	6,253	–
Other liabilities*	500,934	376,560	25,419	525,421	381,526	11,472
tax liabilities	(55,157)	–	–	(85,179)	–	–
liabilities relating to social security and similar obligations	(80,065)	–	–	(69,753)	–	–
	3,478,765	1,710,092	290,322	3,220,700	1,666,013	499,335

* amount secured by land charges, mortgages and comparable collateral: DM 119.9 million

The items payables to affiliated companies, payables to companies in which participations are held and other liabilities include indebtedness in the amount of DM 367.7 million (1991: DM 318.1 million) at Continental Aktiengesellschaft and of DM 213.0 million (1991: DM 198.9 million) in the consolidated financial statements.

Guarantees and Other Commitments

	As of 12/31/1992		As of 12/31/1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Acceptance liability	141,334	342,095	120,177	336,445
due to affiliated companies	65,206	–	31,358	123
Liabilities on guarantees	1,126,638	16,600	739,154	24,711
Liabilities on warranties	1,519	19,329	1,851	9,492
Liability on shares in cooperatives	81	81	81	81

The contingent liabilities on notes result from discounting trade bills. With the exception of DM 4.0 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 857.1 million for capital market financing by Conti-Gummi Finance B.V., Amsterdam, Netherlands, Continental Rubber of America Corp., Wilmington, Delaware, U.S.A., and General Tire Inc., Akron, Ohio, U.S.A.

Other Financial Obligations

Liabilities under rental and leasing agreements relate primarily to real estate used for business activities. The breakdown for 1993 and later years is as follows:

DM 000	Continental AG	Consolidated
Rental and leasing agreements	273,881	813,972
Purchase commitments	56,300	158,617

NOTES TO THE STATEMENT OF INCOME

(17) Sales

Continental AG DM million	1992	1991	Change in %
Analysis by Group			
Tires (CUS)	1,900.2	1,841.8	+ 3.2
ContiTech	1,116.4	1,073.2	+ 4.0
Other sales	317.8	356.6	– 10.9
	3,334.4	3 271.6	+ 1.9
Analysis by geographical area			
Germany	2,085.9	2,066.0	+ 1.0
Europe (without Germany)	1,043.6	1,019.0	+ 2.4
Non-European countries	204.9	186.6	+ 9.8

Consolidated DM million	1992	1991	Change in %
Analysis by Group/Division			
Tires			
Continental	1,841.9	1,820.2	+ 1.2
Uniroyal	1,085.4	1,112.2	– 2.4
Semperit	889.8	900.1	– 1.1
Merchandise and services	919.9	875.0	+ 5.1
Gislaved/Viking	302.2	–	–
General Tire	2,105.1	2,195.0	– 4.1
ContiTech	2,285.4	2,253.0	+ 1.4
Other sales	260.2	221.4	+ 17.5
	9,689.9	9,376.9	+ 3.3
Analysis by geographical area			
Germany	3,498.1	3,488.2	+ 0.3
Europe (without Germany)	3,478.7	3,169.4	+ 9.8
North America	2,141.4	2,250.5	– 4.8
Other countries	571.7	468.8	+ 21.9

(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.

(19) Selling Expenses

These expenses include the costs of our sales organization, distribution and advertising. Owing to the expansion of our sales organization and more stringent requirements in increasingly difficult markets, selling expenses rose slightly faster than sales. The increase was also due to the initial inclusion of the selling expenses of the Nivis group, in the amount of DM 74.6 million.

(20) Administrative Expenses

This item consists primarily of personnel and other expenses which cannot be directly allocated to production or sales. If the effects of new companies and reclassifications are eliminated, administrative expenses remained more or less unchanged.

(21) Other Operating Income

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Gains on the disposal of fixed assets and investments	2,564	15,521	27,736	51,092
Credit to income from the release of provisions	1,368	87,976	2,995	73,116
Credit to income from the reduction of the general bad debt reserve	–	2,088	–	1,045
Credit to income from the release of special reserves	35,550	10,730	39,040	29,802
Miscellaneous income	164,416	80,747	100,091	81,063
	203,898	197,062	169,862	236,118

The Corporation's substantial credits to income from the release of provisions consist primarily of DM 59.2 million (1991: DM 39.5 million) released as a result of changes in the plan agreed upon with the unions to cover the future medical expenses of retirees of General Tire Inc. In addition to current income from rentals, leasing and miscellaneous sideline operations, other operating income includes indemnification paid by insurance companies and income attributable to previous fiscal years.

In the parent company, this item consists mainly of cost apportionments received from other consolidated companies. The increase is due to the inclusion for the first time of income from the independent ContiTech companies for plant equipment leased from Continental Aktiengesellschaft.

(22) Other Operating Expenses

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Losses on the disposal of fixed assets and investments	857	6,079	5,636	21,520
Losses on the disposal of current assets (except inventories)	4,731	35,405	890	23,890
Allocation to special reserves	1,479	1,479	26,315	1,544
Miscellaneous expenses	174,133	124,346	127,713	172,662
Miscellaneous taxes	14,079	63,317	12,447	67,495
	195,279	230,626	173,001	287,111

The miscellaneous expenses relate primarily to sideline operations and the establishment of necessary provisions. At the parent company, they include cost apportionments paid to other consolidated companies and expenses in connection with the leasing fees received from the ContiTech companies. For the first time, this item also includes miscellaneous taxes, in view of the fact that they are assessed against the Company regardless of its earnings.

Consolidated miscellaneous expenses decreased, due to the absence of extraordinary allocations to provisions in the General Tire Group, which had been necessary in 1991 to adjust the provisions to the altered risk situation regarding product liability cases and workmen's compensation.

(23) Net Income from Investments and Financial Activities

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net income from investments				
Income under profit-and-loss				
transfer agreements	34,948	2	44,543	2
Income from investments				
from affiliated companies	62,836	413	66,985	408
from associated companies	1,371	3,576	1,163	5,476
from other companies	350	352	1,415	1,415
Losses absorbed under profit-and-				
loss transfer agreements	– 20,471	–	– 8,317	– 181
	79,034	4,343	105,789	7,120

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net interest expense				
Income from other securities				
and loans included in				
investments	518	3,304	520	3,352
Other interest and similar income				
from affiliated companies	27,943	39	23,870	28
from other companies	13,390	58,475	10,954	47,647
Interest and similar expenses				
paid to affiliated companies	– 48,678	– 740	– 34,331	– 709
paid to other companies	– 117,387	– 284,463	– 110,717	– 253,301
	– 124,214	– 223,385	– 109,704	– 202,983

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Writedowns on investments				
and marketable securities				
Writedowns on investments	– 2,592	– 5	– 6,553	– 301
Writedowns on marketable				
securities	–	–	–	– 24
	– 2,592	– 5	– 6,553	– 325

Net income from investments				
and financial activities	**– 47,772**	**– 219,047**	**– 10,468**	**– 196,188**

Continental Aktiengesellschaft's income from investment in other companies, net of losses assumed, includes DM 46.6 million (1991: DM 74.1 million) from profit-and-loss transfer agreements and dividends of domestic companies. Its net interest expense continued to rise, due to high outlays for investments. The Corporation's net interest expense amounted to 2.3% (1991: 2.2%) of sales.

(24) Extraordinary Charges

The parent company's extraordinary charges consisted of provisions for risks in connection with investments in subsidiaries and of provisions for restructuring, which had once again become necessary.

Further provisions for restructuring were also required in the General Tire Group in order to accelerate the turnaround.

(25) Minority Interests in Earnings

This item shows the profits and losses relating to minority shareholders in Germany and abroad.

Miscellaneous Data

Cost of Materials

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Cost of raw materials and				
supplies and merchandise	1,399,966	3,396,150	1,376,711	3,163,216
Cost of outside services	707,019	522,081	665,904	492,034
	2,106,985	3,918,231	2,042,615	3,655,250

Personnel Expense

	1992		1991	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Wages and salaries	522,406	2,683,145	518,364	2,584,619
Social welfare contributions and				
expenses related to pensions				
and other employee benefits	120,004	660,147	113,687	651,757
expenses for pensions	30,592	91,894	27,327	76,362
	642,410	3,343,292	632,051	3,236,376

	Continental AG	Consolidated
Number of employees (quarterly average)		
Salaried employees	3,035	15,943
Wage earners	5,398	34,503
	8,433	50,446

Depreciation, Amortization and Writedowns

Amortization of intangible assets, depreciation of property, plant and equipment, and writedowns of investments, computed in accordance with the principles of commercial law, are shown in the table "Changes in Fixed Assets and Investments" (pages 44 and 45).

At Continental Aktiengesellschaft, they include special depreciation for tax purposes in the amount of DM 18.5 million under Section 3, FRG/GDR Border Area Assistance Act, and Section 6b, Income Tax Act.

Additional depreciation taken for tax purposes with respect to 1992 and the previous fiscal years (for example, pursuant to Section 3, FRG/GDR Border Area Assistance Act, or Section 6b, Income Tax Act) will result in a future credit in the parent company's statement of income and, to some extent, also in the consolidated statement of income.

Total remuneration of the Supervisory Board amounts to DM 245,000, of the Executive Board DM 9,608,000 (including remuneration paid by subsidiaries) and of former members of the Executive Board and their surviving dependents DM 2,242,000.

DM 18,578,000 has been set aside for pension commitments to former members of the Executive Board and their surviving dependents.

Remuneration of the Supervisory Board and the Executive Board

After a transfer by the Administration of DM 18,900,000.00 to retained earnings, pursuant to Section 58, Subsection 2, German Stock Corporation Law, the net income available for distribution comes to DM 19,506,459.00. The Supervisory Board and the Executive Board propose to the Shareholders' Meeting that the net income available for distribution be transferred to retained earnings.

Proposed Allocation of Net Income

Hanover, March 1993

Continental Aktiengesellschaft
The Executive Board

CONTINENTAL **CORPORATION**
TEN YEAR SURVEY

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Balance sheet											
Fixed assets and investments	DM million	782.9	764.9	1075.3	1063.6	1647.0	1794.9	1998.5	2853.4	3416.9	3554.3
Current assets	DM million	1104.5	1200.8	1761.9	2029.5	3156.2	3660.0	3407.4	3314.2	3232.4	3503.5
Balance sheet total	DM million	1887.4	1965.7	2837.2	3093.1	4803.2	5454.9	5405.9	6167.6	6649.3	7057.8
Shareholders' equity	DM million	442.7	522.2	638.4	808.0	1515.8	1657.9	1725.3	1742.2	1514.7	1617.1
Long-term debt	DM million	680.1	692.6	965.2	998.9	1541.6	1644.3	1598.6	1995.6	2533.1	2720.3
Capital expenditure on property, plant and equipment	DM million	128.2	149.8	253.9	284.8	300.1	447.7	532.4	689.5	829.3	709.3
Equity ratio	%	23.5	26.6	22.5	26.1	31.6	30.4	31.9	28.2	22.8	22.9
Long-term financing of fixed assets, investments and inventories	%	88.3	91.2	86.3	103.8	118.6	113.6	103.7	89.6	89.0	90.0
Total indebtedness	DM million	695.0	594.0	992.5	741.2	672.7	826.4	929.5	1545.9	2152.9	2416.8
Self-financing ratio	%	170.4	143.5	113.1	126.7	150.9	112.3	94.4	68.1	52.1	133.8
Liquidity ratio	%	77.7	82.1	76.4	104.3	134.7	119.9	105.0	77.1	74.6	76.5
Statement of income											
Sales	DM million	3387.2	3534.0	5003.3	4968.6	5097.6	7905.8	8381.9	8551.0	9376.9	9689.9
Foreign markets' share	%	36.4	40.1	49.9	48.3	47.5	64.3	65.0	61.8	62.8	63.9
Cost of sales[1]	%					71.1	74.6	74.7	75.9	74.7	73.2
Selling expenses[1]	%					14.9	13.1	14.0	14.7	14.8	15.0
Administrative expenses[1]	%					7.0	6.4	5.7	5.9	6.5	6.7
EBIT	DM million	170.2	165.9	254.3	333.6	321.0	421.0	476.7	298.8	334.8	468.3
Cost of materials	DM million	1420.0	1569.4	2311.8	1981.9	2027.5	3111.7	3298.8	3530.3	3655.3	3918.2
Personnel expense	DM million	1288.2	1334.8	1693.8	1778.5	1878.4	2532.2	2724.8	3028.5	3236.4	3343.3
Depreciation	DM million	135.5	150.8	205.5	229.4	263.8	375.8	367.5	378.0	531.0	502.6
Cash flow	DM million	190.7	204.9	303.5	375.9	464.0	623.4	604.9	510.0	526.1	701.4
Value added	DM million	1486.3	1519.0	1982.4	2161.8	2267.4	3051.0	3319.0	3455.0	3319.8	3725.2
Net income/loss	DM million	40.2	41.2	77.2	114.5	138.8	194.8	227.8	93.4	− 128.2	133.0
Employees											
Annual average	000	27.1	26.3	31.7	31.9	32.3	45.4	47.5	48.8	51.4	50.9

[1] As a % of sales

CONTINENTAL AKTIENGESELLSCHAFT
TEN YEAR SURVEY

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Balance sheet											
Fixed assets and investments	DM million	663.7	677.7	750.0	761.7	1358.3	1409.5	1889.3	2289.3	2074.2	2203.5
Current assets	DM million	492.2	527.0	631.4	741.0	1115.2	1133.9	770.1	843.2	735.5	872.4
Balance sheet total	DM million	1155.9	1204.7	1381.4	1502.4	2473.5	2543.4	2659.4	3132.5	2809.7	3075.9
Shareholders' equity	DM million	419.3	480.6	499.2	667.1	1567.2	1601.3	1641.1	1620.4	1162.4	1189.9
Long-term debt	DM million	415.2	413.7	457.8	402.0	375.3	344.4	367.4	354.9	327.1	484.4
Capital expenditure on property, plant and equipment	DM million	58.9	85.4	102.2	102.6	119.7	138.5	135.7	154.2	183.5	194.8
Equity ratio	%	36.3	39.9	36.1	44.4	63.4	63.0	61.7	51.7	41.4	38.7
Long-term financing of fixed assets, investments and inventories	%	92.7	94.7	90.9	105.5	122.8	116.7	92.8	76.1	62.0	64.5
Total indebtedness	DM million	288.0	233.7	250.5	192.9	+ 139.6	+ 171.0	99.1	604.1	863.8	1037.2
Self-financing ratio	%	226.2	102.0	78.9	146.6	31.5	103.5	35.0	26.8	53.2	91.3
Liquidity ratio	%	76.4	81.5	74.7	117.0	192.7	163.6	69.7	40.3	25.8	30.1
Statement of income											
Sales	DM million	1992.7	2079.3	2312.9	2391.0	2423.1	2813.3	3040.8	3066.4	3271.6	3334.4
Foreign markets' share	%	28.2	33.4	34.4	35.4	36.2	36.8	38.1	36.0	36.9	37.4
Cost of sales[1]	%					80.4	80.4	81.5	83.3	81.0	82.4
Selling expenses[1]	%					7.9	7.1	7.1	7.3	7.4	7.6
Administrative expenses[1]	%					7.4	6.5	5.7	5.8	5.7	5.8
EBIT	DM million	85.6	83.2	115.2	167.1	159.6	165.7	172.3	198.6	290.5	224.5
Cost of materials	DM million	893.8	998.0	1152.2	1107.2	1088.6	1392.1	1542.2	1579.4	2042.6	2107.0
Personnel expense	DM million	766.3	790.0	846.7	895.2	928.6	924.5	960.6	1023.7	632.1	642.4
Depreciation	DM million	78.7	85.5	105.5	111.2	121.8	134.9	129.9	130.7	139.6	167.8
Cash flow	DM million	122.8	120.7	158.1	209.9	263.4	262.4	282.5	224.1	303.0	273.5
Value added	DM million	865.3	886.2	971.4	1071.9	1122.2	1129.8	1182.8	1232.3	320.0	804.8
Net income/loss	DM million	15.1	18.3	37.2	55.0	55.8	80.9	81.2	42.2	– 417.1	38.0
Dividend paid	DM million	16.2	17.9	29.9	37.5	48.0	69.2	69.6	35.1	–	–
Employees											
Annual average	000	15.6	15.4	15.5	15.4	15.3	15.1	15.9	16.1	8.8	8.4

[1] As a % of sales

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

Annual financial statements. Corporations' annual financial statements consist of the corporation's balance sheet, the statement of income and the → notes. This also applies to consolidated financial statements. In addition, a corporation is required to issue a → management report.

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.
Where 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 → shareholders' 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. Capital reserves consist primarily of amounts received upon the issuance of shares (increase of the → subscribed capital) in excess of their par value. Also included is the premium on the issue of convertible bonds and bonds with warrants attached.

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

Cash flow. Cash flow is computed on the basis of the → DVFA/SG earnings formula. It is made up of net income, plus depreciation, plus/(less) increase/(decrease) in special reserves, plus the allocation to provisions for pensions, plus/(less) aperiodic expenses/(income) and changes in taxed provisions. As a rule, we use our cash flow for capital investments and dividend payments, as well as for debt repayment.

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 at 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 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. Furthermore, profits from the supply of goods and services within the → Corporation are 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 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 the company.

Cost of sales method. This method used for preparing the statement of income allocates expenses attributable to sales between the manufacturing, selling, and administrative functions. The total cost method, on the other hand, allocates these expenses for the period as expenditures on 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 indicates how quickly the net indebtedness can be paid back from the → cash flow.

Deferred taxes. Income taxes to be paid by a company are computed according to its taxable income. When this income is different from that shown on the published balance sheet, then taxes will be either too high or too low with respect to the published earnings. An accounting adjustment for deferred taxes is established 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, upon consolidation, the consolidated income is too high or too low in comparison to the consolidated income tax expense, deferred taxes are 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/SG earnings. Computation of per-share earnings according to DVFA/SG is based on a joint recommendation of the DVFA (German Assocation of Financial Analysts and Investment Counselors) and SG (Schmalenbach-Gesellschaft, German Business Administration Company). The DVFA is an organization consisting of representatives of German banks, whereas SG is an organization consisting of notable representatives of industry and universities. The members of the DVFA Committee on Methods of Investment Analysis on the one hand, and the members of Schmalenbach-Gesellschaft's "external company accounting" study group on the other hand, have agreed on a joint recommendation for determining earnings per share.
The objective of this computing method is to eliminate the effects of extraordinary and aperiodic influences on the earnings of corporations listed on the stock exchange.

EBIT. Earnings before interest and taxes. In this annual report, EBIT is understood to be the → net income from regular business activities adjusted by the net interest expense.

Equity method. → Participations in → associated companies are valued in the consolidated financial statements in accordance with the so-called equity method. The entry in the consolidated balance sheet is based on the portion of the company's → shareholders' equity that corresponds to the → participations held. However, this figure never exceeds the original acquisition cost of the → participation.

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

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

Income tax ratio. The income tax ratio is the ratio of income taxes to net income (including income taxes).

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

Interest ratio. The interest ratio is the ratio of interest income to sales revenues.

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

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

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. These represent interests in consolidated subsidiaries not belonging to the parent company. A corresponding amount is included in the consolidated balance sheet as part of → shareholders' equity. The minority shareholders' interest in the net income or loss is shown separately in the consolidated statement of income.

Net income from regular business activities. This is understood to be the net income before extraordinary charges and income taxes.

Net profit margin. The net profit margin is the ratio of net income to sales revenues.

Notes. The notes contain obligatory information supporting the balance sheet and the statement of income, such as the financial obligations not shown in the balance sheet. Included in this additional information is a presentation of the accounting and valuation principles applied.

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

Retained earnings. These represent previous years' net income retained within the → Corporation.

Return on shareholders' equity. The return on shareholders' equity is understood to be the ratio of net income to → shareholders' equity plus the equity portion of → special reserves.

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

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

Special reserves. These represent reserves included under shareholders' equity and liabilities that may be established pursuant to tax laws. They are used to promote economic policy objectives, and are not taxed until released. Examples include reserves established under the German Foreign Investment Act.

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

Subscribed capital. The subscribed capital is the amount up to 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 of 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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