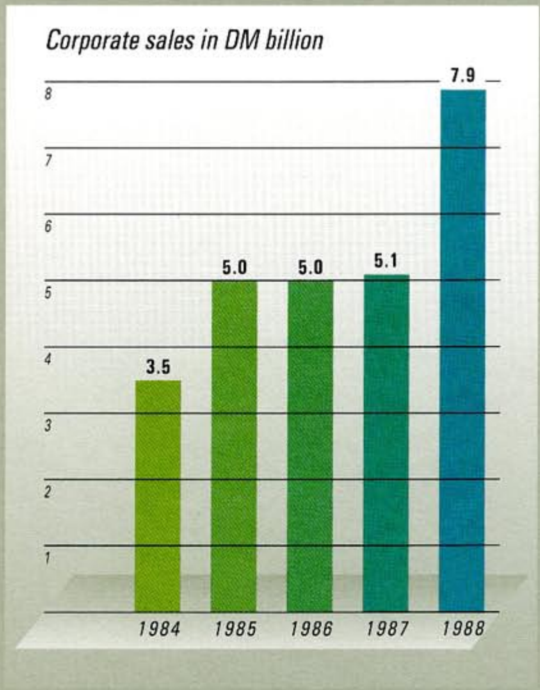
Continental
Aktiengesellschaft

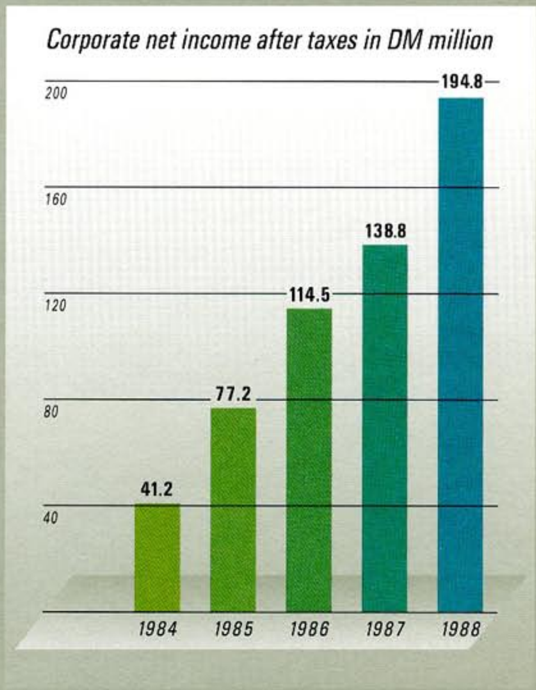
Annual Report

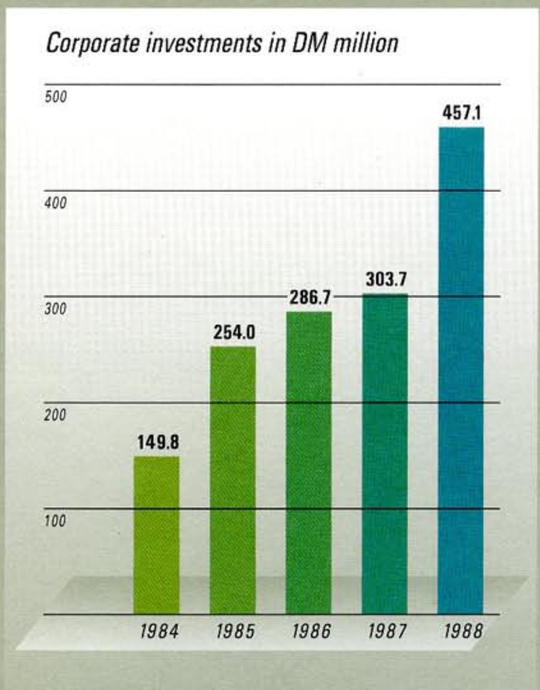
'88

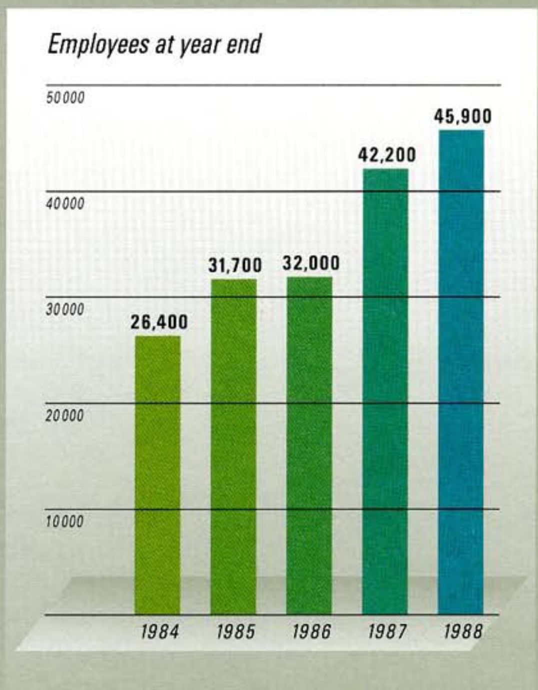
Continental Corporation at a Glance

		1984	1985	1986	1987	1988
Sales	DM million	3,534.0	5,003.3	4,968.6	5,097.6	7,905.8
Income before taxes	DM million	100.9	157.2	263.5	268.4	338.7
Dividend paid	DM million	17.9	29.9	37.5	48.0	69.2
Cash flow	DM million	204.9	303.5	375.9	464.0	623.4
Debt ratio		2.9	3.1	2.0	1.9	1.5
Shareholders' equity	DM million	522.2	638.4	808.0	1,515.8	1,657.9
Equity ratio	%	26.6	22.5	26.1	31.6	30.4
Employees at year-end		26,401	31,673	32,012	42,263	45,907


Corporate sales in DM billion
8
7
6
5
4
3
2
1
3.5
5.0
5.0
5.1
7.9
1984
1985
1986
1987
1988


Corporate net income after taxes in DM million
200
160
120
80
40
41.2
77.2
114.5
138.8
194.8
1984
1985
1986
1987
1988


Corporate investments in DM million
500
400
300
200
100
149.8
254.0
286.7
303.7
457.1
1984
1985
1986
1987
1988


Employees at year end
50000
40000
30000
20000
10000
26,400
31,700
32,000
42,200
45,900
1984
1985
1986
1987
1988

Continental — the new corporate design

In recent years, there have been some changes at Continental — changes in personnel at the management level and changes in structure resulting from our expansion into North America and our alliance with Japanese partners.

This whole new dimension is reflected in an external transformation which gives visual expression to a new perception of our identity: in our new corporate design.

This began when the Company was renamed "Continental Aktiengesellschaft", a decision based on its development into a multi-brand corporate group and its increasing internationalization. Each individual brand has its own identity below the corporate level, as clearly shown by the new corporate design.

The Corporation's logo "Continental Aktiengesellschaft" is a symbol identifying its umbrella function. The addition of "Aktiengesellschaft" and the horse give it a uniqueness that can be appreciated not only in Germany but in other countries as well. At the same time, the Company's German origin is apparent from the use of the word "Aktiengesellschaft" to denote its legal form, and distinguishes it from the many other companies that also use the name Continental. The turquoise-green color of the lettering is somewhat less prominent, since it has no marketing function in the strict sense of the word.

The "Continental" name recalls the Corporation's origin and its widespread reputation, but also differentiates it from the product-oriented Groups. Its new appearance expresses superiority, size and stability, as well as technological competence. It simultaneously distinguishes the Corporation from the "Continental" tire brand, which will retain the traditional orange-colored lettering as its exclusive prerogative.

In order to provide our activities outside the tire sector, which have long been operating independently, with conceptual autonomy as well, they have now been brought together under the name "ContiTech" — which is also closely associated with the horse.

When all its determining factors are taken into account, the new corporate design is a visible symbol of the way in which Continental regards itself today: as a globally active rubber company, reliable and financially sound, innovative and growth-oriented — a Company with a future.

Report on 1988, the Company's 117th Fiscal Year

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Members of the Supervisory Board

Alfred Herrhausen, Chairman,
Member of the Board of Managing Directors,
Deutsche Bank AG

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

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

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

Manfred Emcke
Management Consultant

Baron Albert Englebert
Chairman of the Board of Directors
Pneu Uniroyal Englebert S.A.

Willi Goldschald*)
Chairman of the Employee Council
Vahrenwald Plant

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

Richard Köhler*)
Chairman of the Employee Council
Korbach Plant

Joachim Kost*)
Head of Vehicle Interior Trim/Textile Operations

Hans L. Merkle
Stuttgart

Ernst Pieper
Chairman of the Managing Board
Salzgitter AG

Klaus Piltz
Member of the Managing Board
Veba AG

Günther Saßmannshausen
Member of the Supervisory Board
Preussag AG

Friedrich Schiefer
Member of the Managing Board
Allianz AG Holding

Siegfried Schille*)
Chairman of the Employee Council
Limmer Plant

Hugo Schleiermacher*)
Former Member of the Employee Council
Vahrenwald Plant

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

Wolfgang Seelig
Member (retired) of the Managing Board
Siemens AG

Ernst Sprätz*)
Chairman of the Employee Council
Dannenberg Plant

*) Employee representatives

Report of the Supervisory Board

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

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

Especially noteworthy in this connection was our approval, at a special meeting, of the Executive Board's requests to carry out further projects for General Tire and ContiTech at a total cost of DM 847.4 million, in addition to the regular capital investment program.

We have examined the financial statements, the management report on the business and the proposal for the allocation of net income available for distribution. We found no grounds for objection. The Supervisory Board concurs in the result of the audit by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, which has confirmed, in its capacity as independent auditor, that the accounting records and financial statements comply with the legal requirements and that the management report on the business is consistent with the financial statements. We have approved the financial statements as of December 31, 1988, prepared by the Executive Board, which are thereby definitively confirmed, and we endorse the proposal of the Executive Board regarding the allocation of net income.

The consolidated financial statements, the management report on the Corporation's business and the auditors' report on the consolidated financial statements have been submitted to us as well.

At its meeting on May 2, 1988, the Supervisory Board appointed Mr. Ingolf Knaup a deputy member of the Executive Board, responsible for Corporate Finance, as of the same date.

Hanover, May 12, 1989

The Supervisory Board

Alfred Herrhausen

Alfred Herrhausen, Chairman

Members of the Executive Board

Horst W. Urban
Chairman

Wilhelm Borgmann
Vice Chairman
Tire Manufacturing and Technical

Peter Haverbeck
ContiTech

Hans Kauth
Director of Personnel

Günter H. Sieber
Tire Marketing and Sales

Wilhelm P. Winterstein
Controlling and Logistics

Ingolf Knaup
Deputy Member
Corporate Finance

Wilhelm P. Winterstein   Günter H. Sieber   Peter Haverbeck

Horst W. Urban   Wilhelm Borgmann   Hans Kauth   Ingolf Knaup

Dear Shareholders,

I am pleased to report that we can again present you with outstanding results for the 1988 fiscal year. Sales volumes, revenues, earnings, capital spending and capital funds reached levels unprecedented in the history of our Company. I feel that both management and our employees can be justifiably proud of this achievement. The financial statements reflect the overall favorable conditions continuing for our industry and other branches of the economy. Our tire manufacturing plants again operated at full capacity; in fact, bottlenecks even led to some delays in deliveries. Nevertheless, competition is getting tougher, due to a process of concentration resulting from customer requirements and cost factors, which, in all probability, will continue.

One of Continental's biggest tasks in 1988 was to integrate General Tire as an autonomous Group. We acquired this tire manufacturer, the fifth-largest in North America, at the end of 1987. The consolidation of General Tire's plants and the accelerated expansion of its radial tire capacities required an intense management effort. In addition, General Tire, together with our Japanese partners Toyo and Yokohama, has started to build a facility to produce steel-belted radial truck tires for the North American market. At this plant, the product and manufacturing technology of four tire companies from the world's three most important economic regions — North America, Japan and Europe — will be combined to attain maximum quality and efficiency. This is certainly an unusual procedure in our industry and, in my opinion, a promising one. The total amount invested in these and other projects in North America between now and 1992 will equal the entire purchase price for General Tire, but will not impede our expansion in Europe or limit the Corporation's financial mobility.

We made great efforts during 1988 to bring about a lasting improvement in the competitiveness of our German plants. To make jobs at Continental more secure, employees, employee representatives and trade unions gave us their constructive cooperation in reviewing and optimizing our internal organization and cost structures. Among other things, ways were found of using available capacities on weekends. I wish to take this opportunity to express my sincere thanks once more to everyone concerned.

The key words for our future development are quality, technology, costs and marketability — in precisely that order. In this context, quality means far more than just supplying reliable products that meet specifications. All our employees, whether in production, sales, logistics, or administration, are expected to produce nothing short of the results they would require if they were customers. Our customers demand the very best, and we must and shall accommodate them. Technology and innovation form the basis on which we offer them optimum, jointly developed solutions. The name ContiTech, which we have given to our Industrial Products Group, symbolizes this high-tech approach. In the future, we will make significant additions to our research and development potential, particularly because the variety and complexity of our products is increasing, while their life cycles are growing shorter.

Although we give top priority to quality and technology, we also pay close attention to costs and marketing. Sucessful cost management will give us an invaluable competitive edge, which we intend to establish wherever the drawbacks of our plant locations permit us to do so. We shall ensure further growth for our Company not only through creativity and proximity to our customers, but also through capital investments in marketing tools.

You, our shareholders, will certainly appreciate what has been achieved in 1988, all the more so since we were able, contrary to our expectations and despite all our growing pains and a sharp rise in the number of shares, to maintain earnings per share at the previous year's level of DM 29.20.

Last year we again used a so-called "Road Show" to explain our sound financial situation and earning power, as well as our future plans, to interested investors, portfolio managers, and the press at major financial centers throughout the world. The response to this presentation was excellent. Since Continental has become an international company, and more than 50% of our shares is in portfolios outside Germany, we wish to continue this kind of communication with those circles interested in our Company.

As the economic climate remains healthy, we expect to make further progress in fiscal 1989. I hope to have the pleasure of welcoming you at our Annual Meeting of Shareholders at the beginning of July in Hanover, where I will be happy to give you a more detailed report.

Sincerely,

Horst Urban

Horst W. Urban

Economic Environment

The automotive industry and its suppliers benefited from the continued solid growth of the economy.

The upswing in the Western industrialized countries continued for the sixth consecutive year since the end of the last recession. Contrary to many expectations, 1988 actually saw the second-largest production increase of this decade. The gross national product in these countries was up 4% over 1987.

The slowdown in the United States economy that had been expected immediately after the sharp price decline on the world's stock exchanges in the autumn of 1987 did not take place. On the contrary, economic growth, at 3.8%, was considerably higher than in the previous year.

Japan did exceptionally well. Its economy grew by more than 5.5%, with prices remaining virtually unchanged. This growth was supported to a large extent by a substantial gain in domestic demand.

Economic growth in West Germany, at 3.4%, was also good, mainly due to increased demand from abroad, intensified capital spending for equipment and construction, and, last but not least, a rise in consumption in the private sector.

The German automotive industry continued to do well. Although 3.1 million new vehicles were registered in Germany, or 3.3% less than in 1987, more than 2.8 million passenger cars were sold, representing the third-highest number of registrations in automotive history. Production, at 4.6 million vehicles, came close to the record level of 1987.

While the number of passenger cars and station wagons manufactured was slightly lower than in the previous year, dropping 0.6% to 4.4 million units, production of commercial vehicles showed above-average growth, expanding by 7%. German automobile producers sold about 58% of their output to customers abroad, boosting exports more than 2% over the previous year.

Worldwide automotive manufacturing continued to grow during 1988. A total of 34.3 million vehicles, or 3.7% more than in 1987, came off the line. Italy posted the highest growth rate, increasing production by 11% or 195,000 units.

The German rubber industry also recorded exceptional gains in volume for 1988. On the other hand, the corresponding sales revenues grew at a considerably slower rate, due to mounting competition within the industry, which forced down prices on almost all its markets, especially for tires. The price pressure made itself felt both in sales to the automotive industry and in the replacement business in Germany and abroad.

As a supplier industry, our business depends to a large extent on the vehicle producers. At most, there will be only a slight decline in European passenger car manufacturing during 1989, and commercial vehicle production will show a further increase.

Prospects for the other purchasers of industrial products, especially the mechanical engineering sector, are also good.

Overall, the dynamic economic trend in West Germany should continue in 1989. As in the previous year, the impetus will come from both domestic and foreign demand, whereby the main stimulus is expected from capital spending in Germany.

Management Report for the Corporation and Continental Aktiengesellschaft

Intensified Concentration

In 1988, the process of concentration in the worldwide tire market accelerated. The acquisition of Firestone in the U.S.A. by Bridgestone, a Japanese company, brought about a lasting change in the competitive situation. Since Firestone also has plants in Europe, in addition to Sumitomo/Dunlop, there is now a second Japanese tire manufacturer producing in this continent.

In 1978 the Western world's five largest tire manufactures held 55% of the market; by 1988 this figure had grown to over 70%. The Continental Corporation, with a world market share of almost 8%, ranks fourth among these companies, but it is still considerably behind its competitor in third place. Further changes in the structure of this market can be anticipated. The number of smaller, independent suppliers will probably decrease.

On the other hand, this trend to global concentration and presence, which became increasingly evident in 1988, proves how strategically important and timely it was for us to acquire General Tire in North America. Unlike manufacturers of industrial rubber products, tire manufacturers must be active throughout the world. The automotive industry expects an international presence, and sharply rising research and development costs can only be absorbed by correspondingly high sales volumes.

Closing discussion in Tokyo between board members of Yokohama, Toyo and Continental/General Tire on setting up the joint venture in the U.S.A.

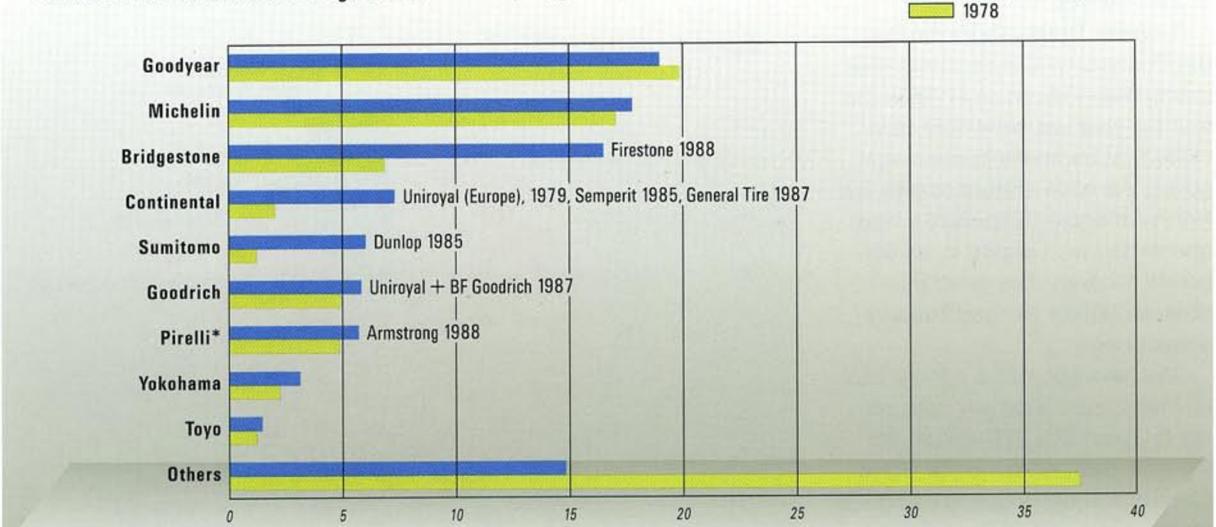
Dynamic Strategy Continues

In 1988 Continental continued its dynamic strategy, as witnessed by its adoption of the largest capital spending program in its corporate history. The Company is scheduled to invest DM 2.9 billion by 1992: DM 1.2 billion in North America, and DM 1.7 billion in Western Europe. Most of these investments will be financed from the cash flow.

Capital spending program for 1989 – 1992 at a record level.

The agreement signed with our two Japanese partners, Yokohama and Toyo, to establish a joint venture in the U.S.A. for the production of large commercial

Process of concentration in the global tire market (in %)



* estimate for 1978 as Pirelli and Dunlop published a joint financial statement

Capital investments in the ContiTech Group are starting to pay off.

vehicle tires went into effect on November 21, 1988. The new plant will have a capacity equal to about 50% of that presently available to us for manufacturing truck tires at our European plants.

The main advantages for the participating companies are more cost-efficient production and distribution of risk. The total investment in the joint venture will amount to approximately DM 350 million. The project is making good progress, and production is scheduled to start in 1991.

Our strategic alliance with these two capable Japanese manufacturers covers a 13% share of the worldwide tire market.

However, we intend to strengthen our presence not only in North America but also in Western Europe. Our capital investment plans for the next few years make it clear that, in the European markets, we are striving for further growth.

For example, on May 1, 1988, as an important first step toward expanding the operations of our ContiTech Group in Europe, we acquired the French Anoflex companies.

General Tire's Integration in Full Swing

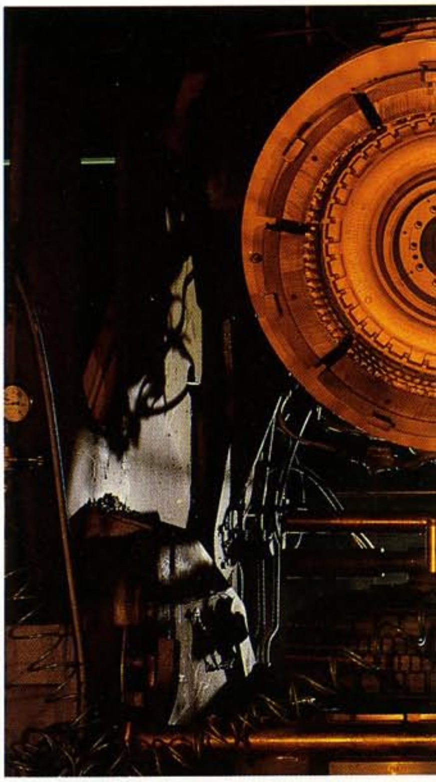
General Tire's integration into the Continental Corporation made strong demands on us in 1988, the first full year we were able to include that company in our overall policy. We have started to give our North American subsidiary a new orientation with regard to its corporate strategy. However, this does not affect General Tire's independence.

We have adopted a special capital investment program, amounting to about DM 380 million, for General Tire's plants in the U.S.A., Canada and Mexico. It is designed to improve quality, increase productivity, expand capacity, and accelerate the changeover from bias-ply to radial tires. In Europe bias-ply tires are seldom manufactured today, but in North America this technology still constitutes a large part of the market and of our product spectrum for commercial vehicle tires. Switching to modern radial tires will therefore be a crucial task for the next few years.

General Tire plans to expand its position in the North American original equipment market. Japanese manufacturers producing automobiles in the U.S.A. and Canada are become more important in this connection. In addition, we are trying to improve the product mix and degree of penetration of the General brand. However, we shall also continue and expand its business with private brands in the future.

In 1988 we started to consolidate our position in the replacement business by enlarging our own trading organization and by establishing closer ties between General Tire and independent tire dealers. We have scheduled substantial capital expenditures for this purpose.

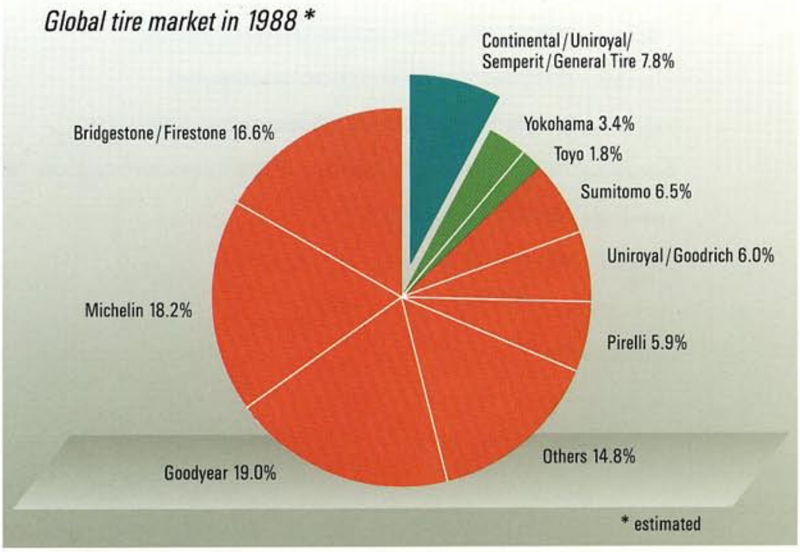
During its first year in the Continental Corporation, General Tire scored an overall success that warrants high expectations for the future.



Upswing for Industrial Products

ContiTech, the Industrial Products Group, posted exceptionally good results in 1988. Though

*Global tire market in 1988 **



net income more than doubled, earning power has not yet reached the same level as in the tire business. The overall economic environment contributed to the favorable trend. In addition, the plant streamlining and reorganization measures initiated during the last few years are having an especially positive effect. The wisdom of our unusually large capital investments in these sectors has been confirmed.

We have improved both our delivery capability and the structure of our program, particularly as regards our business with the automotive industry. Products and systems based on relatively simple technologies are being replaced to an increasing extent by more sophisticated ones.

Our search for new manufacturing possibilities in the other Western European countries continues. We must intensify this effort in order to supply the automotive industry from more cost-efficient locations.

Manifold Measures to Reduce Costs

In addition to expanding production, reducing costs is of prime importance in our industry, where crowding-out is prevalent. This is particularly true of West Germany, but it also applies to the overall structure of our Company. Even though the cost differential with facilities in other EEC countries has narrowed somewhat, production in German plants is, by comparison, too expensive.

The "optimum infrastructure" program to boost efficiency which we instituted at our headquarters and the Hanover plants showed its first positive results in 1988. By 1990, the other corporate units in Germany and abroad will be included in this program. We have the utmost confidence that an internal structure adjusted to the Company's new size will not only release a considerable amount of synergistic potential and resources, but also reduce costs.

We agreed with the Employee Council on a 15-point cost control program for all the parent company's manufacturing locations. In view of the German plants' loss of competitiveness, which has become increasingly apparent in recent years, both sides were able to agree that the rise in costs should be limited, to make jobs more secure over the long term. The program will slow down the increase in personnel expense and employee benefits over the next few years.

These cost control measures, which will be applied step by step in all Groups, will strengthen our competitiveness. In the future, market leadership will depend more than ever on cost management. It goes without saying that this must not affect the quality of our performance.

A substantial part of our annual capital investments goes toward streamlining and increased productivity. In order to make better use of our domestic and foreign production facilities, we introduced additional shifts and, in many cases, a six-day week.

As a result, 770 new employees were hired in production.

Extremely High Demand

The capacity expansion carried out during the fiscal year has provided a base for the Corporation to meet customer requirements. In the next few years we intend to make even greater use of worldwide sales opportunities and expand our market position.

Thanks to a favorable economic climate in West Germany and the other Western industrialized countries, demand for the products of all our Groups was very high in 1988.

Specialized know-how, modern technology and skilled manual work are key elements of tire manufacturing.

Joint efforts by the employees, the Employee Council and the management are easing the cost pressure in our German plants.

Stiff worldwide price competition is preventing sales and earnings from growing at a faster pace.

Our plants in Germany and abroad were so overburdened that it was sometimes difficult to meet the demand. By extending operating hours and eliminating bottlenecks, we achieved further marked increases in production capacity and, consequently, in sales volume. In the Tire Group, measures to improve flexibility in switching production from plant to plant also made a significant contribution.

It is gratifying to note that our strong growth in sales volume was achieved even though automotive production in Western Europe showed a far smaller increase by comparison. We have therefore gained additional market shares for tires and industrial products in the major Western European countries. We expect that volumes and market shares will continue to increase in 1989.

Volume Grows Faster than Revenues

Consolidated sales rose by 55.1% to DM 7,905.8 million (1987: DM 5,097.6 million). Based on the 1987 sales of all companies belonging to the Corporation at the end of 1988, growth was 6.1%. The rise in General Tire's sales amounted to 9.2%.

Because prices were lower, the gain in sales revenues does not fully reflect the increases in output and sales volumes. As an example, 62.6 million passenger and commercial vehicle tires were produced by the Corporation, including General Tire, or 89% more than in 1987. Without General Tire the growth amounted to almost 10%.

The following table shows sales revenues compared with 1987.

Sales revenues	1988 DM million	1987 DM million	Change in%
Parent company	2,813.3	2,423.1	+ 16.1
Consolidated	7,905.8	5,097.6	+ 55.1

Tires accounted for 80.5% (1987: 72.1%) and industrial products for 19.5% (1987: 27.9%) of consolidated sales.

For the parent company, 64.9% of sales (1987: 61.5%) was attributable to tires and 35.1% (1987: 38.5%) to industrial products.

Company-Wide Expansion of the Information System

Our Company's dynamic growth, the increasing requirements of the market, and the necessity to respond to them with

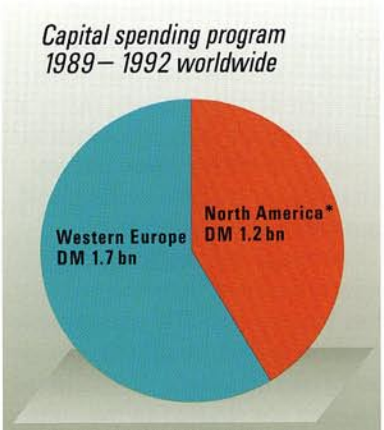
Apart from steel, textiles also have an important role to play in the rubber industry.

greater speed and flexibility are making it essential for us to expand our information systems. We therefore stepped up the use of modern data processing and communication technologies in 1988.

All existing and future data processing systems will be integrated according to a Company-wide concept, thereby improving not only productivity and operating procedures, but also planning and decision making.

1988 made special demands on production and logistics, to cope with the strong gains in volume. In-depth penetration of our plants with information and communication technology is an important means of achieving further production increases and heightened flexibility.

The great variety of logistical relations between the European production and sales companies, which, in addition to sales to customers, generate sales of about DM 3.3 billion within the Corporation, necessitates efficient communication between all members of the distribution chain. In this context, modern information systems provide valuable assistance.



* includes DM 350 m for the joint venture

Intensifying Research and Development

The Corporation spends 4% of its sales on research and development.Steadily increasing technological demands are being made on our products, while their life cycle is growing shorter. We will therefore substantially increase the personnel and equipment of our research and development departments, as well as the use of modern systems.

Organizational changes to better coordinate the research activities of the four tire brands are another means of improving our efficiency. However, this will only affect basic research, since, pursuant to our multi-brand policy, each of the four brands will continue to carry out its own product development. In 1988 we included General Tire in this overall concept.

Our collaboration with Toyo and Yokohama, which was further expanded in 1988, proved advantageous for all parties concerned.

As a general rule, the CAD system is used throughout the Corporation for tire development. For the entire process, from the tire aspect ratio through the tread pattern to the sidewall design, the necessary data are now calculated only once and then stored. The original data are always available to develop new tire variants in a relatively short time.

The finite-element method* for tire computation and design, using high-performance computers, also offers us many advantages.

General Tire was included in the Corporation's R&D work.

Capital Expenditures Reach Record High

During the next few years, the book value of our fixed assets will be affected by further increases in depreciation and higher capital spending, largely as a result of the capital investment programs for General Tire and the American joint venture with our Japanese partners.

Additions to consolidated fixed assets and investments, including intangible assets, at DM 457.1 million, reached a new high in 1988 (1987: DM 303.7 million). They were used primarily for quality improvement, streamlining, capacity expansion, and intensified use of computer-aided systems and methods. Substantial funds were also spent on marketing and logistics.

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

Consolidated earnings show a decided improvement.

Rise in Cost of Raw Materials

Raw materials are a major factor in the manufacture of tires and industrial rubber products, accounting for approximately 40% of overall costs. Their prices thus have a considerable influence on the earnings of our Company.

In mid-1988, prices for natural rubber reached a peak that had not been seen for a long time. During the next six months, they fell almost to the level at which they had started the year, but the average price in D-marks was approximately 11% higher than in 1987.

The good level of business activity in the rubber industry worldwide led in some cases to a serious shortage of many starting materials, especially such reinforcements as steel cord and textiles. On the other hand, we hardly benefited from the cost advantages resulting from cheaper oil, since some of our suppliers actually demanded higher prices, which we were not able to pass on to our customers.

In the U.S.A., prices for chemical raw materials and reinforcements rose even more sharply than in Western Europe.

Under these circumstances, the fact that we procure steel cord and textile cord, as well as carbon black and synthetic rubber, to some extent from our subsidiaries gave us a significant advantage.

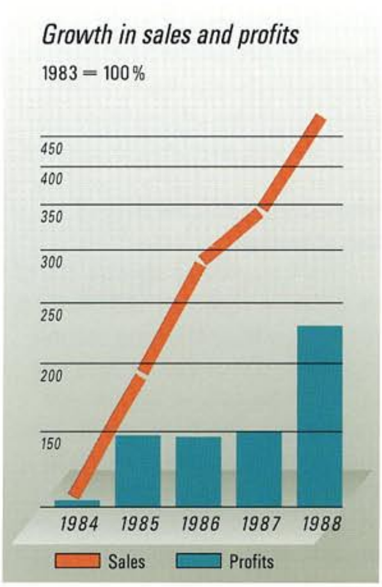
Stiffer environmental protection and occupational health regulations requiring changes in the use of raw materials caused, and are continuing to cause, further bottlenecks and additional costs.

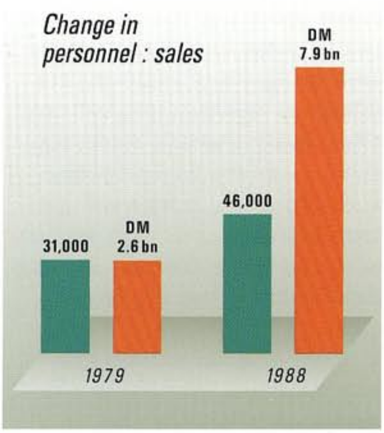
Investing in Executives

The growth and increasing internationalization of our Company are obliging us to strengthen our management, both quantitatively and qualitatively. Worldwide competition requires managers who are attuned to the political, economic and social developments in other regions of the world. This improves their understanding of our corporate policy in Europe and beyond. We therefore need to provide an even broader international basis in training and professional experience.

Although the acquisition of new companies in recent years has brought with it a considerable increase in highly qualified management personnel, our executive resources are strained to the utmost by the multiplicity of new tasks in Europe and North America.

Over the long term, we should satisfy our executive requirements mainly by promoting employees within the Company. For the immediate future, however, gaps can be filled in many cases only by hiring experienced managers and their potential successors. Our Company's economic success and increasing internationalization have made it noticeably more attractive to highly qualified executives.





Further Improvement in Financial Strength

At December 31, 1988 the capital stock of Continental Aktiengesellschaft was DM 432.7 million. The equity ratio of the parent company increased by DM 34.1 million to DM 1,601.3 million and financed 63% of the assets (1987: 63.4%).

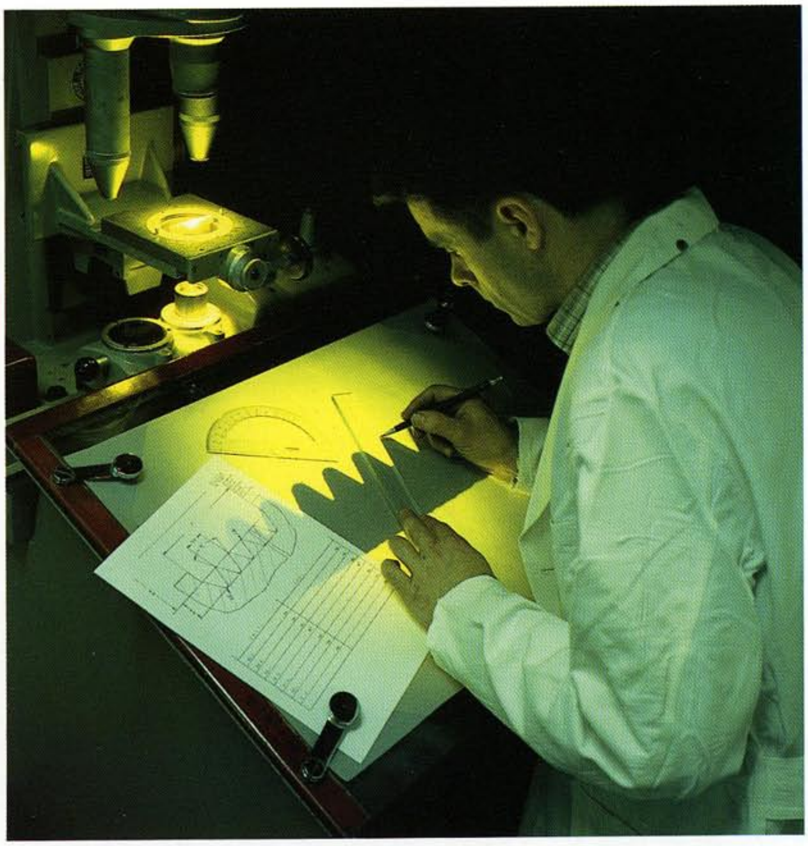
Consolidated shareholders' equity rose by DM 142.1 million to DM 1,657.9 million and amounts to 30.4% of total assets (1987: 31.6%).

Improved Earnings

Cost increases for raw materials and personnel in the Corporation, as well as declining prices for some of our products on the German and international markets, had a negative effect on earnings.

Nevertheless, consolidated net income again increased considerably, although there are negative as well as positive factors affecting corporate financial results.

The positive factors included considerable growth in volume, substantial improvement in productivity, and a steady trend to more sophisticated products. Even so, price wars prevented the Tire Group (Continental, Uniroyal and Semperit) from reaching its previous year's earnings level. On the other hand, ContiTech reported a very substantial improvement in its income, and General Tire, even after all the costs of refinancing its purchase had been deducted, also made a gratifying contribution to overall profit during its first full year of corporate membership.



tax ratio was likewise favorable, due to lower tax rates in many European and overseas countries.

Consolidated earnings before income taxes rose to DM 338.7 million (1987: DM 268.4 million). After income taxes had been deducted, net income amounted to DM 194.8 million, up 40.4% over the previous year (DM 138.8 million).

The parent company's earnings before income taxes amounted to DM 163.7 million (1987: DM 148.3 million) and its net income to DM 80.9 million (1987: DM 55.8 million). Net income available for distribution was DM 70.4 million.

Dividend Proposal

The Administration proposes to the Shareholders' Meeting that DM 69.2 million of the net income available for distribution be used to pay a dividend of DM 8.00 (16%) on each share with a par value of DM 50.00, and that the balance of DM 1.2 million be carried forward.

Thanks to Our Employees

The strong increase in volume in 1988 made extremely high demands on each one of our employees, but most of all on the production, R&D and sales staff. Additional pressure came from the integration of General Tire and programs to cut costs, improve capacity utilization, and optimize the Company's structural organization.

The high level of earnings reflects our employees' and executives' dedication, expertise, and readiness to accept responsibility.

We thank all the Company's employees, including those who retired in 1988. Our thanks also go to the employee representatives in the plants, the Joint Employee Council and the Corporate Employee Council. In 1988 especially, close cooperation enabled us to find solutions that could only be reached by mutual compromise.

The majority of ContiTech's products are developed to meet the specific needs of the customer.

Outlook

We do not expect any dramatic changes in the global economic picture for 1989. The level of production in the automotive industry continues to be high; at most, there will be only a slight decline. Economic forecasts for the other industries in the Western industrialized countries also remain favorable. We therefore expect that our capacities, which we intend to expand further, will again be fully utilized during 1989. The current measures to cut costs and increase efficiency will have a positive effect both in 1989 and the following years. The progressive integration of the EEC countries into a single economic unit, which is due to be completed for the most part by 1992, will provide momentum to stimulate the European economy. For our Company, this will undoubtedly result in an even greater internationalization of marketing operations. However, we do not expect any other major changes, since in our industry the single European market is already to a large extent a reality.

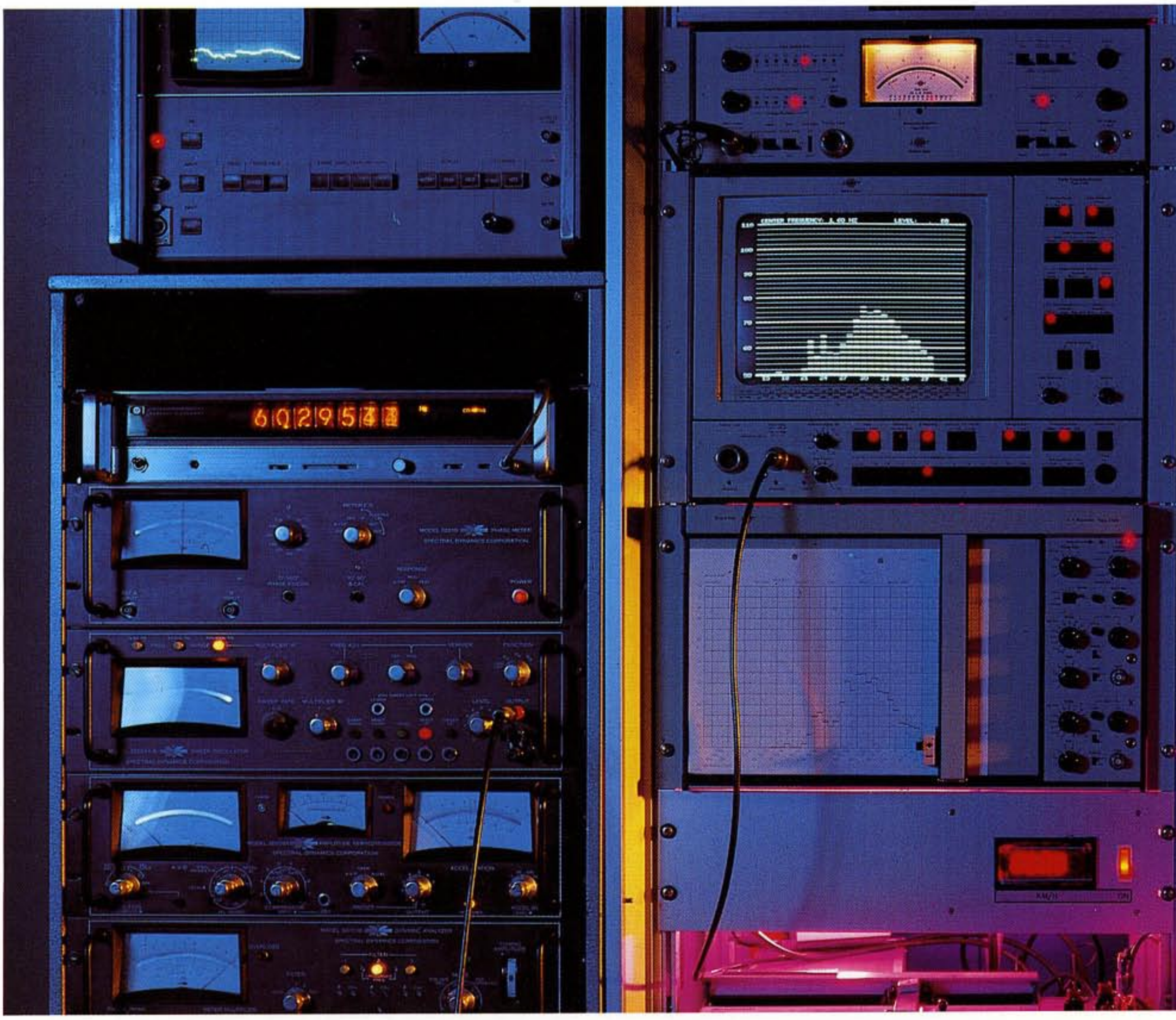
Further growth in sales and a continued high level of earnings are expected in 1989.

We expect that sales will continue to rise in 1989 and earnings will reach a high level.

Tire Group

Continental, Uniroyal Englebert, Semperit

The performance of tires has been greatly improved in recent years. Current research is focused on reducing tire noise. Sophisticated measuring and testing equipment is a vital part of this process.



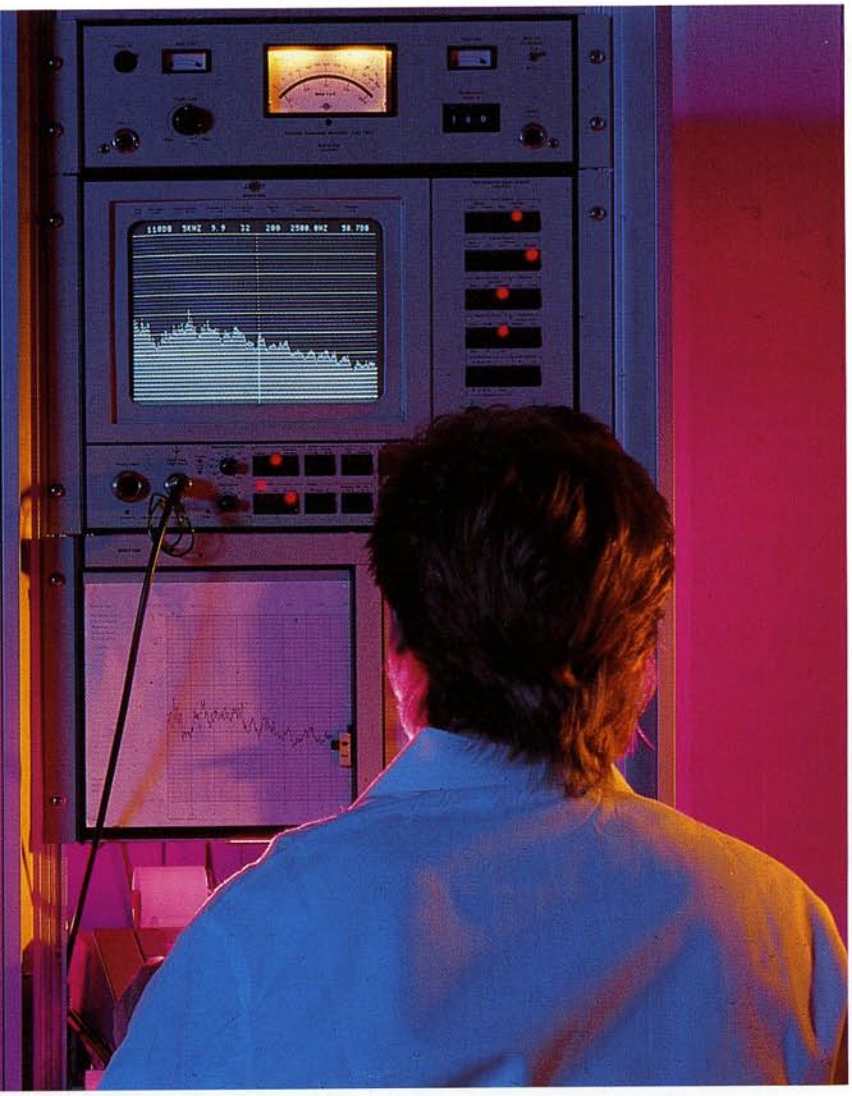
Continental, Uniroyal and Semperit are winning market shares.

The healthy sales volumes of 1986 and 1987 continued during the fiscal year. Production rose by almost 10%, although the number of employees in the plants increased by only 3.4%. The three tire brands recorded consolidated sales of DM 3,800.0 million, a gain of 5.4%. Earnings fell slightly short of the previous year's record. The main reason for this, apart from higher materials prices and other cost increases, was extremely tough price competition in both the original equipment and replacement business, which made it impossible to pass on additional costs.

The growth in volume and a rise in the proportion of high-performance tires cushioned the negative effects of the pressure on prices.

The Tire Group succeeded in winning new market shares in all the key Western European markets and in the most important product segments. Snow tires again reached the record high of 1987. Through strenuous efforts, we succeeded in improving our still insufficient participation in the four large European markets outside Germany: France, the United Kingdom, Spain and Italy. In Western Europe, our market shares for passenger tires rose to 16% and for commercial vehicle tires to 18%. We shall continue to pursue this course by systematically expanding our distribution activities.

Sales volumes of high-speed and low-profile tires were exceptionally high. They already constitute about one third of our passenger tire business. This again demonstrated the advantages of having the three brands operate independently as competitors on the European market.



CTS Ready for Mass Production

The development of our new CTS (ContiTireSystem) for passenger cars has now reached the mass production stage. The introduction of this complex tire concept requires not only new manufacturing facilities, but also new rims, valves and assembly equipment. We are working intensively on a broader basis with an enlarged circle of companies to further upgrade these components.

At the time this report was being prepared, the date for the market introduction of CTS had not yet been set. We have every confidence in the success of this new system. The research and development costs for CTS have already been expensed. More funds have been earmarked for investment during the coming years.

Improved utilization of manufacturing capacities is increasing productivity.

Extended Operating Hours

To handle the sharp rise in market requirements that occurred in 1988, we have now introduced a 6-day work week at our Clairoix plant in France, in addition to the ones that have already been instituted in Sarreguemines, France, and Newbridge, Scotland. In the fall of 1988 we added Saturdays to the work week at our Stöcken tire plant in Hanover, which is now operating on 16 shifts.

Restructuring at our two plants in Belgium and Ireland, which also includes extending the weekly operating hours, continued on schedule. We expect that the current year will mark the beginning of a permanent improvement in earnings, since the measures taken in the past to increase productivity are starting to take hold.

R&D Centers in Europe

Almost 1,000 engineers, chemists, physicists, mathematicians, technicians and laboratory assistants, test drivers and inspectors, manual workers and skilled rubber workers are currently working at the three European tire development centers run by Continental, Uniroyal and Semperit. 50% of these employees are based in Hanover and 25% each in Aachen and Traiskirchen/Austria. The three centers develop the products for their respective brands independently of one another.

Auto manufacturers expect the optimum tire for each individual type of vehicle. As a result, there are constant additions to the range of tire sizes and aspect ratios over increasingly short intervals of time, which means that the life cycle of the individual products is becoming shorter and shorter.

We again made systematic capital investments in modern systems like video workstations and interactive graphics terminals. In addition, we have intensified the use of electronically controlled testing equipment, data acquisition, computer-aided evaluation and X-ray techniques. All R&D centers are interlinked by means of a computer system.

The fast-selling Continental low-profile tires enhance our product mix.

In 1988, the Continental Division increased sales by 6.8% to DM 1,566.5 million, sold 1 million more passenger tires and 150,000 more commercial vehicle tires, and continued to show a good profit.

Internationalization in Original Equipment, Too

Continental works hand in hand with the automotive industry on development. During the fiscal year, the original equipment business was again marked by increasing internationalization, which made fresh demands on R&D and marketing. However, the quantity of tires shipped to Japanese auto makers from the plants of Toyo, our partner under a cooperation agreement, has not yet come up to our expectations. On the other hand, we noted a further rise in the trend to the Continental tires made by General Tire for the American market. Among other things, this has reduced our foreign currency exposure.

Good Volume in the Replacement Business

There was a pronounced growth in volumes sold on the replacement markets. We did good business in the German tire market in terms of both unit sales and earnings. The Continental brand has continued to gain in popularity with tire dealers and end users. Low-profile sports tires for fast cars, which constitute almost 30% of the manufacturing program, recorded a volume growth rate of over 25%, substantially outpacing the product lines in the standard program.

Revenues and volumes also rose in key European markets. We believe there will be good opportunities in the coming years for us to steadily build our shares in markets where Continental tires are not yet realizing their full potential, and we fully intend to do so.

Strengthening Our Positions

In 1988, as in the previous year, we were able to realize a substantial gain in shipments of tires from Europe to the U.S.A. Delivery bottlenecks and unfavorable foreign exchange rates prevented us from taking full advantage of the available market opportunities. Nevertheless, we succeeded in expanding our position in this market to a point where we can look forward to the future with some confidence.

Exports to the Far and Middle East began to recover in 1988, as vigorous growth trends reemerged in these regions. Business with Eastern Europe has not generated significant sales in recent years, but we will continue to develop our contacts there, since we see good possibilities for the future.

More Specialization in Passenger Tires

Continental had its best year to date in terms of passenger tires. The ContiSportContact low-profile tire that had been introduced successfully in 1987 has fully justified our high expectations. This was

Auto journalists from many countries are regularly given the opportunity to test new products on various vehicles.

particularly true of the German market, which, as experience has shown, takes the lead among the Western European countries in adopting new tire sizes.

Sales of low-profile tires in the neighboring European markets were also gratifying. We are expecting a further increase during the current year because a new, ultra-low-profile tire with directional tread and designed for speeds in excess of 240 km/h (150 mph) was launched. A major objective in the development of this tire was to achieve a high degree of safety on wet roads.

The snow tire business has traditionally had a marked influence on sales and earnings. Like low-profile tires, these products have for years been showing above-average market growth. For example, in the German market snow tires represented only 20% of the new tires in 1984, but by 1988 the figure had reached 25%.
This confirms the trend to using special tires in wintertime; but, the concept of a year-round tire has so far been unsuccessful in Europe. Despite the mild temperatures prevailing in this region, Continental was able to repeat the previous year's record snow tire sales in 1988. However, dealer inventories are still high. Although Continental's share of these stocks is below average, this nevertheless puts us at a certain disadvantage for 1989.

Continental industrial tires have a long service life, give optimum cushioning and traction, and are suitable for relatively high sustained speeds.

Persisting Difficulties in the Truck Tire Business

The commercial vehicle industry had a good year in 1988, and the replacement business prospered as well. Even though sales revenues and volumes topped the previous year's level, prices and earnings were unsatisfactory.

The truck tire replacement business in France, Germany, the United Kingdom and the U.S.A. was comparatively good, compensating partly for the unsatisfactory situation elsewhere.

Healthy Trend in Industrial and Agricultural Tires

The measures adopted in recent years to strengthen the industrial and agricultural tire segments are beginning to show gratifying results.

We expanded our leading position in the European industrial tire business and made new additions to our product portfolio.

However, because of the import pressure exerted by suppliers from countries with more favorable cost structures, the generally positive earnings trend did not keep pace with the growth in volume.

Helped by its broad product spectrum and aggressive marketing, Continental increased its sales of agricultural tires, and its market share grew steadily during the fiscal year. We have set ourselves ambitious targets for 1989 to further consolidate our position in this segment.

Increasing Demand for Bicycle Tires

Many people are showing an increasing interest in sports as a leisure-time activity, and this enhanced our business with bicycle tires. We added the new "Top Touring" all-round tire, which has extra protection against punctures, to the product line.

At the Olympic Games in Seoul, two thirds of all the medalists used Continental tires. The German team, which won two silver medals and one bronze medal, was also equipped with our products.

As a full-spectrum supplier, Continental is also stepping up its business with industrial, agricultural and bicycle tires.

Uniroyal received an award from Ford of Europe for outstanding product quality.

Uniroyal, too, reported a successful 1988. All its product groups recorded significant increases in volume, as well as gains in market shares in most European countries. Sales rose by 5.4% to DM 985.2 million. Earnings were again good.

Quality Award for Original Equipment

Our expanding business with passenger tires has been based for many years on supplying a large share of the requirements of the European automotive industry. Uniroyal was the first tire company in Europe to receive the "Q1 Award" from Ford of Europe. The Aachen plant was honored "as a particularly reliable supplier of top quality products".

This will enable us to intensify our longstanding development partnership with this customer. We look forward to an even stronger participation in its future plans.

Overall, Uniroyal recorded an above-average growth rate of 15% in sales of passenger tires to the European automotive industry.

Success with New Products

In the German replacement business, we have broken through into the sophisticated and profitable product segment of ultra-low-profile tires, which have a height/width ratio of 60:100 or less. Sales volume doubled. We also successfully introduced the new Rallye 380 "rain tire" in the markets. The international press praised its exceptionally high safety on wet roads. The German ADAC automobile club and trade publications have confirmed this evaluation in large-scale tire tests.

Success for Uniroyal with its "rain tire", a special tire for wet driving conditions.

In the fall of 1988, the new MS Plus 3 snow tire made its debut on the market. Its outstanding performance in winter conditions does not prevent this modern, highly siped tire from rivaling regular tires in terms of comfort, noise level and durability. It, too, scored very well in impartial comparison tests conducted by the trade press. Nevertheless, we did not quite achieve our volume goals for snow tires.

The line of commercial vehicle tires, to which new products have been added during the past few years, also gained new market shares. Earnings were not always satisfactory in this hotly contested market.

New Uniroyal Training Center

At the end of 1988 we opened a new training center in Herstal, Belgium, which is used primarily for customer personnel but also for our own staff. Employees of trucking companies and tire dealers can be trained here on state-of-the art machinery.

Our commercial vehicle customers constantly review the profitability of their investment in tires, since it accounts for a large part of the total cost of a fleet of vehicles. These customers therefore demand a quality product, together with reasonably priced service. Since 1988, Uniroyal has offered round-the-clock tire emergency assistance, both in Germany and elsewhere in Europe, to bus and trucking companies.

Orienting Our Marketing for 1992

We are using many new marketing methods to prepare ourselves for the concentration of European markets into a single entity. Our efforts in this respect involve both our array of services and our advertising strategy. A commercial shown internationally in movie theaters and on television aroused great interest. Customer response was surprisingly strong; within just one year the brand's degree of penetration has improved, and the term "rain tire" is now linked even more closely with Uniroyal. The tire trade, too, appreciated the success of this advertising campaign and positioned Uniroyal as a tire specially suited for wet roads. Experts honored the commercial with awards in Cannes, New York and Chicago.

In 1988 we again persuaded European champion Rod Chapman's Truck Racing Team to opt for Uniroyal. As our representative, Rod was much sought after for interviews in a variety of media in seven European countries.

Semperit's new generation of snow tires undergoing tests in the wintry Alps.

In 1988, Semperit Reifen AG continued on the positive course of the past two years, again achieving good results. Sales revenues, at DM 841.8 million, were up 6.9% over the previous year. New, improved products were well received by the markets and made a significant contribution to this gain.

Interesting new products enabled Semperit to achieve good results.

Good Business in Passenger Tires

The sales volume of passenger tires rose by 6%. Semperit also upgraded its product mix, concentrating more on tires for deluxe vehicles.

Additions were also made to the line of snow tires. "Direction Grip", a directional low-profile snow tire for high speeds, was introduced to the trade. This is the counterpart of the successful regular tire "Direction". In directional tires, the tread elements are arranged in an arrow shape, pointing in the direction of travel. In snow and on wet roads the grip can be significantly increased and the driving noise reduced. With this ultra-low-profile snow tire, which the trade press hailed as a worldwide first, we are the only supplier to meet the requirements of particularly demanding customers.

Strengthening Our Lead in the Austrian Market

Semperit continued to expand its leading position in Austria, its home market. In terms of volume, the company was also successful in the German market, which is of particular importance to Semperit, both technologically and commercially. This success was based on the excellent response to its new generation of snow tires and regular tires. In the future, other important European markets that can absorb big volumes will be steadily opened up for the Semperit brand, with emphasis on the replacement business.

We are further intensifying our longstanding successful partnership with the Japanese automotive industry. Our shipments to these manufacturers increased to such an extent that one out of every five Japanese passenger cars exported to Europe is now equipped with tires produced by our Corporation.

Rising Demand for Commercial Vehicle Tires

Sales volumes of tires for light trucks and pick-up trucks also rose by 6%. The volume growth rate for heavy commercial vehicle tires, at 10%, was well above the average.

Our efforts were focused on modern tubeless truck tires for 15° drop-center rims, which enable our customers to increase the profitability of their fleets. The higher number of tires sold to industry and trade resulted in full capacity utilization for 1988. Although extra shifts were added, we were not able to fill all of our customers' orders on time. This positive trend was based on the high quality of Semperit's commercial vehicle tires. Our goal for 1989 is to make further improvements in their profitability, which is not yet satisfactory.

More Efficient Production

The restructuring of the plant in Traiskirchen, Austria, which began some years ago and is now almost completed, substantially increased the plant's productivity.

Thanks to modern manufacturing technology, production continued to rise after the record highs reached in 1986 and 1987, with a simultaneous enhancement of product quality.

We made good progress at the tire plant in Dublin, Ireland. Volume rose sharply, and the quality level showed considerable improvement. At the same time production costs were reduced. All this greatly increased the plant's competitiveness. In 1989 we expect not only to make jobs even more secure, but also to increase the work force. This is further confirmation that we are on the right track.

Trading Companies

Revenues in this part of the tire business, not including those generated by the Corporation's own brands, amounted to DM 406.5 million (1987: DM 415.9 million). They stemmed from the sale of other manufacturers' products, as well as retreading, services and automotive accessories. We were pleased to note the exceptionally strong growth in the volume of products with the Continental, Uniroyal and Semperit brands.

We want to use our trading companies to increase sales volumes in those regions where we are not yet sufficiently represented. We do not regard ourselves as competitors of the tire trade; indeed, we support its independence wherever possible. On the other hand, we have to respond to the actions of our competitors. If certain operators desire to give up their independence, for whatever reason, we cannot remain passive if we wish to safeguard our market shares.

The "Round the Wheel" service offered to drivers by Vergölst, the Corporation's largest trading company, achieved satisfying results. In order to adjust to the constant changes in the market for tires and automotive parts, Vergölst added three new German branches, bringing the total to 158, while expanding its range of services.

In Germany, business with retreads suffered from stiff price competition. Due to the weather, business with retreaded snow tires did not come up to our expectations, but sales of retreaded commercial vehicle tires were slightly higher than in the previous year. Taken as a whole, the trading companies operated at a profit.

Attractive displays are an important feature of the "Round the Wheel" service.

General Tire's plant in Odessa, Texas, manufactures synthetic rubber.

The General Tire companies recorded sales of DM 2,498.3 million (1987: DM 2,288.5 million), the highest in their history. This corresponds to an annual growth rate of 9.2%. General Tire's earnings were higher than in 1987. The many steps we have taken to improve efficiency and increase capacity should produce further growth in earnings for the current fiscal year.

North America, the Home Market

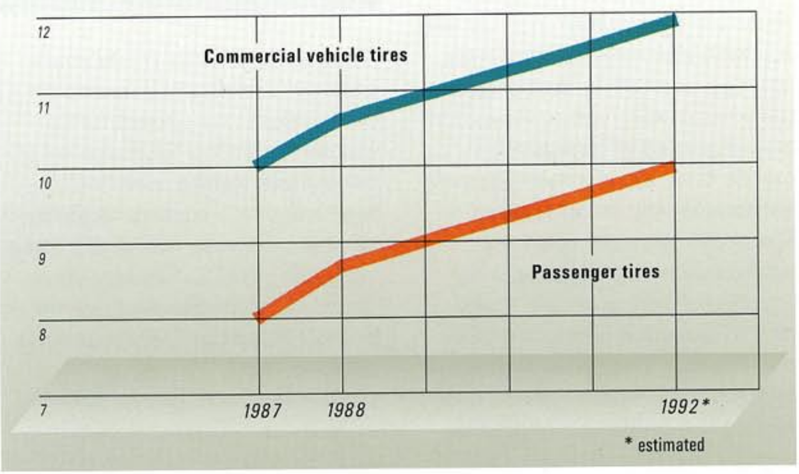
1988 was a good year for tires in North America. The U.S. original equipment market for passenger tires, in which we have a share of more than 13%, reached a record high. For 1989, however, we expect a slight decrease in sales of passenger cars as well as light and heavy commercial vehicles. On the other hand, we anticipate that the brisk demand in the replacement markets will continue, more than offsetting any declines in volume in original equipment.

98% of General Tire's sales are made in North America. In 1988 we gained market shares in almost every product segment, even though we were occasionally hindered by production bottlenecks. The scheduled capacity expansion is therefore indispensable. Due to strong competitive pressure, which was also felt in North America, sales revenues did not keep pace with volume growth.

Sales volume rose by 11% for passenger tires and by 9% for light truck tires. These gains are the net result of increases ranging from 13% to 28% in radial tire sales and decreases ranging from 3% to 10% in sales of bias-ply tires. We are expecting a con-

During its first year in the Continental Corporation, General Tire fully met our expectations.

Market share of replacement business in North America (in %)



General Tire's program ranges from small passenger tires to giant earth-mover tires.

siderable growth potential for the radial tire business and, consequently, good opportunities for General Tire.

Business with high-performance passenger tires was particularly good. Sales growth in this challenging product segment was twice as high as that for the industry as a whole. However, we also recorded strong growth rates for light and heavy truck tires, both bias-ply and radial.

Demand for agricultural tires and tires for mining, forestry and earth-moving equipment also increased substantially. General Tire has solid market shares in these product segments.

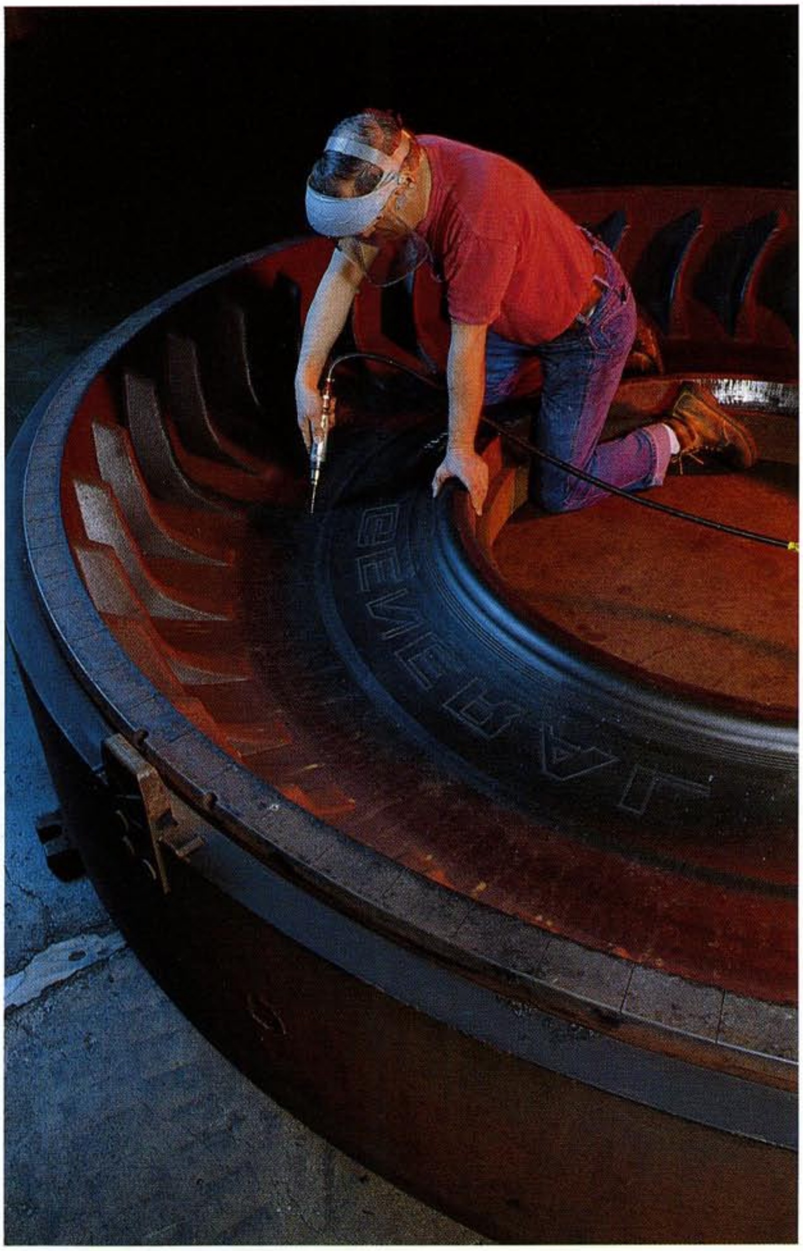
Exports Gain in Importance

In general, stimulated by the dollar exchange rate and brisk worldwide demand for tires, exports from the U.S. increased, and further growth is anticipated for 1989. As a result, General Tire's exports, which at present still play a subordinate role, also showed a strong improvement. Sales were actually three times as high as the admittedly rather low figure for 1987. Here, too, however, further growth was limited by delivery bottlenecks occurring in spite of the full utilization of available capacities.

The market position of General brand tires in North America is being strengthened.

Intensified Marketing

General Tire's marketing concepts were discussed in detail and adjusted to the overall corporate strategy. In addition to changing the product mix, with a view to increasing sales of high-performance tires, we are trying to trim the excessively broad product spectrum. We shall use well-aimed marketing campaigns to significantly enhance the image of the General brand as a quality tire, in order to improve revenues in the replacement business and reduce the proportion of private brands. In motor racing, which General Tire has for many years been systematically pursuing for this purpose, we scored further successes during 1988. A total of ten championships were won in road and cross-country races. In addition, we won two of the three races for the U.S. Tire Manufacturers' Cup, which are organized by the Sports Car Club of America (SCCA).



Business with private brands is particularly important in North America. We will therefore continue to expand this sector, although our emphasis will still be on the General brand. Significant new orders have been booked in 1989.

We have expanded our own sales organization to improve the marketing of General tires. We will continue this expansion in 1989, with an increased advertising budget.

Overall, General Tire strengthened its market position in 1988 by persuading numerous new

The use of computers — here at the tire plant in Charlotte, North Carolina — is an indispensable part of production control.

As in Europe, there is a noticeable trend to low-profile high-performance tires in North America, too.

dealers to sell our products independently. In addition, we signed long-term contracts providing for financial support with trading companies.

The government agencies that check tire performance on an annual basis have given top marks to Ameri-Classic, one of our high-performance tires, for its road record. This product, which was introduced on the market three years ago, won out over all its competitors.

More Radial Tires and More Quality

We expect that in 1989 and subsequent years demand for our products will continue to grow. In order to meet it, we have started to invest substantial amounts in expanding the capacities of the seven North American tire plants. Other major goals of this program are quality improvement and increased productivity.

Special efforts are required to switch the manufacturing facilities from bias-ply to radial tire technology. In 1988, major changes were already under way at the plants in Mayfield, Kentucky, and Barrie, Ontario. Extensive capital investments for replacement and capacity expansion were also initiated at our plant in Odessa, Texas, which produces synthetic rubber.

To support these measures and facilitate technology transfer, employees from our European companies were assigned from time to time to North America. These assignments mainly involved specialists working in the areas of production, finance and logistics. We shall continue this policy in the future.

Good Prospects

Overall we expect that General Tire will continue to prosper. The measures we have initiated will have a positive effect on its market position and earnings. In addition, the technological cooperation with Yokohama and Toyo and the joint venture to be established with these Japanese partners are providing the company with a broader base to hold its own in worldwide competition and achieve further growth.

Reorganization into four Operations: Hoses and Hose Assemblies, Vehicle Interior Trims/Textiles, Engineered Products, Anti-Vibration and Sealing Products.

Fine Earnings Growth

The ContiTech Group, which manufactures industrial products made of rubber and plastic for a large number of applications, had sales of DM 1,520.7 million in 1988, corresponding to a gain of 9% compared with the previous year (DM 1,395.5 million). The figures also include sales of the Anoflex companies (DM 75.1 million) from May 1988 when they became part of the Corporation.

Almost all our customers did a thriving business. This fact, combined with a variety of internal cost-containment measures, made a decisive contribution to ContiTech's gratifying earnings performance in 1988.

Stepped-Up Requirements from Auto Makers

The 16 Business Units and subsidiaries in this Group manufacture a wide range of products, primarily for the automotive industry, but also for other industries and the technical trade. As of 1989, they have been regrouped into four Operations. This organizational realignment should enable us to respond better than ever to changes in market structure that generate new competitive conditions.

Our customers, and the car manufacturers in particular, expect an uninterrupted delivery of supplies attuned to their manufacturing needs, rapid development of products and technologies, and top-quality components and systems at low prices. To increase its own productivity and competitive capability, the automotive industry is in the process of reducing the number of its suppliers and stepping up its purchases outside Germany, where production costs are lower. To meet these challenges by our customers to our performance capability, we want, and indeed, have to expand our own production base in other European countries.

The acquisition of the French Anoflex companies has already made a significant improvement in the position of our Hose and Hose Assembly Operations on the European market.

Apart from this internationalization program, we are pursuing our efforts to increase productivity in our German plants.

Ongoing Cost Reduction

Further decentralization of the Business Units will enhance the motivation, initiative and profit-consciousness of the individual Units.

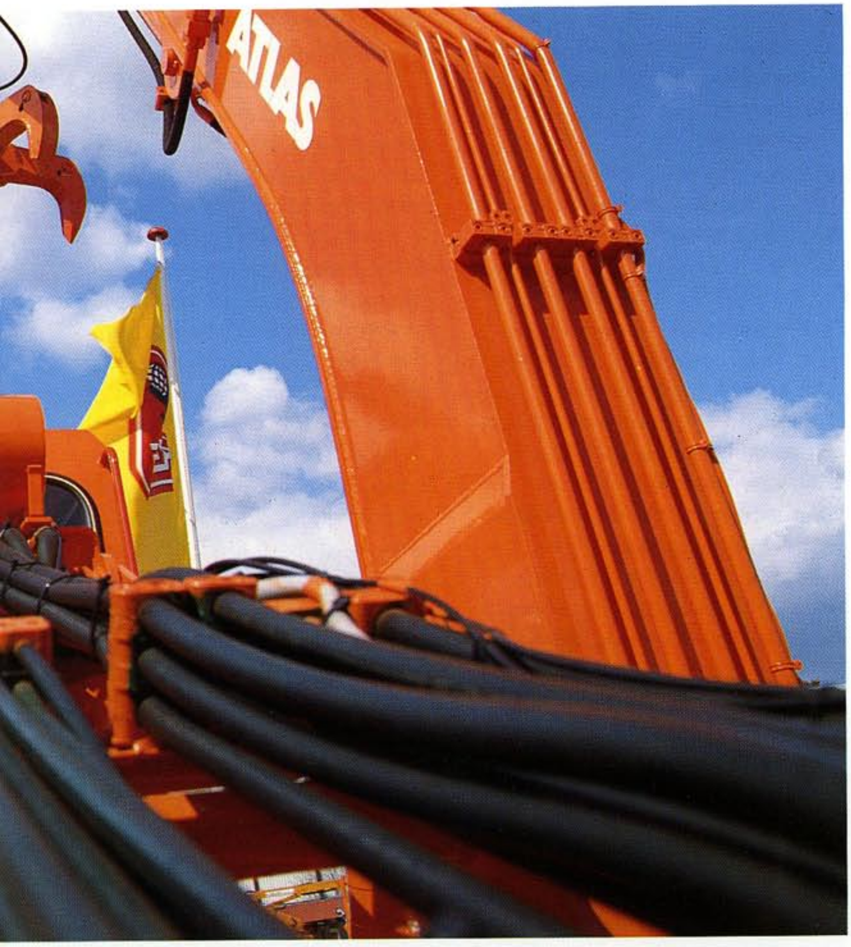
As the next stage in the reorganization of our Limmer and Vahrenwald plants in Hanover that was initiated in 1983, we have developed additional streamlining concepts that will lead to further infrastructural improvements and a substantial decrease in the working area that is currently required.

In 1988 we used a variety of measures to achieve marked reductions in both fixed and variable costs. The results were particularly evident in the higher earnings of our Hanover Business Units.

High Capacity Utilization

Manufacturing capacities were fully utilized in almost all the

Foam material with a pyramid design helps soundproof studios effectively — essential for high-quality recording.



ContiTech's hydraulic hoses are for wide-ranging applications in mining and industry.

Business Units. In some cases we operated extra shifts to meet the demand.

Our customers have responded positively as our manufacturing portfolio has shifted to products with even greater technological sophistication. Therefore, even though competition continued to be stiff, we were able to consolidate and expand our position in almost every segment. However, the competitive situation also made it impossible for us to pass on the full amount of cost increases, particularly for raw materials, to our customers.

Earnings at most of our Business Units ranged from good to excellent. Only four of the 16 Units reported earnings that were not yet satisfactory, due to market conditions and cost factors.

Strong Demand for Automobile Interiors and Textiles

Earnings at Göppinger Kaliko GmbH in 1988 were again burdened by the high cost of enlarging its capacities to accommodate new product lines and the shift of roof-headlining production to the new plant in the Saarland. Nevertheless, the company achieved better results than the previous year in terms of both sales and operating income. Despite the problems involved in moving both administration and production to a new location on the outskirts of Bamberg, Bamberger Kaliko GmbH posted a most gratifying sales increase, and good earnings.

Based on the company's reputation for high quality and a favorable situation with regard to costs, Uniroyal Englebert Textilcord S.A., Luxembourg, recorded a sharp rise in demand for its tire cord fabrics, leading to even better capacity utilization. Flockgarn GmbH, which produces a multicomponent yarn particularly well-suited for automobile seat covers, also posted a substantial sales increase. Since the potential customers and applications for this special yarn have by no means been exhausted, we expect that this company will continue to develop well.

The Cushioning Products Business Unit, which manufactures flexible foams and other elements for the upholstered furniture and automotive industries, expanded its capacities to meet the increased demand from auto manufacturers for rubberized hair. Flexible polyurethane foams were also in such strong demand that we were pushed to the limit of our processing capacities. In the spring of 1989, we will build an additional cutting and fabricating plant in Eastern Westphalia. This should enable us to further increase our sales and to offer the upholstery industry, with its rather small production runs, a prompt, locally based source of supply tailored to its own requirements.

Capacity utilization was excellent in almost all our Business Units.

Success with Hoses and Hose Assemblies

Capacity utilization in our Hose Business Unit was excellent; at times the Northeim manufacturing facility was operating with 18 shifts. We have also enlarged the capital spending program for the Korbach plant, to adapt its capacities and production technologies to the market requirements of the future. Meanwhile, with the further additions made to our prodduct spectrum in 1988, we cover virtually all the automotive industry's hose requirements. Upgraded quality assurance systems and a highly flexible method of supply will help to ensure that

Shifting from standard products to specially designed products with a high technological input.

our share of the automotive market will continue to climb.

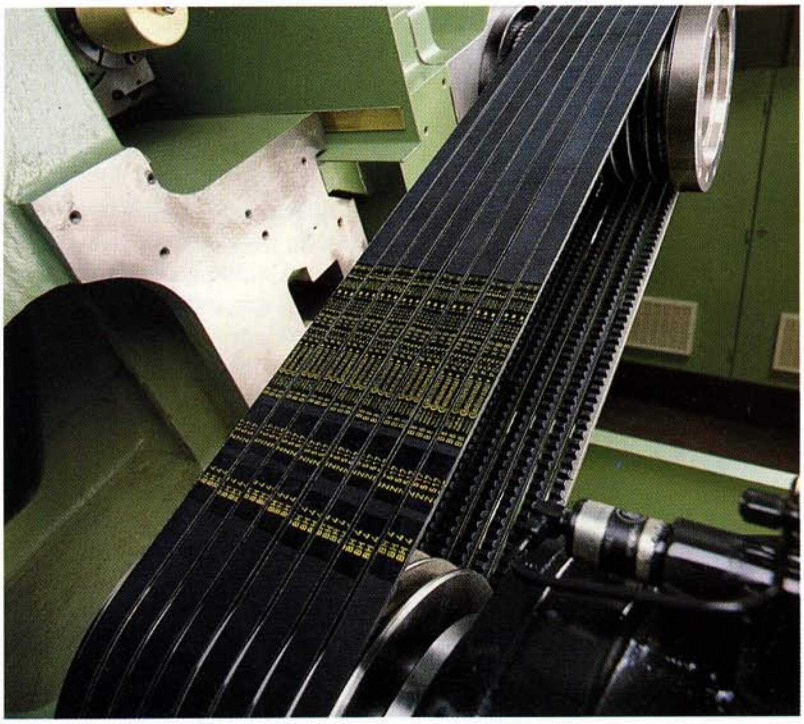
The start-up of a new production program for power steering system assemblies combined with the good business climate in the automotive and mechanical engineering sectors to produce a gratifying sales increase at Techno-Chemie Kessler & Co. GmbH, a leading manufacturer of hose assemblies and systems.

Against this background, we take a very positive view of the future prospects for this Business Unit.

Trends Differ in Anti-Vibration and Sealing Systems

In the Molded Products Business Unit, we are concentrating on products based on highly sophisticated technologies, particularly those used in vibration-insulation and bearings systems. Although competition continued to be fierce, we increased our share of the German and international markets, both in the automotive industry and other specialized segments as well. Further improvements in the product mix, combined with programs to increase efficiency, produced a gratifying increase in earnings. At the Dannenberg plant, which manufactures molded plastic parts, we opened a new building for the production of extrusion blow moldings.

The new technologies offered by the Extruded Products Business Unit, particularly extrusions with variable cross sections (Contivario) and extrusions with a special surface coating (Contiflon), which are used mainly in roof weatherstrips, scored successes with the automotive industry. On the other hand, difficulties were encountered in obtaining orders for standard extrusions. For the first time, we saw our shares of customer requirements decrease, because we can no longer deliver from our high-cost German facilities at the same prices as the international competition. Although the operating result of this Business Unit was better than in the previous year, it remains unsatisfactory at present.



Power transmission products are manufactured with a high degree of precision for the demanding in-service conditions of today.

Good Progress in Engineered Products

The Power Transmission Products Business Unit recorded an exceptionally strong increase in sales and earnings for 1988. Two modern product lines, multiple V-ribbed belts and rubber timing belts, made vital contributions to the expansion of our market shares in the European automotive industry and in the industrial and automotive replacement business.

The Air Springs Business Unit consolidated its strong position in air springs for trucks and the cars of high-speed trains on the international marketplace.

In the Coated Fabrics Business Unit, sales of blankets for rotary offset printing and special rubberized fabrics for such articles as lifeboats and liferafts continued to climb. Our subsidiary Deutsche Schlauchbootfabrik also expanded its sales volumes considerably, especially in the lifesaving equipment sector. One of the products contributing to the sales increase — which will continue in 1989 — was the newly developed "jump-safe" to replace the conventional safety net in fire rescue operations.

In contrast to the positive trends in these Business Units, the conveyor belting business suffered from the worldwide decline in capital spending for materials handling equipment, so that our capacities could not always be fully utilized. Lower demand and correspondingly stiff competition caused a steady drop in prices on our most important market, the German mining industry. It was therefore impossible for us to earn a satisfactory operating income. For 1989, however, we succeeded in booking an order for a large-scale project in Australia, so that in this business, too, capacity utilization will improve.

Employees

The progress of the Continental Corporation was also reflected in an increasing number of employees. Compared with December 31, 1987, the work force rose by 3,644 to a total of 45,907. This increase also includes the 2,320 employees who were added as of the beginning of 1988 through the acquisition of the General Tire companies in Mexico (1,678) and Morocco (642).

On December 31, 1988, 21,405, or less than 50% of our employees were working in West Germany, 12,030 in other European countries, and 12,472 in North America and elsewhere in the world.

The following chart gives a breakdown of our employees by country of origin:

Germany	17,684
U.S.A.	9,340
Austria	3,659
France	3,418
Mexico	1,678
United Kingdom	1,365
Belgium	1,041
Canada	822
Morocco	797
Ireland	750

In addition, we employ foreign workers from Italy, Spain, Turkey, Yugoslavia and other countries at our German plants.

Training: a Key Factor

We regard the training and continuing education of our employees as an essential prerequisite for the future development of our Corporation. This is particularly true of our executives. The necessary training facilities, divided according to the German-, English- and French-speaking areas, are being expanded; in addition, international management programs for top executives are being expanded both within the Company and at outside educational institutions.

The Continental Corporation attaches great importance to training for young people.

Every year, executives are obliged to spend a specified minimum amount of their worktime in training programs of this kind. Raising the quality consciousness of our employees is another important aspect of our training system.

Our efforts are also aimed at the maintenance and expansion of existing quality circles and other small, autonomous groups. However, it has not yet been possible to transfer the quality circle principle successfully to non-technical areas.

Now, as in the past, the task of training young people and offering them career opportunities in an industrial company has high priority. During 1988, we observed for the first time a slight decline in the demand for training positions. At year-end, we had a total of 629 trainees to ensure Continental of qualified junior staff.

Employees Help to Improve our Competitive Position

By consenting to a number of measures aimed at extending the operating hours of our plants, the employees, Employee Councils and trade unions made an important contribution to boosting corporate production figures and thereby improving competitive capability. We shall continue in the future to utilize every hour of potential working time before making capital expenditures for expansion.

Rise in Personnel Expense Curbed

Corporate personnel expense (wages, salaries, social welfare contributions, and expenses for pension plans and other employee benefits) rose from DM 1,878.4 million in 1987 to DM 2,532.2 mil-

The Corporation's international work force now numbers almost 46,000 people.

Continental AG	1988	1987	Change in %
Personnel expense in DM million	924.5	928.6	− 0.44
Personnel expense per employee in DM	61,132	60,920	+ 0.35
Personnel expense per hour worked in DM	37.89	38.17	− 0.73
Hours worked per employee	1,613	1,587	+ 1.64

Girls are nowadays no strangers in professions once considered exclusively for men. The basic 3-year program combines both on-the-job and off-the-job training.

lion in 1988, with General Tire being included for the first time, at a total of DM 601.5 million. The increase without General Tire amounts to DM 52.3 million, or 2.8%.

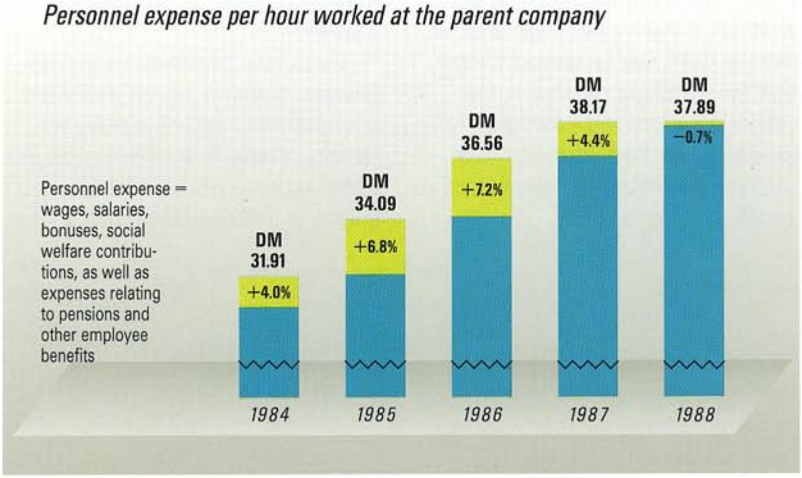
Personnel expense per hour worked decreased at the parent company.

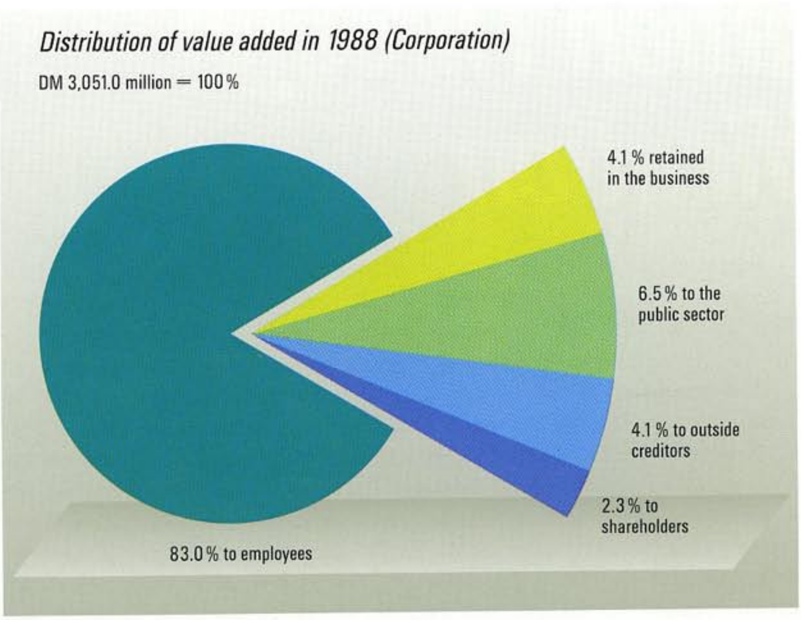
At Continental AG, personnel expense per hour worked decreased from DM 38.17 to DM 37.89 (− 0.7%). This drop is due to non-recurring expenditures in 1987, to the replacement of retired staff with new employees at less cost, and to the initial effects of our cost-curbing measures. Personnel expense per employee fell from DM 57,937 to DM 55,159 (− 4.8%) in the Corporation because of the first-time inclusion of the General Tire companies, but rose from DM 60,920 to DM 61,132 (+ 0.4%) at the parent company.

Sick pay continues to constitute a substantial part of the cost of labor in the Federal Republic of Germany.

Although the rate of absenteeism due to illness at Continental AG held steady at 7.6%, it is still too high when compared to our companies in other countries. The rising trend at our other German companies also came to a halt;

Personnel expense per hour worked at the parent company





in some cases, the rate actually declined.

Most of the corporate companies outside Germany reported a further reduction in the illness rate. The figures ranged from 3.5% to 5.8%. Only in the United Kingdom and Spain did the percentage increase significantly.

A Thriving Suggestion Plan

We are pleased with the progress of our suggestion plan. At Continental AG, the number of suggestions submitted rose by 535 to 3,593 in 1988, and the cash awards to DM 719,945 (1987: DM 615,718). In many cases, employees pointed out particularly good opportunities for economizing. The highest award, DM 46,571, set a record in the history of the Continental suggestion plan.

Greater Safety on the Job

1988 also saw a gratifying improvement in occupational safety, continuing the positive trend of recent years. At Continental AG, the index for on-the-job accidents dropped from 20 per million working hours in 1987 to 18 in 1988.

Our successes in the field of occupational safety are due to a heightened awareness of our responsibility for the health of human beings and to the cooperation of the entire work force in preventing accidents.

Assignment for the Future

The transformation of the Corporation into a global organization is a great challenge to its employees. Not only are there cultural differences to be comprehended and accepted, language barriers to be overcome, and different patterns of thought to be understood, there are also Company traditions of long standing that must be altered and adapted.

Our assignment for the future is therefore the formation of a management team that is attuned to these new parameters and of an awareness in our employees that they are part of an organization that is operating on a global scale.

To accomplish this task, we must

- carefully select and develop our management and junior executives
- provide equal employment opportunities without regard for nationality
- exchange employees and executives, as well as trainees and interns, within our international framework
- maintain an open communication system.

We are convinced that our employees have not only accepted this challenge, but that they will also successfully master it.

There are bright prospects for executives who can think and act in international terms.

Innovation Through Qualification

Innovation as such means every development, change, and introduction of something new within the Company. Our title "Innovation Through Qualification" symbolizes the conviction that qualification is the key to progress, and with it, success in business.

The emphasis is on improving specialized skills in order to keep the Company ahead – or, to use a more vivid expression, to give it THE LEADING EDGE. Employees must develop their own educational initiative, or SELF-MANAGEMENT; they should draw voluntarily on what we offer them. They can only be persuaded to do this if their primary motivation is taken into account, namely the desire to collaborate on something meaningful, and this implies PARTICIPATION. Other areas, by means of which extraordinary sources of power can be unleashed, are innovation based on an INTERDISCIPLINARY and INTERNATIONAL approach. Finally we should note the mode of operation of our corporate-wide education program today: SYNERGY generated by culture-specific decentralization.

Practical continuing education at every level of skill in order to master rapid technological and social changes.

The turnaround in thinking is remarkable. A relatively short time ago, in the sixties, the theory of business administration still regarded people solely as "production factors", to whom very little attention was given. Human resources management, a phrase that is on everyone's lips today, was largely unknown. Of course, companies always had concrete expectations with regard to the training and qualifications of their employees. But an interest in the overall concept of "lifetime learning", that is, practical continuing education at every level of skill, has emerged only in the quite recent past. The need to master rapid technological and social changes had a decisive influence on this trend. And so the focus moved to people as the key instrument to success in a business.

Progress, new products, and economic success are primarily the result of human thought and action. Quality is not accidental, nor is it merely the result of skilled craftsmanship, purposeful design, or the correct choice of materials. The decisive factor is the collaboration of people who have made it their goal to fulfill the steadily growing demands of the market by rational means. For this purpose "educated" employees are needed. Education can therefore never be a completed process. It requires lifelong renewal and presupposes a readiness to assimilate new findings and developments.

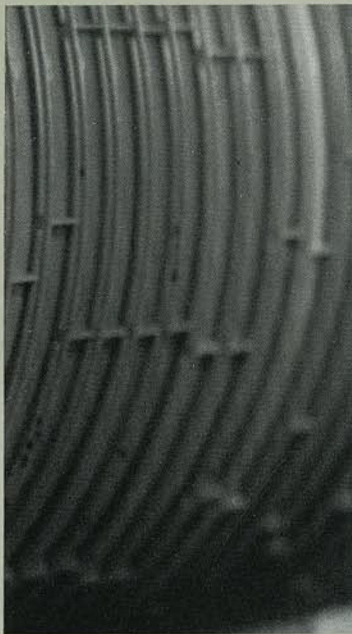
1. The Leading Edge

Who can survive in today's competitive environment without being a leader in his field? And the means to acquiring and maintaining professionalism in a specialist field is the individual work place: It is here that pre-employment knowledge and skills are put into practice; it is here that experience is gained and input is received from day-to-day problems. Initially, the specialist qualification is always furthered by the specialist function, and the responsibility lies with the superior and the individual concerned. Examples include the remarkable training efforts of EDP for its own staff, of the Sales Departments with their own training centers, and of Controlling.

Innovation in vocational training is an inseparable ingredient in the careers of "Business Administrator", with concentrations in industrial management and data processing, and "Production Technician". Both careers combine theory and practical work and conclude with the skilled workers' apprenticeship examination and the relevant degree (Betriebswirt VWA or Diplom Ingenieur).

It is crucial for us to maintain our leading edge in rubber technology. While in France, the United Kingdom, and the U.S.A. there have for many years been university curricula in this field, junior employees in Germany must pass through a chemistry curriculum, on-the-job training, and advanced study at the German Institute for Rubber Technology. The efforts of Continental AG in this area are closely linked with the name of Dr. Julius Peter. There is no doubt, however, that much remains to be done, and rubber technology will be one of the prime targets in the years ahead.

People with a variety of abilities are equally in demand as skilled workers or specialists. In the French-language area, every skilled worker spent six days in training during 1988 – a great step forward. The metal and electrical career training pro-



grams were restructured, with the portions devoted to theory being significantly expanded. This entailed organizational problems, for example, the retraining of the trainers themselves. Construction of a work shop for apprentices has already begun at the Limmer plant.

Maintaining a leading edge demands close cooperation with establishments engaged in scientific and research work. In addition to the Institute for Rubber Technology, we also work together with the Fraunhofer Institutes for Production Automation in Berlin and Stuttgart, supported by the European Community.

The numbers of study projects, of dissertations for first degrees and doctorates, of specific work experience assignments for students, of practical semesters or sabbatical leave for university teachers, as well as the number of lectures delivered by our specialists in universities have in all cases increased from year to year.

2. Self-Management

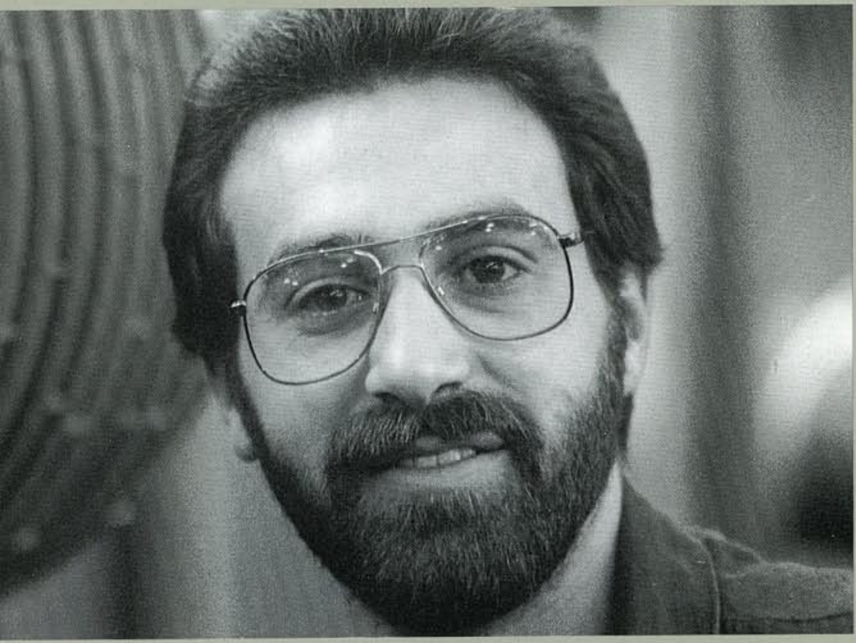
This concept means knocking the dust off an age-old pedagogic maxim: People learn when they really want to. Unless the student says "Yes", nothing happens. Corporate training programs have long included courses "oriented to requirements". However, the educational need does not always coincide with operational priorities. Limits become apparent, such as restricted funds or gaps in the curriculum. For the first time since 1972, complete course handbooks are available, for every language area in the Corporation , for international management training, for training salesmen in the individual brands, for specialists in data processing, for the employees of our dealers. Three times a year, our top executives receive invitations to short programs.

Self-education programs are becoming more and more important,

University courses in the field of rubber technology are not available in Germany.

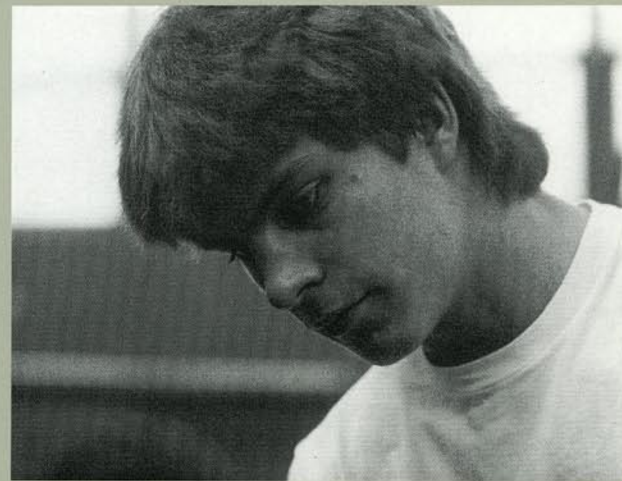
and a lively market is developing. Quality competition has produced exceptionally fine examples. The results of a market survey of the best programs will soon be available. The spectrum ranges from PC programs to a university degree at the Hagen Correspondence School (with 50,000 students enrolled!), or our in-house rubber technology program.

The parties to our collective bargaining agreements are considering how free time during the workweek can be used for continuing education. Self-management in training should play a key role here, as well as an offering of good courses for independent study. In the course package for junior executives, "self-development" has gained in importance. The Company provides the time, the place, and a good trainer — the participants have the opportunity to find their own answers to questions about their career goals. Continental thus belongs to a very small group of companies which consider it vital to prevent their employees from simply stumbling unprepared into management careers. Future executives know what is expected of them and whether they can meet the challenge.



3. Participation

Intensified participation in the decision-making process stimulates the force and speed of innovation. Delegation of tasks to employees with specialized skills, decentralization,



closer contact with customers, and self-monitoring are all helpful in this connection. If employees are to be used more effectively, they must have skills. Ignorant employees make mistakes, they experience frustrations. To this extent, higher qualifications are the key to participation. This is an ongoing program, which, of course, always runs the risk of falling victim to the urgent necessities of day-to-day operations. This is probably also an explanation for the activity cycles. Uniroyal won the German Quality Circle Prize, and the Clairoix and Herstal plants took outstanding places in European competitions. A ContiTech convention on work in small groups was held in Northeim, and Sarreguemines instituted a complete system of self-monitoring. All these plants have redoubled their efforts to give their employees an increased sense of responsibility.

The successes were visible and palpable. One example is that in the German-speaking area, there is no longer any doubt as to the necessity of painstaking vocational training in the areas of production. State-of-the-art manufacturing requires skilled production workers with broad technical qualifications. In the "Qualification 2000" program at the Stöcken plant, we have begun to enrich key jobs in such a manner that training and requirements coincide. That is no simple task. However, the avenues to an on-the-spot solution which are being investigated together with the Employee Council, give us grounds for confidence. Participation at General Tire is aimed, above all, at product quality. The slogan there is "Commitment to Excellence". Training seminars are the order of the day; building educational initiative and motivation has top priority. At Mayfield, the largest GT plant, every employee carries a little plastic card with the company's goals.

4. The Interdisciplinary System

The interdisciplinary system as an objective is still far from being achieved to the desirable extent. What is necessary? First of all, a change in consciousness, and probably also a change in the operational systems that stand in the way of an interdisciplinary approach.

■ General education to create all-around managers. The thrust of this program is to effect a change in the "pipeline promotion" system, in the belief that a manager should be able to take on duties in a number of different sectors. Important aspects of the curriculum include courses for the General Management, business administration for people with a scientific or engineering background, and training in extra-functional skills.

■ Participation in workshops for the solution of more complex problems by those directly concerned, with the Training Department assisting as a moderator. Successful workshops act as a stimulus. The word gets around. More and more executives are using this tool. An enormous amount of time must be spent on programs of this kind, but nevertheless it is justified. The highly effective joint education is often not even perceived by the participants as a learning process.

■ One of the biggest challenges in corporate training is to achieve congruence between the educational and working environments. Our Organizational Development (OD) Projects are designed for this purpose. An important task in 1988 was to improve the Continental brand's penetration throughout Europe. Close supervision by management and a new training program for dealers helped to achieve this goal. For the Uniroyal brand, activities were centered in France. More efficient guidance of the field service and further development of the corporate culture were priority goals. OD's are also standard practice at Vergoelst, which is being assisted on its way to becoming the "Top Serviceman Around the Car". Projects of this kind are not going unnoticed — our business friends are asking for an exchange of experiences, educational institutions are requesting essays and articles.

■ A special OD project is the introduction of a vocation developed by Continental for skilled workers — Plastics Molder, Specializing in Rubber. Within the Corporation, 75 young people have recently embarked on the three-year curriculum. The entire rubber industry is following our lead. This shows the importance that is attached to improving employee qualifications in international competition

More effective employee participation requires the right skills. Inadequately informed employees make mistakes, they experience frustrations.

for top product quality. With its dual training system, West Germany still has a big head start in Europe. It is essential for Continental, as a Corporation, to take advantage of the inherent opportunities.

The life's blood of large companies is anticipating important developments, particularly on the international level. Executives must therefore also attend international training courses to acquire a broader knowledge. To enable our executives to do so more effectively, we have entered into so-called joint ventures in manager training. Especially noteworthy is the General Management Program coordinated by INSEAD, with twelve Northern European companies, and the project run by IMI (International Management Institute) with five globally active firms. Our collaboration with VW, SKF, MBB and SHELL has been in existence for many years.

5. Internationalization

Never in the history of our Company were the effects of internationalization on the Corporation so pronounced as in 1988. This is reflected in the increased need for education. A list of some of our activities speaks for itself:

— More than 500 employees participated in language courses (German, English, French, Dutch, Danish, Japanese, Portuguese, Spanish)

— Courses preparing employees for assignments abroad

— Foreign assignments to gain information

— Hiring foreign interns

— The beginning of 1988 saw the first meeting of an international group of executives, who had come together to inquire into the elements of a common corporate culture. The results will soon be available to enrich the discussions within the Company.

An initial conclusion to be drawn from our experience so far: The geographical expansion of the Corporation is still outstripping the ability of our employees to function internationally.

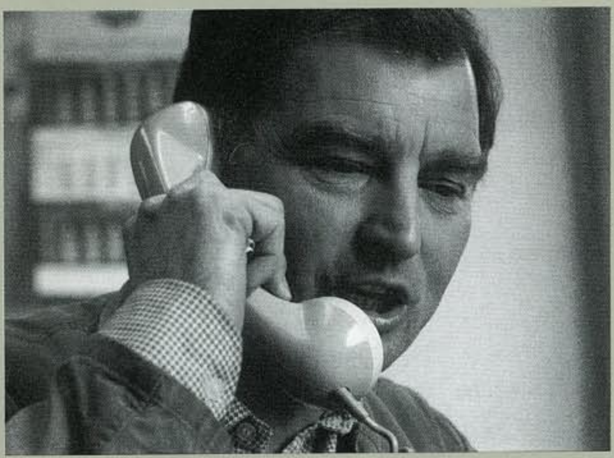
6. Synergy

The achievement of synergistic effects is a primary objective when corporations merge. This is also true of corporate educational work. Trainers and teachers from many countries work together to form an international work force that is unparalleled by many a business school. Education is linked to a large extent to language and culture. Courses for employee guidance must have a different emphasis at the Newbridge plant in Scotland than they do at the Bamberg manufacturing location in Germany. Continental has separate educational organizations in the German-, English-, and French-speaking areas. Within the language areas there is a further systematic delegation of functions.

Learning from each other brought us fresh knowledge: for example, how necessary it is to listen to fellow-trainers who have grown up in other cultures, to receive input from them, to assimilate it, transfer it, and to be more sensitive to other cultures. It was important to glean information from the various educational systems. The French and Belgians, for example, are attempting to transfer to their countries the immense long-term successes of the German dual career training; the Germans are experimenting on the basis of American efforts to prepare young people more rapidly for their jobs.

Continental is well on the way to an understanding that differences constitute an opportunity, not an obstacle. If this can be achieved over the long term, it will be a major factor in the Corporation's success.

The understanding that differences constitute an opportunity, not an obstacle, is a major factor to success.



The Continental Share

Dividend up again

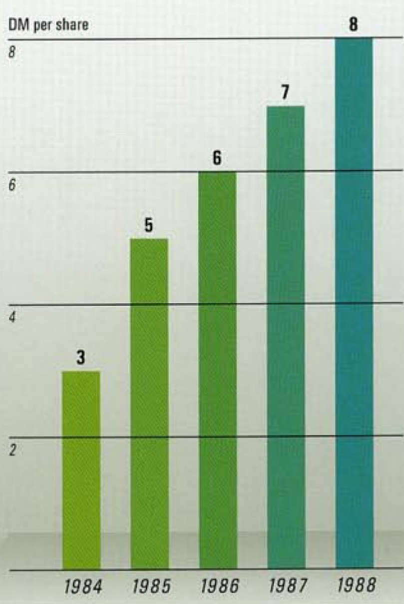
The increase in net income for the fiscal year enables the Supervisory and Executive Boards to propose to the Shareholders' Meeting that a further dividend increase of DM 1.00 to DM 8.00 per share of DM 50.00 be paid for 1988.

Including the tax credit, the payout to domestic shareholders amounts to DM 12.50 per share. This puts us only slightly below the average for all the German stock corporations. According to the Federal Statistical Office, the average dividend paid by German stock corporations in 1988 amounted to DM 8.70 per share with a par value of DM 50.00, or, including the tax credit, to DM 13.60.

Sharp increase in payout rate

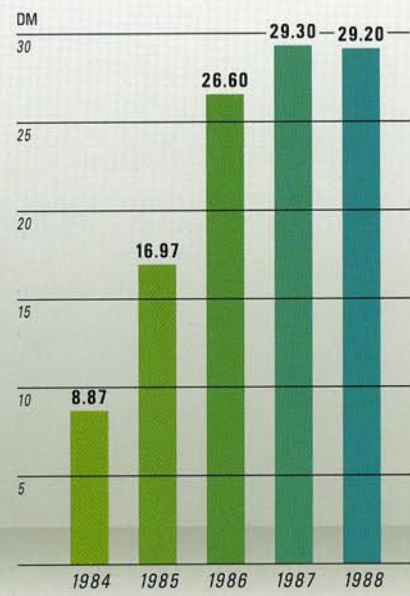
Since the capital stock entitled to the dividend amounts to DM 432.7 million, a total of DM 69.2 (1987: DM 48.0) million will be required for distribution to shareholders. Thus 85.5% of Continental Aktiengesellschaft's net income, compared with 86.0% in 1987, or 35.5% of the consolidated net income, compared with 34.6% in the previous year, will be paid out in dividends.

Cash dividends

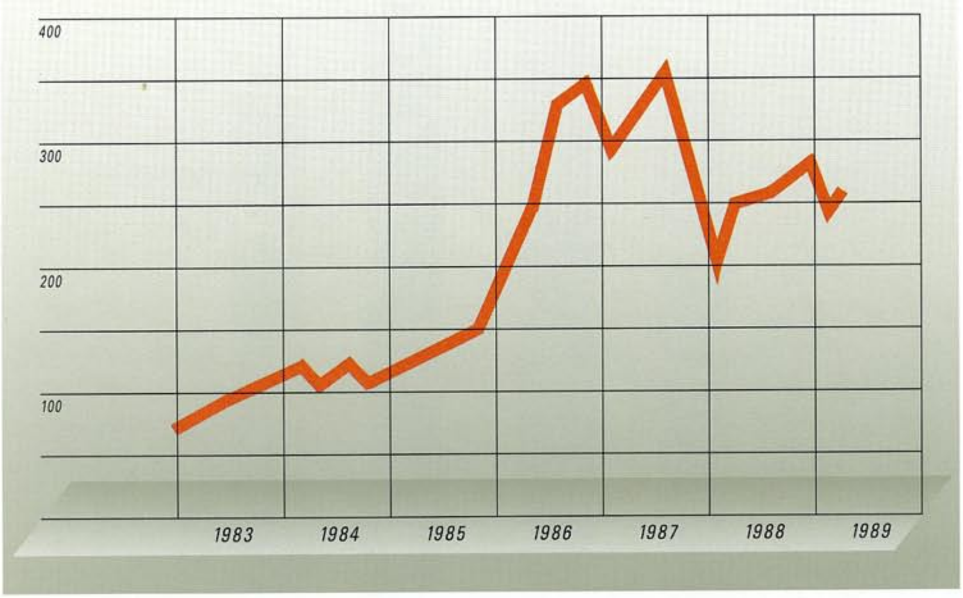


Amounts distributed to shareholders

Earnings per share according to DVFA



Continental share price development



Price trend

The bull market, which lasted almost five years, came to an abrupt end in October 1987. The price of the Continental share dropped more than 50%, before reaching its low at the beginning of 1988. Traded internationally, it suffered extremely severe price declines, just as it had risen much faster than the general stock average during the boom.

At the end of January 1988, the Continental share reached a low of DM 169.50, which was actually less than its book value (shareholders' equity per share). Then, in the course of the stock market recovery, it recorded a price increase of almost 60% by the end of 1988, a growth rate equal to one and a half times that of the Frankfurter Allgemeine Zeitung's share price index. On December 31, 1988 the Continental share was quoted at DM 271.50. At the beginning of the first quarter of 1989, the price continued to rally, but it had fallen to around DM 250.00 by the middle of March because of the general rise in interest rates.

The fact that some 1.2 million shares with subscription rights for the shareholders, issued during the capital increase in the fall of 1987, were left with the underwriting banks had a negative effect on the share price during the fiscal year. The latent selling and price pressure generated by these shares was eased considerably in September 1988 when Deutsche Bank issued bonds in the amount of 100 million Swiss francs, with warrants attached for the purchase of Continental shares. This made it possible to sell 480,000 of the 1,200,000 Continental shares. The quotations of the bonds with warrants attached issued in 1984, 1986 and 1987 followed the trend of the share price.

A highly liquid share

The Continental share is listed on all eight German stock exchanges and on four other major European exchanges. It is also traded in the U.S. in the form of an unsponsored ADR (American Depositary Receipts) program. Our intention is to change trading in ADRs to a so-called sponsored program, thereby moving closer to obtaining a stock-exchange quotation in the U.S.A.

During the 1988 calendar year, total sales of shares on the German stock exchanges amounted to DM 654 billion. Approximately DM 11.6 billion, or about 1.9%, of that amount was attributable to the Continental shares. The Continental share's high degree of liquidity is also evidenced by the fact that the capital stock was turned over 5.5 times in 1988.

Broad, international ownership of the Continental share

According to our most recent survey in September 1986, Continental shares were held in about 42,000 depositaries worldwide. More that 50% of the depositaries were outside Germany, most of them in Switzerland and the United Kingdom.

Earnings according to DVFA

Although the number of shares increased by an average of 1.8 million (up 26% over 1987), the 1988 per-share earnings computed according to the methods of the German Association of Financial Analysts (DVFA), at DM 29.20, are on the previous year's level. The cash flow per share actually increased slightly, amounting to DM 72.04 per share (1987: DM 67.71).

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

	1988	1987
Net income	22.51	20.25
Cash dividend	8.00	7.00
Dividend with tax credit	12.50	10.94
Earnings (DVFA method)	29.20	29.30
Cash flow (DVFA method)	72.04	67.71
Book value	191.60	175.17
Market price	271.50	205.20
Number of shares at year-end (in thousands)	8,653	8,653
Number of shares (annual average in thousands)	8,653	6,853

Assets, Financial Position and Earnings of the Corporation

Major Changes Compared With 1987

Consolidated sales for 1988 were up DM 2.8 billion over 1987. This figure includes:

DM 2.5 billion initial inclusion of sales of the General Tire companies

DM 0.1 billion sales of other companies acquired in 1988

However, GTY Tire Company, a joint venture with Yokohama and Toyo for the production of truck tires in the U.S.A., which is also included in the consolidated financial statements, does not yet have any effect on the financial results.

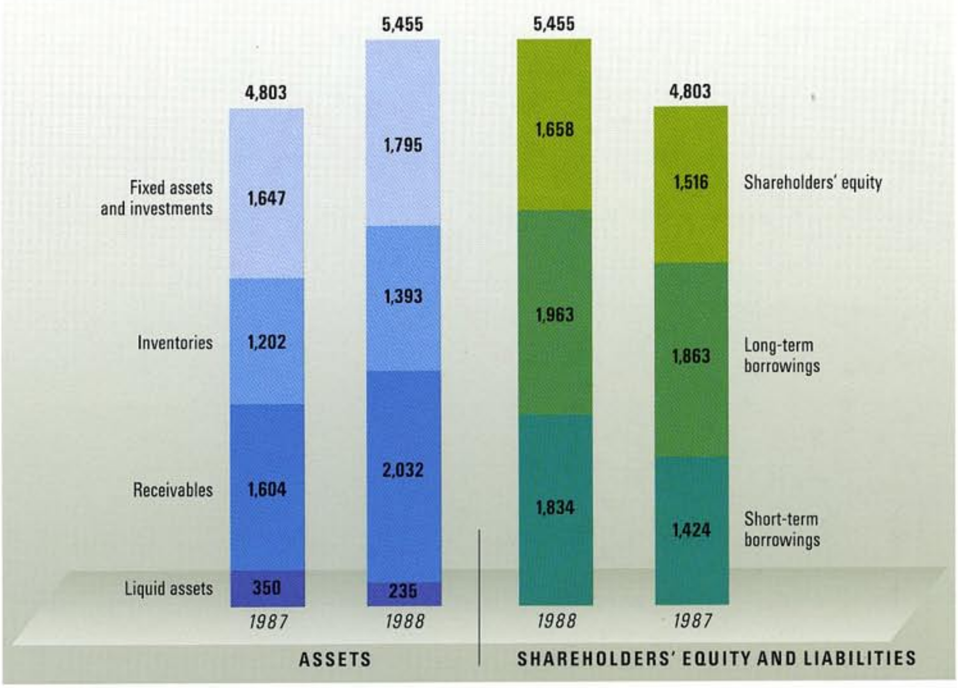
Effective January 1, 1988 a leasing and management agreement as well as a control agreement covering production activities have been concluded between Continental Aktiengesellschaft and Uniroyal Englebert Reifen GmbH, Aachen.

As a result of these agreements, which were designed to step up integration and the utilization of synergies, the income statement and balance sheet items attributable to the production activities of Uniroyal Englebert Reifen GmbH, Aachen, are being included in the financial statements of Continental Aktiengesellschaft as of 1988.

Starting with 1988, the statements of income are being prepared according to the cost of sales method. Our aim is to further improve their comparability with those of other companies and to make our financial statements more informative. Additional data, such as personnel expense and cost of materials, are also provided. As in 1987, the amount of depreciation and writedowns is shown in the table of changes in fixed assets and investments.

Since these changes make comparison with the previous year more difficult, we have given additional explanations on important items.

Structure of the corporate balance sheet (DM million)



Strong Balance Sheet Structure and Financial Position

The proportions of fixed assets and investments and of current assets in total assets were virtually unchanged. 20.4% of additions to fixed assets and investments and 31.1% of current assets are attributable to companies that were newly acquired in 1988.

Consolidated shareholders' equity, including the equity portion of special reserves, rose by DM 142.1 million. On the other hand, the equity ratio, at 30.4% was slightly lower, due to the increase of 13.6% in total assets. This is in line with international standards. The equity ratio of Continental Aktiengesellschaft amounts to 63.0%.

The increase in indebtedness is due primarily to the inclusion of the companies acquired in 1988. Without these companies, indebtedness would be almost the same as in 1987.

The capital turnover rate rose sharply, from 1.1 to 1.5, since the initial consolidation of the sales of the General Tire companies, which we acquired in 1987, eliminates the distortion that occurred in the previous year.

The healthy balance sheet structure of the Continental Corporation is also evident in the continued financing of a high proportion of fixed assets, investments, and inventories by shareholders' equity and long-term borrowings.

Continental Corporation	12/31/1988	12/31/1987
Total assets (DM million)	5,454.9	4,803.2
Fixed assets and investments (%)*	32.9	34.3
Current assets (%)*	67.1	65.7
Equity ratio (%)*		
– Consolidated	30.4	31.6
– Continental AG	63.0	63.4
Indebtedness (DM million)	826.4	672.7
Capital turnover	1.5	1.1
Long-term financing of fixed assets and investments as well as inventories (%)	113.6	118.6
Self-financing (%)	112.3	150.9
Liquidity ratio (%)	119.9	134.7

* As % of total assets

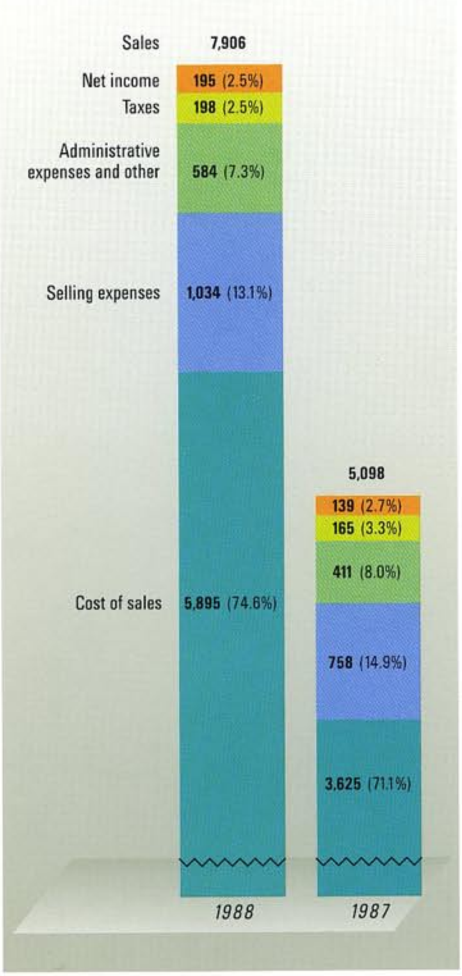
In 1988, additions to fixed assets and investments were again fully financed by the cash flow. The liquidity ratio declined slightly in 1988.

Further Improvement in Earnings and Liquidity

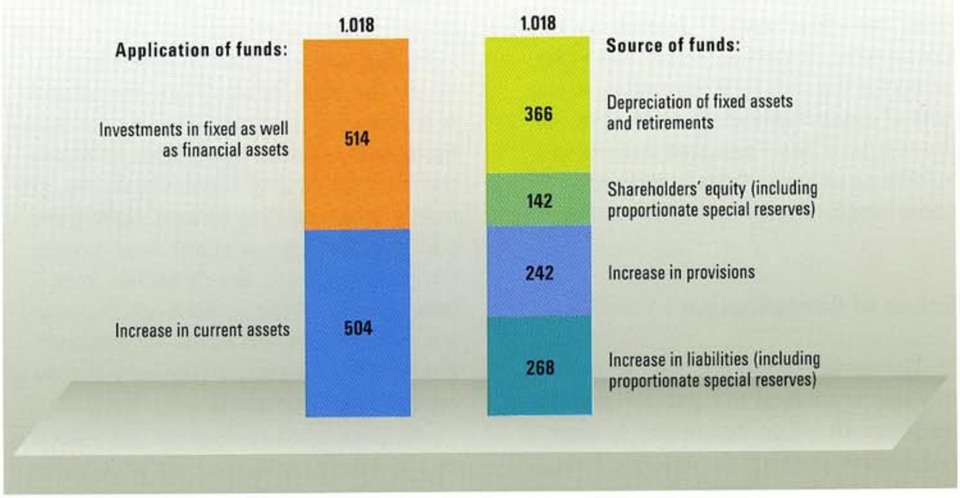
The favorable overall business trend in 1988 produced a sharp increase in net income. The structure of the statement of income improved as well.

Sales rose by 55.1 % compared with the previous year. Based on the 1987 sales of all companies belonging to the Corporation at the end of 1988, growth was 6.1 %.

Structure of the corporate statement of income (DM million)



Corporate financing in 1988 (DM million)



The rise in the ratio of cost of sales to sales revenues reflects the worldwide pressure on prices and costs.

Apart from General Tire, intensified marketing efforts led to higher selling expenses, both in absolute and relative terms. On the other hand, if General Tire is included, these costs decreased slightly, due to the different sales structures. The same is true of administrative expenses.

The income tax ratio for the Corporation declined further, dropping to 42.5%. The earnings of the companies initially consolidated in 1988 are generated in countries with comparatively low taxes. The reduction of tax rates in some European countries also had a beneficial effect.

The net profit margin, at 2.5%, was slightly lower, because the General Tire companies we acquired in 1987 were fully included for the first time.

However, net income, at DM 194.8 million, shows an increase of 40.4% over the previous year.

Return on shareholders' equity rose substantially to 11.8%.

The cash flow increased by 34.4%. However, the proportion to sales fell slightly by 1.2 percentage points. The debt ratio dropped by 21.1 % to 1.5, i.e. the Corporation's net indebtedness could have been balanced out completely by 1.5 times the cash flow.

Continental Corporation	1988	1987
Sales (DM million)	7,905.8	5,097.6
Net income (DM million)	194.8	138.8
Cost of sales (%)*	74.6	71.1
Selling expenses (%)*	13.1	14.9
Administrative expenses (%)*	6.4	7.0
Income tax ratio (%)	42.5	48.3
Net profit margin (%)	2.5	2.7
Return on shareholders' equity (%)	11.8	9.2
Cash flow (DM million)	623.4	464.0
Cash flow (%)*	7.9	9.1
Interest ratio (%)*	1.0	1.0
Debt ratio	1.5	1.9
Personnel expense (DM million)	2,532.2	1,878.4
Cost of materials (DM million)	3,423.6	2,027.5

* As % of sales

Notes to the 1988 Consolidated Financial Statements and the Financial Statements of Continental Aktiengesellschaft

Cost of Sales Method

In the financial statements for fiscal 1988, the statements of income for the Continental Corporation have been prepared for the first time according to the cost of sales method. The previous year's figures have been adjusted accordingly, insofar as necessary for purposes of comparison.

Scope of Consolidation

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

We have consolidated 35 domestic and 62 foreign companies. 5 domestic and 10 foreign companies were added in 1988.

The General Tire companies in Morocco and Mexico, which were acquired in the first quarter of 1988, and the French Anoflex companies are among those being consolidated for the first time. In 1987 only the balance sheets of the General Tire companies in the U.S.A. and Canada were included, but now their income statements have also been fully consolidated.

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

Principles of Consolidation

86 subsidiaries (in which the Corporation holds an interest of more than 50%), whose financial statements are prepared according to principles of accounting and valuation that are uniform throughout the Corporation, are fully consolidated. With the exception of a few smaller companies, all the financial statements included are prepared as of the date of the consolidated financial statements. The assets and liabilities of our subsidiaries are entered in the consolidated balance sheet, instead of their book value. The cost of our investment is offset against our interest in the shareholders' equity of the subsidiary on the date of acquisition. When the book value of our investment in a company is higher than the Corporation's interest in its shareholders' equity, the company's undisclosed reserves, primarily those relating to land, have been added in its balance sheet. Any remaining goodwill items are deducted from consolidated retained earnings. Appropriate adjustments are made for interests not held by the parent company in fully consolidated companies.

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

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

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

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

Foreign Currency Translation

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

Unrealized losses resulting from foreign exchange rate fluctuations are charged to income on the balance sheet date; unrealized profits are disregarded.

The balance sheets of foreign companies, including those in countries with high inflation rates, are translated at the year-end middle rate. Differences from the previous year's translations are offset, with no effect on income, against retained earnings. Income statements are translated at the average rates for the year.

Principles of Accounting and Valuation

Assets

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

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation. Our domestic and foreign companies take the special depreciation permitted by the tax laws.

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

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

Buildings up to 33 years

Technical facilities and machinery 10 to 12.5 years

Plant and office equipment 4 to 7 years

Molds up to 4 years.

Additions to movable assets made during the first six months of the year are depreciated at the full annual rate, and those made during the last six months at half the annual rate. Fixed assets with values of less than DM 800.00 are written off completely in the year of acquisition.

These depreciation rules are applied by each of the domestic and foreign companies, as of the date it became part of the Corporation. The General Tire companies are an exception. They use the straight-line method, but base it on the same useful lives used by the rest of the Corporation.

Companies held as investments are valued at acquisition cost. Writedowns were made, as necessary, in individual cases.

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

Inventories are valued at the lower of acquisition/manufacturing cost or market. A reasonable allowance was made for declines in value due to prolonged storage or reduced usability.

Manufacturing cost includes individual costs and appropriate amounts of material and production overhead and depreciation; interest on borrowed funds is not included.

In valuing receivables and miscellaneous assets, we make appropriate adjustments to cover all perceivable individual risks, as well as the general credit risk.

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

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

Discounts and issue costs of loans and bonds are shown as prepaid expenses and amortized over the term of the individual loans and bonds. The costs of capital increases, on the other hand, are expensed in full.

Shareholders' Equity and Liabilities

Provisions based on sound business judgment are set up for all perceivable risks in connection with undetermined obligations and for any impending losses.

At our German companies, the provisions for pension plans and similar obligations are set up at a 6% interest rate, on the basis of actuarial computations in accordance with the statutory method. Pension commitments and similar obligations of foreign companies are also computed according to actuarial principles, discounted to the present value at the interest rates prevailing in the respective countries, and covered by appropriate provisions for pension plans or by pension funds.

In addition, Austrian and French companies have established provisions to cover severance benefits.

The pension obligations of American companies have been valued according to the valuation rules in force as of 1987.

Furthermore, sufficient provisions, computed according to actuarial principles, have been made in the balance sheet of General Tire Inc., Akron, Ohio, for post-retirement medical benefits.

Provisions for deferred repairs to be carried out in 1989 are established in the amount of the probable cost.

When there are temporary differences between the values determined according to the tax laws and those appearing on the commercial balance sheets of the individual companies, which are prepared according to valuation principles that are uniform throughout the Corporation, the gross amounts of the resulting future tax expenses and tax refunds (deferred taxes) are first computed for each balance sheet item and then netted within the individual companies.

Any resulting debit balance is shown on the balance sheet. We do not make use of the option to capitalize credit balances on the balance sheets of the individual companies.

Liabilities are stated at the redemption amount.

Notes to the Balance Sheet

Assets

Fixed Assets and Investments

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

(1) Intangible Assets

The additions relate mainly to software.

(2) Property, Plant and Equipment

Capital expenditures were used mainly to acquire new machinery and molds in order to maintain and safequard our technical and economic capability, to expand capacities, to streamline operations, to boost productivity, and to assure the quality of our products. Retirements consisted of land that was no longer needed for our operations and of technologically and economically obsolete machinery and facilities.

Additions to property, plant and equipment are shown in the table below.

	1988		1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Tires	70,622	254,062	50,406	195,445
General Tire	–	90,881	–	–
Industrial Products	54,770	89,570	59,775	95,097
Other	13,148	13,166	9,533	9,538
	138,540	447,679	119,714	300,080

(3) Investments

The book value of the affiliated companies included in the balance sheet of Continental Aktiengesellschaft increased by DM 56.8 million. Additions consisted primarily of the purchase prices for the General Tire companies in Morocco and Mexico, which were acquired in 1988, and minor capital increases at several companies. The book value of the investment in Clouth AG, Cologne, is stated at zero.

A list of the major companies included in the Continental Corporation can be found on page 58 of this report.

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

(4) Inventories

DM 60.7 million of the increase in the Corporation's inventories are attributable to companies acquired in 1988, and DM 46.7 million to the rise in the value of the U.S. dollar against the German mark.

The parent company's inventories include DM 28.5 million attributable to the production activities of Uniroyal Englebert Reifen GmbH, Aachen.

	12/31/1988		12/31/1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Raw materials and supplies	92,665	289,496	76,872	244,659
Work in process	67,776	180,348	63,562	151,092
Finished goods and merchandise	209,688	919,317	176,639	799,827
Advances to suppliers	1,065	4,040	2,427	6,939
Advances from customers	–	–	–	827
	371,194	1,393,201	319,500	1,201,690

(5) Receivables and Other Assets

Of the parent company's trade accounts receivable in the amount of DM 182.2 million, 72.7% is attributable to domestic customers and 27.3% to customers abroad.

The parent company's receivables from affiliated companies include DM 117.1 million in financing under the Central Cash Management system.

Continental AG		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1988	1 year	12/31/1987	1 year
Trade accounts receivable	182,180	1,070	165,623	1,236
Receivables from affiliated companies	226,477	–	271,676	–
Receivables from companies in which participations are held	646	–	–	–
Other assets	20,184	9,520	13,184	4,614
	429,487	10,590	450,483	5,850

Consolidated		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1988	1 year	12/31/1987	1 year
Trade accounts receivable	1,414,319	1,585	1,172,609	3,214
Receivables from affiliated companies	4,482	–	4,312	–
Receivables from companies in which participations are held	3,989	–	10,426	–
Other assets	173,408	14,395	129,304	6,834
	1,596,198	15,980	1,316,651	10,048

(6) Marketable Securities

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

(7) Liquid Assets

Liquid assets were sharply reduced in favor of marketable securities. As in 1987, the Corporation's marketable securities and liquid assets total slightly more than DM 600 million.

	12/31/1988		12/31/1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Checks	9,877	12,433	6,963	9,475
Cash on hand, deposits at the Bundesbank and in postal checking accounts	1,573	5,459	636	3,146
Cash in banks	186,610	217,148	267,100	337,721
	198,060	235,040	274,699	350,342

(8) Prepaid Expenses

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

	12/31/1988		12/31/1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Discount on loans/bonds	17	5,594	52	6,410
Miscellaneous	729	62,604*	210	30,003
	746	68,198	262	36,413

* includes DM 22.8 million deferred taxes (netted)

Shareholders' Equity and Liabilities

(9) Subscribed Capital

The subscribed capital is virtually the same as in 1987.

Type	No. of shares	Par value per share in DM	Capital stock in DM
Common shares	403,623	1,000.–	403,623,000.–
Common shares	170,054	100.–	17,005,400.–
Common shares	240,537	50.–	12,026,850.–
			432,655,250.–

The Company still has authorized capital available in the amount of DM 10 million for the issue of employee shares.

The change in the conditionally authorized capital is shown in the table below.

	DM 000
Conditionally authorized capital as of 12/31/1987	154,889
Utilization due to exercise of warrants attached to 1984/94 bonds	1
Addition per resolution of the Shareholders' Meeting of 6/22/1988	60,000
Conditionally authorized capital as of 12/31/1988	214,888

(10) Capital Reserves

This item includes amounts received upon the issuance of shares in excess of the par value of the shares (premiums) totaling DM 724.9 million, as well as proceeds totaling DM 222.6 million received by Continental Aktiengesellschaft from the sale of option rights.

The increase in consolidated capital reserves is due to the restoration of the amount of DM 22.4 million which was transferred in 1987 to retained earnings.

(11) Retained Earnings

DM 000	Continental AG	Consolidated
As of 12/31/1987	117,699	–
Goodwill	–	– 68,982
Differences from currency translation	–	+ 46,100
Others	–	– 7,519
Allocation from net income for the year	12,000	+ 129,559
Transfer to capital reserves	–	– 22,437
As of 12/31/1988	129,699	76,721

Permissible valuations in the American financial statements of our subsidiary General Tire Inc., Akron, Ohio, based on the restructuring program adopted in the fall of 1988 and the trend in health care costs, were used in the consolidated financial statements. This has reduced consolidated shareholders' equity by DM 36.8 million.

(12) Minority Interests

This item shows the interests of outsiders in capital and earnings, in particular the minority interests in the capital of Semperit Reifen Aktiengesellschaft, Vienna, Austria, in Semperit (Ireland) Ltd., Dublin, and in our joint venture, GTY Tire Company, Akron, Ohio.

(13) Reserve for Retirement Benefits

The reserve for retirement benefits was set up to compensate for shortfalls in the provision for pension plans. It was reduced by DM 0.7 million to DM 4.2 million. On December 31, 1988, there was an equivalent shortfall, which cannot be made up until later for tax purposes, in the provisions for pension plans of Continental Aktiengesellschaft.

(14) Special Reserves

	12/31/1988		12/31/1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Reserve under § 3, Foreign Investment Act	50,675	50,675	36,989	36,989
Reserve under § 6b, Income Tax Act	–	362	8,894	9,187
Reserve under § 52 Par. 5, Income Tax Act	1,175	1,782	1,411	2,139
Governmental capital investment subsidies	–	69,447	–	60,236
Other	3,189	4,658	3,236	3,693
	55,039	126,924	50,530	112,244

(15) Provisions

The principles by which we value pensions and similar obligations are explained on page 39.

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

The provisions for taxes include amounts relating both to the current fiscal year and to previous years.

Provisions for deferred taxes in the individual financial statements were outweighed by the net prepaid taxes arising from consolidation procedures, resulting in a credit of DM 22.8 million, which is shown as a prepaid expense.

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

	12/31/1988		12/31/1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Provisions for pensions				
and similar obligations	194,281	642,622	175,792	476,701
Provisions for taxes	88,036	130,525	82,796	111,219
Miscellaneous provisions	211,550	721,843	199,608	665,656
	493,867	1,494,990	458,196	1,253,576

(16) Liabilities

Continental AG		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1988	1 year	5 years	12/31/1987	1 year	5 years
Bonds, convertible*	71,894	344	71,550	71,894	314	71,580
Bank borrowings	18,450	3,600	–	60,420	42,000	4,020
Advances from customers	1,995	1,995	–	3,273	773	–
Trade accounts payable	130,105	128,474	–	124,318	123,162	–
Payables to affiliated						
companies	51,628	38,786	12,842	27,494	15,542	11,952
Payables to companies in						
which participations						
are held	6,564	6,564	–	6,507	6,507	–
Other liabilities*	129,388	118,354	2,000	119,325	60,341	4,006
of which taxes	23,476	–	–	20,734	–	–
of which relating to						
social security						
and similar obligations	13,231	–	–	9,058	–	–
	410,024	298,117	86,392	413,231	248,639	91,558

* total amount secured by land charges: DM 82.0 million

Consolidated		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1988	1 year	5 years	12/31/1987	1 year	5 years
Bonds, convertible*	724,088	344	723,744	718,748	314	718,434
Bank borrowings*	504,794	328,169	60,564	382,403	183,592	86,039
Advances from customers	5,874	5,874	–	15,632	13,132	–
Trade accounts payable	532,353	530,722	–	437,577	436,246	–
Liabilities on acceptances and notes payable	86,516	86,366	–	61,921	61,921	–
Payables to affiliated companies	9,758	1,213	–	8,659	1,991	–
Payables to companies in which participations are held	12,363	12,363	–	6,463	6,463	–
Other liabilities*	387,344	335,231	14,675	365,858	262,779	22,784
of which taxes	73,430	–	–	61,970	–	–
of which relating to social security and similar obligations	56,155	–	–	44,033	–	–
	2,263,090	1 300,282	798,983	1,997,261	966,438	827,257

* amount secured by land charges, mortgages and comparable collateral: DM 130.2 million

Guarantees and Other Commitments

The contingent liabilities on notes result from discounting trade bills. With the exception of DM 4.3 million, Continental Aktiengesellschaft's liabilities under guarantees and warranties relate to liabilities of subsidiaries and other companies held as investments, in particcular guarantees in the amount of DM 662.5 million for capital market financing by Conti-Gummi Finance B.V., Amsterdam, Netherlands, and Continental Rubber of America, Corp., Wilmington, Delaware.

	12/31/1988		12/31/1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Acceptance liability	123,834	247,503	116,162	228,786
of which due to affiliated companies	49,488	–	27,447	–
Liabilities on guarantees	729,662	25,532	703,020	2,256
Liabilities on warranties	3,776	134	9,999	–
Liability on shares in cooperatives	82	82	82	82

Other Financial Obligations

Liabilities under rental and leasing agreements relate primarily to real estate used for business activities. The breakdown for 1989 and later years is as follows:

DM 000	Continental AG	Consolidated
Rental and leasing agreements	71,438	350,842
Purchase commitments	34,200	79,219

Notes to the Statement of Income

(17) Sales

The sales of Continental Aktiengesellschaft include DM 263.2 million resulting from the management agreement with Uniroyal Englebert Reifen GmbH, Aachen.

Continental AG			Change
DM million	1988	1987	in %
Analysis by sector			
Tires	1,680.9	1,359.0	+ 23.4
Industrial Products	909.6	850.6	+ 6.9
Other sales	222.8	213.5	+ 4.4
	2,813.3	2,423.1	+ 16.1
Analysis by geographical area			
Federal Republic of Germany	1,776.7	1,547.1	+ 14.8
Europe (without Federal Republic of Germany)	793.3	720.1	+ 10.2
Non-European countries	243.3	155.9	+ 56.1

Consolidated sales amounted to DM 7,905.8 million (1987: DM 5,097.6 million). Foreign markets accounted for DM 5,084.5 million, or 64.3% (1987: 47.5%) of total sales. Sales of the General Tire companies are included in these figures for the first time.

Consolidated			Change
DM million	1988	1987	in %
Analysis by sector			
Tires			
Continental	1,566.5	1,466.6	+ 6.8
Uniroyal Englebert	985.2	934.9	+ 5.4
Semperit	841.8	787.4	+ 6.9
Merchandise and services	406.5	415.9	− 2.3
General Tire	2,498.3		
Industrial Products	1,520.7	1,395.5	+ 9.0
Other sales	86.8	97.3	− 10.8
	7,905.8	5,097.6	+ 55.1
Analysis by geographical area			
Federal Republic of Germany	2,821.3	2,675.6	+ 5.5
Europe (without Federal Republic of Germany)	2,158.7	2,000.6	+ 7.9
North America	2,672.3	111.2	
Other countries	253.5	310.2	− 18.3

(18) Cost of Sales

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

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

Cost of sales rose by 4.9% (in proportion to sales) over the previous year, reflecting the intensified price and cost pressure during 1988.

(19) Selling Expenses

These include the costs of the sales organization, distribution, and advertising. The selling expenses represented a slightly lower proportion of sales than in 1987. This is due to the inclusion of General Tire with its different distribution structure.

(20) Administrative Expenses

This item consists primarily of personnel and general administrative expenses which cannot be directly allocated to production or sales. Here, too, the proportion of costs to sales declined.

(21) Other Operating Income

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

	1988		1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Gains on the disposal of fixed assets and investments	2,540	26,972	1,688	11,356
Credit to income from the reversal of provisions	426	19,791	2,392	19,261
Credit to income from the reduction of the general bad debt reserve	–	369	20	959
Credit to income from the reversal of special reserves	11,664	29,109	8,896	9,493
Miscellaneous income	85,052	89,872	89,412	113,764
	99,682	166,113	102,408	154,833

(22) Other Operating Expenses

The allocation to special reserves relates primarily to General Tire, Barrie, Ontario, Canada.

The principal miscellaneous expenses relate to sideline operations, and, at the parent company, also to allocations within the Corporation.

	1988		1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Losses on the disposal of fixed assets and investments	731	2,357	1,030	3,926
Losses on the disposal of current assets (except inventories)	2,048	27,110	257	13,771
Allocation to special reserves	15,719	15,899	4,861	5,336
Miscellaneous expenses	85,427	98,325	109,977	136,936
	103,925	143,691	116,125	159,969

(23) Net Income from Investments and Financial Activities

Continental Aktiengesellschaft's net income from investment in other companies includes DM 40.5 million (1987: DM 88.3 million) from profit-and-loss transfer agreements and dividends.

With the exception of the dividends received from our subsidiary SICUP SARL, Sarreguemines, France, all the income is generated by domestic companies.

There was no significant change in the net income received by the Corporation from its investment in nonconsolidated companies. The net interest expense of the Corporation increased, but amounted to only 1.0% of consolidated sales as in the previous year. At Continental Aktiengesellschaft, net interest expense continued to decrease substantially, to less than 0.1% of sales.

Continental AG		
DM 000	1988	1987
Net income from investments		
Income under profit-and-loss transfer agreements	26,705	9,148
Income from investments	13,766	79,176
of which from affiliated companies	12,317	76,878
	40,471	88,324
Net interest expense		
Income from other securities and loans		
included in investments	220	170
of which from affiliated companies	–	–
Other interest and similar income	24,012	15,573
of which from affiliated companies	10,802	8,863
Interest and similar expenses	– 26,203	– 27,104
of which to affiliated companies	– 8,933	– 8,086
	– 1,971	– 11,361
Writedowns on investments and marketable securities		
Writedowns on investments	– 21,025	–
Writedowns on marketable securities	– 1,730	–
	– 22,755	–
Net income from investments and financial activities	**+ 15,745**	**+ 76,963**

Consolidated		
DM 000	1988	1987
Net income from investments		
Income under profit-and-loss transfer agreements	2	2
Income from investments in associated companies	3,200	5,083
Income from investments in other companies	402	223
of which from affiliated companies	367	192
	3,604	5,308
Net interest expense		
Income from other securities and		
loans included in investments	3,046	2,049
of which from affiliated companies	–	–
Other interest and similar income	43,444	32,712
of which from affiliated companies	76	79
Interest and similar expenses	– 125,722	– 85,287
of which to affiliated companies	– 516	– 467
	– 79,232	– 50,526
Writedowns on investments and marketable securities		
Writedowns on investments	– 23,589	– 806
Writedowns on marketable securities	– 4,073	– 634
	– 27,662	– 1,440
Net income from investments and financial activities	**– 103,290**	**– 46,658**

(24) Taxes

The income tax ratio for the Corporation declined from 48.3% to 42.5%.

	1988		1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
On income	82,849	143,917	92,515	129,616
Other taxes	15,307	54,398	18,173	35,330
	98,156	198,315	110,688	164,946

(25) Minority Interests in Earnings

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

Miscellaneous Data

Cost of Materials

	1988		1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Cost of raw materials and supplies				
and merchandise	1,219,013	3,193,599	1,021,931	1,883,471
Cost of outside services	173,097	230,037	66,673	144,052
	1,392,110	3,423,636	1,088,604	2,027,523

Personnel Expense

	1988		1987	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Wages and salaries	758,281	1,993,459	765,788	1,521,105
Social welfare contributions and				
expenses related to pensions				
and other employee benefits	166,203	538,728	162,799	357,259
of which to pensions	32,727	68,235	35,569	62,760
	924,484	2,532,187	928,587	1,878,364

Quarterly average of employees	Continental AG	Consolidated
Salaried employees	4,378	10,646
Wage earners	10,386	34,137
	14,764	44,783

Depreciation, Amortization, and Writedowns

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

They include depreciation for tax purposes in the amount of DM 19.0 million for the Corporation and DM 15.3 million for Continental Aktiengesellschaft (§§ 6b, Income Tax Act; 82d, Income Tax Directives; 3, FRG/GDR Border Area Assistance Act; 7d, Income Tax Act; 14, Berlin Promotion Law).

Valuations made for tax purposes with respect to 1988 and the previous fiscal years (for example, those pursuant to § 3, FRG/GDR Border Area Assistance Act or § 6b, Income Tax Act) will cause an increase in the future earnings of the Corporation and the parent company.

Remuneration of the Supervisory Board and the Executive Board

Provided that the Shareholders' Meeting on July 5, 1989 approves the proposed dividend, DM 771,000 (1987: DM 758,000) will be spent for the Supervisory Board, DM 7,026,000 (1987: DM 5,163,000) for the Executive Board, and DM 2,230,000 (1987: DM 2,261,000) for former members of the Executive Board and their surviving dependents.

DM 15,403,000 has been set aside for pension commitments to former members of the Executive Board and their surviving dependents.

Proposed Allocation of Net Income

Proposal for the allocation of the net income available for distribution	
The net income available for distribution amounts to	**DM 70,424,596**
The Supervisory and Executive Boards recommend that the Shareholders' Meeting approve payment of a dividend of DM 8.00 on each share with a par value of DM 50.00, or	**DM 69,224,840**
The remaining amount of	**DM 1,199,756**
is to be carried forward.	

Hanover, April 10, 1989

Continental Aktiengesellschaft
The Executive Board

Horst W. Urban | Wilhelm Borgmann | Peter Haverbeck | Hans Kauth

Günter H. Sieber | Wilhelm P. Winterstein | Ingolf Knaup

Continental Aktiengesellschaft
Consolidated Balance Sheet at December 31, 1988

Assets				
	See Note No.	DM 000	12/31/1988 DM 000	12/31/1987 DM 000
Fixed assets and investments				
Intangible assets	(1)	7,771		8,450
Property, plant and equipment	(2)	1,687,557		1,532,333
Investments	(3)	99,616		106,262
			1,794,944	**1,647,045**
Current assets				
Inventories	(4)	1,393,201		1,201,690
Receivables and other assets	(5)	1,596,198		1,316,651
Marketable securities	(6)	367,366		251,059
Liquid assets	(7)	235,040		350,342
			3,591,805	**3,119,742**
Prepaid expenses	(8)		**68,198**	**36,413**
			5,454,947	**4,803,200**

Shareholders' equity and liabilities				
	See Note No.	DM 000	12/31/1988 DM 000	12/31/1987 DM 000
Shareholders' equity				
Subscribed capital	(9)	432,655		432,654
Capital reserves	(10)	947,498		925,061
Retained earnings	(11)	76,721		–
Minority interests	(12)	38,409		28,671
Reserve for retirement benefits	(13)	4,235		4,930
Net income available for distribution		70,425		48,803
			1,569,943	**1,440,119**
Special reserves	(14)		**126,924**	**112,244**
Provisions	(15)		**1,494,990**	**1,253,576**
Liabilities	(16)		**2,263,090**	**1,997,261**
			5,454,947	**4,803,200**

Continental Aktiengesellschaft
Consolidated Statement of Income for the period from January 1 to December 31, 1988

	See Note No.	DM 000	1988 DM 000	1987 DM 000
Sales	(17)		**7,905,816**	**5,097,600**
Cost of sales	(18)	5,895,042		3,625,065
Gross profit on sales			**2,010,774**	**1,472,535**
Selling expenses	(19)	1,033,942		758,224
Administrative expenses	(20)	502,862		358,803
Other operating income	(21)	166,113		154,833
Other operating expenses	(22)	143,691		159,969
Net income from investments and financial activities	(23)	– 103,290		– 46,658
Net income from regular business activities			**393,102**	**303,714**
Taxes	(24)	198,315		164,946
Net income for the year			**194,787**	**138,768**
Balance brought forward from previous year			832	2,553
Minority interests in earnings	(25)		+ 3,670	– 310
Withdrawal from the reserve for retirement benefits			+ 695	+ 491
Change in reserves			– 129,559	– 92,699
Net income available for distribution			**70,425**	**48,803**

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

Berlin/Hanover, April 10, 1989

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Kirste
Certified Public Accountant	Certified Public Accountant

Continental Aktiengesellschaft
Balance Sheet at December 31, 1988

Assets	See Note No.	DM 000	12/31/1988 DM 000	12/31/1987 DM 000
Fixed assets and investments				
Intangible assets	(1)	1,469		443
Property, plant and equipment	(2)	380,383		378,791
Investments	(3)	1,027,688		979,068
			1,409,540	**1,358,302**
Current assets				
Inventories	(4)	371,194		319,500
Receivables and other assets	(5)	429,487		450,483
Marketable securities	(6)	134,415		70,295
Liquid assets	(7)	198,060		274,699
			1,133,156	**1,114,977**
Prepaid expenses	(8)		**746**	**262**
			2,543,442	**2,473,541**

Shareholders' equity and liabilities	See Note No.	DM 000	12/31/1988 DM 000	12/31/1987 DM 000
Shareholders' equity				
Subscribed capital	(9)	432,655		432,654
Capital reserves	(10)	947,498		947,498
Retained earnings	(11)	129,699		117,699
Reserve for retirement benefits	(13)	4,235		4,930
Net income available for distribution		70,425		48,803
			1,584,512	**1,551,584**
Special reserves	(14)		**55,039**	**50,530**
Provisions	(15)		**493,867**	**458,196**
Liabilities	(16)		**410,024**	**413,231**
			2,543,442	**2,473,541**

Continental Aktiengesellschaft
Statement of Income for the period from January 1 to December 31, 1988

	See Note No.	DM 000	1988 DM 000	1987 DM 000
Sales	(17)		**2,813,346**	**2,423,094**
Cost of sales	(18)	2,260,606		1,948,192
Gross profit on sales			**552,740**	**474,902**
Selling expenses	(19)	201,141		191,245
Administrative expenses	(20)	184,047		180,456
Other operating income	(21)	99,682		102,408
Other operating expenses	(22)	103,925		116,125
Net income from investments and financial activities	(23)	+ 15,745		+ 76,963
Net income from regular business activities			**179,054**	**166,447**
Taxes	(24)	98,156		110,688
Net income for the year			**80,898**	**55,759**
Balance brought forward from previous year			832	2,553
Withdrawal from the reserve for retirement benefits			+ 695	+ 491
Transfers to retained earnings			– 12,000	– 10,000
Net income available for distribution			**70,425**	**48,803**

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

Berlin/Hanover, April 10, 1989

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Kirste
Certified Public Accountant	Certified Public Accountant

Changes in **Consolidated** Fixed Assets and Investments

	Acquisition/Manufacturing Cost					Accumulated depreciation	Net value	Net value	Depreciation in the business year
	As of 1/1/1988	Additions	Reclassifications	Retirements	As of 12/31/1988		12/31/1988	12/31/1987	
	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000
I. Intangibles									
Concessions, industrial and similar rights and assets and licenses in such rights and assets	5,783	579	—	50	6,312	4,821	1,491	4,484	3,040
Goodwill	—	3,208	—	3,208	—	—	—	—	442
Other intangible assets	8,471	5,345	135	79	13,872	8,393	5,479	3,635	3,541
Payments to suppliers	331	605	−135	—	801	—	801	331	—
	14,585	**9,737**	—	**3,337**	**20,985**	**13,214**	**7,771**	**8,450**	**7,023**
II. Property, plant and equipment									
Land, land rights and buildings including buildings on third party land	932,715	114,329	20,620	8,019	1,059,645	458,773	600,872	516,007	44,693
Technical equipment and machines	2,215,384	125,027	141,998	11,998	2,470,411	1,748,139	722,272	659,291	214,916
Other equipment, factory and office equipment	738,514	121,947	20,008	45,326	835,143	629,972	205,171	179,041	109,184
Payments to suppliers and assets under construction	178,003	155,577	−182,626	−8,288	159,242	—	159,242	177,994	—
	4,064,616	**516,880**	—	**57,055**	**4,524,441**	**2,836,884**	**1,687,557**	**1,532,333**	**368,793**
III. Investments									
Shares in affiliated companies	1,622	112	—	512	1,222	328	894	1,449	—
Loans to affiliated companies	—	47	—	—	47	47	—	—	—
Shares in associated companies	58,933	355	—	—	59,288	22,825	36,463	58,933	22,825
Investments	2,993	2,211	—	—	5,204	732	4,472	2,261	—
Securities included in investments	20,235	1,938	—	686	21,487	68	21,419	20,167	—
Other loans	29,752	15,689	—	4,573	40,868	4,500	36,368	23,452	416
	113,535	**20,352**	—	**5,771**	**128,116**	**28,500**	**99,616**	**106,262**	**23,241**
	4,192,736	**546,969**	—	**66,163**	**4,673,542**	**2,878,598**	**1,794,944**	**1,647,045**	**399,057**

Changes in Fixed Assets and Investments of Continental Aktiengesellschaft

	As of 1/1/1988 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1988 DM 000	Accumu-lated depre-ciation DM 000	Net value 12/31/1988 DM 000	Net value 12/31/1987 DM 000	Depre-ciation in the business year DM 000
	Acquisition/Manufacturing Cost								
I. Intangibles									
Other intangible assets	2,042	1,778	71	13	3,878	2,858	1,020	365	1,194
Payments to suppliers	78	442	−71	–	449	–	449	78	–
	2,120	**2,220**	–	**13**	**4,327**	**2,858**	**1,469**	**443**	**1,194**
II. Property, plant and equipment									
Land, land rights and buildings including buildings on third party land	347,484	8,347	3,543	410	358,964	255,581	103,383	109,392	17,676
Technical equipment and machines	1,058,442	55,776	14,924	21,787	1,107,355	944,045	163,310	164,599	70,698
Other equipment, factory and office equipment	351,203	51,871	3,184	20,155	386,103	325,127	60,976	53,087	45,357
Payments to suppliers and assets under construction	51,713	22,546	−21,651	−106	52,714	–	52,714	51,713	–
	1,808,842	**138,540**	–	**42,246**	**1,905,136**	**1,524,753**	**380,383**	**378,791**	**133,731**
III. Investments									
Shares in affiliated companies	939,198	56,828	–	3,007	993,019	5,216	987,803	930,975	–
Investments	45,003	2,163	–	–	47,166	21,025	26,141	45,003	21,025
Other loans	3,150	11,026	–	406	13,770	26	13,744	3,090	–
	987,351	**70,017**	–	**3,413**	**1,053,955**	**26,267**	**1,027,688**	**979,068**	**21,025**
	2,798,313	**210,777**	–	**45,672**	**2,963,418**	**1,553,878**	**1,409,540**	**1,358,302**	**155,950**

Major Companies of the Continental Corporation at December 31, 1988

Company	Corporate interest in %	Shareholders' equity DM 000	Net income DM 000
I. Affiliated companies			
1. Domestic companies			
Uniroyal Englebert Reifen GmbH, Aachen	100.0	54,452	—*
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	6,697	1,105
Göppinger Kaliko GmbH, Eislingen	96.3	34,255	62*
Bamberger Kaliko GmbH, Bamberg	96.3	4,935	—*
Techno-Chemie Kessler & Co. GmbH, Karben	100.0	20,003	4,442
Deutsche Semperit GmbH, Munich	100.0	16,391	369
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	95.0	4,860	1,621
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	3,496	411
2. Foreign companies (according to accounting and valuation principles uniform throughout the Corporation)			
SICUP SARL, Sarreguemines/France	100.0	128,190	22,449
CUP SNC, Roissy/France	100.0	18,586	1,024
Société des Flexibles Anoflex SA, Caluire/France	100.0	2,784	754
Société des Raccords Anoflex SA, Villeurbanne/France	100.0	2,427	413
Semperit Reifen Aktiengesellschaft, Vienna/Austria	75.0	197,919	38,698
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	33,597	274
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	40,564	5,845
Continental Industrias del Caucho SA, Coslada/Madrid/Spain	100.0	18,550	2,470
Semperit (Ireland) Ltd., Dublin/Ireland	72.1	1,502	– 6,544
Uniroyal Englebert Tyres Ltd., Newbridge/UK	100.0	72,394	14,833
General Tire Inc., Akron/Ohio/USA	100.0	335,911	43,193
General Tire Canada Ltd., Barrie/Ontario/Canada	100.0	28,892	– 12,141
General Tire & Rubber Company of Morocco, Casablanca/Morocco	52.2	849	938
General Popo SA de C.V., Mexico City/Mexico	98.2	11,706	2,525
C.U.P. Gummi Gesellschaft mbH, Vösendorf/Austria	75.0	1,691	—*
C.U.P. Ltd., West Drayton/UK	100.0	25,163	2,209
Semperit (UK) Ltd., Slough/UK	75.0	10,339	1,579
Uniroyal Englebert Daek A/S, Copenhagen/Denmark	100.0	1,664	435
Continental Gummi AB, Solna/Sweden	100.0	2,932	188
Semperit Svenska AB, Nacka/Sweden	75.0	928	102
Continental Caoutchouc (Suisse) SA, Zurich/Switzerland	100.0	12,665	818
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	7,170	599
Semperit (Schweiz) AG, Dietikon/Switzerland	100.0	15,391	8,683
Continental Italia S.p.A., Milan/Italy	100.0	7,026	393
Continental Products Corporation, Lyndhurst/N.J./USA	91.8	13,558	2,560
II. Associated companies			
Clouth Gummiwerke AG, Cologne	50.0	– 15,114	515
KG Deutsche Gasrusswerke GmbH & Co., Dortmund	31.0	16,500	1,500
Deutsche Gasrusswerke GmbH, Dortmund	34.0	287	37
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	22,862	1,862
Drahtcord Saar Geschäftsführung GmbH, Merzig/Saar	50.0	66	6
SAVA-Semperit, Kranj/Yugoslavia	20.8	49,580	6,864
Compania Ecuadoriana del Caucho, Cuenca/Ecuador	35.8	14,400	– 3,750

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

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

Continental Corporation

Tire Group (Continental, Uniroyal, Semperit)

Production and Sales

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

Trading Companies in

- Germany
- Switzerland
- Austria
- Liechtenstein
- Ireland

ContiTech Group

Production and Sales

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

General Tire Group

Production and Sales

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

Trading Companies

- 88 outlets in U.S.A. and Canada

☐ Interest of 50% or less

Sales Companies

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

Continental Corporation
Ten Year Survey

		1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Balance sheet											
Fixed assets and investments	DM million	789.4	809.3	827.2	815.7	782.9	764.9	1075.3	1063.6	1647.0	1794.9
Current assets	DM million	1200.7	1215.2	1145.3	1103.0	1104.5	1200.8	1761.9	2029.5	3156.2	3660.0
Balance sheet total	DM million	1990.1	2024.5	1972.5	1918.7	1887.4	1965.7	2837.2	3093.1	4803.2	5454.9
Shareholders' equity	DM million	396.9	418.6	401.9	420.6	442.7	522.2	638.4	808.0	1515.8	1657.9
Long-term debt	DM million	627.5	742.9	729.4	694.3	680.1	692.6	965.2	998.9	1541.6	1644.3
Investments	DM million	113.4	149.2	158.4	131.9	128.2	149.8	254.0	286.7	303.7	457.1
Equity ratio	%	19.9	20.7	20.4	21.9	23.5	26.6	22.5	26.1	31.6	30.4
Long-term financing of fixed assets, investments and inventories	%	74.4	81.8	83.7	84.2	88.3	91.2	86.3	103.8	118.6	113.6
Total indebtedness	DM million	903.5	915.7	909.8	806.4	695.0	594.0	992.5	741.2	672.7	826.4
Self-financing ratio	%	110.1	116.6	69.1	133.0	170.4	143.5	113.1	126.7	150.9	112.3
Liquidity ratio	%	61.9	67.2	71.0	71.1	77.7	82.1	76.4	104.3	134.7	119.9
Statement of income											
Sales	DM million	2623.4	3159.7	3229.0	3248.8	3387.2	3534.0	5003.3	4968.6	5097.6	7905.8
Foreign markets' share	%	34.5	37.0	38.0	37.3	36.4	40.1	49.9	48.3	47.5	64.3
Cost of sales[1]	%									71.1	74.6
Selling expenses[1]	%									14.9	13.1
Administrative expenses[1]	%									7.0	6.4
Cost of materials	DM million	1125.5	1373.2	1335.0	1361.3	1420.0	1569.4	2311.8	1981.9	2027.5	3423.6
Personnel expense	DM million	1045.5	1278.3	1276.3	1283.2	1288.2	1334.8	1693.8	1778.5	1878.4	2532.2
Depreciation	DM million	96.0	115.4	120.0	123.8	135.5	150.8	205.5	229.4	263.8	375.8
Cash flow	DM million	124.8	161.4	108.2	144.2	190.7	204.9	303.5	375.9	464.0	623.4
Value added	DM million	1193.0	1480.2	1426.1	1476.3	1486.3	1519.0	1982.4	2161.8	2267.4	3051.0
Net income	DM million	24.1	26.1	– 17.8	18.3	40.2	41.2	77.2	114.5	138.8	194.8
Employees											
Annual average	000	31.1	31.3	29.6	28.2	27.1	26.3	31.7	31.9	32.3	45.4

[1] As % of sales

Continental Aktiengesellschaft Ten Year Survey

		1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Balance sheet											
Fixed assets and investments	DM million	601.9	670.9	704.6	701.4	663.7	677.7	750.0	761.7	1358.3	1409.5
Current assets	DM million	554.4	539.6	530.3	513.1	492.2	527.0	631.4	741.0	1115.2	1133.9
Balance sheet total	DM million	1156.3	1210.5	1234.9	1214.5	1155.9	1204.7	1381.4	1502.4	2473.5	2543.4
Shareholders' equity	DM million	392.9	399.1	406.8	418.3	419.3	480.6	499.2	667.1	1567.2	1601.3
Long-term debt	DM million	472.1	467.7	449.1	429.9	415.2	413.7	457.8	402.0	375.3	344.4
Investments	DM million	72.6	80.8	90.2	66.1	58.9	85.4	102.2	102.6	121.0	140.8
Equity ratio	%	34.0	33.0	32.9	34.4	36.3	39.9	36.1	44.4	63.4	63.0
Long-term financing of fixed assets, investments and inventories	%	96.7	89.5	88.7	88.7	92.7	94.7	90.9	105.5	122.8	116.7
Total indebtedness	DM million	419.2	429.5	409.6	373.6	288.0	233.7	250.5	192.9	+ 139.6	+ 171.0
Self-financing ratio	%	82.1	76.7	58.2	121.1	226.2	102.0	78.9	146.6	31.5	103.5
Liquidity ratio	%	88.5	67.3	68.3	66.6	76.4	81.5	74.7	117.0	192.7	163.6
Statement of income											
Sales	DM million	1692.6	1817.2	1823.9	1866.3	1992.7	2079.3	2312.9	2391.0	2423.1	2813.3
Foreign markets' share	%	26.3	28.5	29.3	28.6	28.2	33.4	34.4	35.4	36.2	36.8
Cost of sales[1]	%									80.4	80.4
Selling expenses[1]	%									7.9	7.1
Administrative expenses[1]	%									7.4	6.5
Cost of materials	DM million	756.5	813.4	825.3	835.3	893.8	998.0	1152.2	1107.2	1088.6	1392.1
Personnel expense	DM million	712.2	764.2	745.7	753.4	766.3	790.0	846.7	895.2	928.6	924.5
Depreciation	DM million	62.7	65.2	69.5	73.5	78.7	85.5	105.5	111.2	121.8	134.9
Cash flow	DM million	94.1	105.7	73.6	89.5	122.8	120.7	158.1	209.9	263.4	262.4
Value added	DM million	799.3	884.5	838.6	847.7	865.3	886.2	971.4	1071.9	1122.2	1129.8
Net income	DM million	11.9	12.7	0.2	3.9	15.1	18.3	37.2	55.0	55.8	80.9
Dividend paid	DM million	—	13.5	—	—	16.2	17.9	29.9	37.5	48.0	69.2
Employees											
Annual average	000	18.1	18.3	17.4	16.3	15.6	15.4	15.5	15.4	15.3	15.1

[1] As % of sales

Selected Financial Terms

Affiliated companies. The remarks made with regard to → interests in other companies apply. However, affiliated companies are included in the → consolidated financial statements.

Associated companies. These are usually companies in which a consolidated company has an interest of at least 20% but no more than 50%.

Authorized capital. This figure 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. The authorization is resolved upon by the Shareholders' Meeting. It is valid for not more than five years.

Balance sheet. Like the → statement of income and the → notes, the balance sheet is part of the financial statements. The balance sheet shows the source and application of a company's funds on the balance sheet date. The right-hand side states the source of the funds (shareholders' equity and liabilities). A distinction is made between → shareholders' equity and liabilities. The net income available for distribution also appears on the right-hand side as part of shareholders' equity. The liabilities represent the company's indebtedness. The left-hand side, which lists the company's assets, shows how the funds obtained are currently being applied. Insofar as the assets are intended for permanent use within the company, they are part of → fixed assets and investments; the remaining items are → current assets.

Cash flow. The difference between cash income and cash expenses. The cash flow is defined in different ways by different companies. We consider it to be primarily the sum of net income, → depreciation, change in long-term → provisions, and the balance of extraordinary → income and → expenses. Customarily, a company uses its cash flow to pay for capital investments, to amortize debt, and to pay dividends.

Conditionally authorized capital. This figure is the total amount for which shares to be issued by the company may be purchased under convertible debentures or option rights, as part of a capital increase resolved upon by the Shareholders' Meeting.

Consolidation. Integration of individual financial statements in a single set of financial statements for a group of companies, avoiding duplications. For this purpose, the following are to be offset against one another: the book value of the parent company's interests in the consolidated subsidiaries against the corresponding portion of their → shareholders' equity, intercompany receivables against intercompany liabilities, and → income from the supply of goods and services within the group against the corresponding → expenses. Intercompany profits must be eliminated, unless they have been realized through the resale of the goods in question to outsiders.

Corporate performance. The total of → sales and all other → income.

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

Current assets. All the short- and medium-term assets of a company. For example, inventories, trade accounts receivable, cash on hand, and bank accounts.

Debt ratio. Ratio of net indebtedness to → cash flow.

Deferred taxes. The income taxes paid by a company are computed according to its taxable income. If this income is different from that shown on the published balance sheet, the taxes will be either too high or too low with respect to the published earnings. An accounting entry for deferred taxes is set up to compensate for the difference in those cases in which it is clear that the difference in question will be eliminated in the course of time. A provision for deferred taxes is established if too little tax has been paid. The difference may be entered on the asset side or offset against provisions for deferred taxes, if too much tax has been paid. Deferred taxes resulting from → consolidation, regardless of whether they are assets or liabilities, must be accounted for in the consolidated financial statements.

Depreciation and writedowns. Depreciation and writedowns reflect decreases in value, due, for example, to wear and tear, age, or risks. A machine is entered in → fixed assets and investments at cost on the date of acquisition. In the → statement of income, this amount is distributed over the expected useful life of the machine, in other words, it is charged as an → expense, not all at once, but proportionately year after year. The amounts by which the value of → fixed assets and investments decreases each year are referred to as depreciation and writedowns.

DVFA earnings. The DVFA is the German Association of Financial Analysts. Its method is designed to compute a net income that is adjusted to exclude the effects of extraordinary and aperiodic influences. Investors are thereby provided with a uniform basis for comparison with other companies and over the course of time.

Equity method. A method used to value → associated companies in the consolidated financial statements. The figure entered in the balance sheet is based on the portion of the company's shareholders' equity that corresponds to the → interest held.

Expenses. The value of goods and services used within the company, such as raw materials consumed, wages and salaries, statutory social welfare contributions, interest, taxes, → depreciation and writedowns. Expenses are not always incurred during the reporting period. For example, → depreciation of property, plant and equipment is an expense that occurs at the date the capital investment is made; → provisions, on the other hand, become expenses only at the time they are used.

Fixed assets and investments. Assets intended for permanent use within the company, such as land, buildings, machinery, computer software, and interests in other companies.

Corporation. Legally independent companies that are under the uniform control of a parent company form an economic entity, the corporation. As a rule, the group is headed by a parent company that is also a member of the corporation. The parent company can generally exercise uniform control, because its holds, directly or indirectly, a majority interest in the other companies of the corporation.

Income. A collective expression for the increase in value recorded by means of various items on the → statement of income, for example, → sales, dividends received, interest, and credits to income from the reversal of → provisions.

Indebtedness. The sum of all short- and long-term interest-bearing liabilities minus liquid assets.

Intangible assets. Part of → fixed assets and investments, including such rights as franchises, patents, licenses, and computer software.

Interests in other companies. Participations in the capital of other companies, held for the purpose of establishing permanent close financial relations with these companies. The amount shown is the one the company has invested for the formation, acquisition, or expansion of the other companies. This applies also to → affiliated companies.

Liquidity; liquidity ratio. The ability of a company to meet its payment obligations on time. The liquidity ratio is derived from the ratio of → current assets minus inventories (monetary current assets) to short-term borrowings.

Notes. A part of the financial statements. In addition to explanations of the items on the → balance sheet and the → statement of income, they contain additional data, such as financial obligations not shown in the balance sheet. Among the required information is a presentation of the principles of accounting and valuation that have been employed.

Other assets. Short-term loans, tax refund claims, and claims for damages are included among these assets.

Other liabilities. Examples of such liabilities are amounts due under the social security system, commissions and interest.

Other operating expenses. These expenses include transfers to → special reserves or → provisions and expenses connected with sideline operations.

Other operating income. This income consists, among other things, of the amounts of → provisions and → special reserves that have been reversed, indemnification paid by insurance companies, capital investment subsidies, and revenues from sideline operations.

Prepaid expenses and deferred income. Revenues or expenditures of a company that do not qualify as → income or → expenses until after the balance sheet date (for example, prepaid rent).

Provisions. Provisions are set up for liabilities which are known to exist but whose amount is not yet determined and for risks from transactions that have not yet been completed. Typical provisions include provisions for taxes, provisions for pension plans, and provisions to cover risks arising from lawsuits of uncertain outcome. Unlike → reserves, provisions are not included in shareholders' equity.

Reserves. Parts of the → shareholders' equity shown on the right-hand side of the balance sheet. Reserves are formed either from capital contributions by the shareholders (capital reserves) or from net income (retained earnings). Included in the capital reserves is, among other things, the premium paid by purchasers of newly issued shares, which consists of the difference between the issue price and the par value printed on the shares. If the company is dissolved, the shareholders have a right to the reserves. The reserves are usually invested in assets that will be held over the long term.

Sales. The total amount invoiced for goods and services sold, after deduction of rebates, allowances, and discounts. Sales constitute the largest portion of revenues.

Self-financing ratio. Financing the additions to → fixed assets and investments by the → cash flow.

Shareholders' equity. The capital that is at risk in a company. It has either been paid in by the shareholders or earned and retained by the company as profit. Shareholders' equity includes the subscribed capital, the → reserves, and the net income available for distribution. The value shown for the subscribed capital corresponds to the total par value of all the issued shares (capital stock).

Special reserves. These reserves are set up pursuant to the tax laws. They are not taxed until they are reversed. They are used to promote certain objectives that are desirable from the point of view of economic policy. Examples include reserves established under the German Foreign Investment Act.

Statement of change in financial position. A chart giving information about financial data, for example, about the → cash flow and the increases in → shareholders' equity and indebtedness.

Statement of income. Also known as the profit-and-loss account, the statement shows the → income and → expenses of a company within a specific period. The difference between income and expenses is the net income or loss for the year. After any profit or loss carryforwards and the changes in → reserves have been taken into account, the result is the net income available for distribution or the balance sheet loss.
The statement of income can be prepared according to the total cost method or the → cost of sales method.

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

Taxes on income and earnings. These income taxes include the corporate income tax, the trade tax, and the comparable taxes in foreign countries.

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

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

To obtain a copy of either publication, please contact:

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