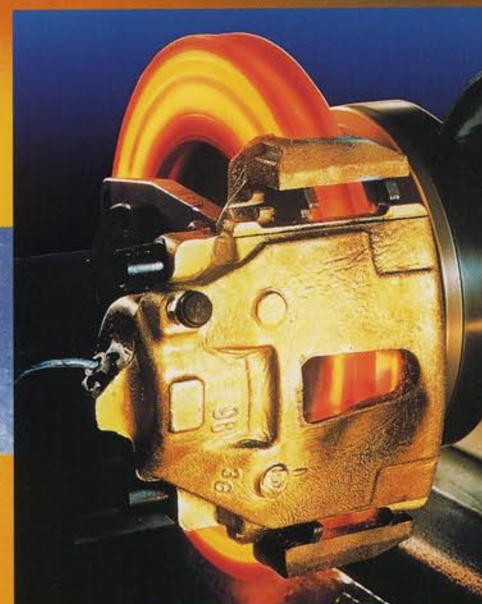
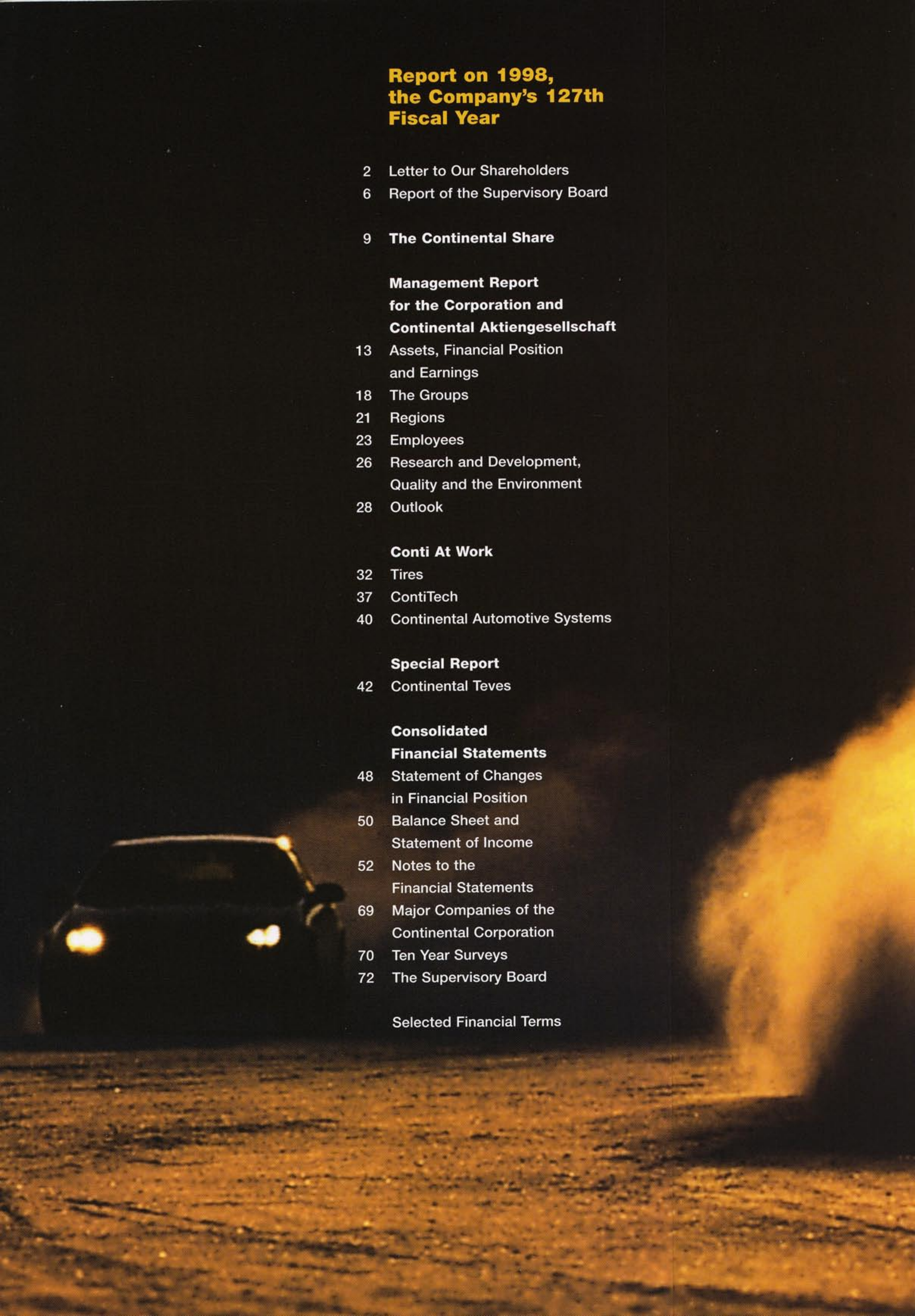
Annual Report 1998



The acquisition of a brake and chassis business marks a new departure for Continental. In the future, the electronically controlled chassis, together with tires and industrial products, will be regarded as a single system. This integration will open up new opportunities for profitable growth. We plan to play our part in shaping the future of the automobile.

Continental



Report on 1998, the Company's 127th Fiscal Year

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Selected Financial Terms

Continental Corporation at a Glance

Amounts in Millions of DM	1994	1995	1996	1997	1998
Sales	9,876.9	10,252.6	10,430.6	11,186.1	13,188.6
Income before taxes	91.6	194.8	248.4 [1]	458.8	611.4
Income after taxes	70.8	155.2	192.5	321.8	413.9
Dividend	37.5	47.0	56.7	80.2	92.0 [2]
Cash flow	625.9	739.7	814.6	960.1	1,171.4
Debt ratio	3.4	2.7	2.0	0.6	3.1
Capital expenditure, on property, plant and equipment	514.7	591.3	551.5	552.8	814.2
Depreciation[3]	583.5	552.7	609.2	600.1	710.9
Shareholders' equity	1,675.5	1,695.6	1,860.4	2,702.7	2,973.6
Equity ratio in %	24.6	25.3	27.8	35.3	23.2
Employees at year-end[4]	48,583	47,918	44,767	44,797	62,357
Share price (high) in DM	29.8	23.1	28.4	50.9	63.3
Share price (low) in DM	21.1	18.6	20.1	27.8	31.0

1) after extraordinary expenses
2) subject to the approval of the Annual Shareholders' Meeting on June 1, 1999
3) excluding depreciation on investments
4) excluding trainees

The Continental Corporation has added know-how with regard to chassis construction and the regulation of vehicle dynamics to its core capabilities in rubber technology for tires and industrial products. We were presented with an historic opportunity to give our Company a completely new profile, and we have seized that opportunity.

Dear Shareholders and Friends of Continental,

Technological preeminence and cost leadership are the basic prerequisites for achieving profitable growth, which is the Continental Corporation's prime business goal.

Continental in Outstanding Shape

At the end of 1998, Continental was in excellent shape. Earnings had increased for the fifth year in a row, substantially exceeding both the target we had set and the previous year's level. Further improvements in the product mix, strong growth in volumes and our ongoing programs to boost efficiency were responsible for this result. All the major units, except the Tire Dealer Organizations and ContiTech's Extrusions unit, operated at a profit. The turnaround in Commercial Vehicle Tires to which we had pledged ourselves took place in an impressive manner, so that all the Groups contributed to total earnings. Gratifying gains in net income were also reported by Passenger Tires and our U.S. subsidiary Continental General Tire.

Launch of the Systems Business

With the purchase of the chassis activities of ITT Industries, which have been operating under the name of Teves, Continental's business has taken on a new dimension. We therefore need no longer worry whether we have sufficient power to hold our own in the struggle among the giants of the tire industry. With the capabilities we have now assembled for the systems business, we can consider ourselves a first-tier supplier to the worldwide automotive industry. Since 1994, we have made substantial progress with our strategy of supporting the tire business with technologies from the Automotive Systems Group. Today, Continental is a company with a profile and potential that are unique throughout the world.

Volume Growth and Internationalization Proceed with Equal Vigor

The great step toward technological leadership that we took in 1998 was accompanied by a sharp rise in volume. This occurred primarily at locations with a highly competitive cost structure, such as Portugal and the Czech Republic. However, to ensure profitable growth over the long term, we have also added new tire factories in Slovakia, Mexico, Argentina and South Africa to our plants and our partnership network and launched new projects in Brazil and the U.S.A. for ContiTech and the Continental Automotive Systems Group.

All this is confirming our determination to accept the challenge of becoming a supplier at the global level. Our big customers in the automotive industry insist that we follow systematically the course that we have embarked upon. We shall nevertheless continue to follow the principle of globalization with circumspection.

High-Tech Products "Made by Continental"

On the product side, our successes with snow tires again impressively underscored our leading position in the European market. Growth rates in the high-performance segment for sports cars were exceptionally good. Sales of tires and industrial products to the car makers exceeded our expectations.

New product and service concepts enabled the Commercial Vehicle Tire Group to regain ground that had been lost in recent years.

Continental General Tire successfully intensified its partnership with independent dealers. Its former reliance on a few big customers is now a thing of the past.

In the ContiTech Group, the Air Spring business significantly outpaced the other units as regards gains in sales and earnings. The Fluid business unit, formerly Hoses and Hose Assemblies, is making excellent progress. Benecke-Kaliko was able to reinforce its position as the world's leading manufacturer of TPO sheeting.

The Continental Automotive Systems Group was primarily concerned with the integration of Teves. The new management installed under the leadership of Executive Board member Hans Albert Beller, the head of the Group, has begun its work in Frankfurt on schedule. The business of this company, now known as Continental Teves AG & Co. oHG, has been relatively good. We expect that during 1999 synergies will already be emerging with all the units of the Corporation and that we will see the first fruits of the company's new orientation.

Within Our Sights: Sales of DM 20 Billion

Consolidated sales will pass the DM 17-billion mark in 1999 and a total of DM 20 billion is now within our sights. At the end of 1998 we employed about 62,400 people, raising the work force to a totally new dimension.

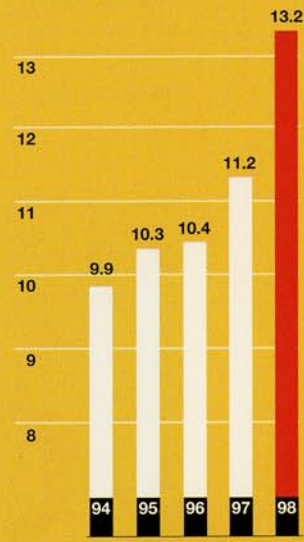
On behalf of the Administration, I cordially invite you to the Annual Meeting of Shareholders on June 1, 1999. If, as in the previous years, the Meeting accepts our recommendation, the dividend for 1998 will show an increase for the fourth straight year.

We thank our employees for their performance and enthusiasm and our shareholders for their confidence in our Company.

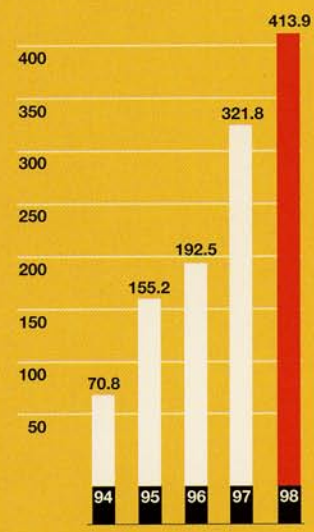
Sincerely,

Hubertus von Grünberg
Chairman of the Executive Board

Sales (consolidated)
in billions of DM

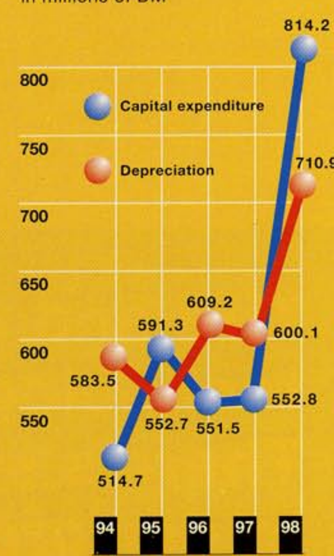


Net income after taxes
in millions of DM

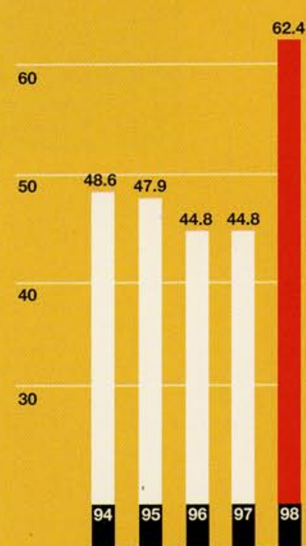


Cash flow
in millions of DM

Capital expenditure on P.P.E./ Depreciation
in millions of DM

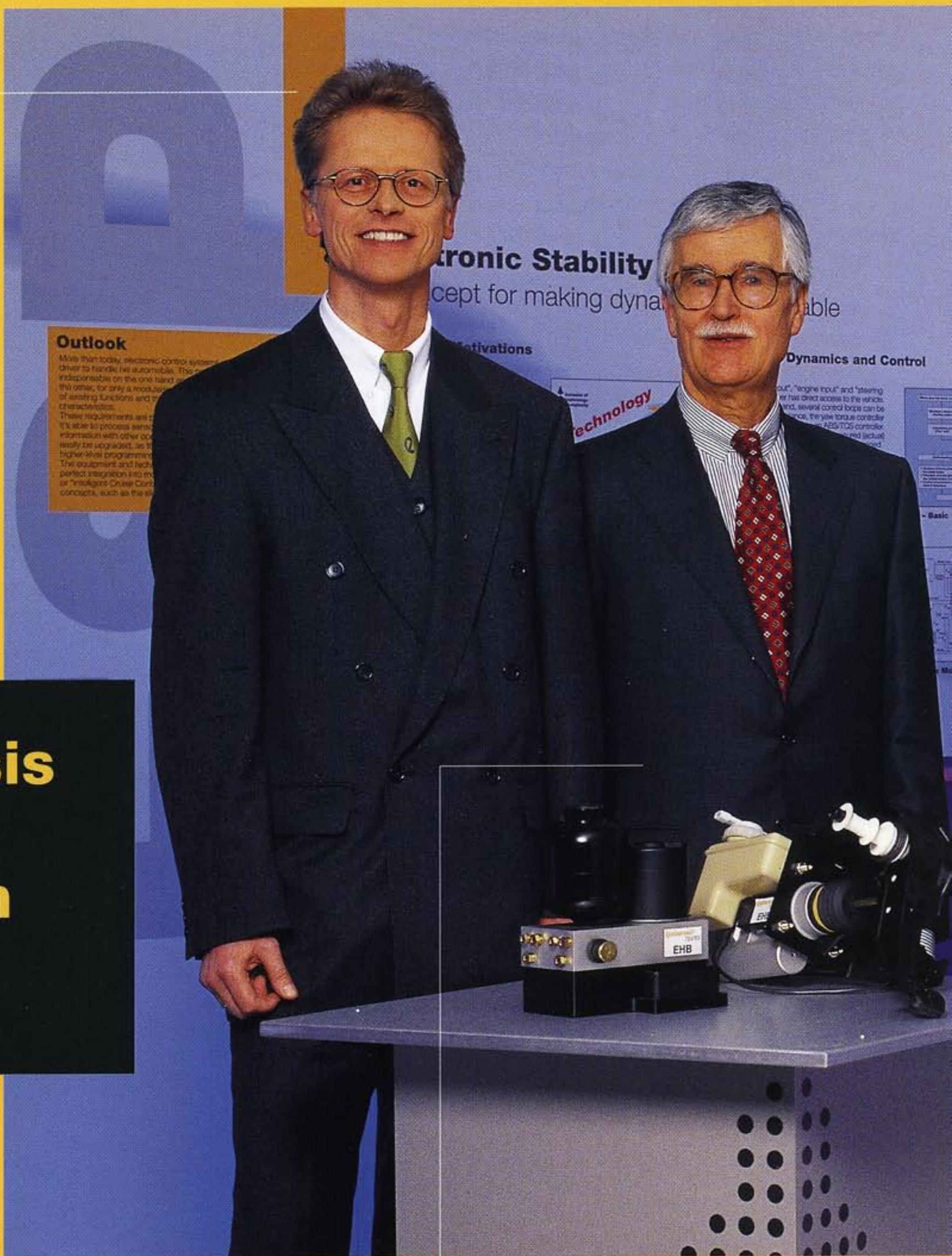


Employees (at year-end)
in thousands, excluding trainees



Our Company's wildfire growth, combined with a dynamic process of conversion, is giving Continental strong appeal for a new generation of executives.

Klaus Friedland



Tire and chassis technology: There's system in our growth.

Even after the acquisition of Teves we shall be able to continue the extremely gratifying trend in earnings, return on investment, and cash flow that has been established in recent years.

Jens P. Howaldt

The integration of Teves – a German company from its origin – into Continental began in the last quarter of 1998. Things look good for achieving our ambitious goals.

Hans Albert Beller

We have retained the virtues we possessed as a medium-sized firm – speed, innovative capability and flexibility – and are now combining them with financial power and a clear strategic vision.

Manfred Wennemer

We can achieve further profitable growth in the future through increased tire volumes and a systems capability that encompasses the entire chassis.

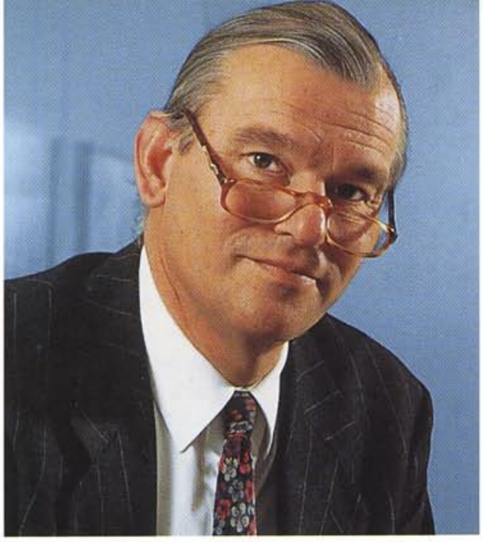
Hubertus von Grünberg

The Commercial Vehicle Tire Group is rapidly assuming a completely new order of magnitude. In the future, this will give us a market position from which we can derive a steady gain in profitability.

Stephan Kessel

The Corporation's new venture in Mexico has greatly improved the market position of Continental General Tire in the NAFTA region.

Bernd Frangenberg



Report of the Supervisory Board

Discussions focused on the globalization and strategic course of the Company on its way to becoming a chassis specialist, and a supplier to the worldwide automotive industry. One name is synonymous with that development: Dr. Hubertus von Grünberg, who, after serving eight years as Executive Board chief, is now to take on the role of Chairman of the Supervisory Board. His successor, Dr. Stephan Kessel, was appointed by the Supervisory Board at its meeting on April 12, 1999. Dr. Kessel comes from within the Company and thus stands for continuity. Moreover, the Supervisory Board assigned to Klaus Friedland the responsibility for Financing, Controlling and Law which he will take over in addition to his duties as Director of Personnel.

Continental AG's Supervisory Board has monitored the development and important items of the Company's business at its scheduled meetings, at meetings of the executive committee, in separate conferences, and on the basis of written and oral reports of the Executive Board. During the 1998 fiscal year, four scheduled meetings of the Supervisory Board took place. Except for the executive committee and the permanent committee pursuant to Section 27, Paragraph 3 of the Codetermination Law, which was not obliged to meet during the past fiscal year, there are no other committees of the Supervisory Board.

Apart from the meetings, the members of the Supervisory Board were also regularly available to the Executive Board for consultation. The Chairman of the Supervisory Board was informed on an ongoing basis by the Chairman of the Executive Board of all important business events. The Supervisory Board approved the transactions and procedures that required its consent, after examining them and discussing them with the Executive Board.

In addition to the periodic examination of the earnings situation of all the Groups and of the 1999 budget, discussions focused on the acquisition of the Brake and Chassis division of ITT Industries, Inc., the takeover of the tire business of the Mexican Grupo Carso S.A. as part of the Corporation's globalization strategy, the purchase of a majority interest in Gentyre Ltd., which has for many years been Continental's South African partner in the tire business, and the formation of a joint venture with Matador, Puchov a.s. in Slovakia to manufacture truck tires.

The financial statements of Continental AG prepared by the Executive Board for the 1998 fiscal year, the consolidated financial statements, and the management report of Continental AG, which is combined with the management report of the Corporation, have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, which was chosen as auditor by the Shareholders' Meeting and has issued an unqualified certificate for each one. The auditor was present at the discussion of the annual financial statements of Continental AG and the consolidated financial statements, described the audit procedures and was available to the Supervisory Board for supplementary information.

The Supervisory Board has examined and approved the result of these examinations. Based on its own examination of the financial statements, the consolidated financial statements and the management report of Continental AG, which is combined with the management report of the Corporation, the Supervisory Board has endorsed the result of the audit. It has approved the financial statements prepared by the Executive Board, which are thereby definitively confirmed. It also endorses the Executive Board's proposal, which it has examined, for the allocation of net income.

Dr. Hubertus von Grünberg has asked the Supervisory Board to release him from his duties as member of the Executive Board, and from his function as its Chairman, with effect from the end of the Annual Shareholders' Meeting on June 1, 1999. The Supervisory Board respects the reasons leading up to this decision and wishes to express its special thanks to him for his great achievements in leading the Company from difficult times into a profitable development and ultimately to a new strategic orientation. The Supervisory Board will propose to the Annual Shareholders' Meeting on June 1, 1999 that Dr. von Grünberg be elected member of the Supervisory Board. The consensus of the Supervisory Board's executive committee is that Dr. von Grünberg should be nominated for election as Chairman of the Supervisory Board at the latter's constituent meeting after the Annual Shareholders' Meeting.

At its meeting on December 10, 1998, the Supervisory Board assigned to Klaus Friedland the responsibility for the Executive Board area of Finance, Controlling and Law, starting on June 8, 1999, in addition to his duties as the Company's Director of Personnel. His predecessor, Dr. Jens P. Howaldt, who has headed this area since 1994 and served the Company for almost 20 years, will retire after this year's Annual Meeting of Shareholders. The Supervisory Board thanks him for the many years of valuable service he has devoted to the Company, together with its best wishes for the future.

On May 1, 1998, Manfred Wennemer, who was Chairman of the Executive Board of Benecke-Kaliko AG since 1994, succeeded Dr. Peter Haverbeck as head of the ContiTech Group. The Supervisory Board expresses its gratitude to Dr. Haverbeck for his many years of successful activity and wishes him all the best for the future.

The Supervisory Board wishes to thank the Executive Board and all the employees for their dedication and the shareholders for the confidence they have shown in the Company.

Hanover, April 12, 1999

The Supervisory Board

Ulrich Weiss

Ulrich Weiss, Chairman

Organs of the Company

Members of the Supervisory Board

Ulrich Weiss
Chairman

Adolf Bartels*
Deputy Chairman

Hans H. Angermueller

Heidemarie Aschermann*

Manfred Bodin

Diethart Breipohl

Werner Breitschwerdt

Casimir Ehrnrooth

Hans-Olaf Henkel

Wilfried Hilverkus*

Richard Köhler*

Dieter Kölling*

Hartmut Löschner*

Werner Mierswa*

Günther Saßmannshausen

Siegfried Schille*

Rainer Stark*

Dirk Sumpf*

Giuseppe Vita

Bernd W. Voss

* Employee representatives

Information pursuant to Section 285 No. 10 of the German Commercial Code is given on page 72 in the appendix to the financial statements.

Members of the Executive Board

Hubertus von Grünberg
Chairman
Passenger Tires

Hans Albert Beller
Continental
Automotive Systems

Bernd Frangenberg
Continental General Tire, Inc.

Klaus Friedland
Director of Personnel

Peter Haverbeck
ContiTech
(through 4/30/1998)

Jens P. Howaldt
Finance, Controlling and Law

Stephan Kessel
Commercial Vehicle Tires, Quality and Environment, International

Manfred Wennemer
ContiTech
(as of 5/1/1998)

Generalbevollmächtigte

Bernadette Hausmann
Corporate Purchasing and Strategic Tire Technology

Werner P. Paschke
Corporate Controlling

Hanover-Stöcken, Germany:
ContiTech molded products

The Continental share is the most liquid of the MDAX securities and ranks higher in liquidity than several of the shares included in the DAX.

Fourth Consecutive Dividend Increase

A further vigorous increase in earnings has made it possible to recommend to the Annual Meeting of Shareholders a dividend for 1998 of 16%, compared with 14% for 1997. This is equivalent to DM 0.80 (1997: DM 0.70) per no-par-value share.

The dividend does not include German corporation tax credit since profits used were from non-German companies of the Corporation only.

At DM 575.1 million, the capital stock entitled to the dividend is only slightly higher than in the previous year, so that DM 92.0 million, compared with the DM 80.2 million paid out for 1997, will be required for the distribution. As a result, the payout will amount to 28.9% of consolidated net income, after minority interests and offsetting of goodwill with no effect on earnings, compared with 33.9% in the previous year.

Share Price Trend

At the end of a trading year full of fluctuations, a bullish sentiment prevailed. The German stock index (DAX) reached its high of 6,171 points on July 20, 1998. However, on October 8, under the pressure of the financial crises in the Far East and South America and Russia's suspension of its foreign debt payments, it plunged to 3,896. By the end of the year, investors had regained their confidence, and the DAX, at 5,002, had climbed slightly above the 5,000 mark, for a gain of 18.5% (1997: +47%) over the previous year.

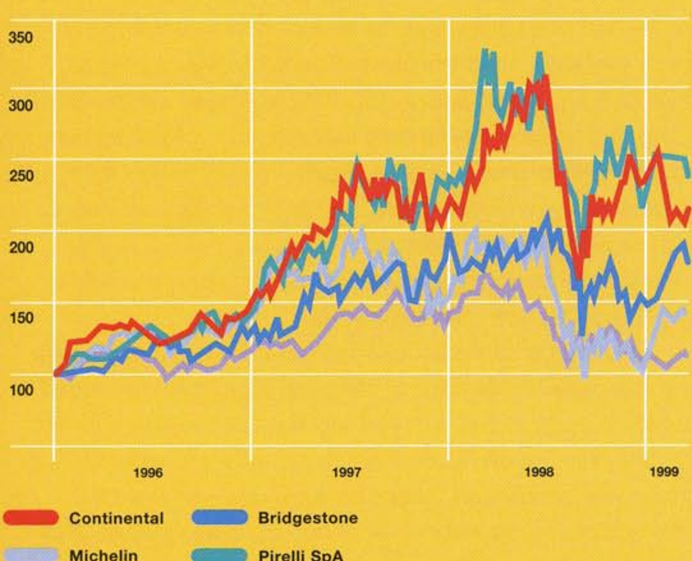
Starting off with a quotation of DM 40.50 on the last trading day of 1997, the price of the Continental share increased briskly through mid-year, in line with the DAX, reaching its high for the year, DM 63.30, on July 28, just after the acquisition of Teves was announced. After that, the share was inevitably affected by the general market trend, dropping to a low of DM 31.00 on October 8. Subsequently, it recovered and closed the year at DM 46.30 (€23.52). The overall gain of 14.3% was thus virtually the same as the trend in the DAX and slightly outpaced the MDAX. Since the end of 1995, the share price has risen 130%.

At the opening of the stock exchange on January 4, 1999, the Euro became the official stock market currency. The Continental share started the year with firm prices, at €24.60, and then rose to €26.20 on February 11. On March 23, 1999 it was €22.30.

Share price development compared with DAX and MDAX

Source: Bloomberg

Share price development December 29, 1995 = 100%



Source: Bloomberg

Shares Outstanding

The exercise of various options produced a slight addition to the total number of shares; 115 million units are entitled to the dividend for 1998. Option rights relating to the 1993/2000 bonds with warrants and the 1990/2000 and 1996/2005 convertible debentures (stock options), for a total of 7.6 million shares not entitled to the dividend for 1998, had not yet been exercised at the end of 1998.

High Share Liquidity

The price advances on the German stock exchanges were accompanied by large trading volumes. In 1998, sales of German shares reached DM 4,893 billion (1997: DM 3,410 billion), for an impressive gain of 43%. The Continental share recorded sales of DM 23.7 billion for the same period (1997: DM 17.8 billion), or about 0.48% (1997: 0.52%) of the total traded. Sales thus equaled 4.3 times the capital stock. Without double counting, the average daily sales of the Continental share amounted to almost 0.5 million units in 1998, of which nearly half was traded electronically through the Xetra system, 36% on the Frankfurt stock exchange and the remaining 14% on other German stock exchanges.

In the ranking of companies for German stock indexes, Continental is 30th in terms of sales volume of shares traded and 42nd in terms of market capitalization. Thus, the Continental share is the most liquid of the MDAX securities and ranks higher in liquidity than several of the shares included in the DAX.

Liquidity is becoming an increasingly significant gauge for institutional investors in particular. This is also true against a backdrop of the Euro creating the world's second largest stock and bond market. The Euro will knit together the eleven capital markets and enhance their efficiency. Each individual security, however, will need a high liquidity in order to arouse the interest of further buyers, also among institutional investors, in a much larger and wider-ranging market.

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

	1994	1995	1996	1997	1998
Net income	0.75	1.65	2.04	2.81	3.60
Dividend	0.40	0.50	0.60	0.70	0.80
Dividend with tax credit	0.57	0.62	0.60	0.70	0.80
DVFA/SG earnings	0.82	1.52	2.32	2.64	3.39
Cash flow	6.68	7.88	8.62	8.38	10.19
Net worth	17.88	18.05	19.69	23.60	25.85
Stock market price at 12/31	22.60	19.85	27.70	40.50	46.30
Number of shares (in thousands)	93,710	93,930	94,482	114,505	115,012
Market capitalization (in millions of DM)	2,117.8	1,864.5	2,617.2	4,637.5	5,325.1

* The Annual Shareholders' Meeting on June 5, 1998 adopted a resolution pursuant to the law permitting no-par-value shares to divide the capital stock, which was formerly split up into par-value shares, into the same number of no-par-value shares. This means that each former share with a par value of DM 5.00 has now been replaced by one no-par-value share.

Shareholder Analysis:
22.8% English-Speaking Investors

A survey of institutional investors conducted in March 1999 in the U.S.A. and Europe revealed that 42.6% of our capital stock is owned by such investors in the following countries:

Great Britain:	7.1%	(1997: 18.0%)
North America:	15.7%	(1997: 7.4%)
Germany and Switzerland:	19.8%	(1997: 16.1%)

The free float exceeds 80%.

Internationally Listed

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

In London, the share price is quoted as part of the SEAQ (Stock Exchange Automatic Quotes) market-maker system. It is also traded under a sponsored ADR program in the OTC market in the United States.

Insofar as it makes economic sense to recruit additional foreign shareholders for our Company, we will obtain access to other foreign exchanges.

Investor Relations

The goal of our ongoing investor relations activities is to provide clear information about the Company for current and potential shareholders in order to enable investors and financial analysts to judge the Company's earnings power, its strategic positioning and the resulting opportunities and risks.

In November 1998, the German magazine *Capital* paid tribute to our investor communications, stating that Continental devotes more attention to its private investors than any other DAX 100 company.

During the fiscal year, we organized two road shows. At the end of April and beginning of May we announced the new earnings goals of the Corporation and its Groups, and in November we presented Continental after the acquisition of Teves to the capital markets in Germany, England, France, Switzerland and the U.S.A.

Comprehensive corporate data are available on our Internet page (http://www.conti.de), as well as news from the individual Groups, up-to-date press releases, selected financial data, the Company's strategy, the current share price, including the historical trend, and other securities information. Our annual report can be accessed online in German and English or can be ordered by e-mail.

Mount Vernon, Illinois, U.S.A.:
Continental General Tire, commercial vehicle tires

Management Report
Assets, Financial Position and Earnings

The upward trend of recent years continued strongly in 1998. The acquisition of Teves is a giant step forward on our way to becoming a leading international supplier of technology and systems to the automotive industry.

The upswing in Germany stemmed mainly from a strong demand for exports, which grew by 7%. Due to high unemployment and an atmosphere of political uncertainty, domestic demand – which recorded only a slight gain of 1.5% – left much to be desired in 1998. This was particularly true of consumer goods. On the other hand, demand for transport services increased sharply, rising by 5.2%.

Good Business in the Rubber Industry

Strong demand for new vehicles and continuing brisk activity in the replacement markets caused some substantial shortages of passenger and truck tires, primarily in Western Europe, but also in the U.S.A. We responded with a surge in production. All the plants of the Tire and Industrial Products Groups worked at full capacity throughout the entire year. Nevertheless, customers occasionally complained because of our inability to deliver goods on time.

Operating EBIT (earnings before interest and taxes)

Millions of DM	1998	1997	1996
Passenger Car Tires	505.7	404.2	334.1
Commercial Vehicle Tires	96.7	– 21.3	– 23.2
Continental General Tire	138.8	128.5	81.5
ContiTech	157.4	177.5	177.2
Continental Automotive Systems	– 6.3	–	–
Operating EBIT	892.3	688.9	569.6
Holding costs*	– 95.4	– 62.3	– 45.5
Earnings before interest and income taxes	796.9	626.6	524.1
Net of interest income and expense	– 185.5	– 167.8	– 195.7
Earnings before taxes	611.4	458.8	328.4
Extraordinary expenses	–	–	– 80.0
Income taxes	– 197.5	– 137.0	– 55.9
Net income for the year	**413.9**	**321.8**	**192.5**

* Holding costs included the Continental Automotive Systems Group up to and including 1997.

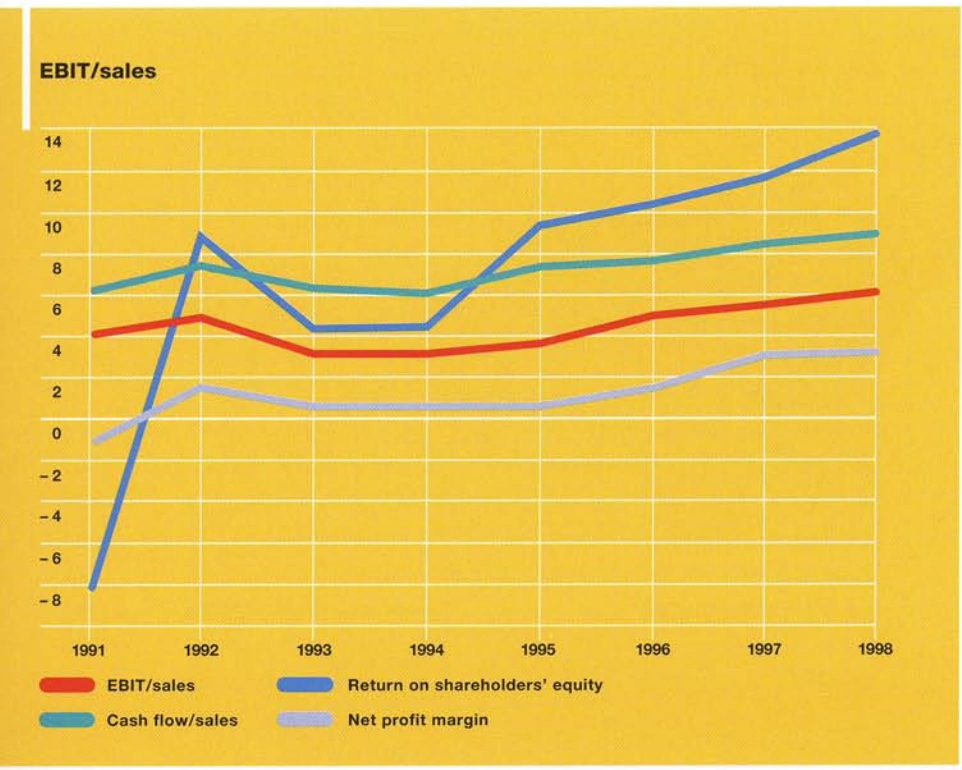
Positive Economic Trend

On the whole, the world economy developed in a gratifying manner during 1998, although it weakened considerably in the course of the year as a result of the crises in Japan, Southeast Asia and Russia. Business expansion in the industrialized countries slowed down, but, despite minor indications of softness, economic growth in Western Europe and North America proved relatively robust.

Management Report

Strong Sales Growth

Consolidated sales rose by 17.9% to DM 13.2 billion, as the result of higher sales volumes for all the Groups and the inclusion in the consolidated financial statements of the fourth-quarter results of Continental Teves AG & Co. oHG, Frankfurt/Main, and the affiliated Teves companies in Europe, North and South America, and Asia. Continental Teves, which we formed from the Brake and Chassis division of ITT Industries, Inc. in White Plains, New York, contributed DM 1.1 billion to sales. In addition, the scope of consolidation expanded to include Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, South Africa,



General Tire de Mexico, S.A. de C.V., Mexico, Compañia Hulera Euzkadi, S.A. de C.V., Mexico, and several smaller companies. Without these changes in the scope of consolidation, sales would have risen by 6.9%. 65% of consolidated sales was attributable to tires, 25% to industrial products and 10% to Automotive Systems, which includes Continental Teves. As of 1999, the annual contribution of Continental Automotive Systems to sales will rise to about 25%.

Further Improvement in Consolidated Earnings

Consolidated net income rose from DM 321.8 million in 1997 to DM 413.9 million, an increase of 28.6% or DM 92.1 million. This was the fifth consecutive year in which we have recorded strong earnings growth. We reached our 1998 goal for return on sales. The Administration is therefore recommending to the 1998 Annual Meeting of Shareholders that the dividend be increased once again, to DM 0.80 per no-par-value share from DM 0.70 in 1997.

Consolidated earnings before interest and taxes rose by 27.2% to DM 796.9 million, compared with DM 626.6 million in 1997. The return on capital amounts to 6.2% (1997: 8.2%). Operating income varied from Group to Group, but the overall picture was highly satisfactory. The Commercial Vehicle Tire Group achieved a major turnaround.

At DM 506 million (1997: DM 404 million), operating income of the Passenger Tire Group, including Dealer Organizations, came to 10.8% of sales, representing a further gain of 25% over the previous year's excellent earnings. The Dealer Organizations caused a charge against income, amounting to DM 22 million. Continental General Tire and ContiTech reported operating incomes equivalent to 5.8% and 4.7% of sales, respectively. Our U.S. subsidiary increased its earnings from DM 129 million to DM 139 million. This is particularly gratifying, as the figures for 1997 still included the profits from the sale of the synthetic rubber plant in Odessa, Texas, while income for 1998 was adversely affected by the strike at the Charlotte plant. Despite further special expenses resulting from restructuring and initial costs for new products, ContiTech's operating income, although 11% lower at DM 157 million, remained at a satisfactory level. The Commercial Vehicle Tire Group recorded operating income of DM 97 million or 6.5% of sales, an improvement of DM 118 million over the loss of DM 21 million recorded in 1997.

Continental Automotive Systems now includes Continental Teves, so that its results can no longer be compared with the previous year. As a result of the numerous development projects it has started, the Automotive Systems Group operated at a loss. Disregarding the incidental expenses incurred in connection with the acquisition and the amortization of the goodwill for the fourth quarter of 1998, Continental Teves already reported a fourth-quarter operating income of DM 63 million.

The holding company's costs were in line with its budget.

Interest expense rose only by DM 18 million despite the acquisition of Teves.

Structure of the consolidated balance sheet

Acquisitions

We concluded the acquisition of the Brake and Chassis division of ITT Industries, Inc., White Plains, New York, effective as of September 25, 1998. The purchase price for this unit, which is now called Continental Teves and had sales totaling US$ 2.2 billion in 1997, amounted to US$ 1.9 billion, or DM 3.25 billion. In a first step, it was financed by a syndicated Euro loan with a term of 5 years in the amount of €1.5 billion, which we were able to place with great success at the beginning of December 1998. Continental Teves, which has been integrated into the Continental Automotive Systems Group, has 10,173 employees working in 16 plants around the globe. The acquisition resulted in the entry of a goodwill item amounting to US$ 1.5 billion, or DM 2.5 billion. In addition, through Continental Rubber Holding, Inc., Charlotte, North Carolina, Continental acquired the tire business of Grupo Carso S.A., Mexico. The purchase price was paid by transferring 19.4% of our interest in Continental General Tire, Inc., with an additional payment of US$ 18.9 million. The newly acquired companies, General Tire de Mexico, S.A. de C.V., and Compañia Hulera Euzkadi, S.A. de C.V., had sales of US$ 328 million in 1998 and about 2,800 employees. The acquisition took place shortly before the end of the year, so that our statement of income has not yet been markedly affected by it. With retroactive effect to July 1, 1998, we acquired a 60% interest in our partner Gentyre from Forward Corporation Ltd., Johannesburg, South Africa. The second-half results of Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth (formerly Gentyre), have been included in our consolidated financial statements, and it is operating at a profit. This company has about 1,960 employees.

Substantial Increase in Capital Investments

Capital expenditures in 1998 were focused on enlarging European production capacities for passenger tires and improving the efficiency of the truck tire plants in Europe and the U.S.A.

The Corporation's additions to property, plant and equipment totaled DM 814.2 million, considerably above the previous year's figure of DM 552.8 million. Thus, the capital investment ratio was 6.2% (1997: 4.9%). Capital expenditures approved amounted to DM 1,176 million, compared with DM 705 million in 1997, reflecting in particular the initial consolidation of Continental Teves.

Procurement

In the Continental Corporation, procurement makes an important contribution to earnings. Global procurement is a strategic instrument for us to promote future business, and it supports long-term profitable growth. Innovative projects and the exploitation of all the Corporation's synergies through combined purchases are the primary goals of our procurement policy. The Corporation's purchasing volume came to DM 7.1 billion in 1998.

Generally, prices of raw materials stabilized compared with the previous year. A downward trend was noticeable only in the price for natural rubber, due to the economic and political situation in Southeast Asia. However, problems were caused by the extremely poor transportation facilities in this region, which resulted in higher costs and forced us to increase stockpiling in order to safeguard our production.

Statement of changes in financial position

Millions of DM	1998	1997	1996
Net income for the year	413.9	321.8	192.5
Depreciation, amortization and writedowns	711.3	601.6	609.5
Other items with no effect on funds	46.2	36.7	12.6
Cash flow	**1,171.4**	**960.1**	**814.6**
Financing from operations	517.8	252.1	186.3
Investment activities (outflow of funds)	– 4,837.4	– 717.4	– 655.0
Financial activity	43.6	587.5	6.0
Effective change	**– 3,104.6**	**1,082.3**	**351.9**
Net indebtedness at January 1	**554.5**	**1,636.8**	**1,988.7**
Net indebtedness at December 31	**3,659.1**	**554.5**	**1 636.8**

Balance Sheet Structure and Financial Position Reflect Major Acquisitions

Total assets increased dramatically as a result of acquisitions, rising from DM 7,647.9 million to DM 12,828.0 million. DM 4,443.9 million, or 85.8% of the gain is attributable to Continental Teves alone. The acquisitions caused fixed assets and investments to change significantly compared with 1997, so that the ratio of this item to total assets has climbed from 46.0% to 59.5%. Intangible assets amount to 38.7% of total fixed assets and investments. Without the acquisitions, property, plant and equipment would have increased by DM 11.6 million. While fixed assets and investments more than doubled as a result of the acquisitions, current assets increased by 26.4%.

Even without the acquisitions, inventories, receivables and other assets showed a slight increase.

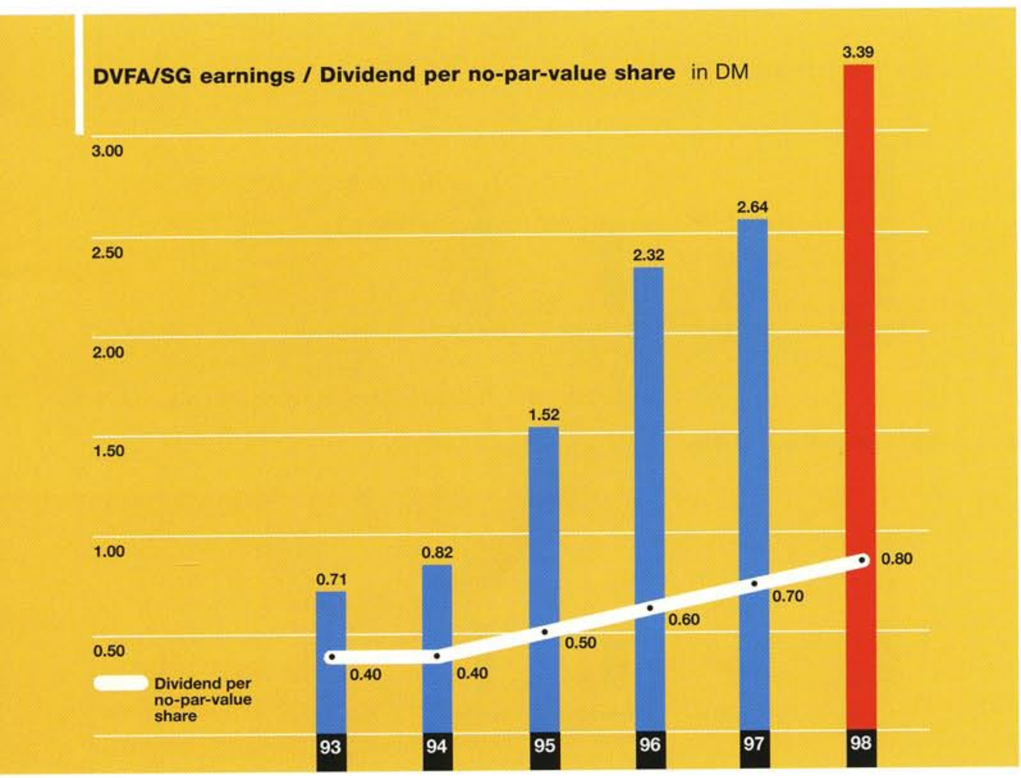
After the acquisitions, on December 31, 1998, the Corporation's liquid funds came to DM 730.5 million (1997: DM 888.6 million), including marketable securities.

Consolidated shareholders' equity rose by DM 270.9 million, or 10.0%, to DM 2,973.6 million. The equity ratio is now 23.2% (1997: 35.3%).

Provisions grew by a total of 63.4% and, as in the last few years, amount to approximately 28.0% of total assets. DM 109.6 million of the increase is due to our valuing the provisions for pensions and similar obligations for the first time in accordance with the FAS 87 accounting principle. We applied this different method of valuation as of December 31, 1998 in anticipation of the changeover of the Corporation's accounting system to US GAAP, which is scheduled for 1999, and offset the result against consolidated reserves, with no effect on income. Indebtedness rose from DM 554.5 million in 1997 to DM 3,659.1 million as a result of the acquisitions, and the gearing ratio increased from 20.5% to 123.1%. As a result of the initial consolidation dates of the acquisitions, the capital turnover rate declined to 1.03. With appropriate adjustments, the rate would be approximately 1.30. The change in the balance sheet structure of the Continental Corporation is evidenced by the change in the proportion of fixed assets, investments and inventories financed by shareholders' equity and long-term borrowings, from 104.6% to 94.8%.

Changes in Financial Position

Compared with 1997, the cash flow once again rose substantially by 22%, increasing to DM 1,171.4 million or



8.9% of sales, compared with 8.6% in 1997. Despite the higher net cash flow, we were not able to reduce the debt factor in 1998 because of the marked increase in indebtedness caused by the acquisition of Teves. Without this acquisition the debt factor would have continued to decline significantly. At present, it amounts to 3.1 (1997: 0.6).

Without the acquisitions, the changes affecting funds, amounting to more than DM 404.4 million, would have been positive in 1998 as well. A detailed statement of changes in financial position is provided on page 48 of this report.

Improvement in Per-Share Earnings

Earnings per share – computed in close correlation with the formula of the Deutsche Vereinigung der Finanzanalysten/Schmalenbach-Gesellschaft (DVFA/SG) – improved significantly, corresponding to the gain in total earnings. For each no-par-value share they amounted to DM 3.39, or 28.4% more than the previous year's DM 2.64. Cash flow per share was DM 10.19 (1997: DM 8.38). Computed on the basis of the average number of shares outstanding during the year, earnings per share were DM 3.41 (1997: DM 3.07).

Public Announcement Pursuant to Section 25 of the German Securities Trading Act

Pursuant to Sections 21, Paragraph 1 and 22, Paragraph 2 of the German Securities Trading Act, Deutsche Bank AG, Frankfurt, has informed us that as of December 28, 1998 it no longer holds its 8.39% share in the voting stock of our Company directly but only on the basis of allocations pursuant to Section 22, Paragraph 1, No. 2 of that law.

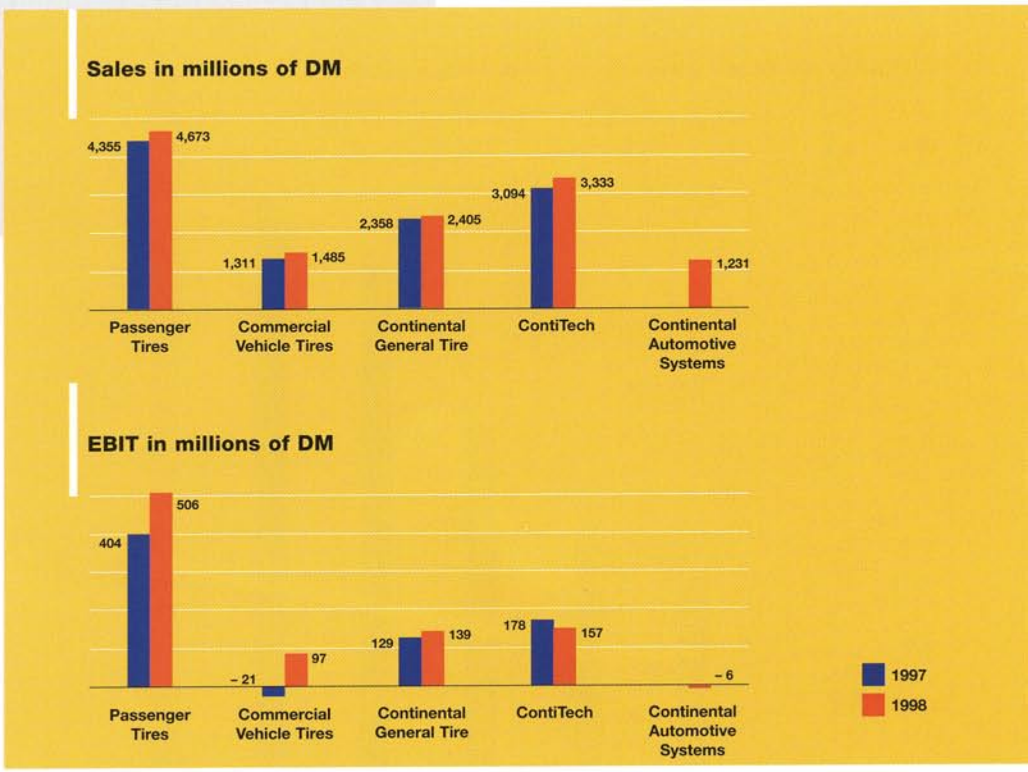
At the same time, Deutsche Bank AG informed us, pursuant to Section 21, Paragraphs 1 and 24 of the German Securities Trading Act, that BOJA Beteiligungs AG & Co. Achte Beteiligungs KG, Eschborn, has exceeded the threshold value of 5% of the voting rights of Continental Aktiengesellschaft and now has a share of 8.39% in the voting stock.

We published this announcement on January 15, 1999.

In an environment of brisk business with the automotive industry, Continental posted gratifying growth rates, especially for higher quality tires. For the first time since its formation, the Commercial Vehicle Tire Group operated at a substantial profit.

Business with the **automotive industry** was particularly brisk. Sales grew by 21% to DM 810 million. There was a gratifying increase in the proportion of higher-quality vehicles equipped with Continental tires. We were able to meet the requests of our big customers in the automotive industry for an even closer and longer-term cooperation throughout the world. This is supported by our new partnerships and acquisitions in Argentina, Mexico and South Africa which open up new possibilities.

Sales on the **replacement markets** in Europe, with an increase of 5% to DM 2,730 million, were likewise positive. Our volume gain of 5% was consider-



With sales of DM 4,673 million, up from DM 4,355 million in 1997, the **Passenger Tire Group**, including the Dealer Organizations, recorded a gain of 7.3% over the previous year; without the change in the scope of consolidation, growth would have amounted to 5.6%. Earnings before interest and taxes rose by DM 102 million, or 25%, to DM 506 million (1997: DM 404 million) and exceed the goals we have set ourselves of a return on sales of 9% by 1.8 percentage points and of a return on capital of 15% by 2.7 percentage points.

ably higher than the market's approximate 2%. We were able to maintain our outstanding European position in snow tires. Sales reached the record level of the previous year.

The **Dealer Organizations** have made great progress. Sales rose by 5.8% to DM 1.557 million (1997: DM 1,471 million), and losses were reduced from DM 39 million to DM 22 million. Sales of Vergölst, the Corporation's largest dealer chain, declined by 1.8%, while income improved slightly. The British National Tyre Service (NTS), which is almost as big as Vergölst, achieved a sales gain of 13.9%, but its earnings were somewhat lower than in the previous year.

For the first time since its formation, the **Commercial Vehicle Tire Group** operated at a substantial profit. Sales, at DM 1,485 million (1997: DM 1,311 million), were up 13.3%. Without initial consolidations, including among others Continental Tyre South Africa since July 1, 1998, they would have increased by 9.4%. Earnings before interest and taxes amounted to DM 97 million (1997: minus DM 21 million). This Group has now significantly exceeded its goal of a return of 4% on sales and of 6% on capital.

With a two-thirds share, the truck tire business makes by far the largest contribution to the Group's sales. The **automotive industry** in Western Europe achieved strong production increases and the sales gain of 12% that we derived from this trend was good by industry standards. On the **replacement markets**, business varied but was equally successful, with sales rising by 12%. Occasional shortages of tires prevented further growth.

Sales and earnings for industrial and agricultural tires made good progress. Due to the supply problems of the Indonesian off-take production, the two-wheel tire unit reported a decline in sales and earnings, but again contributed to the Group's income.

The acquisition of Continental Tyre South Africa by the Conti International unit represents a major advance in the globalization of the Corporation's tire business. In the past, Conti International has been primarily engaged in managing minority interests outside Europe and North America, as well as know-how transfer and technical assistance contracts, and has reported the resulting earnings. Now, the unit is also assuming responsibility for holdings outside Europe and the NAFTA region.

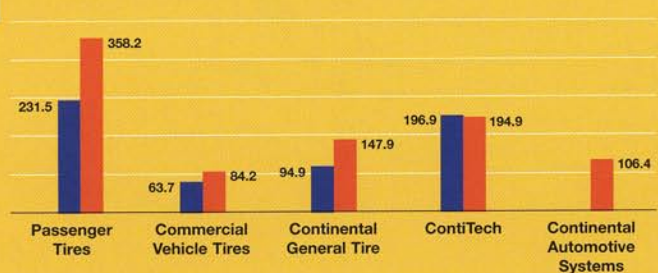
The **Continental General Tire Group** increased its sales by 2.0%, from DM 2,358 million to DM 2,405 million. In U.S. dollars and adjusted for the earnings of the plant in Odessa, Texas, which was sold at the end of 1997, and for the consolidation of General Tire Mexico as of December 1998, sales rose by 1.9%.

Earnings before interest and taxes increased by 8% to DM 139 million (1997: DM 129 million). This improvement was achieved despite a 7-week strike at General Motors and a strike at the Charlotte plant, which has lasted since September 20, 1998. The targeted rates of return were almost reached. The acquisition of the tire business of Grupo Carso in Mexico in December of 1998 has not yet had a significant effect on earnings.

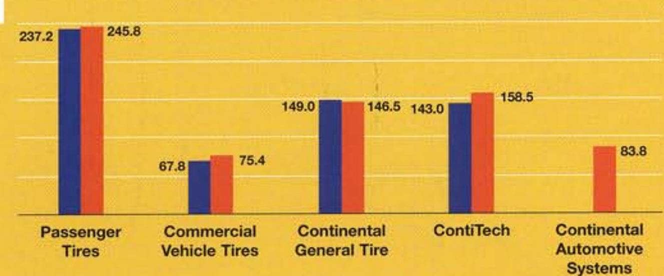
The passenger tire division increased its sales of replacements by 7%. In the original equipment business, sales were 6% below the previous year due to the strike at General Motors. Sales of truck tires rose by 16%; the largest gains were in the original equipment business.

With the introduction of radial tires for earthmovers, the expansion of heavy truck tire production and the launch of a radial off-road tire all scheduled for 1999, we feel that the commercial vehicle tire division is in an excellent strategic and competitive position.

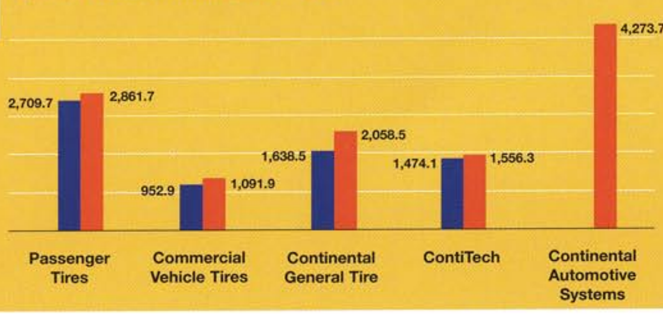
Capital spending on P.P.E. and software in millions of DM



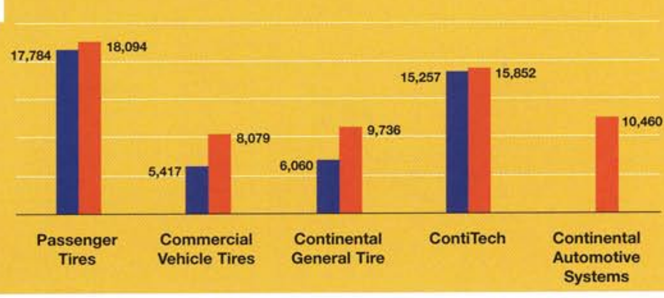
Depreciation in millions of DM
including amortization of goodwill and writedowns on investments



Total assets in millions of DM



Employees

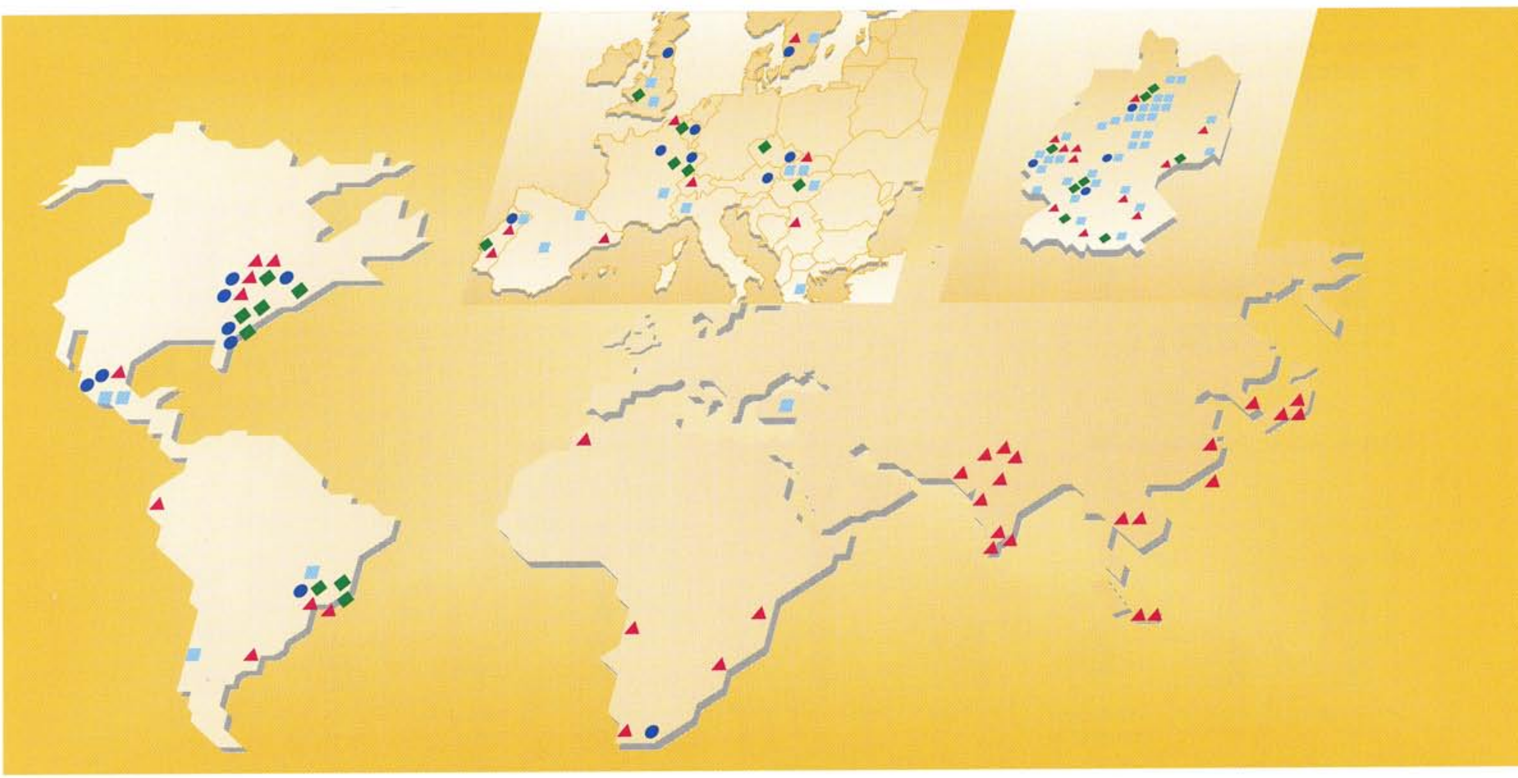


Sales of the **ContiTech Group** rose by 7.7%, from DM 3,094 million to DM 3,333 million. Adjusted for changes in the scope of consolidation, the increase amounts to about 9.4%. We benefited from the boom in the automotive industry, from further gains in market share and from successes with non-automotive products. ContiTech's earnings before interest and taxes, at DM 157 million, were below the previous year's level of DM 178 million. In addition to negative price effects and start-up costs for many new products, earnings were affected by additional costs arising from partial overutilization of the plants, the change-over of EDP systems to the SAP R/3 software, and provisions for restructuring three plants. We were therefore unable to reach our goals of a return on sales of 7% and of a return on capital of 14%.

In a very difficult environment, accelerated globalization, further streamlining and cost reduction, growth through innovation and concentration on their core businesses helped the individual ContiTech units to improve their operating income. The move from the Hanover-Limmer plant, restructuring costs, especially for Extrusions, and the need to concentrate production locations and to shift labor-intensive work to low-cost regions, had an adverse effect. In the coming years, the restructuring carried out in 1998 will cause earnings to increase.

Thanks to the initial inclusion of Continental Teves' fourth-quarter sales, the **Continental Automotive Systems Group** reported sales of DM 1,231 million. As of mid-1998, the scope of consolidation also includes the development company Gründl und Hoffmann GmbH, Starnberg, Germany.

Due to the initial inclusion of Continental Teves, earnings before interest and taxes are comparable to only a limited extent. The income of Continental Teves was depressed by amortization of goodwill totaling DM 30 million. Without this expense, Continental Teves achieved an operating profit for the fourth quarter of DM 63 million, with sales totaling about DM 1.1 billion. DM 602 million of these sales was attributable to electronic brake systems like the ABS anti-lock braking system, the traction control system (TCS) and the electronic stability program (ESP), and approximately DM 356 million to wheel brakes (disc brake calipers and drum brakes). Brake activators, including brake boosters, and the aftermarket business contributed DM 198 million to sales.



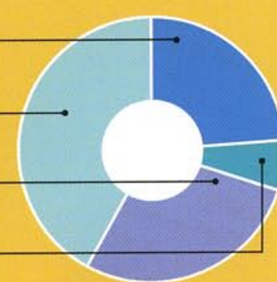
Due to the expansion of our partnerships and the acquisition of new companies during 1998, we now have excellent representation in Central and South America and in South Africa, having followed our customers into these markets. Our presence in the Middle and Far East, on the other hand, is still relatively weak.

Both for the Tire Groups and for ContiTech, Europe continues to be our most important market, accounting for 66% (1997: 68%) and 89% (1997: 91%) of sales, respectively. Continental Teves made more than 60% of its sales in Europe, so that in this respect the regional distribution of our business has not been changed markedly by its acquisition. In North America, through Continental General Tire and, from now on, through our Mexican tire activities, the tire business has a much stronger presence than ContiTech. Now Continental Teves, which does about 30% of its business in North America, has been added. In addition, about 10% of its sales take place in South America and Asia, where the rest of the Corporation has so far been only meagerly represented.

Worldwide, the Continental Corporation produced 79 million passenger tires and 5 million truck tires (1997: 73 million and 4 million, respectively), corresponding to a share of almost 8% of the global tire market. Total passenger tire production in Europe was expanded to nearly 55 million units (1997: just under 50 million). The European output of light and heavy truck tires rose by more than 28% to 2.9 million. Production in North America was also increased, to a total of 24.2 million units, although, due to strikes, only a few more passenger tires came off the line than in 1997. On the other hand, the manufacture of tires for transport vehicles expanded vigorously, rising by almost 10% to 3.2 million units. Heavy truck tires also sold well in the U.S.A., and volume sales grew by more than 16%. All the ContiTech business units recorded gains in manufacturing volume for 1998.

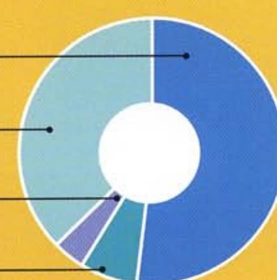
Tire sales by region

Germany	24%
Rest of Europe	42%
North America	28%
Other	6%



ContiTech – sales by region

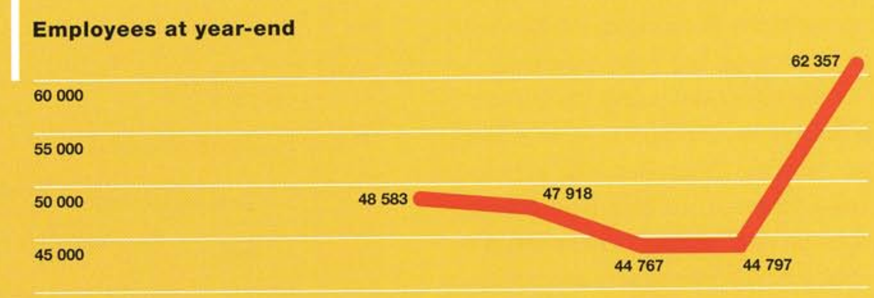
Germany	52%
Rest of Europe	37%
North America	4%
Other	7%

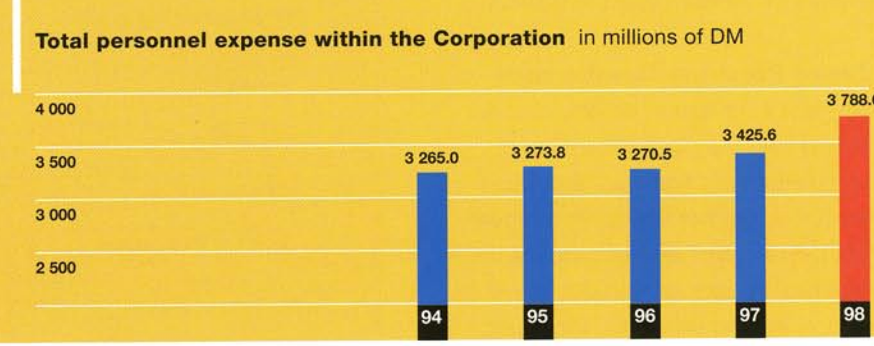


Morganton, North Carolina, U.S.A.:
Continental Teves, ABS production

Management Report
Employees

About 15,000 employees joined the Corporation as a result of the new acquisitions. In addition, close to 1,000 new jobs were created in Germany. This gain in the work force to about 62,400 was accompanied by consistent efficiency improvements within all units of our organization.





62,357 Employees in the Continental Corporation

At December 31, 1998, the number of employees in the Corporation had grown significantly, with a gain of 17,560, or about 39%, to a total of 62,357. About 15,000 of the new personnel came to us as the result of new acquisitions, in particular Continental Teves, General Tire de Mexico and Continental Tyre South Africa. Apart from these extraordinary additions, close to 1,000 new jobs were created in Germany, which are distributed among the various Groups. There were also substantial increases in North America, Great Britain and Austria.

The Corporation's personnel expense (wages, salaries, social welfare contributions and expenses for pension plans) rose from DM 3,426 million to DM 3,789 million.

Focus on Trainees

Training young people is a vital means of securing the future of our Company. This is reflected, among other things, in statistics showing an increase in the number of the Corporation's trainees to 907, from 582 in the previous year. Apart from additions to the number of regular training posts, this gain was due to the 261 included as a result of the initial consolidation of Continental Teves. In Germany alone, we offer training in 14 different fields, including the future-oriented mechatronics.

Our U.K. subsidiary NTS, among others, is making particularly noteworthy efforts in this area, offering two innovative two-to-three-year training courses.

Providing for a New Crop of Engineers

The number of university graduates with an engineering degree will decline drastically over the next few years. But engineers with highly developed know-how are one of the essential resources for the further growth of our Corporation. We will thus be obliged to cover our future needs in a hotly contested segment of the labor market. We have been making long-term preparations to meet this challenge through a great variety of measures. An organizational unit created specifically for the purpose is engaged exclusively in recruiting new engineers. To make sure that we seize every opportunity the market has to offer, contacts with German and foreign universities have been intensified, and our presence at important job fairs and on the Internet has been expanded.

We have hired young development engineers for Continental Teves in Hungary and the Czech Republic. In both these countries, we have been able to open up new sources of recruitment by establishing contacts with universities, in order to train young engineers locally under the guidance of our development centers in Germany and the U.S.A.

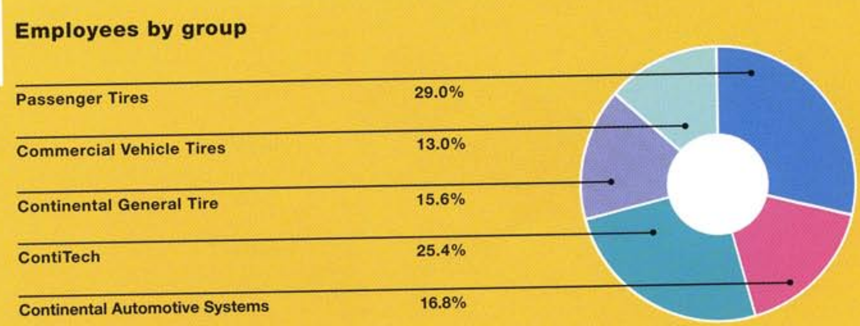
Junior Executive Development

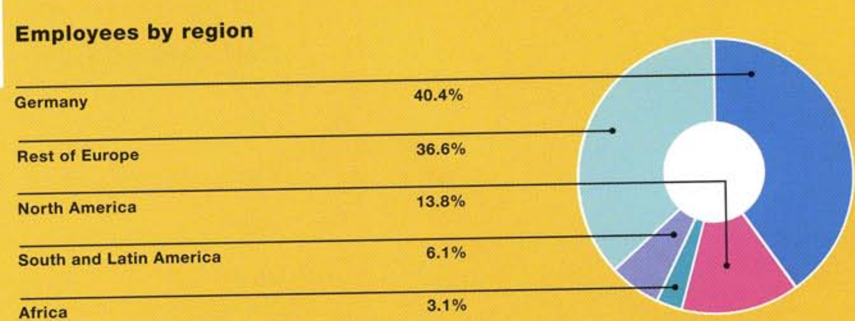
We have a number of programs under way to train the rising generation of executives. As a first step, the young executives are not only given a regular job, but also assigned to in-house training units. In contrast with our former traditional training programs, the young employees, working as a team, determine their curriculum themselves. This makes it clear, even in the initial phase, that, to a large extent, personnel development also means personal development. In addition, they learn early on to work as a team and to create on their own initiative the contacts that will be important for their development. We intensified the use of this type of program during 1998, particularly for Tire Research and Development, Tire Marketing, ContiTech and Conti International.

A Good Sign: Less Absenteeism

Absenteeism due to illness has decreased in many of Continental's companies and units. This is mainly the outcome of our senior executives tackling the problem in detail together with the employees in their charge. One of the successes of the diverse programs is the overall improvement in employee productivity at the Corporation.

participation in the Conti 100 program were exceptionally successful during the past year. While in 1997, about 18% of the eligible employees accepted our offer, more than 25% invested in Continental in 1998. This was accompanied by a pronounced shift in interest from the classic employee-share model to the innovative CONTI 100 program. Especially noteworthy was the high proportion of investors among the employees of the new Continental Teves unit, despite the very short time that the offer was open to them. About 47% of the work force accepted the new parent company's offer. We regard this as an encouraging vote of confidence.





Employee Investment Program Continued

Our employee investment programs, CONTI 100 and the employee share plan, were offered once again in 1998. They give our employees in Germany a chance to invest in their Company by subscribing shares. We are pleased to see that our efforts to secure maximum

New Methods to Give Employees Security in Retirement

Employers and unions in the German chemical industry have signed a collective bargaining agreement concerning capital-formation payments and pension plans, which took effect on January 1, 1999. Employees covered by the agreement will have the opportunity to invest DM 936.00 per year in their pension plan. We are the first company in our industry to conclude a plant agreement that allows our employees to add to their pension benefits by voluntary contributions.

Employee representatives and management are convinced that encouraging voluntary pension plan contributions by our employees is the right way to provide them with security in their retirement.

Higher Value Added

The Corporation's performance increased by DM 2,085.4 million, or 18.3%.

Source of value added (Corporation)

Millions of DM	1998	1997	1996
Sales	13,188.6	11,186.1	10,430.6
Other income	312.1	229.2	264.5
Corporate performance	**13,500.7**	**11,415.3**	**10,695.1**
Costs of materials and other input from outsiders	– 8,203.9	– 6,761.5	– 6,371.0
Depreciation (total)	– 711.3	– 601.6	– 609.5
Value added	**4,585.5**	**4,052.2**	**3,714.6**

Distribution of value added

Millions of DM	1998	1997	1996
Personnel expense	3,788.6	3,425.6	3,270.5
Net of interest income and expense	185.5	167.8	195.7
Income taxes	197.5	137.0	55.9
Net income	413.9	321.8	192.5
Value added	**4,585.5**	**4,052.2**	**3,714.6**

After deducting input from other sources, value added amounts to DM 4,585.5 million. This amount is DM 533.3 million more than in 1997, corresponding to an increase of 13.2%.

Value added was distributed as follows: Personnel expense accounted for 82.6%, 4.1% went for interest, and 4.3% for income taxes. A net income of DM 413.9 million (9.0%) remained, of which DM 321.9 million has been allocated to shareholders' equity and DM 92.0 million is to be distributed as a dividend.

Internal Communication Gains in Importance

In a rapidly expanding concern with an ever-increasing variety of tasks, internal communication becomes more and more important as a means of generating confidence and making management decisions clear and comprehensible to the employees. In 1998, we commissioned a work group from the Institute for Journalism and Communications Research of the Hanover Graduate School of Music and Drama to conduct a situation analysis of our internal communications. The results show conclusively that more – and more specific – internal communication is desired and that the need of employees for information is in direct proportion to their geographical distance from corporate headquarters.

The research and development conferences at the Hanover-Stöcken plant, to which we invited all our employees, were well attended in 1998. The data available on our Internet website have been updated and expanded. Top managers receive comprehensive information about the Corporation at the annual Senior Executive Convention in Hanover. The individual Groups have also enlarged the spectrum of their executive communications. Relations with the employee representatives – the Corporate Employee Council, the Joint Employee Council and the local Employee Councils – were characterized, as usual, by an atmosphere of mutual trust and cooperation. The Europaforum, held each year for employee representatives of the European plants, has also proved to be a valuable tool.

Thanks

We are convinced that the social partnership that has long existed among the various interest groups within the Corporation is the foundation for our success in the future. We therefore thank the employee representatives, including the representatives of the senior staff, for their dedication and their readiness to reconcile the interests of the people they represent to the needs of a successfully expanding business.

We thank all our employees and executives – particularly those who retired during the fiscal year – for their joint efforts, which have enabled our Company to achieve further great successes in 1998.

Research and Development, Quality and the Environment

In 1998 research and development work focused on two projects: The intelligent tire and the run-flat systems. Both technologies have acquired a new technical and economic status thanks to the synergies with Continental Teves.

Arvidsjaur, Sweden: Winter test facility

The Intelligent Tire

As the intermediary between the vehicle and the road, a tire has many exacting requirements to fulfill: cushioning, damping, and distributing forces in both the transverse and longitudinal directions. Electronic vehicle control systems like the anti-lock braking system (ABS) and the electronic stability program (ESP) need additional information about the forces acting between road and vehicle. The sidewall torsion sensor (SWT) developed by Continental offers new ways of determining these forces. When an SWT is added to electronic driving stability systems, this information helps the systems to function more efficiently and lowers costs for the user. For drivers, this means shorter braking distances and better control of the vehicle on curves and rough stretches, with greater safety as a result. Our team of developers is working hard to ready the SWT tire for mass production. The automotive industry is eagerly watching their progress.

The ClampedWheelSystem

Our tire research and development unit has collaborated with well-known rim manufacturers to develop a new system for running on a flat tire, the Clamped-WheelSystem (CWS). Based on a new technology for joining the tire to the rim, it is particularly well suited for original equipment. The major advantages of the CWS, in addition to its run-flat capability, are that it eliminates the need for a spare tire, improves driving comfort and reduces rolling resistance by 10%. In the event of a blowout, the driver can reach the nearest service station without difficulty; if the problem is merely a loss of pressure, the vehicle can travel at least 200 kilometers. For the car maker, the CWS offers new possibilities for brake construction and rim design. The first manufacturers have already expressed an interest in the system and are conducting tests. Together with Continental Teves, we will take advantage of the unique opportunities for combining the ClampedWheelSystem with low-priced tire-pressure control devices, which will be integrated in its further testing.

The ContiSafetyRing

The ContiSafetyRing (CSR), another system for running on a flat, is suited both for retrofitting when the tire is replaced and for original equipment. A light metal ring with a flexible support is mounted on the rim and permits the car to travel up to 200 kilometers at 80 kilometers an hour, even when the tire is losing air, with no problems. In normal operation, the CSR protects the rim from damage, when, for example, the wheel is driven over a curbstone. The ContiSafetyRing can be used over and over again, mounted easily with standard machinery and be added inexpensively when changing tires. At present, we have launched a pilot series for the most popular tire sizes, and versions for other sizes will be introduced in the course of 1999. Together with Continental Teves, our research department is currently developing innovative blowout warning systems for the CSR.

Environmental Protection and Quality

For Continental, economic success is in no way incompatible with ecological responsibility. On the contrary, respect for the environment is both a prerequisite and a support for our long-term corporate goals. Our highly developed environmental management has been acknowledged in certificates pursuant to the Eco Audit, ISO 14000 or Responsible Care. A total of 15 locations have been certified. During the fiscal year, we prepared the first life cycle assessment for passenger tires, under EN ISO 14040. It is the basis for optimizing the tire over its entire life cycle not only from an ecological, but also from an economic, point of view. The cycle extends from the extraction of mineral or fossil substances, through the manufacture of raw materials and the tires themselves to their use and eventual disposal. With the aid of this information, we can offer our customers a product that is both economical and friendly to the environment. The ContiEcoContact CP, a passenger tire, is outstanding in both aspects. For trucks, our ECO Plus, with 9% less rolling resistance, leads the field.

In the ContiTech Group, Benecke-Kaliko has succeeded in developing PVC-free sheeting that is significantly lighter and low in emissions. It is easier to recycle and suitable for use in the interiors of every kind of mass-produced vehicle. The investment of over DM 10 million in the Eislingen plant near Stuttgart has enabled this product to achieve market leadership.

Efficient environmental protection presupposes a high standard of product quality. Both are an integral part of our corporate objectives. Numerous citations from automotive customers and recommendations of our products in the trade journals are an indication of their excellence. This standard is ensured by a comprehensive quality management system, which, while based on a tradition of long standing, is constantly being refined. Certificates under ISO 9001, QS 9000 and VDA 6.1 are an impartial confirmation of its effectiveness. Quality and environmental protection are also essential elements of our marketing approach.

Information Technology Improves Business Processes

Our increasing size and the growing complexity of our tasks present constant challenges for our in-house information technology. The Year 2000 Conversion project for all the vulnerable systems in the Corporation and the introduction of the Euro as our corporate currency have proceeded rapidly, covering all locations.

We have made great progress in collaborating with our business partners. New solutions stemming from innovative information technologies, such as mobile data communication and software systems that are object-oriented and can access the Internet, have given a fresh stimulus to our business. For example, the European tire sales network has been equipped with a mobile distribution system. Continental has been one of the first companies in its industry to institute electronic data interchange with its dealers. ContiOnlineContact, a software for dealer ordering, has increased our lead over the competition. Bar-code identification of individual tires is opening up new possibilities for production and sales. Shorter and shorter communication links are being rapidly established between production and the markets. The "Copernicus" logistics project, launched some years ago, made further progress in 1998, so far producing savings of DM 50 million (1997: DM 24 million) in Western Europe. We are now within reach of our target of DM 70 million in savings.

The overall need for information and communications has increased dramatically. The integration of new subsidiaries, and Continental Teves in particular, is presenting further challenges. The vital arteries linking our databases and systems have been established. With valuable help from our outsourcing partners we have succeeded in fulfilling the requirements promptly and economically.

As in the previous year, expenditure on research and development was just above 4% of sales.

Outlook

The integration of Continental Teves is a great challenge on our way to becoming a leading international supplier of technology and systems to the automotive industry. Tires will continue to be the Corporation's key source of sales. With the sidewall torsion sensor, new horizons are opening up for these products.

Economic Trend

Opinions differ with regard to the overall trend in the world economy. For 1999, Germany's committee of experts is forecasting further gains, although the growth rate is estimated to be only 2%, or slightly below the previous year's level, with Germany at the lower end of the scale. Given the stable business conditions in the EU as a whole, we are still anticipating a rise in exports of almost 5%. In the year 2000, the European economy should continue to grow.

After an outstanding year, the European and American automotive industry expects a slight decline in business in Western Europe and the U.S.A. Nevertheless, we are therefore not proceeding on the assumption that there will be a heavy slump in economic momentum in 1999. We see greater opportunities than ever for our business, primarily in Europe, but also overseas. We therefore continue to be optimistic.

The Euro and the Year 2000

We have long been preparing ourselves for the introduction of the Euro, and after the close of fiscal 1998 and the completion of the necessary tests, which will be carried out from April 1 to April 4, 1999, our systems will have been converted, retroactive to January 1, 1999, to the Euro. For the time being, this will apply to all our tire manufacturing and sales activities.

In extensive surveys, we have formed an almost complete picture of all systems affected by the transition to the year 2000. The systematic implementation of the necessary conversions and reprogrammings is in full swing and will probably be completed by mid-year. At the same time, we have checked with our most important customers and suppliers to ensure year 2000 compliance of their systems. We are following up the progress of the preparations for the year 2000 at regular intervals. In order to impress the Corporation's executives with the importance of these issues, their assignments include responsibility for the adequate preparation and implementation of the conversion to the year 2000.

Risk Management

Companies must have a suitable system to monitor the risks that threaten their existence. At Continental, a risk management system has been in place for many years, and the Corporate Control and Disclosure Law (KonTraG) does not impose any significant new requirements. We regard it rather as a confirmation of the responsible entrepreneurial behavior that we have already been practising. The means employed include, among other things, strategic planning, limit systems, approval procedures, hedging systems for specific interest and currency risks, insurance, reporting, as well as guidelines and manuals. Potential risks are regularly analyzed, structured and assessed, and strategies and guidelines for efficient risk management are developed on an ongoing basis. Within our organization, risk management is kept scrupulously independent of operations. In addition, all our systems are currently being assessed and reviewed by our independent and in-house auditors. The guidelines for derivative financial instruments are explained in the notes to the consolidated financial statements.

New Cooperations

We have concluded a technology transfer and off-take agreement with Fate, the leading tire manufacturer in Argentina. The production of passenger and truck tires for Continental will start this year in the existing plant in Buenos Aires, thus creating a new platform for supplying the South American market.

U.S.A.: Roadshow for ABS and ESP

With Matador in Slovakia, we formed a joint venture for the manufacture of radial truck tires, which started production on January 15, 1999.

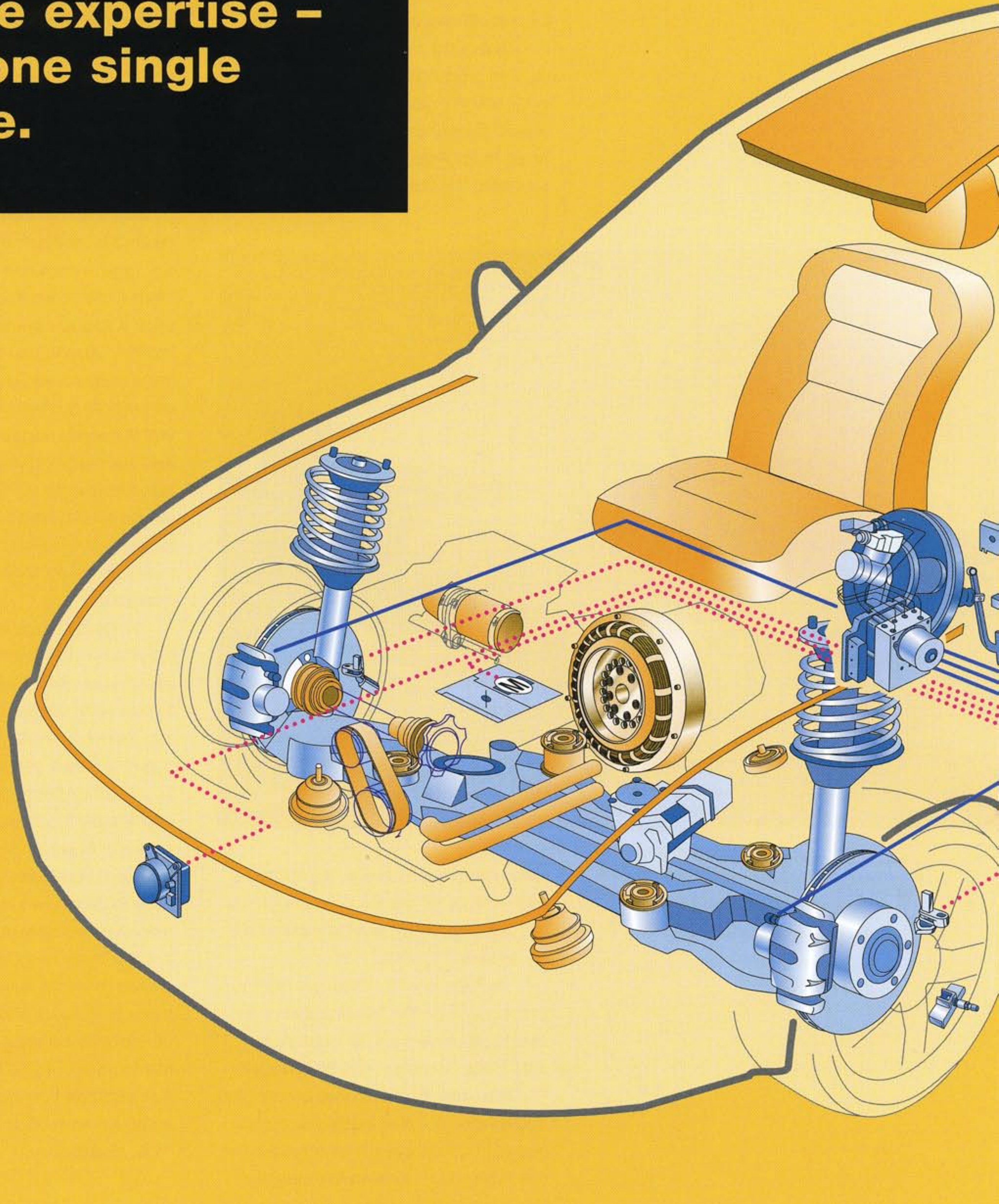
On February 19, 1999, we laid the cornerstone for the construction of a new large-scale plant for passenger tires in the Romanian city of Timisoara. The total investment budget is over DM 100 million. In a final expansion stage, about 1,000 people will be employed at this facility. Our decision to make this investment was based on the rising demand for passenger tires. From this low-cost location, we intend to supply the Central European markets in particular. The Romanian tire factory should already be on stream by the end of the year 2000. With its leading-edge technology, Timisoara will be the Continental Corporation's twenty-first manufacturing facility worldwide.

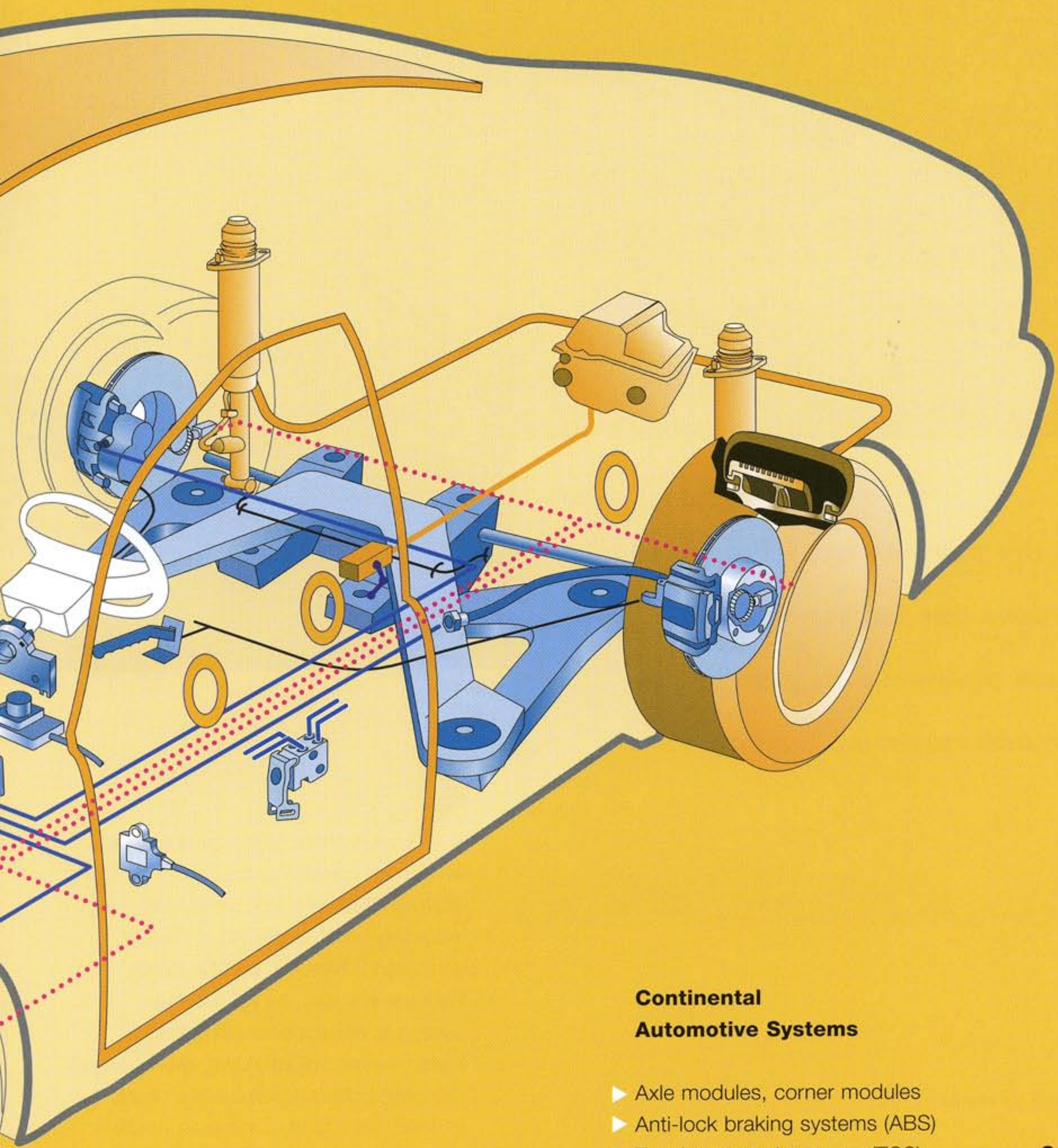
Plans and Prospects

On the whole, Continental is approaching the current fiscal year with optimism. The Company has built its leadership in tire technology into a core capability that is unique throughout the world. By bringing together knowledge of tires, chassis and their components, we have created a configuration unmatched by any other automotive supplier. Over the medium term, we expect this to produce a strong advance in profitable growth. Despite the economic turbulence in Asia and South America, the automobile business in our most important European and North American markets will remain at approximately the same level as in 1998. Nor is there any reason for pessimism with regard to the replacement markets. Prices for raw materials will show at most a slight increase.

Since our acquisitions will have their full effect in 1999, sales will probably rise to over DM 17 billion. According to current forecasts, consolidated earnings before interest, taxes and amortization of goodwill should grow correspondingly. After goodwill amortization and sharply increased interest and tax expense, however, the gain in both income before taxes and net income is likely to be below average. Once the measures we have implemented at Continental Teves and ContiTech take effect and our new tire activities, particularly those in Slovakia and Romania, are fully operational, we expect that sales will rise to about DM 20 billion in 2001 and that earnings from operations will approach an ROS and ROI of 6.5% and 11%, respectively.

Comprehensive vehicle expertise – from one single source.





Continental Tires

- Tires for passenger cars
- Tires for commercial vehicles
- Industrial tires
- Agricultural tires
- Bike tires

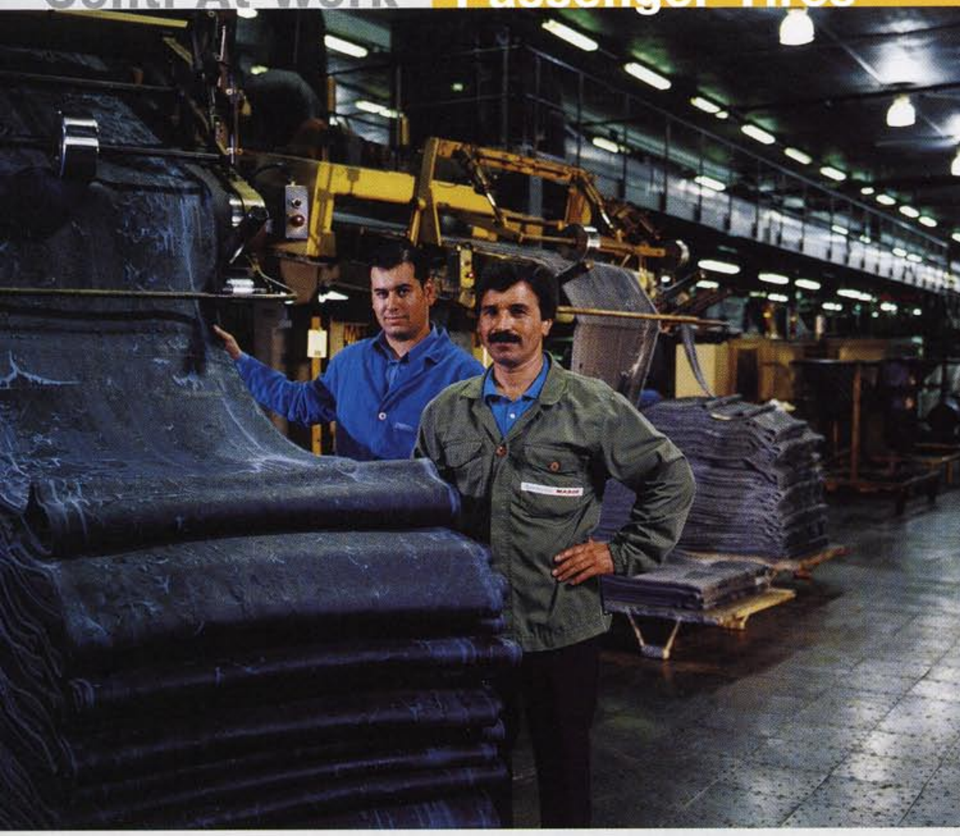
Continental Automotive Systems

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

ContiTech

- Power transmission systems
- Gasoline injection diaphragms
- Vibration control
- Air spring components and systems
- Weatherseals and guide strips
- Fluid technology
- Vehicle interiors

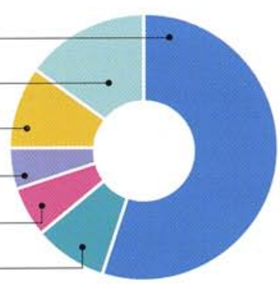
Conti At Work Passenger Tires



Competition in the tire markets has heightened again. Continental sees this environment as an opportunity to use profitable organic growth with products to ensure maximum customer satisfaction.

Passenger Tire Group Sales by brand

Continental	55%
Uniroyal	15%
Semperit	10%
Gislaved/Viking	5%
Barum	6%
Other	9%



The Group's share of the European passenger tire market continued to improve. Business with tire dealers was extremely good, especially in the U.K. and Ireland, Benelux, France, Spain, Portugal and Italy. As yet, Eastern Europe is less important in terms of sales volume, but its growth rate of 5% promises good business in the future. In 1999, we intend to increase volumes significantly again, with original equipment and replacements posting equal gains. We are planning a permanent expansion of production capacities for

Lousado, Portugal: Passenger tire production

snow tires, to make sure we have no problems in meeting the demand.

In 1998, we were again able to maintain sales of snow tires at a record level. The Corporation's products earned the rating "highly recommended" in tests conducted by the authoritative German trade magazines – *ADAC*, *Stiftung Warentest* and *auto motor und sport* – and by periodicals in Austria, Italy, Finland, Sweden and Switzerland. The ContiWinterContact TS 790 for medium-sized and large cars, which was introduced at the end of 1997, was judged excellent both by drivers and journalists. This tire's improvement over its predecessor is most evident on an icy road, because it reduces the braking distance by 6%. The TS 790 is being sold in Central Europe, Japan and North America. New sizes of the time-tested ContiWinterContact TS 760 for compact and medium-sized cars were added to the range. Its successor, the TS 780, will be introduced in the fall.

In March, the Top Life 2, a new Semperit tire, will make its debut on the market. This summer tire, which can be used on compact and medium-sized cars with top speeds of 190 km/h, is economical and provides a comfortable ride.

The product spectrum of the Gislaved and Viking brands was also expanded in 1998.

"Motorized Cycles – Driving Pleasure and Danger" was the theme of the 23rd Uniroyal traffic survey, which was conducted in five European countries. It showed that within a period of three years, only one out of three motorized cycle drivers avoided an accident or a fall. Again in 1998, the traffic survey proved its worth as a marketing and communications instrument.

Commercial Vehicle Tires

Mount Vernon, Illinois, U.S.A.: Commercial vehicle tire production

In Western Europe, the overall market was stagnant, but we were able to achieve a slight increase in market share. While sales growth in Eastern Europe was particularly gratifying, we also expanded our commercial vehicle tire business in Benelux, France, Italy and Spain.

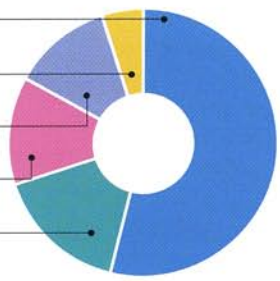
Volumes of light and heavy truck tires sold rose by just under 20% to 2.9 million units; all our plants contributed to this growth with a vigorous expansion of their capacities. Overall, including our production facilities in Europe and the new location in South Africa, we expect another substantial increase in 1999.

The other business units were unable to achieve comparable growth rates. Sales of industrial and agricultural tires rose by 4% and 5% respectively. Two-wheel tires reported a sales decline of 8%.

In order to enable the Commercial Vehicle Tire Group to earn a substantial profit on a continuing basis, we have formed a joint venture with Matador a.s, Puchov, Slovakia, to produce all-steel radial truck tires. Continental holds a majority interest of 76% in this joint venture and is contributing its technological know-how, while Matador is making available the infrastructure in its Puchov plant. The investment is budgeted at DM 190 million. We plan to increase the current output of 300,000 tires to about 1.5 million units by the second half of 2001, which will be sold by the two partners in proportion to their holdings. The joint venture will probably have 1,000 employees.

Commercial Vehicle Tire Group Sales by brand

Continental	54%
Uniroyal	5%
Semperit	12%
Barum	13%
Other	16%



During the coming season, for the tenth time, we will sponsor the European Truck Grand Prix as a means of advertising our products. More than a billion spectators will watch the race live or on television. In these races, the vehicles drive at twice the speed they reach on normal roads, so the tires must meet the most stringent requirements. Last season, all the winning vehicles were equipped with our Corporation's tires. This success brings our products the highest reputation and supplies our researchers and developers with important data for their work.

Four new tires for mountain biking and trekking were added to the product line of the two-wheel tire business unit. This year, the Telekom team will again go to the post on tires made in Hanover, giving further proof of our technological leadership.

To expand our business activities in southern Africa, we acquired, as of July 1, 1998, a 60% interest in Gentyre in Port Elizabeth, South Africa, a tire manufacturer with which we have been associated for more than 20 years under license agreements. This company is now called Continental Tyre South Africa (Pty) Ltd. and is mainly engaged in supplying German and Japanese auto makers in South Africa with truck and passenger tires, but is also the biggest exporter among the South African tire manufacturers. The daily output amounts to about 10,000 tires.

New products have been introduced for construction site vehicles. The HC tire family is synonymous with maximum load capacity, perfect traction and robust construction. The new HDO from Continental is ideal for every position on all-wheel-drive trucks that must operate on rough terrain and construction sites. The outstanding carcass of both tires provides an excellent basis for retreading. Haulage companies can now obtain reasonably priced tires which add many additional kilometers of service life.

Continental General Tire

Charlotte, North Carolina, U.S.A.: Passenger tire production

With the acquisition of the tire business of our Mexican technology and cooperation partner Grupo Carso, Continental General Tire has reentered the Mexican market. We are thus the leading Mexican tire manufacturer, with two production facilities and capacity which will be used to service the entire North American continent. This is a further step toward globalization, which significantly strengthens our market position in the NAFTA region. Many of our big OEM customers are increasing their presence in Mexico and asking for our support in this rapidly growing market. The Continental brand is being offered to the original equipment and the replacement sectors.

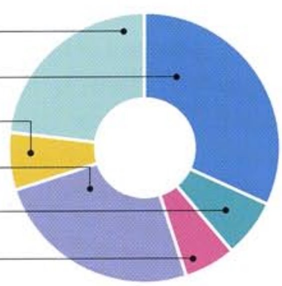
The passenger tire division is constantly launching new projects, such as the Powerline concept, to promote sales to dealers. This concept, which offers dealers the advantage of low inventories and reduced administrative costs, has been successfully developed in cooperation with two of the largest leading tire dealers.

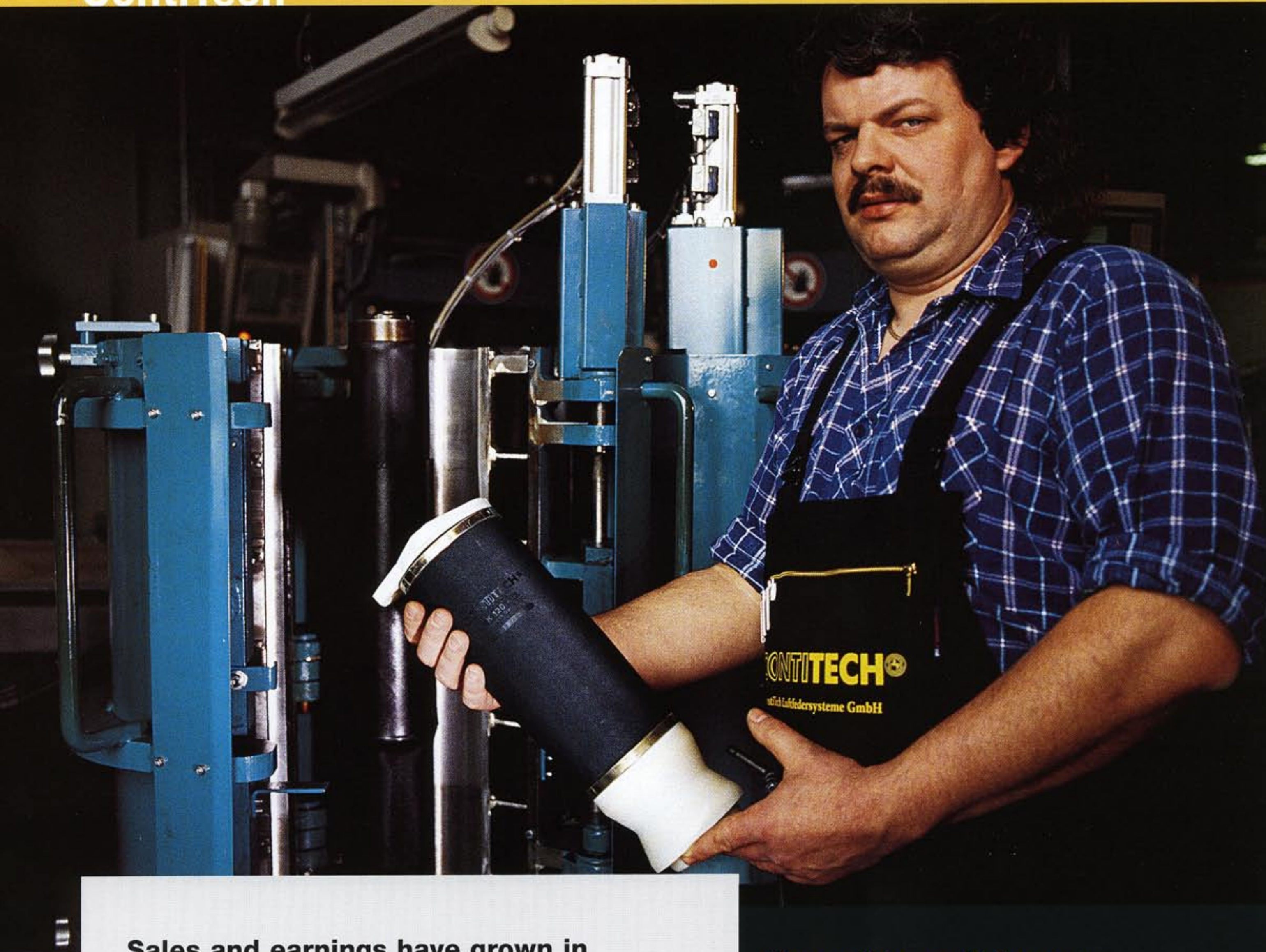
Building on its strong position in the American market, the commercial vehicle tire division will introduce a new radial tire for earthmovers in the second half of 1999. Continental General Tire will have a range of radial off-road tires which can cover 65% of the market requirements.

Last year, the company positioned itself in the front rank of the advertising campaigns for the Super Bowl XXII, the most popular American sports event. With these TV commercials, we laid an excellent foundation for promoting our brands.

Continental General Tire Group Sales by product group

Passenger Tires, Original Equipment	22%
Passenger Tires, Replacement Business	33%
Private Brands	7%
Truck Tires	26%
Farm and Earthmover Tires	7%
Other	5%



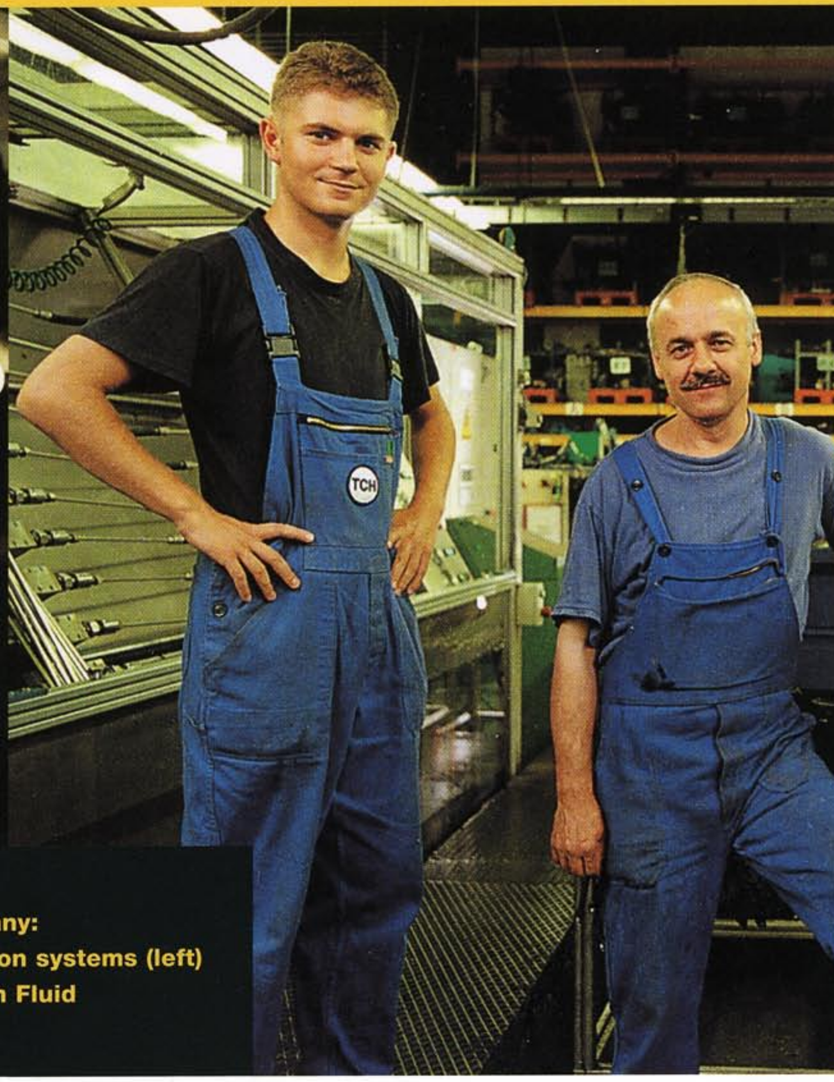


Sales and earnings have grown in almost every field of activity. Special charges were incurred for restructuring and internationalization.

Hanover-Vahrenwald, Germany: ContiTech, production of air springs for cars

The business unit with the biggest sales, **ContiTech Fluid** (Hoses and Hose Assemblies), increased its revenues by 14%, with especially strong gains in the automotive sector. The groundwork was laid for further internationalization: In future, hoses will be produced in Hungary, as well as in Germany and Italy, and the manufacture of hose assemblies, which has so far taken place mainly at European plants in Germany, France, Spain, Great Britain and Sweden, will be extended to Brazil and Mexico.

In-house projects to bring the unit closer to its customers have made good progress. In Germany, after the success of its joint project with Volkswagen in Salzgitter, ContiTech is now manufacturing in the innovation park set up by BMW at Wackersdorf.



Hanover-Vahrenwald, Germany: ContiTech power transmission systems (left)
Karben, Germany: ContiTech Fluid

The Fluid unit has devised a hose assembly for hydraulic commercial vehicle transmissions that will replace maintenance-intensive metal rods. This new technology permits exceptionally simple, precise shifting and can be incorporated in automobiles even when only limited space is available.

Sales of the second-largest business unit, **Benecke-Kaliko**, grew at a similar rate, but this was due exclusively to vehicle trim sheeting and molded products. Furniture coverings, shoe materials and upholstery fabrics showed zero sales growth, as did the textile products of Bamberger Kaliko. Earnings were only slightly higher than in 1997, because many new introductions had to be financed. Additional costs resulted from a sharp increase in volume, which sometimes led to shortages of production capacity. Prices in certain segments dropped substantially.

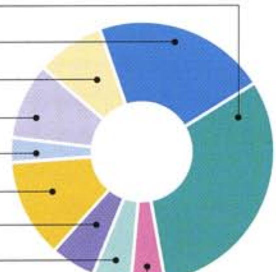
Benecke-Kaliko has been very successful with new leather simulation sheeting for the automotive industry. Completely new molded skins make it possible to integrate airbags seamlessly into the dashboard.

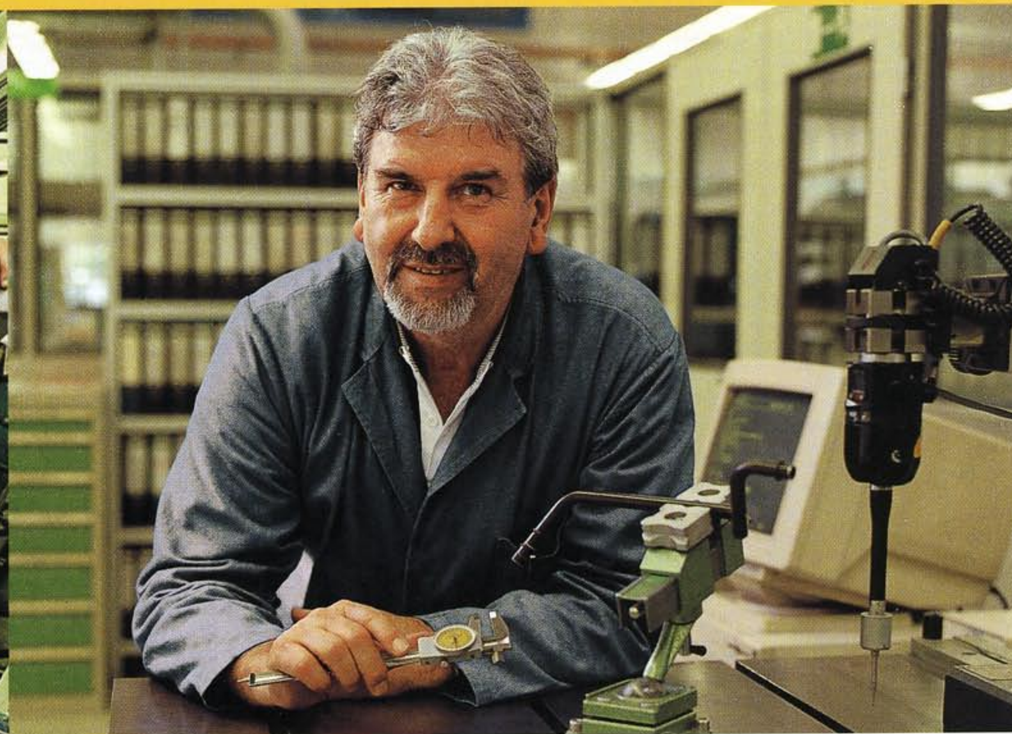
Another asbestos-free flat sealing adjusts continuously to the sealed surfaces, so that leaking connections in steam systems, hydraulic assemblies or chemical plants are now a thing of the past.

The gratifying trend in sales and earnings at the **ContiTech Power Transmission Systems** unit continued, and sales in non-automotive segments grew as well.

ContiTech Group Sales by business unit

Fluid	**31%**
Benecke-Kaliko	**21%**
Power Transmission Systems	**8%**
Conveyor Belting Systems	**10%**
Elastomer Coatings	**3%**
Molded Products	**12%**
Air Spring Systems	**6%**
Extrusions	**5%**
Other	**4%**





The British company achieved a pronounced gain in productivity.

The unit increased its sales with newly developed camshaft drive belts made of rubber, whose long service life corresponds to that of a diesel engine.

Sales of **ContiTech Molded Products** barely exceeded the previous year's level. Slacker demand from individual customers was balanced by a vigorous improvement. The shift of production from the Hanover-Limmer plant to nearby Hanover-Stöcken and to our Slovakian company is proceeding, for the most part, on schedule.

The Molded Products unit has developed an engine mounting system for a new platform of the General Motors Group which, from 2002, will provide annual sales of up to DM 50 million. ContiTech has also intensified its development of active bearings for vibration and noise compensation.

As in the previous years, **ContiTech Air Spring Systems** was one of the major contributors to the growth of the Group, with a sales gain of 24% and solid earnings. Successes were scored not only in the core business with the commercial vehicle makers, but in the other segments as well.

Engineers have succeeded in mounting a height sensor in air suspensions for commercial vehicles. This is essential for vehicle dynamic control of the future. The first springs with integrated sensors are already being used by our customers.

The consolidation phase at the **ContiTech Extrusions** business unit continued during the past fiscal year. In the plants at Hanover and Arnedo, Spain, we were working systematically to improve productivity for existing products, instead of merely increasing volume. Sales at the Italian plant declined drastically. The Slovakian company was the only one to operate at a profit.

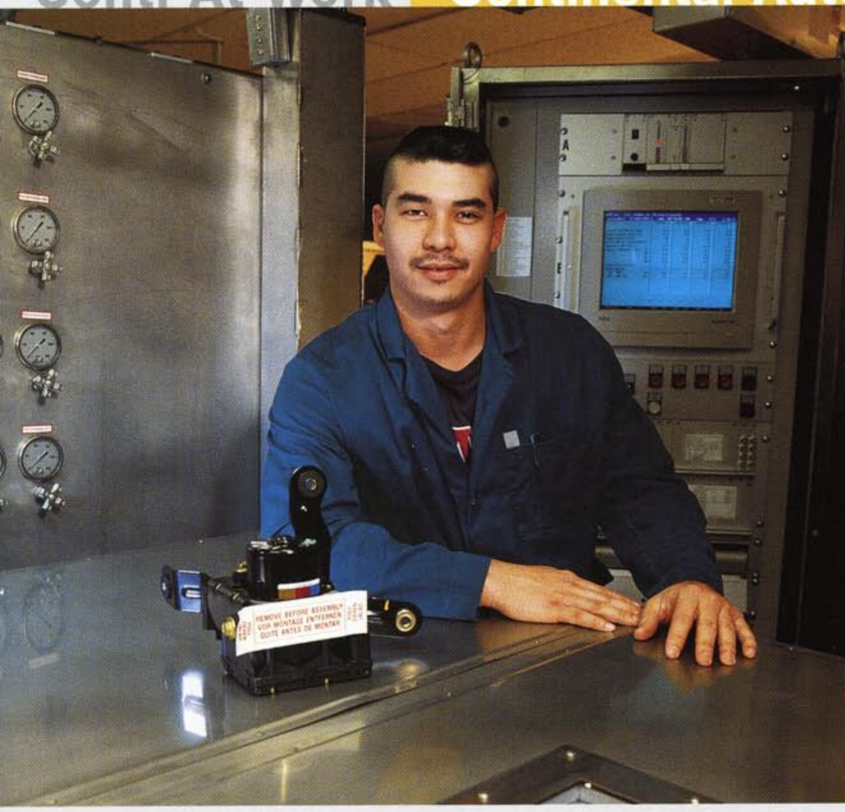
ContiTech Conveyor Belting Systems posted a gratifying sales increase of 9%. Earnings remained at approximately the same level. New business in this unit stemmed mainly from countries outside Europe. In addition to the plants in Cologne and Northeim, our Greek company IMAS is a strong performer with a worldwide record of success.

Printing blankets and diaphragms were the outstanding segments in **ContiTech Elastomer Coatings**. Our technological leadership in these high-quality products has made the unit successful in markets around the world. Materials for the Cargo-Lifter are just one more example of our development capability.

The Elastomer Coatings unit has expanded its worldwide business in compressible printing blankets. These blankets, only 1.95 millimeters thick, ensure that colors are always transferred evenly.

At the segments not included in any of the eight business units, namely **ContiTech Cushioning Products** (foam and rubberized hair), **Deutsche Schlauchbootfabrik** (best-selling product: life rafts), **Fuel Tanks** (manufactured in Aachen) and **Rollers** (manufactured in Cologne), sales either increased or remained constant, while earnings were satisfactory and, in some cases, gratifying.

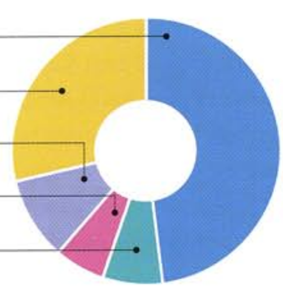
Continental Automotive Systems



We have gained worldwide recognition as a systems partner for chassis technology.

Continental Automotive Systems Group Shares of sales

Electronic Brake Systems	48%
Foundation Brake	29%
Brake Actuation	10%
Replacement Business	6%
Complete Wheels/ Conti Air Suspension Systems	7%



Owing to the initial consolidation of Continental Teves, the Continental Automotive Systems Group contributed DM 1.2 billion to consolidated sales, DM 1.1 billion of which stems from the newly added Continental Teves business for the fourth quarter.

Sales are distributed by region as follows:

Europe	DM 718 million
North America	DM 357 million
South America	DM 25 million
Asia	DM 39 million

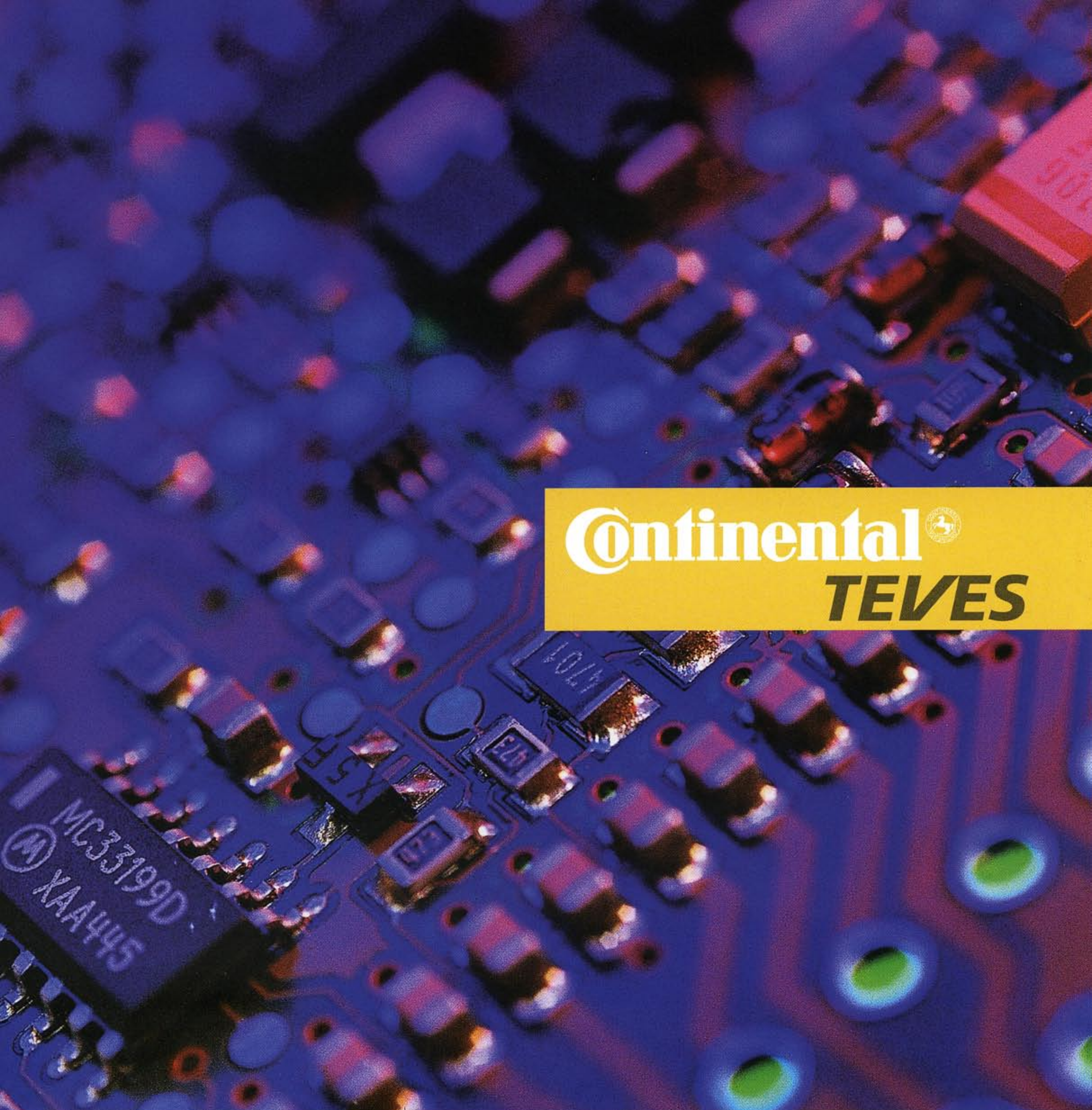
Morganton, North Carolina, U.S.A.: Continental Teves, ABS production

Varzea Paulista, Brazil: Continental Teves, production of brake components (right)

Sales of complete wheel assemblies and Continental air suspension systems rose 30% to approximately DM 90 million.The results of the German plants and the returns from our European joint venture activities are fully living up to our expectations. A further improvement in earnings is anticipated for 1999. Complete wheel assemblies were increased to 5.9 million wheels and tires (1997: 4.3 million).

ISAD KG signed a letter of intent with Delco Remy International, Anderson, Indiana, for the joint production of the electric motor for the ISAD (Integrated Starter Alternator Damper) system. In addition to building the European manufacturing plant for the electric motor, it is also the intention that Delco Remy International will support the marketing of the entire ISAD system in North America.

Our subsidiary ISAD Systems GmbH has meanwhile booked the first solid development orders from the European automotive industry. At the 1998 Geneva Auto Show, renowned vehicle manufacturers announced that they plan to use the system in the new engines they are developing. ISAD is a new technology for damping engine vibrations, ensuring silent starts and generating electricity in the vehicle. It produces a noticeable increase in comfort because of the reduced noise. The functions of conventional assemblies like the starter and generator are integrated into ISAD. The system is being developed jointly with Gründl and Hoffmann, an electronics firm in Starnberg near Munich. In 1998, Continental increased its holding in this company to 75.1%.



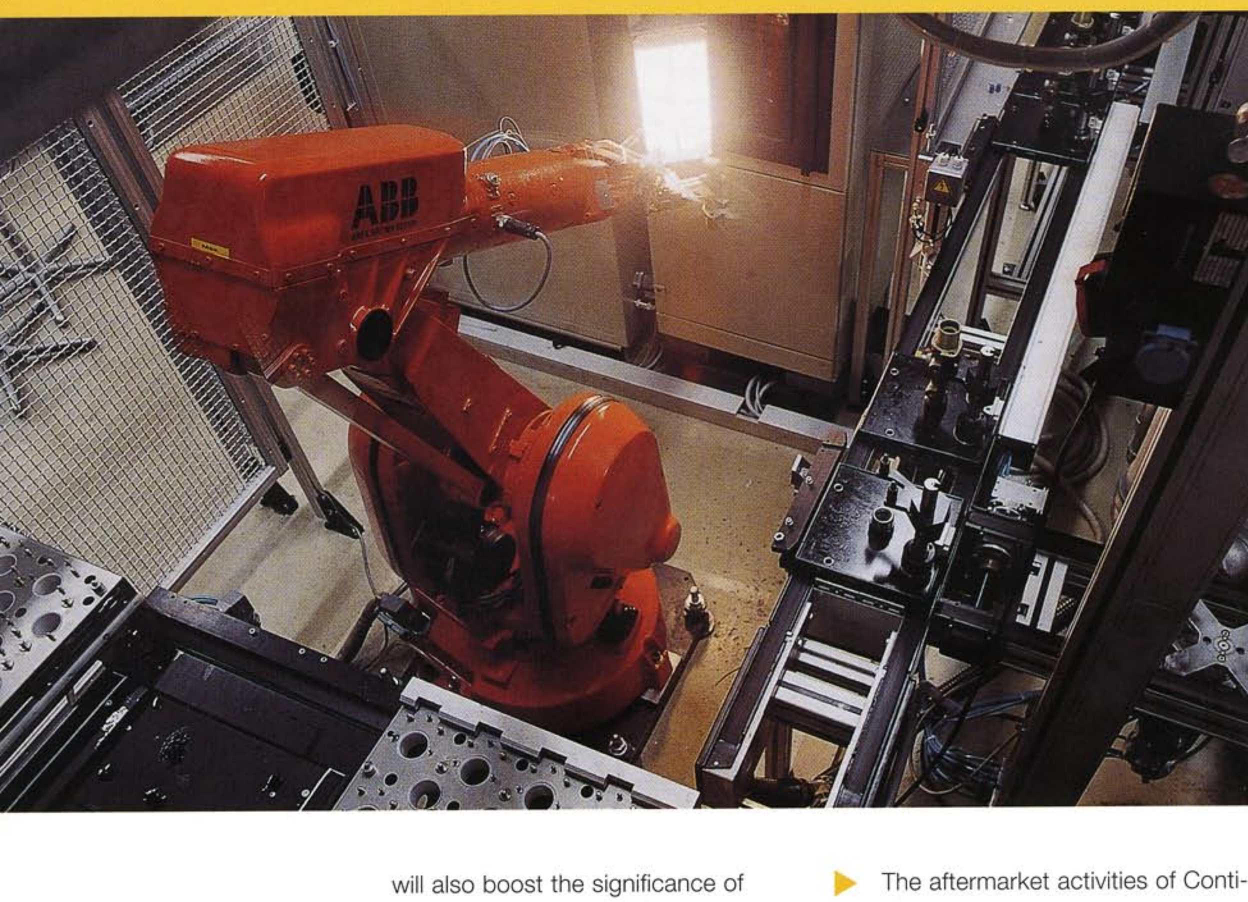
The purchase of the business that is now Continental Teves is a milestone for Continental on its way to becoming one of the leading suppliers of technology and systems to the automotive industry. The union of Continental and Teves will give us a clear competitive advantage over other tire manufacturers and suppliers of chassis control systems.

Continental Teves is a recognized partner to the global automotive industry with successful products in all of its product lines:

- The foundation brake unit holds first place in Europe and worldwide with its disc brakes.

- The electronic brake systems unit ranks second in Europe for ABS (anti-lock braking systems) and is market leader by world comparison. Strong growth in the market for ESP (electronic stability program) will also boost the significance of this unit within the Teves business.

Calipers for disc brakes

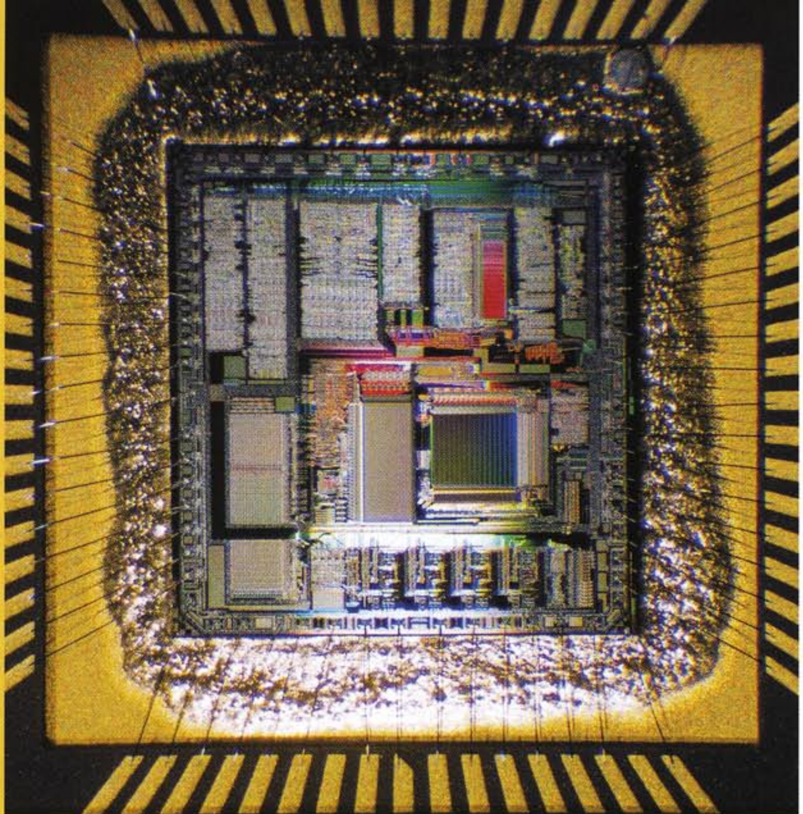


Parts being tested by a robot

- The brake actuation unit also now occupies 2nd place in Europe and worldwide with products like brake boosters.

- The aftermarket activities of Continental Teves lead the European market for brake products.

Continental Teves works with virtually all vehicle manufacturers. More than 60% of its total sales are made in Europe, about 30% in North America, and the remainder in South America



Chip for ESP

and Asia. Teves has 16 factories in Germany, Belgium, Brazil, China, Great Britain, France, Portugal, the Czech Republic, Hungary and the United States, with employees numbering 10,173.

Concentration of Potentials

Both Continental (in its former incarnation) and Teves were concerned with products relating to driving dynamics, acceleration and braking – in the final analysis, with the chassis. Nevertheless, there was no direct overlapping, but the tasks to be performed were similar. Our vision for the new Continental stems from the potentials that have now been combined.

Today we have mastered many aspects of the chassis with regard to comfort, safety and cost.

The Synergies Are Obvious

The tire, as a link between road and chassis, plays an especially important role in the electronic regulation of the chassis by an anti-lock braking system (ABS), a traction control system (TCS) or an electronic stability program (ESP). The addition of the sidewall torsion sensor (SWT) to the tire, as a source of information for the vehicle's regulating electronics, will give us a technological lead over our competitors.

The Perfect Combination

Continental Teves has developed chassis control systems that use sensors. SWT will further improve the excellent control systems, permitting a shorter braking distance, better handling, and a reduction of manufacturing costs.

Although it is well known that driving with low tire pressure is dangerous and can even cause a sudden blowout, more than 70% of German motorists drive with insufficient pressure. This is where the tire pressure monitoring system (TPMS) comes in. Through wheel modules and a central control unit in the vehicle, TPMS recognizes a loss of tire pressure and emits a warning signal.

Continental Teves has developed a deflation detection system (DDS) that likewise recognizes a loss of inflation pressure in a tire. Integration into the ABS system should decrease the cost of the warning system and make it cheaper to introduce run-flat tires.

Brake-by-Wire Systems

After successful lab tests and good results with prototype vehicles, the electromechanical brake system (EMB) is much closer to realization. EMB improves active safety, because the braking of individual wheels is controlled

ABS valves

by software, leading to a shorter braking distance. The main characteristic of this system is the electromechanical brake actuator for each wheel.

Electric braking based on an electromechanical brake offers numerous advantages over the conventional hydraulic braking system: It is more compact, active and passive safety are improved, there is no need for a vacuum nor brake fluid, and the parking brake is integrated. Additional functions like ESP or adaptive cruise control (ACC) can be added to this system at little cost. The addition of new safety functions will therefore become simpler and less expensive.

In terms of function as well as comfort, the new electrohydraulic brake (EHB) is comparable to the EMB, but it still uses brake fluid. As with the EMB, a sensor determines the desired braking effect from the amount of pressure the driver puts on the brake pedal. Then the electronic system calculates the right brake pressure for each individual wheel.

EMB and EHB offer a number of advantages over the braking systems in use today. The brake pedal can be ergonomically tuned for optimum brake feel. Comfort is increased, because there is no noise or pedal vibration during full braking in ABS mode.

Air for Greater Comfort and Safety

Air suspension systems are an essential component for any company that desires to supply complete chassis modules. These systems are distinguished by balanced comfort (even for a sports car chassis), minimum harshness, and compact dimensions. With its A6 model, Audi has become the first car maker to offer the electronically controlled Continental air suspension system (CASS) as an option.

The light-weight designs of today's vehicles and an increase in the ratio of load capacity to curb weight have a negative effect on driving comfort and performance. Electronically controlled suspension systems remedy these disadvantages. They also provide a useful interface for a vehicle's driving dynamics systems, such as ABS, TCS and ESP. Intelligent electronics recognize the current road conditions and the vehicle load. This additional information can be used to further improve vehicle dynamic control.

ABS unit

Brakes for the aftermarket

Adaptive Cruise Control

The increasing density of traffic and the familiar traffic jams and stop-and-go driving that it produces will be relieved by the introduction of adaptive cruise control (ACC). This system automatically adjusts the space between a vehicle and the one in front to the proper distance for safety. ACC is created by connecting an electronic stability program to a module installed on the front of the vehicle. This front module includes a radar distancing sensor – an artificial eye that "sees" the traffic ahead. The module then adjusts vehicle speed by controlling the engine, transmission and brakes.

With its partners Temic and Leica, Continental Teves owns 30% of Automotive Distance Control Systems GmbH (ADC), enabling it to offer complete ACC systems. ADC supplies the radar sensor for the Distronic distance control system, developed and introduced under the leadership of DaimlerChrysler.

The Path Is Mapped Out

With this deeper insight into Continental Teves and the technologies currently existing within the Corporation, it becomes clear that our path to becoming a globally operating supplier of chassis systems is now well mapped out. Sub-systems are already available, and many of our portfolio components will fit perfectly into the overall show of systems.

Karben, Germany:
ContiTech Fluid, hose assemblies

Continental Aktiengesellschaft
Consolidated Financial Statements

In order to increase their acceptance, the consolidated financial statements are drawn up based on U.S. accounting and valuation principles where these conform to German accounting requirements.

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Selected Financial Terms

International Principles of Accounting and Valuation

Above and beyond the scope of its consolidated financial statements as prescribed by the German Commercial Code (GCC), Continental has for years made a practice of publishing an increasing amount of voluntary financial information in its annual report. The integration of the new companies posed a special challenge which is why we have once again prepared the fiscal 1998 statements in accordance with the GCC. The assets and liabilities of the Continental General Tire Group as well as those of the newly acquired Continental Teves unit are entered on the books in accordance with the local principles since this has no significant effect on shareholders' equity computed in accordance with the principles of commercial law.

An examination of the individual balance sheet items revealed that, to a large extent, the valuations that have hitherto been used for the consolidated financial statements conform to US GAAP. The expenditure reserves set up regularly so far have been used for their scheduled purposes. As regards the selection of depreciation methods and useful lives for fixed assets and the calculation of manufacturing costs, there are no significant differences between the accounting principles we use today and the US GAAP standards.

Apart from the question of income tax treatment, the financial statements of Continental AG and of the other companies included in the consolidated statements only differ to an insignificant degree from the US GAAP accounting and valuation principles now that the valuation of provisions for pensions has been adjusted to FAS 87.

Continental Aktiengesellschaft
Consolidated Statement of Changes in Financial Position

	1998 Millions of DM	1997 Millions of DM
Net income for the year	413.9	321.8
Depreciation, amortization and writedowns on fixed assets and investments	711.3	601.6
Other expenses/income with no effect on funds	46.2	36.7
Cash flow	**1,171.4**	**960.1**
Income from disposals of fixed assets and investments	– 72.8	– 7.4
Change in inventories and receivables	44.6	– 219.3
Change in other debt capital	148.1	450.9
Changes in the scope of consolidation	397.9	27.9
Funds received from current business	**1,689.2**	**1,212.2**
Revenue from disposals of fixed assets and investments	145.2	99.1
Capital expenditure on property, plant and equipment, and intangible assets	– 934.5	– 603.2
Purchase of new companies (investments)	– 16.5	– 69.1
Changes in the scope of consolidation	– 4,146.9	– 29.2
Changes in fixed assets and investments due to foreign exchange differences	115.3	– 115.0
Funds paid due to investment activity	**– 4,837.4**	**– 717.4**
Dividends paid to shareholders	– 80.2	– 56.7
Dividends paid to minority stockholders	– 21.9	– 0.6
Funds received from capital increases	16.3	618.2
Other changes in shareholders' equity	129.4	26.6
Funds received due to financing activity	**43.6**	**587.5**
Changes in the scope of consolidation	**– 3,509.0**	**63.5**
Effective change	**404.4**	**1,018.8**
Of which due to foreign exchange differences	14.0	– 69.0
Net indebtedness at January 1	**554.5**	**1,636.8**
Net indebtedness at December 31	**3,659.1**	**554.5**

Notes to the Statement of Change in Financial Position

Cash Flow

The cash flow is computed from the net income, depreciation, the change in provisions for pensions after adjustments for foreign exchange differences, as well as the balance of significant extraordinary items. The change in long-term provisions that has been included under the change in other debt capital came to DM 13.9 million.

Funds Received From Current Business

The addition to funds from current business has been adjusted by the opening balance sheet values for the companies consolidated for the first time. These mainly include the opening balance sheet values for the companies grouped under the names Continental Teves, General Tire de Mexico, S.A. de C.V., Mexico, Compañia Hulera Euzkadi, S.A. de C.V., Mexico, and Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, Republic of South Africa. The adjustments have been netted and entered under the item of changes in the scope of consolidation (DM 397.9 million). They consist of a DM 1,260.6 million adjustment to the change in inventories and receivables, and a DM 1,658.5 million adjustment to the change in other debt capital.

The change in other debt capital contains the change in the amount of provisions (excluding provisions for pensions) as well as the liabilities not being of a credit nature.

Funds Paid Due to Investment Activity

Disposals of fixed assets and investments contain DM 84.9 million from the sale of participations.

The changes in fixed assets and investments on account of the new scope of consolidation are attributable, on the one hand, to the corresponding opening balance sheet values for the companies included in the consolidated financial statements for the first time and, on the other hand, to the goodwill resulting from capital consolidation.

The foreign exchange differences in the fixed assets and investments are due to the different rates prevailing on the dates of the opening and closing balances as well as the calculation of changes during the year at average rates.

Funds Received Due to Financing Activity

Continental Aktiengesellschaft received DM 16.3 million as a result of conversions and the exercise of warrants attached as well as the issue of employee shares. The other changes in shareholders' equity consist mainly of the offsetting of goodwill with no effect on income, foreign exchange differences in shareholders' equity, changes in minority interests due to the initial consolidation of new companies, the adjustment – with no effect on income – to the provisions for pensions to the FAS 87 method of calculation, and the effects of the equity swap from the purchase of the Mexican tire companies through Continental General Tire, Inc., Charlotte, North Carolina, U.S.A.

Indebtedness

The changes in the scope of consolidation include the prices paid for new companies, the debt acquired with the purchase, as well as the debt from the opening balance sheets of companies consolidated for the first time.

Continental Aktiengesellschaft
Consolidated Balance Sheet

Assets	See Note No.	**As of 12/31/1998** Millions of DM	**As of 12/31/1997** Millions of DM
Fixed assets and investments			
Intangible assets	(1)	2,954.7	408.8
Property, plant and equipment	(2)	4,522.1	2,965.7
Investments	(3)	161.3	141.6
		7,638.1	**3,516.1**
Current assets			
Inventories	(4)	1,935.3	1,418.4
Receivables and other assets	(5)	2,467.8	1,773.4
Marketable securities	(6)	160.0	–
Liquid assets	(7)	570.5	888.6
		5,133.6	**4,080.4**
Prepaid expenses	(8)	**56.3**	**51.4**
		12,828.0	**7,647.9**

Shareholders' equity and liabilities	See Note No.	**As of 12/31/1998** Millions of DM	**As of 12/31/1997** Millions of DM
Shareholders' equity	(9)		
Subscribed capital		575.1	572.5
Capital reserves		1,965.0	1,756.8
Minority interests	(10)	341.3	292.4
Net income available for distribution		92.2	81.0
		2,973.6	**2,702.7**
Provisions	(11)	**3,590.9**	**2,197.4**
Indebtedness	(12)	**4,389.6**	**1,443.1**
Other liabilities	(13)	**1,873.9**	**1,304.7**
		12,828.0	**7,647.9**

Continental Aktiengesellschaft
Consolidated Statement of Income

	See Note No.	1998 Millions of DM	1997 Millions of DM
Sales	(17)	**13,188.6**	**11,186.1**
Cost of sales		9,699.2	8,040.6
Gross profit on sales		**3,489.4**	**3,145.5**
Selling expenses	(18)	1,894.7	1,791.3
Administrative expenses	(18)	621.8	591.9
Other operating income	(19)	303.4	219.4
Other operating expenses	(20)	487.8	363.4
Net income from investments and financial activities	(21)	– 177.1	– 159.5
Net income from regular business activities		**611.4**	**458.8**
Taxes on income and profits	(22)	197.5	137.0
Net income for the year		**413.9**	**321.8**
Balance brought forward from the previous year		0.8	0.7
Minority interests in earnings	(23)	– 38.0	– 44.5
Transfer to retained earnings		– 284.5	– 197.0
Net income available for distribution		**92.2**	**81.0**

Notes to the Consolidated Financial Statements

Changes in Consolidated Fixed Assets and Investments

			Acquisition/Manufacturing cost		
	As of 1/1/1998	Changes in the scope of consolidation	Additions	Reclassifications	Retirements
	Millions of DM	Millions of DM	Millions of DM	Millions of DM	Millions of DM
I. Intangible assets					
Franchises, operating licenses, industrial property and similar rights and assets, and licenses under such rights and assets	173.1	111.1	67.2	11.7	12.6
Goodwill	767.7	2,540.4	25.8	–	2.9
Advances to suppliers	19.0	–	27.3	– 11.7	–
	959.8	**2,651.5**	**120.3**	**–**	**15.5**
II. Property, plant and equipment					
Land, land rights and buildings including buildings on third party land	1,714.9	609.2	45.6	32.9	46.0
Technical equipment and machinery	5,354.5	1,422.2	213.8	163.4	168.1
Other equipment, factory and office equipment	1,675.8	458.2	155.6	93.1	144.1
Advances to suppliers and assets under construction	255.5	180.6	399.2	– 289.4	1.4
	9,000.7	**2,670.2**	**814.2**	**–**	**359.6**
III. Investments					
Shares in affiliated companies	16.5	3.4	7.5	–	9.0
Shares in associated companies	98.3	27.3	2.9	–	24.0
Investments	7.9	0.5	1.0	–	0.1
Loans granted to companies in which participations are held	3.8	0.3	2.4	– 0.4	0.3
Securities held as investments	26.6	0.2	–	–	0.5
Other loans granted	9.7	–	0.5	0.4	1.9
Other financial assets	1.5	–	2.2	–	0.4
	164.3	**31.7**	**16.5**	**–**	**36.2**
	10,124.8	**5,353.4**	**951.0**	**–**	**411.3**

			Depreciation			Net value
				Accrued		
Foreign exchange differences	As of **12/31/1998**	1998	Foreign exchange differences	depreciation as of **12/31/1998**	As of **12/31/1998**	As of 12/31/1997
Millions of DM	Millions of DM	Millions of DM	Millions of DM	Millions of DM	Millions of DM	Millions of DM
– 1.6	348.9	39.3	– 0.5	218.9	130.0	54.7
– 0.1	3,330.9	111.1*	–	540.8	2,790.1	335.1
–	34.6	–	–	–	34.6	19.0
– 1.7	**3,714.4**	**150.4**	**– 0.5**	**759.7**	**2,954.7**	**408.8**
– 43.7	2,312.9	64.8	– 12.9	1,067.2	1,245.7	818.0
– 150.8	6,835.0	393.2	– 81.4	4,526.8	2,308.2	1,571.2
– 17.6	2,221.0	178.8	– 11.8	1,788.4	432.6	322.5
– 6.6	537.9	0.7	0.2	2.3	535.6	254.0
– 218.7	**11,906.8**	**637.5**	**– 105.9**	**7,384.7**	**4,522.1**	**2,965.7**
–	18.4	–	–	3.7	14.7	7.6
– 1.4	103.1	0.1	– 0.3	1.9	101.2	92.2
–	9.3	–	–	0.1	9.2	7.8
–	5.8	0.3	–	2.9	2.9	1.0
–	26.3	–	–	3.3	23.0	23.2
– 0.1	8.6	–	–	1.1	7.5	8.7
– 0.1	3.2	–	–	0.4	2.8	1.1
– 1.6	**174.7**	**0.4**	**– 0.3**	**13.4**	**161.3**	**141.6**
– 222.0	**15,795.9**	**788.3**	**– 106.7**	**8,157.8**	**7,638.1**	**3,516.1**

* Contains DM 77.0 million of goodwill with no effect on income.

Notes to the Consolidated Financial Statements

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%. A table showing the major companies of the Continental Corporation can be found on page 69 of this report. A complete list of the Corporation's holdings is filed with the Commercial Register of the Hanover District Court under reference number HRB 3527.

We have consolidated 186 domestic and foreign companies, in addition to the parent company. 5 companies that were sold or merged with other consolidated companies are no longer included. In addition to the companies grouped under the names Continental Teves, General Tire de Mexico, S.A. de C.V., Mexico, Compañia Hulera Euzkadi, S.A. de C.V., Mexico and Continental Tyre South Africa (Pty.) Ltd., Port Elizabeth, Republic of South Africa, 4 companies were newly established or acquired. The Corporation's total assets have increased by DM 5,213.2 million as a result. Sales rose by DM 1,3 billion comparably owing to the different times of initial consolidation. Computed on a full-year basis, sales would have grown by more than DM 5 billion. Compared with the previous year, there have been changes to the composition of the scope of consolidation. 8 companies not included so far were consolidated for the first time, and 2 companies previously consolidated in accordance with the equity method were not included in the scope of consolidation.

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

Acquisition of New Companies

The acquisition of Continental Teves as well as of the Mexican and South African tire companies and the first-time inclusion of their relevant assets and liabilities led to the following changes in the Corporation's balance sheet at December 31, 1998:

Millions of DM	Continental Teves	Mexico	South Africa	Others	Σ
Goodwill	2,509.3	–	–	1.4	2,510.7
Other intangible assets	39.7	–	0.7	7.7	48.1
P.P.E. and investments	1,174.9	322.4	59.7	19.2	1,576.2
Inventories	239.6	105.9	49.1	6.6	401.2
Trade accounts receivable	324.8	96.4	32.3	13.3	466.8
Other assets	155.6	34.9	9.4	10.3	210.2
Addition to assets	**4,443.9**	**559.6**	**151.2**	**58.5**	**5,213.2**
Provisions for pensions	571.0	0.3	–	–	571.3
Other provisions	482.9	56.3	9.1	1.9	550.2
Trade accounts payable	423.0	23.4	15.8	6.7	468.9
Other liabilities	172.6	157.7	36.3	2.9	369.5
Minority interests	–	76.3	22.6	0.5	99.4

Due to the initial consolidation of the new companies in South Africa (as of July 1, 1998), Continental Teves (as of September 26, 1998), and in Mexico (as of December 1, 1998), the statement of income figures are not automatically comparable with those of the previous year.

Principles of Consolidation

152 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 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 the book value of our investment. 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 our 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 in the consolidated financial statements.

An appropriate adjusting entry for minority interests has been made for interests not belonging to the parent company in fully consolidated companies. When Continental Aktiengesellschaft owns indirectly shares of a consolidated subsidiary through a subsidiary which is not consolidated, these additional shares are offset against the investments of Continental Aktiengesellschaft. 34 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 eliminated, insofar as they are significant.

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

Foreign Currency Translation

We translate receivables and liabilities in foreign currency at the rate prevailing on the date they are entered on the books for the first time, or, if they have been hedged, at the forward rates. Appropriate provisions have been made for foreign exchange losses that have not yet been realized on the balance sheet date; 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.

The amounts resulting from changes in fixed assets and investments during the year, translated at average rates, and those relating to foreign exchange rate fluctuations from one balance sheet date to the next, are shown in a separate column of the table on "Changes in Consolidated Fixed Assets and Investments".

Income and expenses are translated at the average rates for the year. Differences between translating amounts at the rate on the balance sheet date and at the average rate are shown under other operating income or other operating expenses accordingly. The financial statements of companies in countries with a high inflation rate are likewise translated at the rate on the balance sheet date or average rate after taking into account the respective adjustments for inflation.

The following table shows the changes in the exchange rates for major currencies:

Currency	**Rate prevailing on the balance sheet date in DM**		**Average rate for the year in DM**	
	As of 12/31/1998	**As of 12/31/1997**	**1998**	**1997**
1 USD	1.6730	1.7921	1.7593	1.7347
1 GBP	2.7980	2.9820	2.9142	2.8408
100 FRF	29.818	29.883	29.829	29.704
100 NLG	88.753	88.739	88.714	88.858
100 ESP	1.1755	1.1814	1.1779	1.1843
1,000 ITL	1.0100	1.0177	1.0132	1.0184
100 CZK	5.599	5.176	5.464	5.478
100 BEF	4.8483	4.8478	4.8476	4.8464
100 ATS	14.214	14.213	14.213	14.210
100 SEK	20.705	22.682	22.128	22.715

Principles of Accounting and Valuation

The financial statements of companies included in the consolidated financial statements have all been prepared in line with uniform accounting and valuation principles. Valuations deviating from these principles in the annual financial statements of companies valued by the equity method are retained due to them being of only minor significance to the performance of the Corporation. Special reserves set up in the individual financial statements solely in accordance with tax law provisions are not included in the consolidated financial statements.

Acquired intangible assets are carried at acquisition cost and amortized by the straight-line method over their anticipated useful life. Goodwill capitalized up to and including 1997 as a result of the acquisition of companies is deducted in installments from retained earnings on the balance sheet, over periods estimated individually at from 10 to 20 years.

As of 1998, goodwill amortization in respect of initially consolidated companies is charged against income over an anticipated period of up to 20 years.

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation. Interest on borrowed funds is not capitalized. The depreciations are valued by the straight-line method. Non-scheduled depreciation is taken where necessary. The useful life taken as a basis for depreciating the major categories of property, plant and equipment is up to 25 years for additions to buildings, up to 10 years for machinery and equipment, up to 4 years for molds and 4 to 10 years for plant and office equipment. 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. Low-value fixed assets are written off completely in the year of acquisition.

Interests in non-consolidated affiliates and in 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. Inventories of natural rubber and of the U.S. companies are valued according to the LIFO method insofar as the current acquisition cost is not lower than the cost price.

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 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.

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

In anticipation of the changeover to employing U.S. accounting principles, we valued the provisions for pension commitments and similar obligations of German and Austrian companies on the basis of actuarial computations in accordance with vested rights as per FAS 87 taking into account the trend in salaries and pensions as well as fluctuation; the interest rate is based on the conditions in the capital market. This led to an increase of DM 109.6 million in these provisions compared with the computations based on former graduated life tables as per the writedown method for tax purposes. The increase has been offset against shareholders' equity with no effect on income so as to obtain an annual profit on accrual basis. All in all, the end result is closer to reality than that using the former method of valuation in accordance with Section 6a of German Income Tax Law.

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

The obligations for post-retirement medical benefits in the U.S.A., including provisions for the retirees and vested work force, as well as the non-vested employees are shown in their full amount on the liability side, in accordance with FAS 106.

Depending on their nature, some of the provisions made for necessary structural improvements and environmental protection may 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 on 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.

With regard to derivatives, anticipated losses are covered on the balance sheet date by provisions amounting to the negative market values, if there are no valuation units available.

Liabilities are stated at the redemption amount.

Assets

(1) Intangible Assets

The addition to goodwill due to initial consolidation, at DM 2,539.5 million, is almost fully attributable to Continental Teves. The additions in the amount of DM 120.3 million consist mainly of acquired software. This item also includes the goodwill acquired for consideration in previous years by the consolidated companies. Goodwill of this kind is charged against income.

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

(2) Property, Plant and Equipment

Additions at the Corporation in its old form 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 as well as technologically and economically obsolete machinery and facilities.

The initial consolidation of new companies caused an increase of DM 1,537.6 million in property, plant and equipment (DM 2,670.2 million less accrued depreciation of DM 1,132.6 million). DM 1,097.6 million of this increase is attributable to Continental Teves.

The other additions are shown in the table below:

Millions of DM	**1998**	**1997**
Passenger Tires	318.9	204.4
Commercial Vehicle Tires	79.6	60.6
Continental General Tire	134.4	91.5
ContiTech	179.9	185.7
Continental Automotive Systems	100.8	8.4
Other	0.6	2.2
	814.2	**552.8**

(3) Investments

Additions relating to associated companies are mainly attributable to joint undertakings of Continental Teves. The securities held 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 included residential construction loans to employees, financing contributions to utility companies and other loans.

(4) Inventories

Millions of DM	**As of 12/31/1998**	**As of 12/31/1997**
Raw materials and supplies	534.6	313.0
Work in process	254.2	174.1
Finished goods and merchandise	1,145.0	930.9
Advances to suppliers	2.3	1.6
Advances from customers	0.8	1.2
	1,935.3	**1,418.4**

Inventories include a LIFO reserve of DM 2.2 million, down from DM 15.9 million in 1997. The decrease is due mainly to lower prices for materials, which had a particularly strong effect on the value of finished products at Continental General Tire.

Without the newly consolidated companies, inventories would only have increased by DM 115.7 million (8.2%).

(5) Receivables and Other Assets

Millions of DM	As of 12/31/1998	Due in more than 1 year	As of 12/31/1997	Due in more than 1 year
Trade accounts receivable	1,692.0	1.9	1,096.3	1.2
Receivables from affiliated companies	11.1	–	7.9	–
Receivables from companies in which participations are held	34.9	–	67.5	–
Miscellaneous assets	729.8	159.1	601.7	115.4
	2,467.8	**161.0**	**1,773.4**	**116.6**

Without the newly consolidated companies, trade accounts receivable would have risen by DM 128.9 million (11.8%) due to increased sales from the growth in the tire business. Our sales of receivables increased from DM 772.3 million to DM 1,070.7 million. The collateral included in miscellaneous assets amounts to DM 182.3 million (1997: DM 190.1 million), which is included in miscellaneous assets.

DM 149.4 million of the increase in miscellaneous assets is attributable to the newly consolidated companies. A reverse effect was had by the realization of the claim for the transfer of further shares in Barum Continental spol.sr.o, Otrokovice, Czech Republic.

(6) Marketable Securities

Marketable securities consist mainly of fixed-interest note loans held as a provisional investment.

(7) Liquid assets

Millions of DM	As of 12/31/1998	As of 12/31/1997
Checks	7.3	33.6
Cash on hand and deposits at the Bundesbank	3.8	4.3
Cash in banks	559.4	850.7
	570.5	**888.6**

(8) Prepaid Expenses

Millions of DM	As of 12/31/1998	As of 12/31/1997
Discount on loans/bonds	1.6	1.8
Miscellaneous	54.7	49.6
	56.3	**51.4**

Miscellaneous prepaid expenses consist primarily of rental, leasing, interest and insurance premium prepayments.

Shareholders’ Equity and Liabilities

(9) Shareholders’ Equity

Millions of DM		1998		1997
Subscribed capital				
As of 1/1		572.5		472.4
Change due to employee shares		1.5		0.6
Change due to conversions and exercise of warrants attached		1.1		99.5
As of 12/31		**575.1**		**572.5**
Consolidated reserves				
As of 1/1		1,756.8		1,061.9
Premiums from capital increases, conversions and exercise of warrants attached	+	13.7	+	518.1
Offsetting of goodwill with no effect on income	–	77.0	–	61.3
Exchange rate effects with no effect on income	–	28.9	+	37.2
Additions from the net income for the year	+	284.5	+	196.9
Miscellaneous changes	+	15.9	+	4.0
As of 12/31		**1,965.0**		**1,756.8**
Consolidated profit		**92.2**		**81.0**
Minority interests		**341.3**		**292.4**
Consolidated equity		**2,973.6**		**2,702.7**

Subscribed capital increased in 1998 by DM 1.5 million due to the issue of employee shares and by a further DM 1.1 million due to the conversion and exercise of warrants attached. The capital stock of Continental Aktiengesellschaft entitled to the dividend amounts to DM 575,061,950.00 and is divided up into 115,012,390 no-par-value shares.

As a result of the resolution of the Annual Shareholders’ Meeting on June 5, 1998, the Company has authorized capital of DM 200 million available for the issue of new shares on or before June 4, 2003. The former authorized capital of DM 200 million has been canceled due to expiry of the authorization on July 1, 1998.

After the Annual Shareholders’ Meeting on June 4, 1997, the Company had authorized capital in the original amount of DM 10.0 million for the issue of employee shares. This authorized capital has been reduced to DM 7.9 million following the issue of employee shares in the nominal amount of DM 1.5 million.

There are still 0.249 million conversion rights from the existing stock option programs launched in 1990 for members of the Executive Board and senior management as well as 0.774 million from the 1996 program's granted conversion rights which have not yet been utilized. Each DM 1.00 portion of the convertible loan confers the right of conversion into one of Continental Aktiengesellschaft's shares. Each loan portion amounting to DM 5,000.00 from the bond with warrants issued in 1993 by Conti-Gummi Finance B.V., Amsterdam, Netherlands, entitles the holder to purchase 240 shares of Continental Aktiengesellschaft. On December 31, 1998, 6.619 million warrants had still not been exercised.

Conditionally authorized capital was increased, with the approval of the Annual Shareholders’ Meeting on June 5, 1998, by DM 150 million for the granting of conversion rights or warrants under newly issued convertible bonds and bonds with warrants. Due to a resolution at the same Annual Shareholders’ Meeting, the existing conditionally authorized capital of DM 43 million for the granting of conversion rights and warrants was canceled. After the utilization of DM 1.1 million, conditionally authorized capital amounts to DM 238.2 million.

Consolidated reserves include the retained earnings and additional paid-in capital of Continental Aktiengesellschaft totaling DM 1,467.3 million. In 1998, a dividend of DM 0.70 per share, totaling DM 80.2 million, was paid for fiscal 1997 from Continental Aktiengesellschaft's net income available for distribution. The balance was carried forward. The consolidated profit corresponds to the net income available for distribution of Continental Aktiengesellschaft, which permits a dividend of DM 0.80 per no-par-value share, for a total of DM 92.0 million.

Miscellaneous changes to shareholders’ equity consist mainly of the adjustment of provisions for pensions to the FAS 87 computation method, and as a reversing entry, the effects of the equity swap from Continental General Tire's acquisition of the Mexican tire companies.

(10) Minority Interests

This item shows the interests of outsiders in capital and earnings, which in the past consisted mainly of the holdings of the Japanese partner in our joint venture GTY Tire Company, Charlotte, North Carolina, U.S.A., and of the minority shareholders in Benecke-Kaliko AG, Hanover. Since December 1, 1998, the Corporation's interest in Continental General Tire Inc., Charlotte, North Carolina, U.S.A., now only amounts to 80.6% in conjunction with the transfer of the Mexican tire companies. The increase in the adjustment item was due mainly to that transfer as well as to new interests of outside shareholders and partners in earnings.

(11) Provisions

Millions of DM	As of 12/31/1998	As of 12/31/1997
Provisions for pensions and similar obligations	1,801.2	1,110.6
Provisions for taxes	269.6	126.3
Miscellaneous provisions	1,520.1	960.5
	3,590.9	**2,197.4**

Pensions and similar obligations on December 31, 1998 were valued for the first time – over and above their valuation using the German statutory method – in accordance with the internationally accepted method of computation pursuant to FAS 87. The following parameters were applied for the majority of the necessary adjustments in Germany and Austria:

Rate of interest	6.0%
Trend in pensions	2.0%
Trend in salaries	3.0%
Fluctuation	5.0%

This led to a DM 109.6 million gain in provisions for pensions. The balance of the increase, DM 571.3 million, was attributable to the newly consolidated companies.

The increase in provisions for taxes compared with the previous year was due mainly to the significant gains in profits as well as the necessary allowances for tax audits regularly conducted in Germany and abroad. Provisions for deferred taxes in the individual financial statements exceed the net prepaid taxes arising from consolidation procedures by DM 31.2 million.

Breakdown of Miscellaneous Provisions

Millions of DM	As of 12/31/1998	As of 12/31/1997
Personnel and social welfare payments	336.7	244.4
Selling expenses	268.5	269.4
Warranties	155.4	92.5
Severance payments	87.6	84.8
Litigation and environmental risks	96.4	31.1
Other provisions	575.5	238.3
	1,520.1	**960.5**

DM 499.9 million of the gain in miscellaneous provisions was due to the newly consolidated companies.

Provisions for personnel and social welfare payments consist mainly of claims for early retirement, part-time work by older employees, and vacation. The other provisions include provisions for restructuring measures and anticipated losses related to incomplete contracts, as well as provisions for other undetermined obligations. A reasonable amount has been established to take due account of anticipated losses from long-term delivery contracts.

Of the miscellaneous provisions, DM 302.8 million (1997: DM 257.9 million) have an anticipated remaining term of more than one year.

(12) Indebtedness

Millions of DM	As of 12/31/1998	Due in less than 1 year	Due in more than 5 years	As of 12/31/1997	Due in less than 1 year	Due in more than 5 years
Bonds*	492.5	0.2	0.7	491.4	0.2	0.7
Bank borrowings**	3,727.5	453.2	12.5	839.9	293.3	8.7
Liabilities on acceptances and notes payable	1.1	1.1	–	4.0	4.0	–
Other indebtedness	168.5	130.0	2.4	107.8	91.3	2.1
	4,389.6	**584.5**	**15.6**	**1,443.1**	**388.8**	**11.5**

* Of which convertible: DM 138.9 million (1997: DM 140.6 million).
** Amount secured by land charges, mortgages and comparable collateral: DM 26.5 million (1997: DM 33.4 million).

After deducting securities and liquid funds amounting to DM 730.5 million, net indebtedness comes to DM 3,659.1 million. Indebtedness increased as a result of financing the Continental Teves acquisition.

Bond Issues

Issuer	Type	Option for	Amount of issue in millions	Currency	Coupon p.a.	Issue date/ Maturity	Issue price	Subscription price DM
CGF	Bonds with warrants	Shares	250	DM	7.50 %	1993/July 2000	120.25 %	19.90
CGF	Zero coupon bonds	–	150	DM	–	1985/July 2000	36.50 %	
CAG	Convertible debentures*	Shares	1	DM	9.50 %	1990/Nov. 2000		min. 25.00
CRoA	Bonds**	–	100	CHF	4.75 %	1987/Oct. 2002	127.00 %	
CAG	Convertible debentures*	Shares	1	DM	6.75 %	1996/June 2005		min. 20.00

* Stock option plan for senior executives.
** The issue price of 127% contains option rights from the stock warrants expiring on October 6, 1997.

Financing Commitments From Banks

Company	Type	Amount in millions of DM	Value as of 12/31/1998 in millions of DM	Interest	Maturity
CUK	Syndicated Euroloan	195.9	195.9	variable	June 2001
CAG	Long-term bank loan	235.0	235.0	5.40 %	Nov. 2001
CAG			1,773.0		
CRoA	Syndicated Euroloan	2,933.7	873.3	variable	Dec. 2003
CUK			–		
CAG	Commercial Paper Program	1,466.9	–	variable	indefinite
Miscellaneous	Short-term bank lines	1,979.9	650.3	variable	mainly < 1 year
Financing commitments from banks		**6,811.4**			
Due to banks			**3,727.5**		

The value of the bonds on December 31, 1998 was DM 492.5 million. There are also programs for the sale of receivables in a total amount of DM 1,105.0 million, of which DM 1,008.5 million had been utilized at year-end.

CAG = Continental Aktiengesellschaft, Hanover, Germany
CGF = Conti-Gummi Finance B. V., Amsterdam, Netherlands
CRoA = Continental Rubber of America Corp., Wilmington, Delaware, U.S.A.
CUK = Continental UK Group Holdings Ltd., Newbridge, U.K.

(13) Other Liabilities

Millions of DM	**As of 12/31/1998**	Due in less than 1 year	Due in more than 5 years	**As of 12/31/1997**	Due in less than 1 year	Due in more than 5 years
Advances from customers	2.2	2.2	–	2.1	2.1	–
Trade accounts payable	1,269.9	1,269.0	–	766.4	765.1	–
Payables to affiliated companies	10.0	10.0	–	0.3	0.3	–
Payables to companies in which participations are held	31.8	31.8	–	26.8	26.8	–
Miscellaneous liabilities	560.0	532.5	1.8	509.1	486.8	2.8
Of which						
tax liabilities	(158.0)			(113.3)		
liabilities relating to social security and similar obligations	(105.6)			(89.5)		
	1,873.9	**1,845.5**	**1.8**	**1,304.7**	**1,281.1**	**2.8**

Miscellaneous liabilities which can be regarded as financial debt are shown under other indebtedness.

(14) Derivatives

We use derivatives to reduce our foreign currency risks and to control our interest exposure.

The currency risk – and, accordingly, the maximum hedging volume – are determined by taking the balance of the anticipated receipts and payments in each currency for the next 12 months. At the consolidated level, the total for all currencies was DM 1.5 billion. DM 680 million of that figure was attributable to the Euro currencies. DM 111.3 million of the total hedging volume on December 31, 1998 stemmed from forward exchange transactions. In addition, loans amounting to DM 202.4 million had been hedged at year-end.

Open interest-hedging transactions consisted of interest swaps for a nominal amount of DM 60 million.

We limit the risks of derivatives by having the trading, processing, accounting and confirmation of the deals handled in separate parts of our organization. Open positions and results realized are reported on an ongoing basis. Transactions in derivatives are concluded exclusively with impeccably rated banks in Germany and abroad.

(15) Guarantees and Other Commitments

Millions of DM	As of 12/31/1998	As of 12/31/1997
Contingent liabilities on notes	119.6	172.0
Liabilities on guarantees	29.4	40.0
Liabilities on warranties	6.2	6.7
Liability on shares in cooperatives	0.1	0.1

The contingent liabilities on notes are the result of discounting trade bills.

(16) Other Financial Obligations

Future liabilities relate to rental and leasing agreements covering real estate used for business activities and outsourced computer hardware and software. DM 1,356.3 million is attributable to 1999 and later years. Purchase commitments for property, plant and equipment amount to DM 255.0 million.

Statement of Income

(17) Sales

Millions of DM	1998	1997	Change in %
Analysis by group			
Passenger tires/dealer organizations	4,673.1	4,355.1	+ 7.3
Commercial vehicle tires	1,484.8	1,310.6	+ 13.3
Continental General Tire	2,404.6	2,358.3	+ 2.0
ContiTech	3,332.9	3,093.5	+ 7.7
Continental Automotive Systems	1,231.1	–	–
Other sales	62.1	68.6	– 9.5
	13,188.6	**11,186.1**	**+ 17.9**
Analysis by geographical area			
Germany	4,428.1	3,644.7	+ 21.5
Rest of Europe	5,287.3	4,696.1	+ 12.6
North America	2,833.8	2,424.3	+ 16.9
Other countries	639.4	421.0	+ 51.9

The rise in sales during fiscal 1998 is due, among other things, to the first-time inclusion of Continental Teves.

Segment information is given on page 68.

(18) Sales and Administrative Expenses

The administrative expenses of the distribution companies are included in the Corporation's selling expenses.

(19) Other Operating Income

Millions of DM	1998	1997
Gains on the disposal of fixed assets and investments	90.3	23.4
Credit to income from the release of provisions	45.9	20.5
Credit to income from the reduction of the general bad debt reserve	2.0	1.6
Credit to income from the release of special reserves	–	5.6
Gains from exchange rate fluctuations	37.4	37.2
Miscellaneous income	127.8	131.1
	303.4	**219.4**

Gains on the disposal of fixed assets and investments include income from the sale of the participation in SAVA-Semperit, Kranj, Slovenia, in the amount of DM 68.5 million.

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

(20) Other Operating Expenses

Millions of DM	1998	1997
Losses on the disposal of fixed assets and investments	17.5	16.0
Losses on the disposal of current assets (except inventories)	39.0	36.7
Losses due to exchange rate fluctuations	49.7	47.6
Miscellaneous taxes	74.5	51.1
Miscellaneous expenses	307.1	212.0
	487.8	**363.4**

Miscellaneous expenses relate mainly to sideline operations and the establishment of necessary provisions, primarily for restructuring measures and severance payments. Miscellaneous taxes consist of taxes assessed against the Company regardless of its earnings.

(21) Net Income from Investments and Financial Activities

Millions of DM	1998	1997
Net income from investments		
Income from investments		
from affiliated companies	1.8	1.2
from associated companies	5.0	6.5
from other companies	0.2	0.2
	7.0	**7.9**
Net interest expense		
Income from other securities and loans included in investments	1.7	1.8
Other interest and similar income		
from affiliated companies	–	0.1
from other companies	42.5	33.9
Interest and similar expenses		
paid to affiliated companies	– 1.0	– 0.1
paid to other companies	– 227.0	– 201.6
	– 183.8	**– 165.9**
Writedowns on investments	**– 0.3**	**– 1.5**
Net income from investments and financial activities	**– 177.1**	**– 159.5**

The Corporation's net interest expense amounts to 1.4% (1997: 1.5%) of sales.

(22) Income Taxes

The improved earnings of the consolidated companies are necessitating higher current tax payments and the formation of provisions resulting in a rise in tax expense for the Corporation as a whole. There was no capitalization of deferred taxes due to existing tax loss carried forward. The tax ratio, at 32%, is still relatively low by international standards.

(23) Minority Interests in Earnings

Millions of DM	1998	1997
Minority interests in the profit for the year	18.1	24.1
Minority interests in the other net income shown in the balance sheet	19.9	20.4
	38.0	**44.5**

Miscellaneous Data

(24) Cost of Materials

Millions of DM	1998	1997
Cost of raw materials and supplies and merchandise	5,050.2	4,005.9
Cost of outside services	833.5	660.3
	5,883.7	**4,666.2**

(25) Personnel Expense

Millions of DM	1998	1997
Wages and salaries	2,939.6	2,645.1
Social welfare contributions and expenses related to pensions and other employee benefits	849.0	780.5
Of which expenses for pensions	(93.5)	(89.1)
	3,788.6	**3,425.6**

(26) Number of Employees (Quarterly Average)

	1998	1997
Salaried employees	16,528	15,354
Wage earners	33,699	29,465
	50,227	**44,819**

(27) Depreciation, Amortization and Writedowns

Amortization on intangible assets, depreciation on property, plant and equipment, and writedowns on investments, computed in accordance with the principles of commercial law, are shown in the table "Changes in Consolidated Fixed Assets and Investments" on page 53.

(28) Adjustment to the Purchase Price for Continental Teves

Continental acquired the brake and chassis business of ITT Industries, Inc., (ITTI), White Plains, New York, U.S.A., on September 25, 1998. According to the contract of sale Continental is entitled to a reduction of the purchase price in the amount by which the verified net worth of the acquired business on December 31, 1997 is below the unverified net worth computed by ITTI for that date. Continental has asserted its claims in this respect. However, it cannot be judged for sure what final decision will be made regarding the claims, nor how long it will take before a final decision is reached.

(29) Segment Information

Millions of DM	Passenger Tires		Commercial Vehicle Tires		Continental General Tire		ContiTech		Continental Automotive Systems[3]
	1998	1997	1998	1997	1998	1997	1998	1997	1998
Sales	4,673.1	4,355.1	1,484.8	1,310.6	2,404.6	2,358.3	3,332.9	3,093.5	1,231.1
EBIT	505.7	404.2	96.7	- 21.3	138.8	128.5	157.4	177.5	- 6.3
EBIT (% to sales)	10.8	9.3	6.5	- 1.6	5.8	5.5	4.7	5.7	- 0.5
Capital expenditures [1]	358.2	231.5	84.2	63.7	147.9	94.9	194.9	196.9	106.4
Capital expenditures (% to sales)	7.7	5.3	5.7	4.9	6.2	4.0	5.8	6.4	8.6
Depreciation [2]	245.8	237.2	75.4	67.8	146.5	149.0	158.5	143.0	83.8
Total assets	2,861.7	2,709.7	1,091.9	952,9	2,058.5	1,638.5	1,556..3	1,474.1	4,273.7
EBIT (% to total assets)	17.7	14.9	8.9	- 2.2	6.7	7.8	10.1	12.0	- 0.1
Employees	18,094	17,784	8,079	5,417	9,736	6,060	15,852	15,257	10,460

[1]) Capital spending on property, plant and equipment, and software
[2]) Depreciation includes goodwill amortization and writedowns on investments
[3]) Continental Teves is only included with its fourth-quarter figures

(30) Remuneration of the Supervisory Board and the Executive Board

Provided that the Annual Meeting of Shareholders on June 1, 1999 approves the proposed dividend, total remuneration of the Supervisory Board will be DM 1.646 million, of the Executive Board (including remuneration paid by subsidiaries), DM 13.588 million, and of former members of the Executive Board and their surviving dependents, DM 5.425 million.

DM 66.407 million has been set aside for pension commitments to former members of the Executive Board and their surviving dependents.

(31) Proposed Allocation of Net Income

After a transfer by the Administration of DM 10,000,000.00 to retained earnings, pursuant to Section 58, Subsection 2, German Stock Corporation Law, the net income of Continental Aktiengesellschaft available for distribution amounts to DM 92,153,926.83. The Executive Board recommends that the Annual Meeting of Shareholders approve payment of a dividend of DM 0.80 per no-par-value share, or DM 92,009,912.00. The remainder of DM 144,014.83 is to be carried forward.

Hanover, March 23, 1999

Continental Aktiengesellschaft
The Executive Board

(32) Audit Opinion

The consolidated financial statements which we have audited in accordance with professional standards comply with the legal regulations. The consolidated financial statements present, in compliance with generally accepted accounting principles, a true and fair view of the net worth, financial position and results of the Corporation. The management report of the Corporation, which is combined with the management report of Continental Aktiengesellschaft, is in agreement with the consolidated financial statements.

Hanover, March 23, 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke
Wirtschaftsprüfer

Schulze
Wirtschaftsprüfer

Major Companies of the Continental Corporation

Company	Corporate interest %	Shareholders' equity DM 000	Net income/loss 1998 DM 000	Net income/loss 1997 DM 000	Sales 1998 DM 000	Employees 12/31/1998
I. Affiliated companies						
(according to accounting and valuation principles uniform throughout the Corporation)						
1. Domestic companies						
Benecke-Kaliko AG, Hanover	50.1	212,159	33,616	45,333	658,016	2,398
Continental Teves AG & Co. oHG, Frankfurt/Main	100.0	162,008	4,650		645,844	5,969
ContiTech Antriebssysteme GmbH, Hanover	100.0	16,564	593 *	1,420 *	267,189	1,019
ContiTech Formteile GmbH, Hanover	100.0	20,593	– 1,714 *	537 *	384,459	1,471
ContiTech Luftfedersysteme GmbH, Hanover	100.0	6,634	854 *	225 *	189,200	643
ContiTech Schlauch GmbH, Hanover	100.0	24,213	3 *	644 *	361,505	1,835
ContiTech Transportbandsysteme GmbH, Hanover	100.0	13,939	1,359 *	540 *	246,307	704
Techno-Chemie Kessler & Co. GmbH, Karben	100.0	26,986	325 *	874 *	352,743	1,125
2. Foreign companies						
Anoflex SNC, Caluire, France	100.0	35,908	– 3,282	1,869	261,624	1,084
Barum Continental spol.sr.o., Otrokovice, Czech Republic	70.0	213,005	29,479	31,439	708,401	3,689
Continental Benelux S.A., Herstal-lez Liège, Belgium	100.0	106,803	26,118	– 27,200	828,902	1,658
Continental Däck Sverige AB, Göteborg, Sweden	100.0	5,760	1,099	1,202	112,680	46
Continental Dekk Norge AS, Oslo, Norway	100.0	11,800	606	970	120,649	89
Continental France SNC, Clairoix, France	100.0	37,452	10,966	887	417,930	197
Continental General Tire (subgroup), Charlotte, North Carolina, U.S.A.***	100.0	473,083	98,595	74,327	2,405,287	6,968
Continental Gislaved Däck AB, Gislaved, Sweden	100.0	123,874	24,050	26,070	233,857	761
Continental Industrias del Caucho, S.A., Coslada, Madrid, Spain	100.0	52,571	8,476	10,351	273,254	337
Continental Italia S.p.A., Milan, Italy	100.0	2,072	354	1,175	183,336	66
Continental Mabor Indústria de Pneus S.A., Lousado, Portugal	100.0	161,123	58,776	47,264	295,779	926
Continental Pneus SNC, Sarreguemines, France	100.0	145,181	44,583	37,021	632,292	2,123
Continental Suisse S.A., Dietikon, Switzerland	100.0	31,790	2,200	2,676	137,500	85
Continental Teves, Inc., Auburn Hills, Michigan, U.S.A.	100.0	– 8,589	– 8,589		320,960	1,658
Continental Tyre Group Ltd., West Drayton, U.K.	100.0	39,938	5,953	1,444	427,618	182
Continental Tyres Ltd., Newbridge, U.K.	100.0	– 36,571	– 27,163	– 20,896	202,072	1,023
ContiTech AGES S.p.A., Santena, Italy	100.0	65,071	2,207	3,719	202,895	1,030
National Tyre Service Ltd., Stockport, U.K.	100.0	12,301	– 30,422	– 23,771	416,695	2,081
Semperit Reifen Aktiengesellschaft, Vienna, Austria	100.0	319,053	88,407	800	686,283	1,881
II. Associated companies						
Compañía Ecuatoriana del Caucho, Cuenca, Ecuador	38.2	38,669 **	–	8,446	135,801 **	
Drahtcord Saar GmbH & Co. KG, Merzig, Saar, Germany	50.0	21,342	342	315	84,754	
General Tire & Rubber Company of Morocco S.A., Casablanca, Morocco	34.2	33,272	– 3,215	1,089	73,684	
KG Deutsche Gasrusswerke GmbH & Co., Dortmund, Germany	32.1	15,000	1,500	1,500	121,507	

A complete list of the companies of the Continental Corporation and those of Continental Aktiengesellschaft is filed with the Commerical 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

** Figure for the previous fiscal year

*** Includes joint venture GTY Tire Company and minority interests at Continental General Tire Inc. (19.4%)

Continental Corporation
Ten Year Survey

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Balance sheet											
Fixed assets and investments	Millions of DM	1,998.5	2,853.4	3,416.9	3,554.3	3,813.5	3,605.3	3,485.0	3,515.1	3,516.1	7,638.1
Current assets	Millions of DM	3,407.4	3,314.2	3,232.4	3,503.5	3,318.3	3,212.2	3,218.4	3,186.9	4,131.8	5,189.9
Balance sheet total	Millions of DM	5,405.9	6,167.6	6,649.3	7,057.8	7,131.8	6,817.5	6,703.4	6,702.0	7,647.9	12,828.0
Shareholders' equity	Millions of DM	1,725.3	1,742.2	1,514.7	1,617.1	1,699.0	1,675.5	1,695.6	1,860.4	2,702.7	2,973.6
Long-term debt	Millions of DM	1,598.6	1,995.6	2,533.1	2,720.3	2,564.5	2,457.8	1,955.4	2,173.3	2,188.5	5,634.6
Capital expenditure on property, plant and equipment	Millions of DM	532.4	689.5	829.3	709.3	624.1	514.7	591.3	551.5	552.8	814.2
Equity ratio	%	31.9	28.2	22.8	22.9	23.8	24.6	25.3	27.8	35.3	23.2
Long-term financing of fixed assets, investments and inventories	%	103.7	89.6	89.0	90.0	86.3	90.1	79.4	85.1	104.6	94.8
Total indebtedness	Millions of DM	929.5	1,545.9	2,152.9	2,416.8	2,289.5	2,130.4	1,988.7	1,636.8	554.5	3,659.1
Self-financing ratio	%	94.4	68.1	52.1	133.8	86.4	113.5	122.9	132.9	173.7	124.2
Liquidity ratio	%	105.0	77.1	74.6	76.5	68.3	76.6	61.3	68.7	107.1	85.3
Statement of income											
Sales	Millions of DM	8,381.9	8,551.0	9,376.9	9,689.9	9,369.1	9,876.9	10,252.6	10,430.6	11,186.1	13,188.6
Foreign markets' share	%	65.0	61.8	62.8	63.9	65.4	67.6	66.5	66.1	67.4	66.4
Cost of sales[1]	%	74.7	75.9	74.7	73.2	74.1	74.0	73.9	73.4	71.9	73.5
Selling expenses[1]	%	14.0	14.7	14.8	15.0	16.7	16.3	15.6	15.8	16.0	14.4
Administrative expenses[1]	%	5.7	5.9	6.5	6.7	6.2	6.2	5.7	5.5	5.3	4.7
EBIT	Millions of DM	476.7	298.8	334.8	468.3	296.8	301.5	387.6	524.1	626.6	796.9
Personnel expense	Millions of DM	2,724.8	3,028.5	3,236.4	3,343.3	3,293.1	3,265.0	3,273.8	3,270.5	3,425.6	3,788.6
Depreciation[2]	Millions of DM	367.5	378.0	531.0	502.6	556.9	583.5	552.7	609.2	600.1	710.9
Cash Flow	Millions of DM	604.9	510.0	526.1	701.4	578.9	625.9	739.7	814.6	960.1	1,171.4
Value added	Millions of DM	3,319.0	3,455.0	3,319.8	3,725.2	3,589.9	3,566.5	3,661.4	3,714.6	4,052.2	4,585.5
Net income/loss	Millions of DM	227.8	93.4	– 128.2	133.0	65.1	70.8	155.2	192.5	321.8	413.9
Employees											
Annual average	Thousands	46.9	48.4	50.8	50.4	49.8	49.0	48.4	46.4	44.8	50.2

[1] % to sales

[2] Excluding writedowns on investments

Continental Aktiengesellschaft
Ten Year Survey

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Balance Sheet											
Fixed assets and investments	Millions of DM	1,889.3	2,289.3	2,074.2	2,203.5	2,297.9	2,150.7	1,858.8	1,792.2	1,909.3	4,017.5
Current assets	Millions of DM	770.1	843.2	735.5	872.4	904.9	849.0	1,167.5	1,262.9	1,868.7	1,861.3
Balance sheet total	Millions of DM	2,659.4	3,132.5	2,809.7	3,075.9	3,202.8	2,999.7	3,026.3	3,055.1	3,778.0	5,878.8
Shareholders' equity	Millions of DM	1,641.1	1,620.4	1,162.4	1,189.9	1,334.4	1,392.3	1,413.0	1,452.4	2,100.0	2,134.6
Long-term debt	Millions of DM	367.4	354.9	327.1	484.4	680.0	698.3	409.4	671.4	678.0	2,501.6
Capital expenditure on property, plant and equipment	Millions of DM	135.7	154.2	183.5	194.8	179.5	135.4	96.2	98.9	103.6	100.8
Equity ratio	%	61.7	51.7	41.4	38.7	41.7	46.4	46.7	47.6	55.6	36.3
Long-term financing of fixed assets, investments and inventories	%	92.8	76.1	62.0	64.5	79.4	92.6	90.4	106.4	137.5	114.2
Total indebtedness	Millions of DM	99.1	604.1	863.8	1,037.2	659.2	418.1	193.0	36.7	+ 499.0	1,389.8
Self-financing ratio	%	35.0	26.8	53.2	91.3	79.6	901.0	– 249.1	194.9	123.6	10.1
Liquidity ratio	%	69.7	40.3	25.8	30.1	54.0	76.6	81.0	116.0	198.7	158.7
Statement of income											
Sales	Millions of DM	3,040.8	3,066.4	3,271.6	3,334.4	2,244.1	2,286.2	2,721.3	2,636.4	2,893.0	3,111.1
Foreign markets' share	%	38.1	36.0	36.9	37.4	34.6	34.9	32.6	37.0	38.3	39.1
Cost of sales[1]	%	81.5	83.3	81.0	82.4	86.7	86.8	83.5	81.0	79.2	78.7
Selling expenses[1]	%	7.1	7.3	7.4	7.6	7.9	8.5	8.4	10.6	11.9	10.7
Administrative expenses[1]	%	5.7	5.8	5.7	5.8	5.4	4.9	5.5	5.,8	4.9	4.7
EBIT	Millions of DM	172.2	152.8	– 302.7	162.5	155.1	112.7	97.3	113.3	117.8	155.6
Cost of materials	Millions of DM	1,542.2	1,579.4	2,042.6	2,107.0	1,320.5	1,380.5	1,725.6	1,475.1	1,555.8	1,709.1
Personnel expense	Millions of DM	960.6	1,023.7	632.1	642.4	585.5	572.2	647.0	759.3	748.2	806.8
Depreciation[2]	Millions of DM	129.9	130.7	139.6	167.8	169.9	165.5	96.5	101.3	112.2	117.8
Cash flow	Millions of DM	282.5	224.1	303.0	273.5	211.8	219.0	211.4	315.8	308.5	305.2
Value added	Millions of DM	1,182.8	1,232.3	320.0	804.8	740.1	684.5	744.3	872.6	866.0	962.4
Net income/loss	Millions of DM	81.2	42.2	– 417.1	38.0	71.2	47.3	56.6	67.0	90.2	100.2
Dividend paid	Millions of DM	69.6	35.1	–	–	36.1	37.5	47.0	56.7	80.2	92.0
Employees											
Annual average	Thousands	15.9	16.1	8.8	8.4	7.5	6.7	7.4	8.0	7.5	7.5

[1] % to sales

[2] Excluding writedowns on investments

The Supervisory Board

Members of the Supervisory Board	Seats on statutory supervisory boards and comparable control bodies of other business enterprises in Germany and abroad (as of 12/31/1998)
Ulrich Weiss Kronberg, Supervisory Board, Chairman	ABB-Asea Brown Boveri AG Benetton SpA, Italy Ducati SpA, Italy Fiat SpA, Italy Heidelberger Zement AG LAHMEYER AG O&K Orenstein & Koppel AG Südzucker AG
Adolf Bartels* Obernkirchen, Deputy Chairman	
Hans H. Angermueller Summit, N.J., U.S.A., Of Counsel	Munich American Reinsurance Company, U.S.A. Munich Management Company, U.S.A.
Heidemarie Aschermann* Kreiensen, Deputy Chairperson of the Employee Council, Northeim plant	
Manfred Bodin Hanover, Chairman of the Board of Management, Norddeutsche Landesbank Girozentrale	Berlin-Hannoversche Hypothekenbank AG dvg Hannover Datenverarbeitungs-GmbH Nordland Papier AG CeWe Color Holding AG Dragoco Gerberding & Co. Aktiengesellschaft Burgwedeler Golf AG Niedersächsische Staatstheater Hannover GmbH Höft & Wessel AG Bremer Landesbank Kreditanstalt Oldenburg -Girozentrale- NORD/LB Luxembourg S.A., Luxembourg DGZ-DekaBank Deutsche Kommunalbank LBS Norddeutsche Landesbausparkasse LHI Leasing GmbH Skandifinanz AG, Switzerland Fürstenberg Ehemalige Herzoglich Braunschweigische Porzellanmanufaktur Provinzial Lebensversicherung
Diethart Breipohl Icking, Member of the Board of Management, Allianz AG	Beiersdorf AG Karstadt AG Metallgesellschaft AG RWE AG Les Assurances Générales de France (AGF), France
Werner Breitschwerdt Stuttgart, Consultant	Ed. Züblin AG Zahnradfabrik Friedrichshafen AG MTU Motoren- und Turbinen-Union Friedrichshafen GmbH Dornier GmbH Mercedes Benz Südafrika, South Africa Mercedes Benz Nordamerika, U.S.A. Planungsgesellschaft Bahnbau Deutsche Einheit mbH
Casimir Ehrnrooth Helsinki, Finland, Chairman of the Board of Directors, Nokia Group, Espoo, Finland	UPM-Kymmene Corporation, Finland Merita-Nordbanken Plc, Finland Merita Plc, Finland Nordbanken Holding AB, Sweden
Hans-Olaf Henkel Böblingen, Member of the Supervisory Board, IBM Deutschland GmbH	Daimler-Benz Aerospace AG Industriekreditbank Audi AG Merrill Lynch International, U.K. Ringier AG, Switzerland
Wilfried Hilverkus* Laatzen, Deputy Chairman of the Employee Council, Stöcken plant	
Richard Köhler* Vöhl, Chairman of the Corporate Employee Council and of the Employee Council for the Korbach Plant	
Dieter Kölling* Hanover, Member of the Employee Council, Vahrenwald Plant	
Hartmut Löschner* Langenhagen, Member of the Executive Board of the Union for the Mining, Chemical, Energy Industries	Veba Öl AG AKZO Nobel Faser AG
Werner Mierswa* Burgdorf, Chairman of the Joint Employee Council of Continental AG and of the Employee Council for Continental Headquarters	
Günther Saßmannshausen Hanover, Member of the Supervisory Board, Preussag AG	Deutsche Shell AG Heraeus Holding GmbH Nord/LB Preussag Energie GmbH VAW aluminium AG Volkswagen AG
Siegfried Schille* Hanover, Commercial Employee, Chairman of the Employee Council, Limmer Plant, through April 24, 1998	
Rainer Stark* Garbsen, Head of Corporate Quality and Environmental Affairs	
Dirk Sumpf* Isernhagen, Hanover District Manager, Union for the Mining, Chemical, Energy Industries	Wolff Walsrode AG
Giuseppe Vita Berlin, Chairman of the Managing Board, Schering AG	Allianz Leben AG Berliner Kraft- und Licht (BEWAG) AG Herlitz AG Holding Herlitz PBS AG Hoechst Schering AgrEvo GmbH Deutsche Bank SpA, Italy
Bernd W. Voss Kronberg, Member of the Board of Management, Dresdner Bank AG	Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg AG Deutsche Schiffsbank AG Dresdner Bauspar AG Karstadt AG Oldenburgische Landesbank AG Preussag AG Stinnes AG Unternehmensbeteiligungs-gesellschaft für die deutsche Wirtschaft AG VARTA AG VEBA AG Volkswagen AG

* Employee representatives

Selected
Financial Terms

Significant Dates

1999

First Figures for the Previous Fiscal Year	March
Presentation of the Financial Statements	April 14
International Analysts Conference	April 14
Annual Meeting of the Shareholders	June 1
Mid-Year Report	August
International Telephone Conference	August
Nine-Month Report	November
International Telephone Conference	November

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Selected Financial Terms

Asset Backed Securitization Program.

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

Associated companies.

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

Authorized capital.

The 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.

Cash flow.

Cash flow is defined in several different ways. We compute it on the basis of the → DVFA/SG earnings formula. Its principal components are net income, depreciation, the positive or negative change in special reserves, the result-affecting allocation to provisions for pensions, and the balance of significant extraordinary items.

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.

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.

Debt ratio.

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

Deferred taxes.

Income taxes to be paid by a company are computed according to its taxable income. When this income is different from that shown 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.

Derivatives.

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

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