Continental
Aktiengesellschaft

Annual Report

'90

Chronicle of Pirelli Tyre Holding's Merger Attempt

1990

September 15 Pirelli submits its merger offer to Continental.

September 19 Mr. Leopoldo Pirelli meets with Lower Saxony's Prime Minister who expresses the opinion that a merger would make sense.

September 24 Continental's Executive Board rejects Pirelli's proposal in its current form, but declares a willingness to hold discussions about possible areas of cooperation in the future.

October 12 Mediobanca publicly reveals that it owns 5% of Continental's shares.

October 23 Financier Jody Vender's financial holding company, Sopaf SpA, of Milan, publicly reveals that it owns 5% of Continental's shares.

November 4 The Presiding Committee of Continental's Supervisory Board approves the actions of the Executive Board, and in particular its demand for a standstill agreement.

November 6 Pirelli rejects the standstill agreement, but offers to conclude a confidentiality agreement.

November 16 The Spokesmen Committee for Continental's senior executives agrees with the rejection of Pirelli's proposal.

November 21 Continental's Supervisory Board supports the Executive Board's view that the Company can develop successfully on an independent basis.

December 6 Employee councils, employee representatives on the Supervisory Board, and the chemical workers' union demand by way of various resolutions that Continental should retain its independence.

December 12 Alberto Vicari, one of Continental's shareholders, requests that a Special Shareholders' Meeting be convened.

December 20 The Hanover District Court nullifies, due to a defect in form, the amendment to the Articles of Incorporation in respect of the voting rights limitation that was agreed at the 1989 Shareholders' Meeting.

December 21 The Special Shareholders' Meeting is set for March 13, 1991.

1991

January 21 Following discussions with Pirelli, the Executive and Supervisory Boards reject a merger under the prevailing circumstances. In a letter to the shareholders accompanying the invitation to the Special Shareholders' Meeting they set out in detail their reasons for rejecting the merger and their recommendations on how the shareholders should vote.

Italmobiliare publicly reveals that it owns 3% of Continental's shares.

January 23 The plaintiffs in the two suits brought before the Hanover District Court withdraw legal proceedings against the resolution adopted at the 1990 Shareholders' Meeting to lift the voting rights limitation.

The chemical workers' union urges Continental's small shareholders to vote against the merger.

January 24 FIAT confirms its ownership of less than 4% of Continental's shares.

February 1 Results of analyses conducted by degab (Deutsche Bank), NRI (Nomura Research Institute Europe) and JP Morgan underline that, in spite of the problems in the tire industry, it would be better for Continental not to enter into a merger.

200 members of Employee Councils for the Continental plants and regional sales offices unanimously reject a merger with Pirelli.

February 4 Pirelli sticks to the merger proposal in a letter to its shareholders.

VW, BMW, Daimler-Benz and Norddeutsche Landesbank announce that they are shareholders of Continental.

February 7 Five shareholders submit counter-motions to all five items on the agenda of the Special Shareholders' Meeting.

February 14 Most of the depositary banks recommend that shareholders should vote in accordance with the recommendations of the Continental Management.

February 28 Continental sends a written request to major shareholders whose identity is known, asking them to ensure that the voting rights limitation is maintained.

March 11 FIAT announces that it no longer owns any Continental shares.

March 12 Pirelli advises that it will abstain from voting on the merger.

March 13 At the Special Shareholders' Meeting, only 4.4% of the capital stock represented votes in favor of a merger with Pirelli. 49% of the entire capital stock, or 65.97% of the capital represented at the Meeting votes for an elimination of the voting rights limitation.

Seven shareholders raise objections to the resolutions on the items of the agenda; two of them object to all 5 resolutions.

Continental Corporation at a Glance

		1986	1987	1988	1989	1990
Sales	DM million	**4,968.6**	**5,097.6**	**7,905.8**	**8,381.9**	**8,551.0**
Income before taxes	DM million	**263.5**	**268.4**	**338.7**	**369.3**	**153.3**
Income after taxes	DM million	**114.5**	**138.8**	**194.8**	**227.8**	**93.4**
Dividend paid	DM million	**37.5**	**48.0**	**69.2**	**69.6**	**35.1**
Cash flow	DM million	**375.9**	**464.0**	**623.4**	**604.9**	**510.0**
Debt ratio		**2.0**	**1.9**	**1.5**	**1.9**	**3.5**
Capital expenditure on property, plant and equipment	DM million	**284.8**	**300.1**	**447.7**	**532.4**	**689.5**
Depreciation	DM million	**229.4**	**263.8**	**375.8**	**367.5**	**378.0**
Shareholders' equity	DM million	**808.0**	**1,515.8**	**1,657.9**	**1,725.3**	**1,742.2**
Equity ratio	in %	**26.1**	**31.6**	**30.4**	**31.9**	**28.2**
Employees at year-end		**32,012**	**42,263**	**45,907**	**47,495**	**51,064**
Share price (high)	DM	**363.5**	**377.5**	**273.0**	**358.2**	**345.5**
Share price (low)	DM	**166.5**	**188.0**	**169.5**	**236.5**	**189.5**

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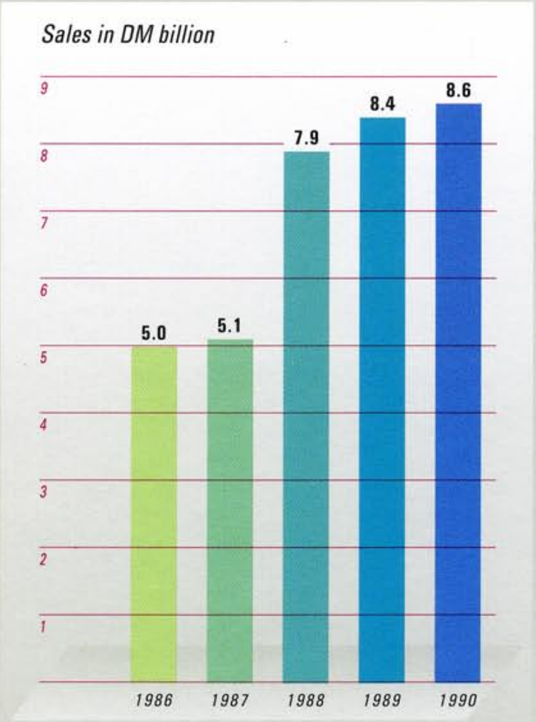
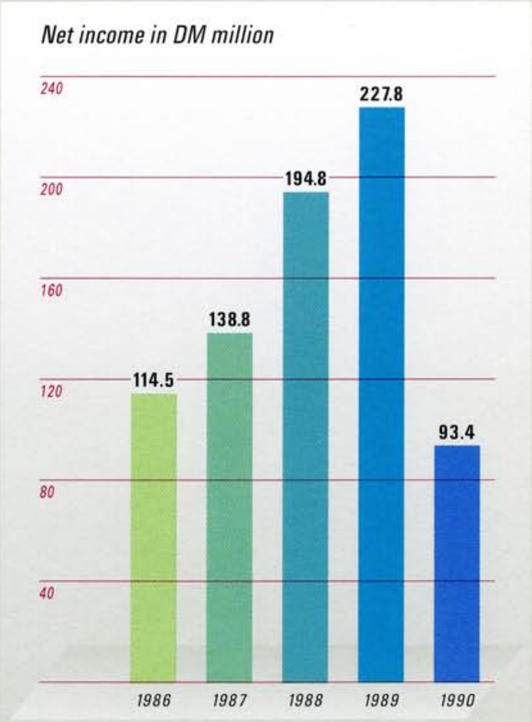
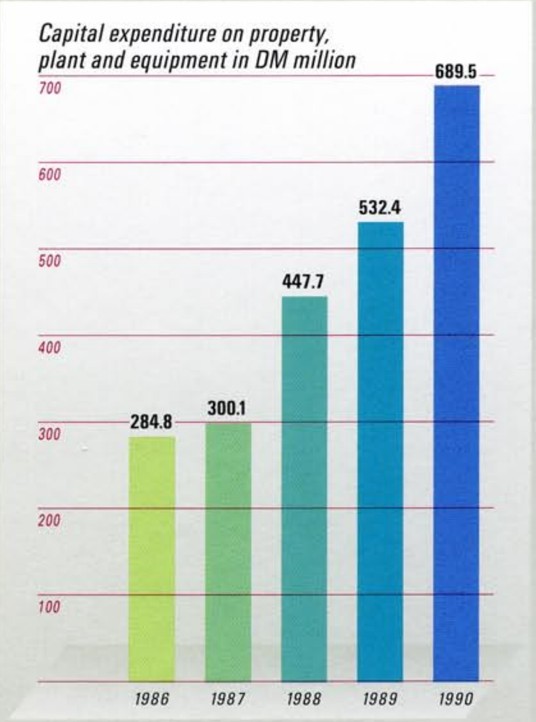
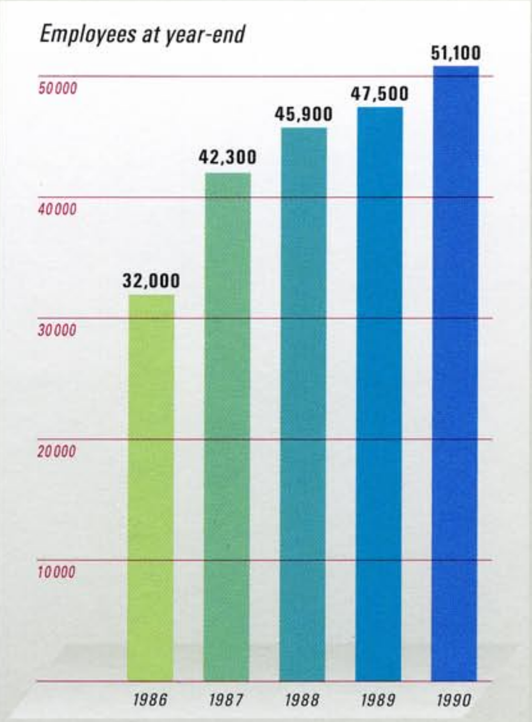

Sales in DM billion
9
8
7
6
5
4
3
2
1
5.0
5.1
7.9
8.4
8.6
1986
1987
1988
1989
1990


Net income in DM million
240
200
160
120
80
40
114.5
138.8
194.8
227.8
93.4
1986
1987
1988
1989
1990


Capital expenditure on property, plant and equipment in DM million
700
600
500
400
300
200
100
284.8
300.1
447.7
532.4
689.5
1986
1987
1988
1989
1990


Employees at year-end
50000
40000
30000
20000
10000
32,000
42,300
45,900
47,500
51,100
1986
1987
1988
1989
1990

Report on 1990, the Company's 119th Fiscal Year

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Members of the Supervisory Board

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

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

Rudolf Alt*)
Member of the Employee Council
Stöcken Plant

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

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

Werner Breitschwerdt
Member of the Supervisory Board
Daimler-Benz AG

Manfred Emcke
Management Consultant
(through 7/23/1990)

Friedrich-Karl Flothow*)
Head of Manufacturing Services

Hans Detlev von Garnier
Director of Deutsche Bank AG
Hanover Branch
(as of 7/23/1990)

Wilhelm Helms
Legal Counsel and Notary Public

Hans-Olaf Henkel
President
IBM Deutschland GmbH

Helmut Keufner*)
Chairman of the Employee Council
Northeim Plant

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

Dieter Kölling*)
Member of the Employee Council
Vahrenwald Plant

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

Ernst Pieper
Chairman of the Managing Board
Preussag AG

Klaus Piltz
Chairman of the Managing Board
Veba AG

Günther Saßmannshausen
Member of the Supervisory Board
Preussag AG

Friedrich Schiefer
Member of the Managing Board
Allianz Aktiengesellschaft Holding

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

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

*) Employee representatives

Report of the Supervisory Board

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

The main topics of these discussions were the budget, medium- and long-term corporate planning, including the capital investment projects, and basic questions about business policy and corporate structure, capacity utilization and earnings. In addition, we decided the issues which must be submitted for our approval under the applicable statutory provisions and the Company's bylaws. Noteworthy in this connection was the decision to acquire National Tyre Service (NTS), a British chain of tire dealers, AGES, an Italian rubber manufacturer, and an interest in Nivis, a Scandinavian tire manufacturer.

The months following the receipt of the proposal from Pirelli Tyre Holding N.V., Amsterdam, that Continental AG be combined with Pirelli's tire activities were marked by in-depth consultations between the Supervisory and Executive Boards during regular as well as several special meetings of the Supervisory Board. Moreover, frequent intensive individual meetings, consultations and exchanges of opinion with the Executive Board took place on this subject.

After receipt of Pirelli's proposal, the Supervisory and Executive Boards shared the view that the proposal had to be examined, together with Pirelli, in terms of practicability, advisability, and the financing options. Unfortunately, it was not possible to reach a basic agreement with Pirelli about holding discussions in confidence which would have enabled both Managements to jointly investigate the questions of the feasibility of a merger, the synergies and the valuation in a frank, calm manner, unhampered by the pressure of any hostile action. Therefore, the recommendations of the Executive and Supervisory Boards are lacking in something that would be, in point of fact, desirable. We drew them up on our own, with the help of our advisers, but they could not be reviewed together with Pirelli. This is regrettable, but it is due to no fault of Continental's Executive Board which made a genuine effort — as did the Chairman of the Supervisory Board, as well — to set up a basic agreement for confidential discussions with Pirelli. Nevertheless, the pros and cons of a merger were explored with the greatest diligence, professionalism and seriousness.

Having completed a thorough review of the proposal, both the Executive Board and the Supervisory Board came to the opinion that the proposal was to be unequivocally rejected in its current form. The Executive and Supervisory Boards set out in detail their views and concrete reasons in their letter to the shareholders dated January 20, 1991 in preparation for the Special Shareholders' Meeting on March 13, 1991.

We have examined the financial statements, the management report and the proposal for the allocation of net income available for distribution and found no grounds for objection. The Supervisory Board concurs in the result of the audit by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, which has confirmed, in its capacity as independent auditor, that the accounting records and financial statements comply with the legal requirements and that the management report is consistent with the financial statements. The Supervisory Board has approved the financial statements as of December 31, 1990, prepared by the Executive Board, which are thereby definitively confirmed, and it endorses the proposal of the Executive Board regarding the allocation of net income.

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

On July 23, 1990, Manfred Emcke withdrew from the Supervisory Board, of which he had been a member since June 14, 1978. We wish to express our special thanks to him for his constructive cooperation. He has been succeeded by Hans Detlev von Garnier, Director of Deutsche Bank AG, Hanover, who was elected as a deputy member at the Annual Meeting of Shareholders of July 5, 1989.

At our meeting on December 13, 1990, we appointed Haimo Fortmann, former deputy member, a full member of the Executive Board, effective January 1, 1991. He is responsible for Continental, Uniroyal, and Semperit Tire Manufacturing.

Hanover, May 3, 1991

The Supervisory Board

Ulrich Weiss

Ulrich Weiss, Chairman

Members of the Executive Board

Vice Presidents

Executive Board

Horst W. Urban
Chairman

Wilhelm Borgmann
Vice Chairman

Haimo Fortmann
Tire Manufacturing

Peter Haverbeck
ContiTech

Hans Kauth
Director of Personnel

Ingolf Knaup
Corporate Finance

Günter H. Sieber
Tire Marketing and Sales

Wilhelm P. Winterstein
Controlling and Logistics

Vice Presidents

Bernd Frangenberg
Uniroyal Tire Marketing and Sales

Helmut Gieselmann
Continental Tire Marketing and Sales

Jens P. Howaldt
Law and Corporate Planning

Klaus-D. Röker
Tire Technology

Wilhelm Schäfer
Chairman of the Managing Board
Semperit Reifen AG

Dear Shareholders,

1990 was a particularly eventful year, not only in global politics, in Eastern Europe, and especially in Germany, but also for Continental.

The earnings crisis in the tire industry – resulting from the very rapid concentration process that has taken place during the past few years and from growing overcapacities – developed faster and more drastically than we could have anticipated. Continental, too, was affected. Therefore, despite all our efforts, we can take only relative satisfaction in this year's financial statements – in other words, we have done well in comparison with our competitors, but we are by no means satisfied in absolute terms. All the more so, since there are no signs that this situation, and, accordingly, our earnings position, will improve significantly during the current year.

The merger offer by Pirelli Tyre Holding, which we have rejected in the meantime, must be seen and evaluated against this background. In May 1990, I informed you in our annual report that we had not found any confirmation for the rumors of a takeover that were then circulating. However, at the 1990 Annual Meeting of Shareholders, it had already become clear that a block of shares had been accumulated in order to bring about the revocation of the voting limit, and thus also, as we now know, to further the interests of Pirelli, our next largest competitor. After the 1990 Shareholders' Meeting, Pirelli and some members of the controlling syndicate of Pirelli & C. purchased blocks of up to 5% of Continental shares and then tried, in September, to sell Pirelli's tire business to Continental. At the same time, they planned to acquire a majority of the Continental shares, to take over its industrial management and to eliminate the 5% voting limit. Pirelli must have known in September that earnings from its tire business were drastically deteriorating. Since then, Pirelli has announced a loss for 1990. Otherwise, Pirelli gave the impression that the only matter left open for discussion was how, not whether, the deal would take place.

The Executive and Supervisory Boards of your Company considered it their obvious duty to examine the content of the Pirelli proposal and the reasons behind it with the utmost care and to ensure that the interests of the Company and its other shareholders would not be prejudiced. As a result of this examination, we flatly refused both the original proposal and, consequently, a merger under the existing circumstances. We therefore recommended that you should reject the motion at the Special Shareholders' Meeting of March 13, to bring in the Pirelli tire business as a contribution in kind. Almost all the shareholders who could be identified as not associated with Pirelli followed our recommendation. We consider this a sign of great confidence in our Management on the part of the independent shareholders and as an encouragement to continue to orient our actions exclusively to the interests of the Company and all its shareholders.

A major merger of Continental, whose earning power is currently weak, with a competitor which already shows a deficit, is certainly not in the best interest of the Company and all its shareholders. Under other circumstances and more favorable conditions, a different conclusion might be reached.

So far, it appears that Pirelli has accepted neither the decision by the Executive and Supervisory Boards nor the vote of the independent shareholders. If Pirelli is regarding the resolution of the Special Shareholders' Meeting on the revocation of the voting limit as a mandate for Continental to acquire the Pirelli tire business – most probably in a form that does not require the statutory majority of three fourths of the capital stock represented, such an interpretation fails to take into account the conflict of interest for Pirelli and the shareholders associated with it, especially the members of Pirelli's control syndicate. They have become Continental shareholders for the sole purpose of selling the Pirelli tire business to Continental, of giving Pirelli control of the merged company and, to that end, revoking the voting limit. Hence, in seeking to eliminate the voting limit, they are pursuing their personal financial interests and not just their interests as

Continental shareholders. If the votes of the Pirelli group are disregarded, there remains a clear majority of 73.32% of the capital stock represented that is in favor of maintaining the voting limit under the prevailing circumstances. At most, we can say that there are, as there have been in the past, a number of shareholders who want to dispense with the voting limit for reasons of principle. However, they definitely constitute a minority.

In the meantime, two shareholders have brought an action against the resolution on item four of the agenda, requesting that the resolution be set aside, with the result that it will now have to be decided in court whether the voting limit has been revoked or will continue to exist.

In my speech at the Special Shareholders' Meeting, I suggested a "pause for reflection," which might induce Pirelli and the shareholders associated with it to resell their Continental shares. On the other hand, cooperations of all kinds are conceivable, such as those we have had for years not only with Pirelli but also with other competitors, in order to achieve synergies without the great risks of a major merger.

Continental's financial statements for 1990 reflect the intense competition in the tire industry, especially in Europe and North America; however, they also reflect the outstanding results of our ContiTech Group. ContiTech, like our other Groups, is strongly dependent on the car manufacturers, so it, too, was affected by the decline of business in the European automotive industry. This applies in particular to AGES, the former Fiat subsidiary we acquired in 1990, which still needs to gain a larger customer base. However, the structure of ContiTech is sound, and the Group is continuing its policy of expansion toward the Europe of 1993.

For the CUS Tire Group and General Tire, the priorities are to regain earning power and strengthen competitiveness. During the past few years, we have made many seed investments, in particular through the acquisition of interests in tire dealers and dealer chains in Europe and North America, but also through high capital outlays for the restructuring and expansion of General Tire. These future-oriented expenditures will bear fruit in the form of improved earning power. We are pursuing the same goal with extensive programs in research and development, production, distribution and, last but not least, the central departments. All these measures are designed to improve the quality, flexibility and efficiency of procedures, processes and services. We are integrating them in our philosophy of "Total Quality Management" which will permeate the entire Company and give life to the "Basics" that were adopted last year as fundamental corporate goals with regard to quality.

Our employees and executives are aware of the extraordinary demands we are making on their creativity and dedication, and they are highly motivated to strengthen their Company, at all levels, in its competitiveness. On this basis, we are confident not only that we can weather the storms on the competitive scene, but that we will emerge from them with increased earning power.

I hope to have the pleasure of welcoming as many of you as possible at our Annual Meeting of Shareholders at the beginning of July in Hanover.

Sincerely,

Horst Urban

Horst W. Urban

Economic Environment

1990 saw a slowdown in global economic expansion and lower growth rates in the worldwide automotive industry. Exception: the states in western Germany.

Economic development in most of the Western industrialized countries was slower than in the previous year, with a decrease in the average growth rate of the gross national product from 3.4% in 1989 to 2.8% during the fiscal year. The main reason for the reduced growth was an economic and financial policy aimed at curbing inflation. Particularly in the U.S.A., declining domestic demand and the budget deficit had a significant effect on the economy.

Trends varied greatly among the industrial nations. The United States reported a modest gain of 1%; Japan remained in first place with 5.5%. The states in western Germany posted a vigorous 4.5% increase, but business in the former German Democratic Republic suffered from difficulties in adjustment. According to preliminary estimates, the gross national product in this part of Germany was down 18% compared with 1989.

North American passenger car production dropped by 10.9%, with a simultaneous advance in the Japanese share of output from 25% in 1989 to 28% in 1990. Although automobile production for Europe as a whole remained at the previous year's level, the German auto makers achieved a gain of 2%, for a record total of 4.7 million passenger cars. Outputs of commercial vehicles in most Western producer countries were substantially lower than in the previous year, but increased by 9.7% in western Germany.

Production in the German rubber industry as a whole rose 1% in 1990, and the number of tires manufactured was only 0.9% below the high figure attained in the previous year. Sales volume, however, showed a gain of 1%, due to higher imports. Production of industrial and miscellaneous elastomer products was up 3.5%.

According to many research organizations, growth in the gross national product of the industrialized countries will only average about 2% during the current year. Domestic demand in most Western European countries will remain weak in 1991, and the new states in eastern Germany will very likely again experience a substantial decline in economic growth. In the "old" Federal Republic, however, demand is continuing to expand, and growth should reach 3%. Below-average gains of 1.5 to 2% are forecast for the German automotive and mechanical engineering industries, but the construction sector is expected to increase its output by about 3.5%, with the principal impetus coming from high demand in the new states in eastern Germany.

Management Report for the Corporation and Continental Aktiengesellschaft

Only Continental and Bridgestone were able to increase their market shares during the past 10 years; Continental's share rose from 3.9 % to 8.1 %.

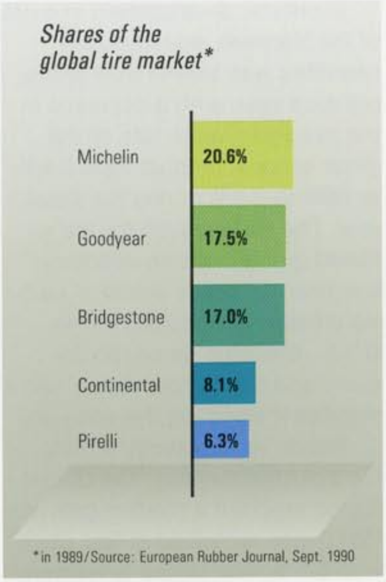
A Year of Exceptional Challenges

For Continental AG, 1990 was an exceptional year in every respect. Like all companies in the tire industry, we were faced with a rapid decline in earnings. This trend accelerated during the year to a totally unexpected extent. Due to the weak economic conditions in many industrial countries, crowding out intensified worldwide, leading to substantial price cuts, especially for shipments to the automotive industry. Therefore our goal, now more than ever, is to limit the rise in costs and to take every opportunity to improve earnings. Among the big multinational tire companies, Continental is one of the very few still showing a profit for 1990, but even we suffered a decline of 59% in net income, bringing us back to the level of 1985/86. ContiTech's good results made a substantial contribution to consolidated net income.

Our efforts to guide the Company safely through this period of low earnings, which may well continue for some time, were suddenly overshadowed by a move on the part of Pirelli.

The Rejection of the Pirelli Proposal

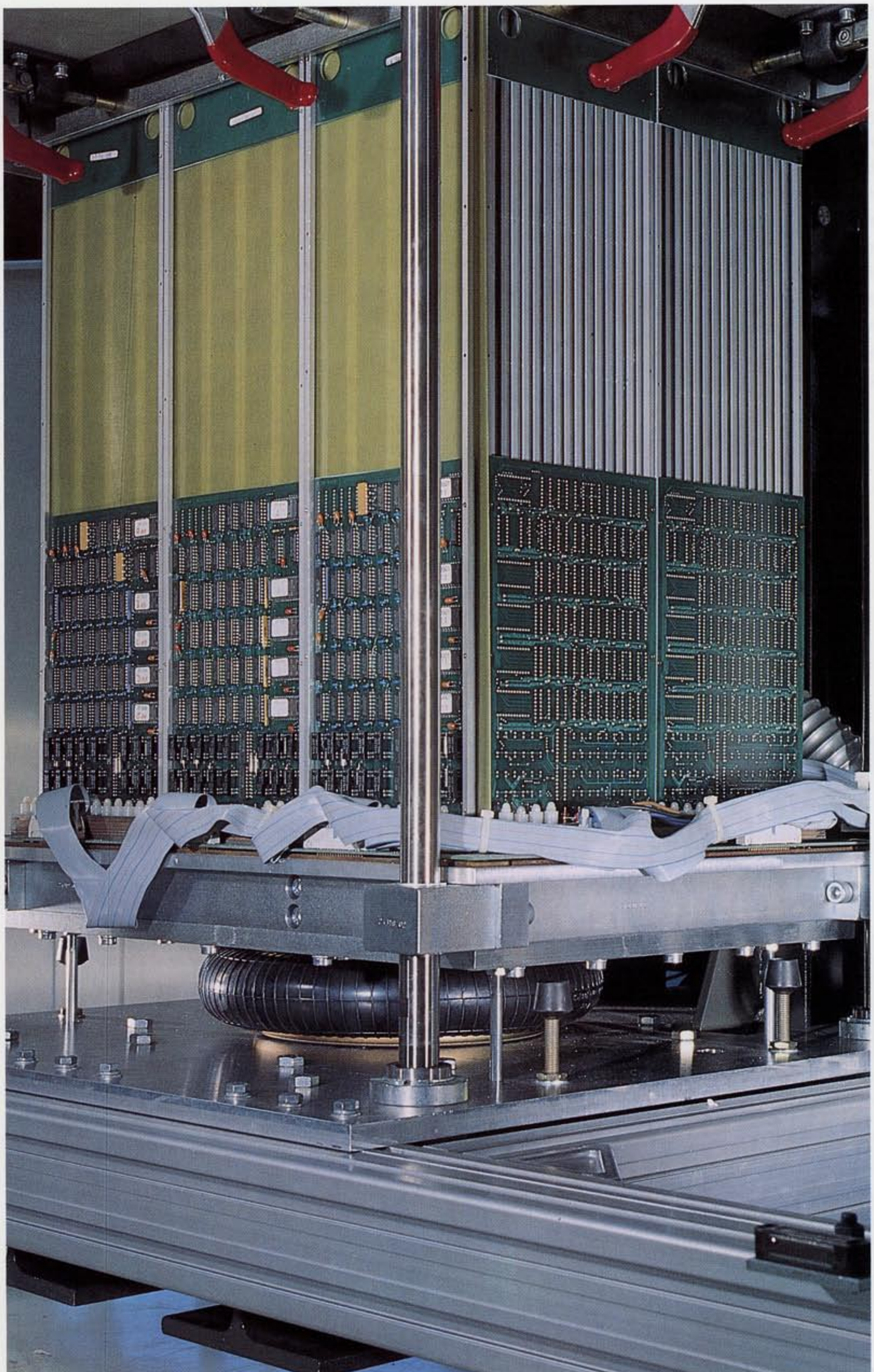
On September 15, 1990, to our great surprise, Pirelli informed us that it was contemplating a merger of its tire business with Continental, under its own industrial management, as well as the acquisition of the controlling interest in the new company. According to this plan, Continental was to acquire the business of Pirelli Tyre Holding (PTH) at a price amounting to between DM 1.85 and DM 2.25 billion, which was described as "a reasonable, but preliminary, estimate." The acquisition of PTH was to be financed partly by a capital increase with subscription rights (in the amount of 50 to 66% of the present capital stock) and partly by new borrowings in the amount of DM 0.4 to DM 1.25 billion. At the same time, the industrial management of the merged company was to pass to Pirelli, and a "stable shareholder structure" was to be created by means of a consortium agreement between Pirelli and the shareholders associated with it. Pirelli had already acquired 5% of our shares and stated that, together with other investors, it had formed a shareholder group which controlled more than 50% of our capital stock and hence sufficient voting rights to ensure a majority at the coming Shareholders' Meetings.



The Executive and Supervisory Boards rejected this proposal, as, with everything considered, it was not in the best interests of Continental.

In a letter to our shareholders dated January 20, 1991, in preparation for the Special Shareholders' Meeting on March 13, 1991, we informed them in great detail about our motives for rejecting the merger proposal, and gave the reasoning behind the conclusions we had reached. The principal reasons are as follows:

- The price proposed by Pirelli for the acquisition of PTH was far too high.
- Continental was to pay a substantial premium, even though the remaining shareholders not belonging to the Pirelli group would have surrendered control of the company to Pirelli and the shareholders closely associated with it and should have themselves received a premium for doing so.
- Pirelli was not prepared to disclose the names of the shareholders associated with it or any agreements that may have been made between them. There was thus a possibility that these shareholders would have been given preferential treatment.
- A merger with Pirelli's tire business would not help Continental to achieve its primary business objectives.
- The synergies mentioned by Pirelli, which would allegedly result in additional earnings before taxes of DM 400 million a year over the next four years, are, in our opinion, grossly exaggerated. We estimate them at less than one fourth of this amount. In any case, over the short and medium term, a merger would have involved substantial risk, a decline in sales volume and high budgets for capital spending.
- A merger would not help Continental to overcome the current difficulties in the tire industry.



- The financial and business position of Pirelli Tyre would make the future development of a merged group more difficult.
- Continental has a solid base from which to overcome the existing difficulties in the tire industry as an independent company.

We have a good market share in Germany, where, by contrast with other markets, the automotive industry continues to be in a very stable position. We recognized in good time the trend to globalization in motor vehicle production, and we therefore acquired other companies or formed joint ventures, in order to internationalize our business as well and to achieve greater penetration of the key markets.

We are also well positioned to take advantage of the growth potential resulting from the opening of the markets in Eastern Europe.

At the end of January 1991, we informed Pirelli that, under the given circumstances, we are not prepared to engage in further discussions of a merger, but offered at the same time to join them in investigating whether synergies could be achieved through cooperation, without running the risks inherent in a merger. However, they expressed no interest in our proposal.

Conti Air Springs supporting a test stand for electronic components.

Special Shareholders' Meeting

On December 12, 1990, Mr. Alberto Vicari requested that a Special Shareholders' Meeting, with an agenda of five items, be convened. Mr. Vicari proved that he had 5% of our shares in his possession. As he saw it, the purpose of this Shareholders' Meeting was to determine whether Continental AG should be merged with Pirelli Tyre Holding or whether its independence should be further reinforced.

Mr. Vicari's agenda consisted of the following:

1. Amendment to the Articles of Incorporation (Revision of the voting rights limitation)

This amendment was designed to ensure that the limitation on the voting rights of a single shareholder to 5% of the shares issued can be revoked only by a 75% majority of the capital and the votes cast.

2. Amendment to the Articles of Incorporation (Impeding the removal of members of the Supervisory Board)

The purpose of this motion was to ensure that the removal of Supervisory Board members at the Annual Meeting of Shareholders also requires a majority of at least three fourths of both the votes cast and the capital stock represented when the resolution is passed.

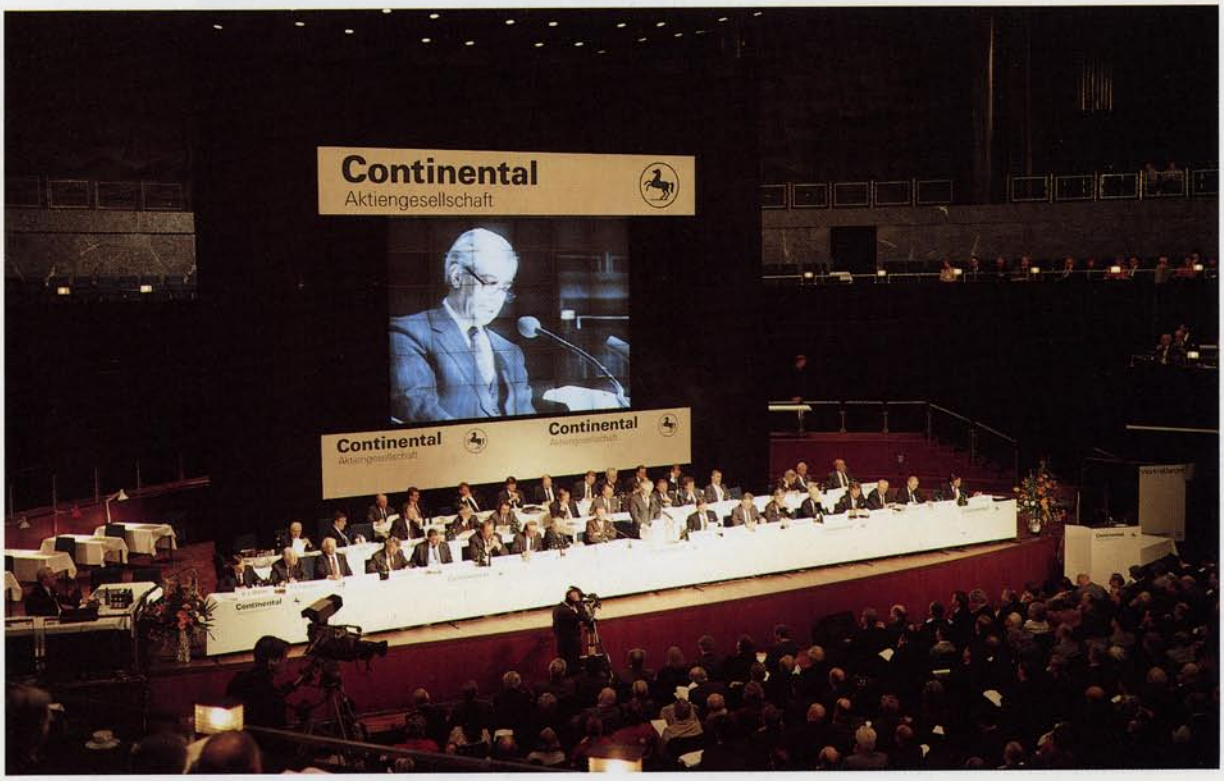
3. Amendment to the Articles of Incorporation (Shareholders' consent to the sale and transfer of divisions)

According to this motion, such transactions would in future require a shareholders' resolution with a majority of at least three fourths of both the votes cast and the capital stock represented when the resolution is passed.

4. Amendment to the Articles of Incorporation (Elimination of the voting rights limitation)

This item of the agenda requested that a resolution be passed revoking the limitation on voting rights and the shareholders' resolution of July 5, 1989 regarding item 6a of the agenda.

Over 2,000 shareholders, representatives of banks, and guests — including 146 journalists — followed the events at the Special Shareholders' Meeting.



5. Preparation of a share capital increase against contribution in kind

The Shareholders' Meeting was to instruct Continental AG's Executive Board to prepare all the measures that would be required to enable the next Annual Meeting of Shareholders to resolve that Continental AG would acquire the tire business of Pirelli Tyre Holding N.V., Amsterdam, by way of a capital increase through contribution in kind, with the statutory subscription rights of the shareholders being excluded.

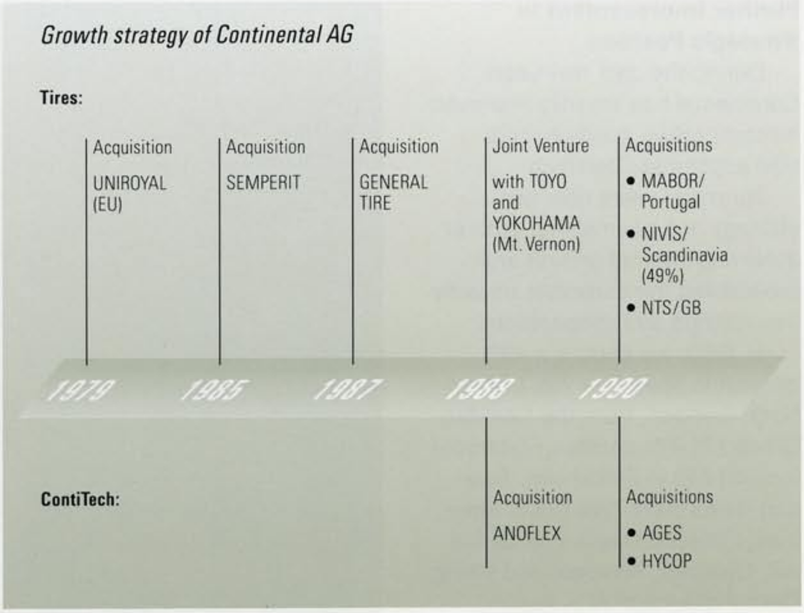
On December 21, 1990, the Executive Board of Continental Aktiengesellschaft announced that the Special Shareholders' Meeting that had been requested would take place on March 13, 1991.

On January 21, 1991, after discussions with Pirelli, the Executive and Supervisory Boards of Continental AG rejected the proposed merger under the existing circumstances. A letter to the shareholders enclosed with the invitation to the Special Shareholders' Meeting contained a detailed discussion of the reasons for the rejection of the merger and the voting recommendations of the Executive and Supervisory Boards for the five items of the agenda.

These recommendations by the Executive and Supervisory Boards were as follows:

Approval of Item 1 of the Agenda, rejection of the motions under Items 2 to 5 of the Agenda.

On March 12, 1991, the day before the Shareholders' Meeting, Pirelli announced that it would abstain from voting on Item 5 of the Agenda (preparation of a share capital increase), but that it would vote for Item 4 of the Agenda (elimination of the voting rights limitation).



The Shareholders' Meeting of March 13, 1991, at which 78.82% of the entire capital stock was represented, yielded the following results:

— A majority of 65.97% of the votes cast and of the capital stock represented when the resolution was passed voted for the elimination of the voting rights limitation (Item 4 of the Agenda). In terms of the entire capital stock, only 49.3% voted for the revocation of the voting limit.

— With regard to Item 5 of the Agenda, 46.2% of the capital stock represented at the Meeting abstained from voting. Out of the remaining votes represented when the resolution was decided, only 10.5% voted in favor of the motion, and 89.5% rejected the preparation of a share capital increase against contribution in kind

— Items 1—3 of the Agenda were rejected by a large majority.

The results of the voting show that Pirelli obviously does not control a majority of the shares, as had been repeatedly claimed in public since September 1990. Pirelli had announced that it would abstain from voting on Item 5 of the Agenda. The abstentions came to 36.4% of the capital stock. As it is reasonable to assume that other shareholders abstained from voting as well, we can infer that the portion of the capital stock controlled by Pirelli is even smaller.

We continue to believe that the limitation on voting rights helps to protect the interests of minority shareholders.

Notarized objections to the resolutions on all the items of the Agenda have been submitted. A total of seven shareholders raised objections; two of them objected to all the resolutions.

No majority for a merger with Pirelli. However, elimination of the voting rights limitation is approved.

1990: a year of important acquisitions for Tires and ContiTech.

Further Improvement in Strategic Position

During the past few years, Continental has steadily improved its competitive position. This also applies to ContiTech.

For many years now our strategy has been aimed both at achieving internal growth and broadening the corporate base by acquisitions and cooperations.

In 1990, we bought a 49% interest in Nivis Tyre AB, Gothenburg, Sweden, from the Swedish Group KFI (Kooperativa Förbundet Industri AB) in Stockholm, Sweden. Nivis owns two tire companies, Gislaved Daeck Produktion AB, Gislaved, Sweden, and Viking Dekk Produksjon A/S, Askim, Norway, as well as the dealer chain of Olrich A/S in Oslo, Norway, and a few other sales outlets. Nivis leads the market in Scandinavia, has 1,700 employees and reported sales of DM 359 million in 1990.

At the beginning of the year, we purchased the British dealer chain National Tyre Service Ltd. (NTS), Stockport, Manchester. The necessary approvals were given in March 1991. With more than 400 service outlets, NTS is one of the largest such chains in Europe.

The acquisition of NTS and the investment in Nivis have greatly strengthened our position in Northern and Western Europe. The two companies are being integrated into the sales and production structures of the Corporation. We are looking forward to a strong improvement of our market presence in these countries.

Testing ContiAquaContact: a new high-performance low-profile tire that gives extra safety by reducing the risk of aquaplaning to an extent so far unattained with low-profile tires.

The fine cooperation that we have maintained for several years with our Japanese partners, Toyo Tire & Rubber Co., Ltd., Osaka, and Yokohama Rubber Co., Ltd., Tokyo, was pursued successfully during the fiscal year. Construction of the new factory in Mt. Vernon, Illinois, which will produce heavy truck tires, is continuing according to schedule. This joint venture with our Japanese partners Toyo and Yokohama will start production during the second quarter of 1991.

The overall objective is to strengthen the worldwide association of the companies, putting them in a better position to confront the mounting competition in the tire industry.

We continued successfully to Europeanize the ContiTech Group, which we intend to enlarge further

in the future. For example, we acquired the AGES Industrial Rubber Products Division from Gilardini SpA in Turin, Italy, a subsidiary of Fiat. With 1,100 employees and three plants in Turin, this Division has annual sales of approximately DM 200 million. The plants produce extrusions, molded products, rubber-metal products and hoses, mainly for the automotive industry.

In addition, we purchased the Swedish company Hycop AB, Märsta (Stockholm), a major hose assembly manufacturer. As a hose coupler, Hycop supplies hose assemblies, primarily to Swedish auto makers, for oil and radiator lines, or power-steering, air-conditioning and brake systems.

We have also increased our interest in Clouth Gummiwerke AG in Cologne to 98.3%, thereby gaining an indirect holding of 76.3% in Clouth's subsidiary IMAS S.A. in Greece.

Active in the new states of Germany, and in Eastern Europe.

Eastern Europe — the Market of the Future

The reunification of Germany and the political — and consequently economic — opening up of our neighbor countries in Eastern Europe offer unique opportunities, particularly for Continental. Apart from its favorable geographic location, the Corporation has maintained relations with these countries, in some cases since the turn of the century, even during the Iron Curtain period. For example, during all those years, we never failed to participate in the Leipzig Fair.

A possible cooperation with Pneumant, an eastern German tire producer, was examined and discussed in detail with Pneumant's representatives. Unfortunately, due to the rapid change of circumstances, an economically feasible long-term relationship was not possible.

On the other hand, we have meanwhile been working with more than 400 tire dealers in the former German Democratic Republic. Three new tire distribution centers were established during the second half of 1990 in Leipzig, Dresden and Neubrandenburg. As a result, eastern Germany is now receiving the same level of service as the states in the western part of the country.

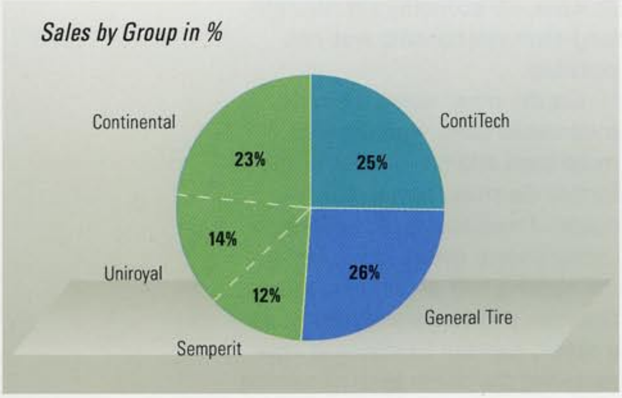
Many customers in eastern Germany have a longstanding respect for the Continental name. We intend to use this advantage to carve out an above-average share in the development and growth of these markets.

Negotiations are under way regarding future cooperation with the Barum Group, a Czech tire manufacturer. Barum, which operates at a very high technological level, consists of three tire plants

Good economic conditions in Germany, but a downward trend in the U.S.A.

and a sales and export organization. In 1990, its 10,000 employees were responsible for consolidated sales of DM 360 million. We plan to supply other Eastern European markets from Czechoslovakia as well.

At the end of 1990, we also signed an agreement in principle for cooperation with the Stomil plant in Olsztyn, Poland. We intend to supply Poland with tire production technology and know-how and to have Continental tires produced in that country for our markets. In addition, plans are being laid for closer sales cooperation to develop the Polish market. The plant in Olsztyn employs 3,900 people, and its sales amount to DM 180 million.



Germany – the Main Impetus for our Business

We are pleased to report that the economy of the western German states, which continue to be the most important European market for the Continental Corporation, was comparatively robust in 1990. This applies in particular to the automotive industry. As a result, our manufacturing capacities were fully utilized all year round. There were even some bottlenecks in delivery, especially in commercial vehicle tires.

On the other hand, the price wars in the European and North American markets grew much more intense. Sales of tires to the automotive industry resulted in substantial losses. Unfortunately, there are no signs as yet that this trend, with its unhealthy effects on business, is abating.

The wintry weather at the turn of the year provided a stimulant for our business with snow tires. Overall, however, the snow tire market in Europe was unable to gain on the previous year's level. We continue to be market leader in Europe with our corporate brands.

Setback for General Tire

General Tire's business was influenced by the slowdown in North American car sales, repercussions from the strike in the fall of 1989 and extensive restructuring measures.

Due to the cutbacks in production instituted by the large U.S. auto makers, their purchases of passenger and light truck tires decreased. It was not possible to compensate for these declines in volume by more growth in other areas. This trend hit the tire plants in the U.S.A. particularly hard, and had a considerable impact on the loss reported for this Group in 1990.

In Mexico, General Tire made gratifying progress. The product spectrum was modernized, the sales base was expanded, and more tires with the Continental and General brands were sold. By contrast, the Canadian plant in Barrie once again recorded a loss.

We are continuing to restructure the North American plants. The improvements so far achieved in product and manufacturing quality are reflected in the Quality Master Award and Zero Defects Award which the General Tire plant in Mt. Vernon, Illinois, received from Nissan. The company also recently received an outstanding quality rating from General Motors. Our research and development capacities in the U.S.A. have been further enlarged. We continued to shift our product mix to radials and tires with greater technological sophistication. General Tire achieved particularly strong growth rates in commercial and high-performance tires.

ContiTech: New Organizational and Management Structure

As of January 1, 1991, we have transferred ContiTech's eight Business Units to the following legally independent companies:

- ContiTech Antriebssysteme GmbH (power transmission products)
- ContiTech Förder- und Beschichtungstechnik GmbH (conveyor belts and coated fabrics)
- ContiTech Formpolster GmbH (cushioning products)
- ContiTech Formteile GmbH (molded products)
- ContiTech Luftfedersysteme GmbH (air spring systems)
- ContiTech Profile GmbH (extrusions)
- ContiTech Schlauch GmbH (hoses)

These companies, together with former consolidated companies of the Continental Corporation, comprise the ContiTech Group, under the management of the newly formed ContiTech Holding GmbH.

In putting these companies on an independent footing, we have set ambitious goals for ourselves, which we have high hopes of achieving. This move represents a market-oriented corporate concept, geared to solving our customers' problems and meeting their requirements. With the aid of superior expertise, short decision paths and great flexibility, we intend to make our collaboration with our customers more efficient and to further expand our business relations.

The ContiTech companies' uniform image in the market will be ensured by their common use of the ContiTech name and the overall management function of ContiTech Holding GmbH.

Thanks to thriving business in almost all our customer industries, combined with internal cost-reduction measures, earnings were again good despite intensified competition.

Weak Dollar Slows Down Sales Growth

Consolidated sales rose by 2% (DM 169.1 million) to DM 8,551.0 million, compared with DM 8,381.9 million in 1989. DM 336.9 million of this amount was attributable to companies included for the first time. Excluding these companies, consolidated sales would have dropped by 2%. However, the fall in the rate of the $ against the DM had a negative impact on the development of consolidated sales. This factor alone accounted for about DM 340 million, or 4%, when translating sales of the General Tire companies.

Sales revenues	1990 DM million	1989 DM million	Change in%
Parent company	3,066.4	3,040.8	+ 0.8
Consolidated	8,551.0	8,381.9	+ 2.0

Tires accounted for 74.8% (1989: 79.2%) and ContiTech for 25.2% (1989: 20.8%) of consolidated sales. For the parent company, 61.8% of sales (1989: 64.3%) was attributable to tires and 38.2% (1989: 35.7%) to industrial products.

Research and Development

During 1990, we continued to expand our worldwide research and development activities.

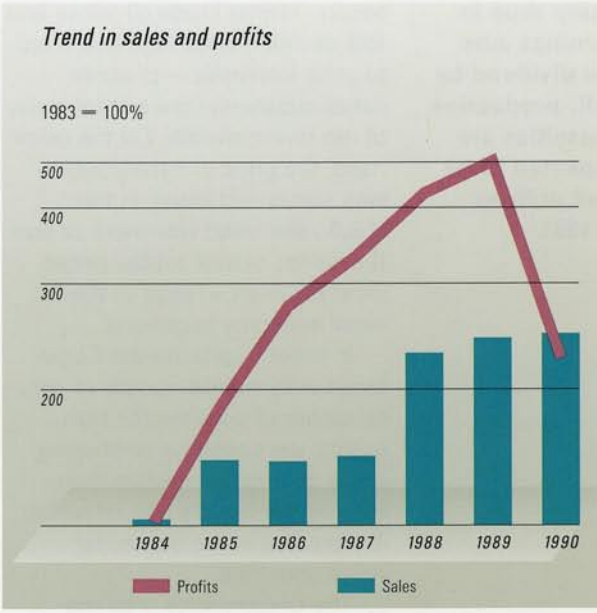
Our tire research department will intensify the application of its basic research for the Corporation. By using the most advanced technologies, together with supercomputers, we now have the possibility of being linked more closely than ever to future developments in the automotive industry.

General Tire's research and development has been integrated more intensively with our corporate activities.

The tire testing tracks in Germany (Contidrom), France (Rocroi), Austria (Kottingbrunn) and the U.S.A. (Uvalde) were further enlarged, giving us an outstanding base for tire testing with a breadth that can hardly be matched by any company in the industry.

The high technological level of our development work was reflected in the multitude of new tires and ContiTech products introduced during 1990.

Among our new tire concepts, the recently developed Conti-AquaContact deserves a special mention. This is a high-performance low-profile tire which provides a safety level previously unattained with low-profile tires in terms of aquaplaning resistance. In addition, its directional tread pattern is highly innovative and attractive.



Research and development in the ContiTech Group concentrates on high-tech, environmentally compatible products with a large component of value added. A good example is our newly developed family of hoses for automotive air conditioners, which are resistant to the new coolants replacing chloro-fluoro-hydrocarbons. The R&D activities in the individual companies are supplemented by a central engineering department in the holding company. Its specialists not only carry out projects that exceed the capacities of the decentralized development units, but they also tackle complex high-priority assignments, such as the development of new materials and processes.

Rise in Raw Materials Costs

Despite the Gulf war, our supply of raw materials was always

Sharp drop in earnings cuts the dividend by half; production capacities are expected to be well utilized in 1991.

Cord twisting in Steinfort. The new twisting machines at our plant in Steinfort, Luxembourg, enable efficient, large-scale production of textile cords used in tire manufacturing.

secure. Higher crude oil prices and stiff environmental regulations led to price increases – in some cases substantial ones – for many of our raw materials. On the other hand, the price of natural rubber was somewhat lower. In the U.S.A., the trend was more or less the same; natural rubber prices went down as a result of the weak economy in general.

In order to provide the Corporation with a better supply of natural rubber of consistently high quality, we opened a purchasing office in Singapore. More than 80% of the world's natural rubber is produced in the Southeast Asian countries.

The Corporation's total materials cost during 1990 amounted to DM 3,530.3 million, or 41.3% (1989: 39.4%) of sales.

High Capital Investments

Additions to fixed assets increased to the record amount of DM 689.5 million (1989: DM 532.4 million). At DM 887 million, the capital expenditures approved in 1990 – some of which, however, will not be fully reflected in the balance sheet until 1991 or later – again exceeded the previous year's high level of DM 818 million. Europe accounted for about 62% of capital investments, and North America for 38%. The capital expenditure ratio (additions to fixed assets/sales) rose from 6.4% in 1989 to 8.1% in 1990. Financial investments in 1990 amounted to another DM 264.8 million. Since 1987, the Corporation has spent about DM 1.5 billion on acquisitions.

Sound Financial Structure Continues

The capital stock of Continental Aktiengesellschaft increased only marginally by DM 4.1 million and amounted to DM 439.1 million at December 31, 1990. In addition, the AG has conditionally authorized capital amounting to DM 213.4 million, of which DM 60.0 million has not yet been used, and authorized capital for the issue of employee stock in the amount of DM 10.0 million.

Its shareholders' equity dropped by DM 20.7 million to DM 1,620.4 million and financed 51.7% (1989: 61.7%) of total assets. Consolidated shareholders' equity rose by only DM 16.9 million to DM 1,742.2 million, which was not least because of the decrease in the rate of the $ against the DM, and amounts to 28.2% (1989: 31.9%) of total assets.

Sharp Decline in Earnings

1990 saw an unexpectedly severe drop in net income. Price levels in the original equipment business caused heavy losses; we also had to grant price concessions in the hotly contested replacement markets, in order to secure adequate volumes. Due to the same factors, General Tire reported its first significant loss. During 1990, numerous strategic seed investments were also made in acquisitions and participations to secure the Corporation's future development. Only in subsequent years will these investments start to generate earnings.

All the tire divisions recorded considerably lower earnings than in 1989. ContiTech, too, failed to meet its scheduled goals.

In 1990, we continued our intensive efforts to reduce costs, and in 1991 we will endeavor to achieve a "zero round" for all fixed costs that are within our control.

Consolidated earnings before income taxes declined from DM 369.3 million to DM 153.3 million.

After income taxes had been deducted, net income amounted to DM 93.4 million, down DM 134.4 million from the previous year.

The parent company's earnings before taxes amounted to DM 87.9 million (1989: 156.8 million) and its net income to DM 42.2 million (1989: DM 81.2 million). Net income available for distribution was DM 36.4 million, as against DM 71.0 million in 1989.

Dividend Proposal

The Administration proposes to the Shareholders' Meeting that DM 35.1 million of the net income available for distribution be used to pay a dividend of DM 4.00 (8%) on each share with a par value of DM 50.00, and that the balance of DM 1.3 million be carried forward.

Thanks to Our Employees

The last few months of 1990 called for considerable persuasive power from our executives and great trust from our employees to counteract the uncertainty caused among our staff by the Pirelli proposal. We instituted a broad-based policy to also inform our work force as extensively and as promptly as possible.

It is only too understandable that many of our employees felt insecure and raised questions about the Corporation's strategic orientation and about job security in the future. It is a great tribute to our employees, executives, Employee Councils and employee representatives that we nevertheless reached most of our goals despite the market being characterized by destructive competition. We therefore wish to express special thanks to all the Corporation's employees, including those who retired in 1990.

Together we tackled a great many tasks relating to reducing costs and improving earnings, with a systematic effort to eliminate all expenses that were not urgently necessary. This required a large measure of understanding on the part of our employees, and they did not disappoint us. We consider this a promising foundation to master whatever challenges the coming years may bring.

Outlook

Considerable exertions will still be needed to emerge from the earnings trough, but we are convinced that the Corporation is in a comparatively good strategic position to achieve its goals.

We expect that sales volume will continue to grow in 1991, and that production capacities in Europe will be well utilized. The economic situation in Germany is helping to compensate for the marked downturn in other important European markets. However, with significantly declining automobile production and a stagnation in the replacement business, no growth is to be expected in North America. Consequently, the pressure on prices and margins is intensifying and necessitating short-time work.

Nevertheless, taking the new companies into account, we anticipate that total revenues will again be higher than in 1990. However, from today's viewpoint, net income will presumably be much lower again, due primarily to the higher loss at General Tire.

Tire Group

Continental, Uniroyal Englebert, Semperit

Price wars cause earnings to decline despite good growth in volumes.

The Tire Group, with its Continental, Uniroyal and Semperit brands, benefited during 1990 from the business climate in Western Europe, which remained generally good.

Higher Volume, Lower Prices

Unit sales of passenger tires rose by 4% and volumes of light and heavy commercial vehicle tires by 8% and 3%, respectively. Consolidated sales of the three brands amounted to DM 4,175.5 million, a gain of 2.8% over 1989. These include the sales of Continental Mabor Industria de Pneus S.A. for the first time (as of July 1, 1990).

As in the previous year, it was only possible to pass on some of the higher costs to our customers. Business with the European automotive industry resulted in a considerable loss; fierce battles were also waged over the replacement markets, and earnings in this sector failed to match the previous year's level.

In Western Europe, the trend in the replacement business was nevertheless more satisfactory than in the original equipment market, particularly with regard to light and heavy commercial vehicle tires. This worked to our advantage, since the Tire Group makes approximately two thirds of its sales in the replacement markets, which remain profitable, even though they are highly competitive.

We gained market shares in the passenger tire replacement business, especially in Belgium and Great Britain. In Germany, Italy, the Benelux countries and Great Britain, we strengthened our position in light truck tires. The Corporation scored above-average successes with heavy commercial vehicle tires in Germany, Italy, Austria and Denmark. In the industrial tire business, we were able to expand our position in both the original equipment and replacement markets. However, this was not true of agricultural tires.

The 1990 European Truck Grand Prix: Mercedes-Benz trucks fitted with Continental tires were European champions in two out of three categories.

Enhanced Brand Differentiation

Our multi-brand strategy has proved successful. It will continue to be the basis of our corporate strategy in the future, since this is the best way for us to reach every category of customers. Nevertheless, we plan to make clearer distinctions among the individual brands with regard to key prod-

ucts, customer target groups and positioning in the market. We will therefore make special efforts to give the Continental brand a worldwide presence, also in view of the globalization of the automotive industry. Our customers demand fast service, flexibility, high technological performance and, of course, cost efficiency.

Optimization of Logistics Structures

The measures for the optimization of our logistical structures and procedures, which were both resolved upon and initiated in 1989, were continued in 1990.

"Europeanization" makes progress.

We have introduced the first stage of a Pan-European integrated logistics system (ILS), with powerful EDP support, at our German depots. To cover requirements in the new states in eastern Germany, we have not only established new sales centers but also expanded the existing one in Berlin.

New central warehouses were opened in Neuendorf, Switzerland, and Londerzeel, Belgium, in order to improve service and reduce costs in the local markets. The distribution network had to be adjusted to accommodate the newly acquired dealer organizations in Great Britain. We are handling the increased volume by opening new warehouses in the South of England and in the Glasgow area.

To support logistics operations and enhance communication, we have further enlarged our European computer network, giving us a better start for the European single market of 1993. In connection with the expansion of this network, we were also able to set up our first "just-in-time" operation, in which tire deliveries are synchronized with production at a plant of one of the major German auto makers.

Continental-Mabor, the joint venture formed with our Portuguese partner, will already be starting production in 1991. When the plant is totally completed, we will reach a daily capacity of 18,000 passenger and small, light truck tires with the most up-to-date design and manufacturing technology.

Consistent quality wins business, even in difficult markets.

The Continental Division is reporting good results for 1990 despite adverse conditions in the market. Sales rose by 4.8% to DM 1,755.6 million.

Internationalization from a Strong Base at Home

With a unit sales gain of close to 10%, we continued to reinforce our presence in Germany, our home market. Sales volumes grew significantly, particularly for light and heavy truck tires. As a supplier of original equipment, our strong, recognized position in Germany enables us to benefit from the brisk worldwide sales of the German automotive industry and to enhance our own international presence.

We also improved our position in the Southern European countries and started to supply the Continental brand to vehicle manufacturers in Spain. In Great Britain, the newly acquired dealer organizations contributed to vigorous growth in volume; our business with passenger and commercial vehicle tires has almost doubled. In all our markets, volumes of light truck tires were substantially higher.

A New Market in Eastern Germany

Adaptability and a keen sense of the economic, legal and social situation in the former German Democratic Republic were decisive factors in the successful commencement of our business there. With systematic training programs for both future tire dealers and its own personnel, Continental prepared itself to meet the new challenges. In the preceding years, business relations with eastern Germany had never been completely broken off and contacts with customers had been fostered. This investment is now paying off.

Ever since the border was opened, we have been purposefully expanding our sales and depot networks. By this means, together with a range of tires attuned to local requirements, we have succeeded in forging a link to the tradition of market leadership that had existed before the Second World War. A total of 50 people is currently working for our sales organization in the new German states.

High Reputation in the Automotive Industry

Continental is known worldwide as a valued development partner of the auto makers. This is reflected, among other things, in the number of engineering approvals that our high-tech tires have been granted for top-of-the-line automobiles. Due to the ruinous price wars in the original equipment business, we deliberately refrained from adding market shares at any price. Sales volumes of commercial vehicle tires continued to climb. Although both unit sales and revenues increased in the original equipment business, earnings were considerably lower, with resulting losses.

Strong Demand from German Tire Dealers

The replacement business showed solid growth during 1990, with a distinct gain in revenues over the previous year. Business in Germany was particularly good. Even so, the replacement business alone was not able to compensate for the plummeting original equipment prices. In the other countries, business with dealers varied greatly among our product

ContiAquaContact — our new sporty low-profile tire: two narrow contact areas instead of a single wide tread. One of the benefits is up to 20% more resistance to the much-feared aquaplaning on rain-flooded roads.

groups; the highest growth rates were recorded in the U.S.A., Southern Europe and Great Britain.

High-Performance Tires

Our line of low-profile and high-speed tires, custom-tailored for powerful cars, encountered an above-average rise in demand. These complex tires, which require a high degree of manufacturing know-how to produce, have established themselves solidly in the market and command correspondingly higher prices.

Snow Tires Are Indispensable

The snow tire we introduced in 1989 has won over the public with its uniformly excellent results in tire tests conducted by automotive trade journals. Spurred by the wintry weather at the turn of the year, demand for these tires was correspondingly high.

The trend to high-speed and low-profile snow tires took another positive turn in 1990. Continental continues to lead the market in Germany.

Industrial and Agricultural Tires

In Europe, sales of industrial tires expanded. New customers in the original equipment business were booked in Spain and France. Streamlining and optimum capacity utilization enabled us to achieve both higher volumes and a pronounced improvement in earnings.

Negative economic trends in various foreign markets led to a general decline in prices for agricultural tires. However, by radical economizing measures, we succeeded in lowering our costs significantly. Although business on the whole was unsatisfactory, earnings were better than in the previous year. The mainstay of our business was the German replacement business, which absorbs two thirds of our production.

Bicycle Tires Prized in Racing

Sales volumes of bicycle tires were especially gratifying. The demand for bicycles, which has been growing rapidly for the past two years, has caused us to increase our output. Particularly vigorous growth was recorded in Holland, North America and Germany. We penetrated the Eastern European market for the first time.

A newly developed comfortable mountain-bike tire provided a strong impetus for our business.

With its modern top-quality tires and its popularity as a racing outfitter, Continental is one of the leading suppliers in this segment today.

Quality and Customer Orientation

During the past year, the employees of the Continental brand met in work groups to conduct a systematic examination of their organization and procedures, in terms of their orientation and courtesy to our customers. These meetings have grown from a single event into an ongoing process, designed to guarantee our customers a permanent, flexible all-round service, perfectly attuned to their requirements. Our employees will make this commitment to service a philosophy that will be a basic principle of doing business for every sector. Close contact with our customers will be the key factor in our future success.

Close contact with the customer is the key to our future.

For some time now, interest in our bicycle tires has been particularly high.

Compared with bias-ply tires, modern radials for industrial vehicles offer greater economy by combining less energy consumption with higher mileage performance.

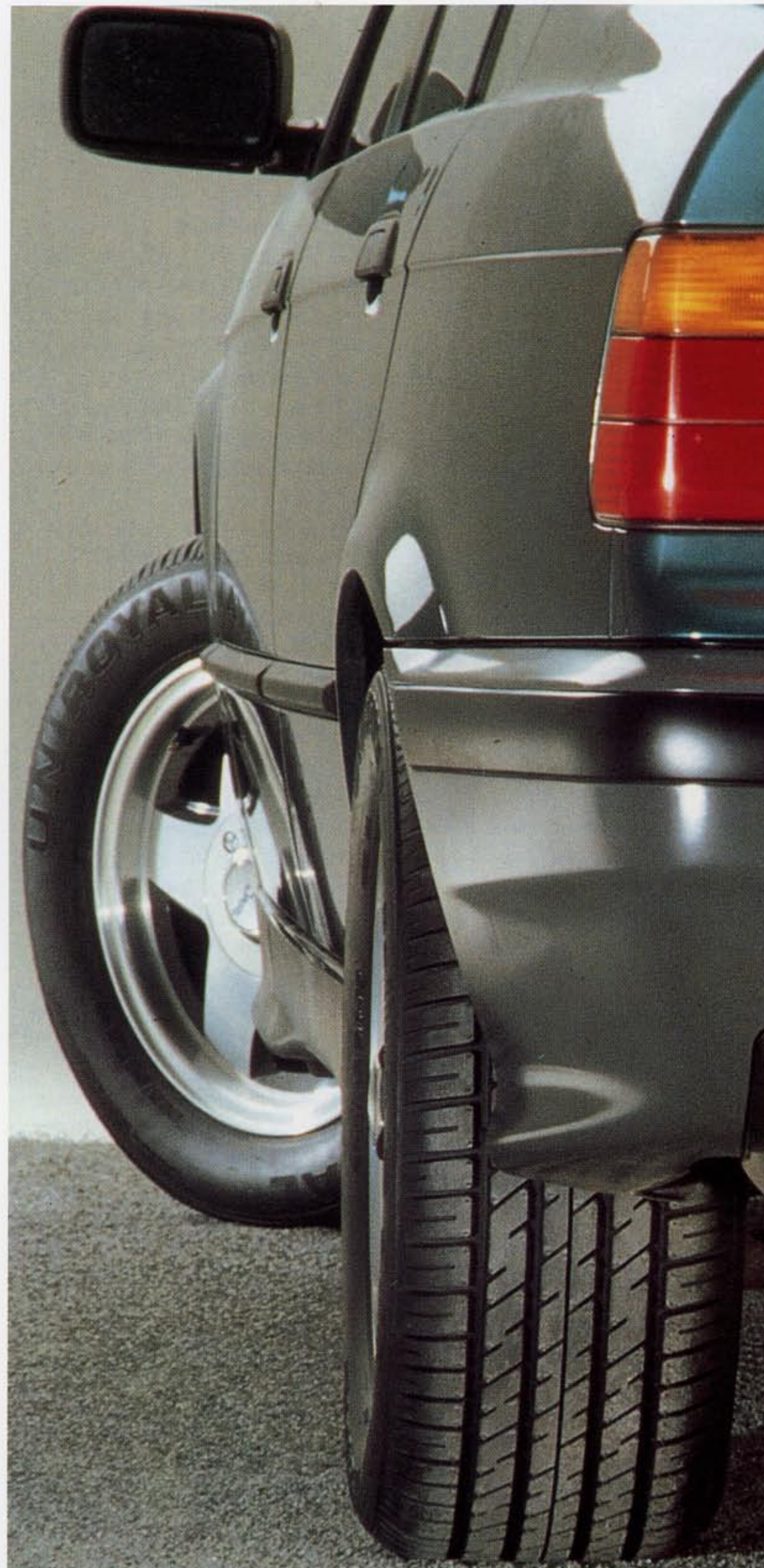
Proof of our technical expertise: the German automotive industry equips its top-of-the-line models with Uniroyal tires.

Uniroyal Englebert achieved a modest overall increase in sales volume during the fiscal year. However, business with industry and the trade showed sharply divergent trends. Sales dropped slightly by 0.7% to DM 1,047.1 million.

Ruinous Price Cutting in Original Equipment

The worldwide crowding out in the tire industry led to a ruinous price war in the original equipment business with the German and other European car makers. Uniroyal, which for years has been a close development partner and supplier, was particularly hard hit by this situation. To avoid sacrificing sales volumes and market shares across the board, we were obliged to go on selling our high-performance tires, developed with a great input of resources, at prices that cannot be economically justified. Our refusal to engage in deals entailing particularly heavy losses, which are available in all product groups, led to an overall decline in unit sales, as well as lower earnings.

On the other hand, the automotive industry's high appreciation of our engineering expertise was underscored in this sector as well by an exceptionally large number of technical approvals, which are the prerequisite for any supply contract. One of the outstanding new cars recently launched by the German manufacturers, the BMW 850i, made its debut on Uniroyal tires. We were also chosen as one of the suppliers for the new Mercedes Series S long before its introduction, which took place in the spring of 1991. The tires fulfilled the most stringent technical requirements.



Low-profile tires for top-market performance-plus limousines are a special technical challenge for any tire manufacturer.

Success in the Battle for the Dealers

It was only our high reputation for product quality and successful marketing maneuvers that enabled us to compensate to some extent for our losses in original equipment with sales in the replacement market, though this market, too, was hotly contested throughout Europe. Our bestseller with the tire dealers is the Rallye rain tire. A low-profile line had been added to this product family, which includes both medium- and low-speed categories. In all its versions, this tire has proved to be one of the quietest on the market and, above all, one of the safest. This has been confirmed in over a dozen Pan-European comparison tests conducted by independent trade journals. In the safety categories of wet traction, grip and aquaplaning, it always scored higher than any other tire, usually by a wide margin.

High-performance tires constitute a more profitable segment. Here, our strong participation in original equipment deliveries also works to our advantage later on, when replacements are purchased. Sales volume and market share have been growing steadily for years.

Business with snow tires turned out to be difficult for the Uniroyal brand. Sales opportunities were limited as dealers drew on their high stocks. Moreover, buying was concentrated on products of the market leaders. The snow tire business did revive somewhat in response to the early snowfall in November 1990, putting a stop to the decline in sales volumes. However, the lost market shares could not be retrieved.

Quieter Commercial Vehicles

Austria's decision to impose a ban on night driving by conventional trucks as of July 1, 1990, was of special importance for all commercial vehicle manufacturers and parts suppliers, as well as the freight carriers. Our research and development department made an early start in tackling the topic of noise pollution, and we were among the first manufacturers to offer "whispering tires" specially designed for low-noise trucks.

Increases – in fact, substantial ones – in replacement sales volume were reported across the board by our product groups in 1990. Despite differences in local economic conditions, our key markets, Germany, Belgium, France and Great Britain, all showed a modest gain over the previous year. We also posted good growth rates in Southern Europe. The upward trend in Italy is continuing unabated. We are now the largest importer and the fourth largest supplier on the Italian tire market. Spain reports even higher growth rates, although volumes still remain at a low level.

A New Start in Eastern Germany

The opening of the border between the two Germanys has created a new European market, in which Uniroyal must start to build from the ground up, for the brand was not introduced in Europe until after the erection of the Berlin Wall. Since purchasing power is still low, demand for our products – and for high-performance tires in particular – is naturally very weak. We are building up our market share on the basis of close collaboration with the tire dealers.

At the first Automobile Show in Leipzig, we established a wide variety of contacts not only with journalists and consumers, but also, above all, with tire dealers. We are conducting seminars in business administration to give businessmen in eastern Germany urgently needed initial assistance for their entry into the free market economy. We are thus contributing to the establishment of healthy and efficient medium-sized companies in the former German Democratic Republic and creating a solid basis for the future.

Advertising and PR Work

Our advertising for Uniroyal continues to be successful. Television campaigns throughout Europe have greatly increased the brand's recognition and communicated the rain tire message in a humorous, but unmistakable manner. Representative surveys in Germany show that although expenditures for these ads were relatively low, this campaign is by far the most successful advertising for any brand of tire.

Our traffic research project, which was devoted to the controversial topic of "young drivers," again aroused great interest. Traffic accidents are the most common cause of death among 18-to-24-year-olds. This is not because they drive recklessly, but because they are insufficiently trained as drivers. Therefore, we have acted on these findings. All trainees at our plant in Aachen now take a traffic safety course as part of their training.

Future Tasks

In order to counter the enormous pressure on our earnings, we have initiated further cost-reduction and quality programs in development, production and distribution, including new forms of organization. In addition, streamlined organizational structures and procedures in France and Germany are also producing higher quality and improvements in every operation, from raw materials procurement to marketing of the finished product.

A tradition of traffic research projects. This time the topic was "young drivers".

Semperit demonstrated its engineering capabilities with new products.

In spite of the tough international competition, Semperit, too, managed to increase sales volumes in almost all of its key product groups. However, revenues fell by 1.6% to DM 879.2 million because the snow tire business, which is a major component in Semperit's total sales, was down considerably compared with the previous year. Overall, 3% more passenger tires were sold in 1990.

Our new research and development center in Traiskirchen, near Vienna.

In order to open up the Eastern European markets for future business, we have begun to make preparations in Hungary and Czechoslovakia for a participation in these markets. In spite of the difficult conditions in Yugoslavia, we were also able to complete all programs with our Yugoslavian partner Sava/Semperit in Kranj, Slovenia, in 1990.

Investments in Research and Development

During the fiscal year, we built a new Research and Development Center at our plant in Traiskirchen, Austria. It is thus located in direct proximity to product testing, marketing, sales, purchasing, controlling and other central departments.

Specialists in tire development (design, chemistry and physics), tire mechanics, EDP systems development, standardization, patents and mold design are working at the new center. The new Semperit Development Center, which can still be enlarged, has been conceived to satisfy both functional and aesthetic criteria.

Success with High-Performance Tires

A new high-performance tire, developed for vehicles in the faster categories, was presented in Austria, Semperit's home market, during 1989. We have now introduced it successfully in other key European markets, and it is being used as original equipment by German and Japanese manufacturers for their top-of-the-line models. In fact, a new record was set in unit sales of passenger tires supplied to the Japanese automotive industry. There was also strong demand for this new high-performance tire on the replacement markets. During the introductory phase, sales opportunities exceeded production capacities, even though we had stepped up the output of our factories considerably.

The new snow tire that we had presented to selected markets in a pilot series during 1989 received excellent rankings in large-scale tests conducted by international trade journals. The tire is a unique combination of optimum traction in snow and good wet-driving properties, with very low noise levels. Due to the perfected siping of the third generation and newly developed tread compounds, this tire has become a top product.

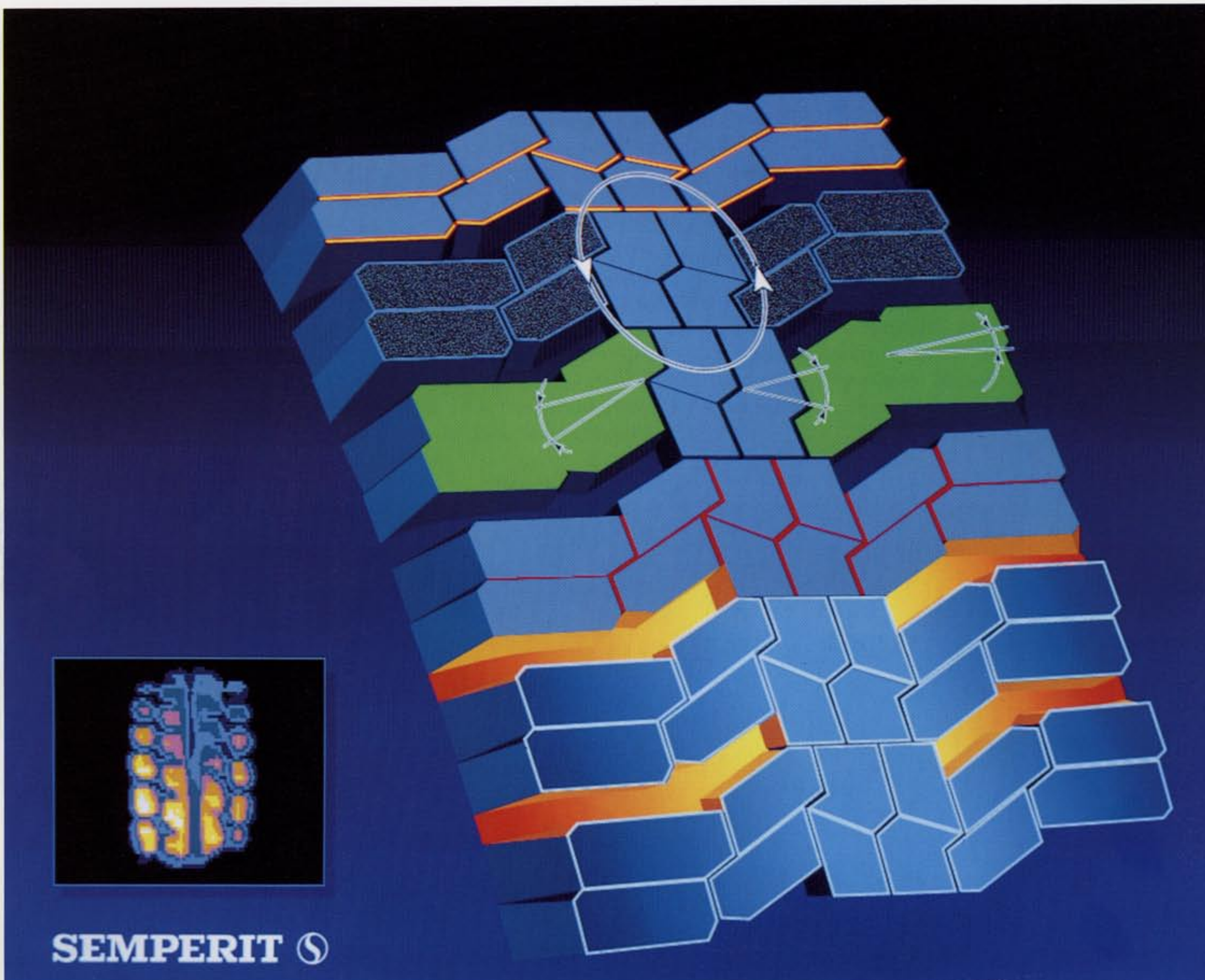
We expect a decisive breakthrough for this new snow tire in 1991, because most of the dealers' stocks that were built up in the mild winters of the previous years have now been disposed of.

A New Commercial Vehicle Tire

A new commercial vehicle tire, developed for the drive axles of high-powered trucks used for long hauls, was successfully introduced in all the European markets. The new product is specially designed to meet requirements for optimum transmission of driving forces in freight transportation and, at the same time, to comply with statutory standards for low noise emission.

All the European commercial vehicle manufacturers are using this high-economy tire. Retreadability, too, has been further improved in line with our endeavors to conserve resources and protect the environment.

The Austrian Government, through its Minister for Economic Affairs, awarded Semperit the "government prize for outstanding achievements in the field of product innovation and product quality" for this tire. This prize entitles us to display the Austrian Seal of Quality. In 1989, we had received the same prize for a passenger tire.



Ecologically Sound Disposal

As part of our commitment to environmental protection, we are helping dealers and consumers to dispose of tires that are no longer usable. Our activities in respect of measures to protect the environment are therefore being further intensified.

Logistic disposal concepts are being formulated and implemented together with the tire dealers and the cement industry. Accordingly, the cement industry can now use an ecologically sound process to incinerate old tires in specially designed furnaces, as a means of generating energy.

Ultra-modern technology is used to assist with the many years of development work on a new commercial vehicle tire for the drive axle of heavy service trucks.

General Tire Group

Sales stagnate due to the weak U.S. economy.

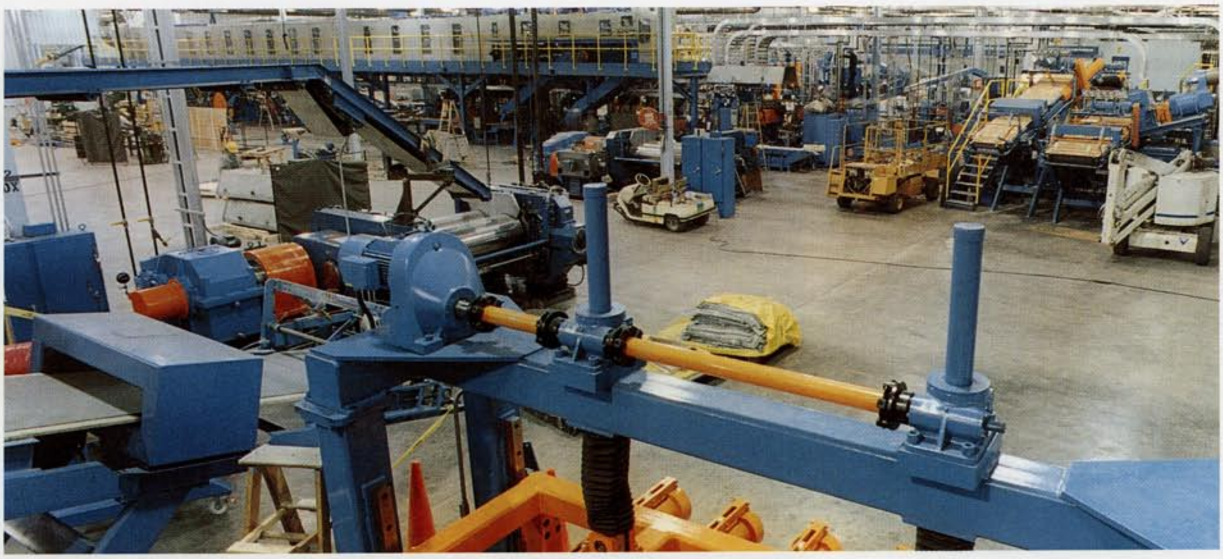
The General Tire Group recorded good growth rates for radial tires in 1990, but a market-induced reduction in unit sales of bias-ply tires. We are anticipating a modest increase in total unit sales for 1991. Sales during the fiscal year amounted to DM 2,189.9 million, compared with DM 2,528.4 million in 1989. However, when comparing these sales, it must be taken into consideration that the depreciation of the U.S. dollar against the German Mark accounted for about DM 340 million in "sales losses". This means that sales, expressed in U.S. dollars, were virtually at the same level as in the previous year.

New Organizational and Management Structure

We have succeeded in attracting a great number of new, highly skilled executives who will help us overcome our problems in North America. Our sales and marketing organization has been restructured, and the sales company for the Continental brand has been moved from New Jersey and integrated into General Tire's sales and marketing organization in Akron, Ohio. We expect this concentration in a single location to produce considerable synergies.

In North America, the Continental brand is just beginning to become known across the entire continent. On the other hand, General Tire can build on a certain degree of brand recognition. Nevertheless, we want to intensify sales of the General brand to dealers and consumers. Our business with private brands is of great importance to us, and we will continue to promote it.

Munich-Marrakesh: Seven out of eight category winners drove the 3,500 kilometer route on General tires.



Production at the new truck tire plant — a joint venture with Yokohama and Toyo — will start in the 2nd quarter of 1991.

Progress with the Restructuring Program

Mixing operations at all the plants were improved in terms of capacity and process technology. The mixing facility in Waco, Texas, was shut down.

Lower demand from the U.S. automotive industry obliged us to restore tire production in Mayfield, Kentucky, to the 5-day workweek. As part of our additions to General Tire's research and development facilities, we enlarged the test track in Uvalde, Texas. This gives us yet another location where we can carry out extensive tests and experimental programs for the entire product spectrum.

Although we made some initial progress at the Canadian plant in Barrie, Ontario, we have not yet reached our goals. This plant supplies, among others, one of the largest U.S. auto makers. In Barrie, we are now working seven days a week.

On the other hand, our efforts to improve the cost structure and product quality at our plants in Mexico have been rewarded with good results. The first stage of our restructuring and streamlining measures in Mexico led to a reduction of staff in the two plants, with the main emphasis on the plant in Mexico City. In 1990, our plant in San Luis Potosí was fully converted to make modern radial tires. Thanks to a quality improvement program, sales to the Mexican automotive industry have increased.

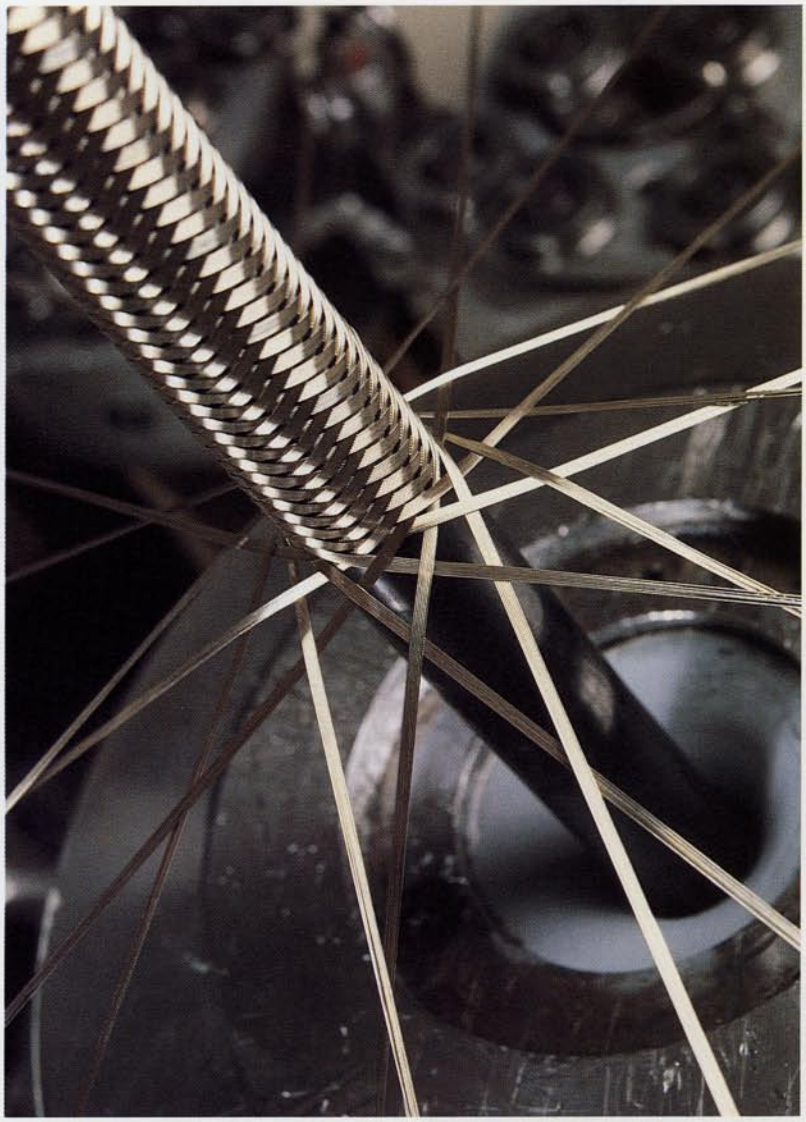
In pursuit of our goal to improve service to our customers, we are expanding our logistics system in the U.S.A. In addition, we have developed, together with our customers, a system that will enable us to respond rapidly and flexibly to special orders.

Above-average growth at ContiTech.

Gratifying Sales Growth

The ContiTech Group, which manufactures industrial products made of rubber and plastic for a large number of applications, had sales of DM 2,141.5 million in 1990. This figure includes the sales of the following companies which were fully consolidated for the first time or newly acquired: Clouth Gummiwerke AG, Cologne; IMAS S.A., Greece; and Hycop AB, Sweden (as of June 1, 1990). The gain over 1989 amounted to 24.1 %. Disregarding the newly added companies, growth amounted to 6.5 %. ContiTech AGES S.r.l. will not be fully consolidated until 1991.

The Group benefited from the eighth year of record business in the German automotive industry; international business, on the other hand, began to slow down during the last six months of 1990. All four Operations earned a profit. Nevertheless, some Business Units, although operating in the black, have not yet reached the goals set in terms of profitability.



Braiding a metallic tension member for extra-heavy-duty hydraulic hoses.

Automobile Interiors and Textiles

Göppinger Kaliko GmbH achieved sales increases for all its product groups. The Molded Products Unit reported above-average growth and now accounts for one third of sales. Production facilities for special industrial sheeting were also well utilized. Due to this high level of capacity utilization and to major streamlining efforts, earnings continued to improve.

In the field of industrial sheeting, we started a cooperative venture with a plant in eastern Germany.

Bamberger Kaliko GmbH posted high unit sales increases in Germany and abroad with materials for bookbinding and window blinds. The introduction of new products and persisting strong demand made it necessary to introduce a multiple-shift system in the manufacturing plants. Thanks to the growth in business volume and the cost advantages resulting from the new factory built in 1988, earnings improved considerably.

Uniroyal Englebert Textilcord SA, Luxembourg, was assigned to the Tire Group as of January 1, 1991. Its capacities, some of which had been enlarged to accommodate the strong demand for tire cord fabrics, were fully utilized in 1990.

Flockgarn GmbH's sales of flock yarn, which is particularly well suited for the manufacture of automobile seat covers, continued to increase in both Germany and the other European countries.

The Cushioning Products Business Unit, which is now known as ContiTech Formpolster GmbH,

Steady increase in the internationalization of our business.

A distortion-free car model is used in the development of a roof weatherstrip for a sporty passenger car.

was pushed to the limits of its production capacity for the flexible polyurethane foam that is used by the upholstered furniture and automotive industries. This also applies to the plant in Mendig, which produces high-quality seat padding elements made of rubberized hair (natural fibers and latex) for the automotive industry.

Hoses and Hose Assemblies

The Hose Business Unit, which is now called ContiTech Schlauch GmbH, is concentrating more heavily on highly sophisticated hose types, thereby compensating for setbacks in sales of conventional hoses. As a result, sales revenues continued to increase, and the Korbach and Northeim plants operated at high capacity. Extra shifts were required to meet our customers' high requirements. Prices, however, were unsatisfactory, especially in the hydraulic hose business.

Techno-Chemie Kessler & Co. GmbH recorded gratifying growth in sales of hose assemblies to the automotive industry. Extraordinary charges were incurred to move a production unit from Karben to the enlarged plant in Berlin. Earnings, which failed to reach the previous year's level, were unsatisfactory.

The trend to power steering and air-conditioning in vehicles of almost all sizes has been a source of large sales gains during the past three years for Anoflex, our French hose coupling company. However, the greater variety of hose assemblies, the use of increasingly complex metal fittings and our customers' insistence on being supplied on the exact date specified have put such heavy pressure on production capacity and flexibility that net income has deteriorated significantly. To achieve the requisite consolidation and improvement in earnings, we are starting up two new manufacturing facilities in France and Spain.

The acquisition in mid-1990 of Hycop AB in Sweden provided us with a third manufacturer of hose assemblies. We are looking forward to a number of synergies in this field of activity. During the last six months of the year, an extensive restructuring program was carried out at Hycop.

Anti-Vibration and Sealing Products

The Molded Products Business Unit, which is now called ContiTech Formteile GmbH, continued to improve its sales and earnings in 1990. In 1989, its plant in Limmer had received the "Q1 Award" from Ford of Europe for its molded rubber products; in 1990, the plant in Dannenberg received the same award as an outstandingly reliable supplier of top-quality molded plastic products. Further adjustments in the cost structure will be required to ensure that results remain positive over the long term.

In 1990, the Extruded Products Business Unit, now known as ContiTech Profile GmbH, continued to benefit from the thriving business of the automotive industry. Capacities were fully utilized in almost all segments. Cost reductions also helped the Unit to earn a profit, which, however, is not yet satisfactory.

As a result of the shrinking Spanish auto market, and a transport workers' strike, which led to the temporary shutdown of several car factories, ContiTech-Elastorsa S.A., Spain, recorded a decrease in sales and earnings. Shipments from Spain to the Extruded Products Business Unit began at the end of 1990.

Air springs for trucks and rolling stock have a good future.

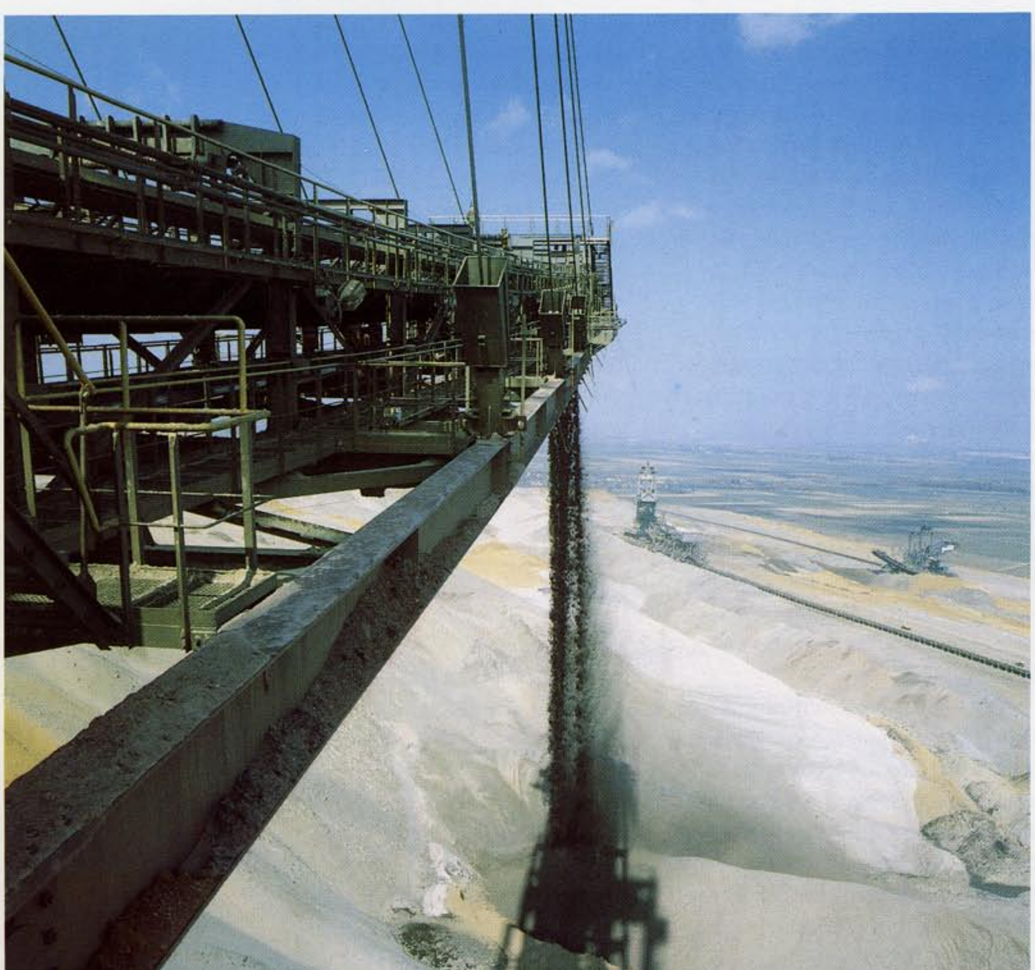
Engineered Products

The Power Transmission Products Business Unit, which is now called ContiTech Antriebssysteme GmbH, continued to expand its business with raw edge V-belts, multiple-V-ribbed belts and timing belts. Substantial gains were achieved in both sales to the automotive industry and exports. Further streamlining measures helped the Unit to achieve good earnings, despite fierce price competition.

The Air Springs Business Unit, now known as ContiTech Luftfedersysteme GmbH, continued to increase its sales volumes, revenues and earnings. Decreasing demand for commercial vehicle original equipment in some Western European countries was more than offset by strong demand in Germany and the fact that more and more commercial vehicles are using air springs. We have secured the currently most prestigious contract in East Asia involving air springs for rolling stock: an order for the Shanghai Subway project.

The Conveyor Belting Business Unit, which is now part of ContiTech Förder- und Beschichtungstechnik GmbH, continued to operate at the previous year's high capacities in 1990. Changes in the product mix, together with cost reduction measures, produced a further improvement in the Unit's earnings.

Steel cord conveyor belts on a bucket-wheel excavator at an opencast lignite mine.



The Coated Fabrics Business Unit, which is now also part of ContiTech Förder- und Beschichtungstechnik GmbH, focused on quality in 1990, with great success. It received the Q1 Award from Ford of U.S.A. for top quality in flat membranes. Gratifying growth rates were recorded with the Conti AIR® line of printing blankets. We are market leader in Europe with fabrics for life rafts. However, sales stagnated due to a weeding-out of product lines and the slowdown in the Western European automotive industry.

Thanks to excellent capacity utilization, our subsidiary Deutsche Schlauchbootfabrik reported a gain in sales and earnings. A sharp increase in new ship construction produced an exceptionally strong flow of orders for life rafts and lifeboats. The upward trend in special equipment, in particular "jumpsafes," also continued, due to intensified product development work.

Clouth Gummiwerke AG and ContiTech AGES S.r.l.

Although sales were down, Clouth Gummiwerke AG, Cologne, posted a substantial increase in net income.

IMAS S.A., Clouth Gummiwerke AG's subsidiary in Greece, operated at full capacity and likewise reported satisfactory earnings.

The ContiTech Group continued its internationalization by acquiring ContiTech AGES S.r.l. from Fiat in October 1990. As a result, it now also has a manufacturing location in Italy for molded rubber products, rubber-metal components, extrusions and hoses.

Employees

During 1990, the number of our employees continued to rise, although this was only due to the acquisition of new companies. On December 31, 1990, there were 51,064 people working for the Corporation, or 3,569 more than a year earlier. 3,798 people are employed at the newly acquired companies. The work force at the parent company also increased by 1.6% to 16,160.

In Germany, we had 24,070 employees working for us on December 31, 1990, representing 47.1% of total personnel, compared with 15,010 (29.4%) in other European countries and 11,984 (23.5%) in North America and elsewhere in the world.

The following chart gives a breakdown of our employees by country of origin, as well as the figures for the previous year:

	1990	1989
Germany	19,943	19,093
U.S.A.	8,972	9,607
Austria	3,521	3,565
France	3,513	3,736
Turkey	2,452	2,074
Italy	1,745	582
Great Britain	1,411	1,424
Belgium	1,307	1,202
Mexico	1,234	1,420
Canada	1,134	803
Portugal	1,131	139

Visual inspection is the last stage of an intensive quality testing program.

Employee Representatives

Dialog with our employee representatives is an integral part of our corporate and management culture. As in the previous year, contacts and consultations were intensified. Outside Germany, discussions centered on collective bargaining agreements; at the AG, the main topics concerned the practical implementation of collective bargaining agreements and programs for occupational safety and environmental protection. In 1990, there were no industrial disputes that could have led to major cutbacks in production.

Great demands were again made on our management resources, as a result of the Corporation's expansion in 1990.

The Corporation's strong expansion is a major challenge to our management.

Our personnel development programs are bearing fruit: More potential executives are now available within the Corporation. Nevertheless, we have not relaxed our efforts to recruit experienced executives from outside sources. In September, the Executive Board decided to issue a new block of shares under the stock option plan that was established in 1986, in accordance with the authorization granted by the 1990 Shareholders' Meeting.

Since the success of a company depends to a large extent on cooperative management, we have further improved our in-house communication with and among executives. We believe this will be greatly enhanced by our joint workshops with the Executive Board. The executives of Continental Aktiengesellschaft have now been given a worktime arrangement that lets them set their own hours, within the scope of their assignments.

Training and Continuing Education

We believe that training and continuing education can help make the Company more efficient and easier to manage. Our executive development program, which focuses on the Company's strategies and globalization plans, is designed to achieve this goal.

A large part of our educational activities was dedicated to disseminating the "Basics" that were adopted in 1989. Drawing on various events that have taken place

Progress in improving on-the-job safety.

in the course of the Company's history, we have created a mutual basis for our corporate philosophy and our employees' understanding of it.

Naturally, we are not neglecting our standard training. Vocational training and continuing vocational education will remain a key element in our activities.

The members of the first two graduating classes in an engineering study program carried out in cooperation with the Hanover Institute of Technology have received their diplomas in production technology. This diploma is an engineering equivalent of the degree in business administration granted by the VWA Management Academy. It is of particular importance for our young executives engaged in production.

On-the-Job Safety

Our efforts to improve occupational safety at our operating units and factories during 1990 were, for the most part, successful. Nevertheless, at Continental AG the index for on-the-job accidents per million working hours rose from 18.2% in 1989 to 19.2% in 1990.

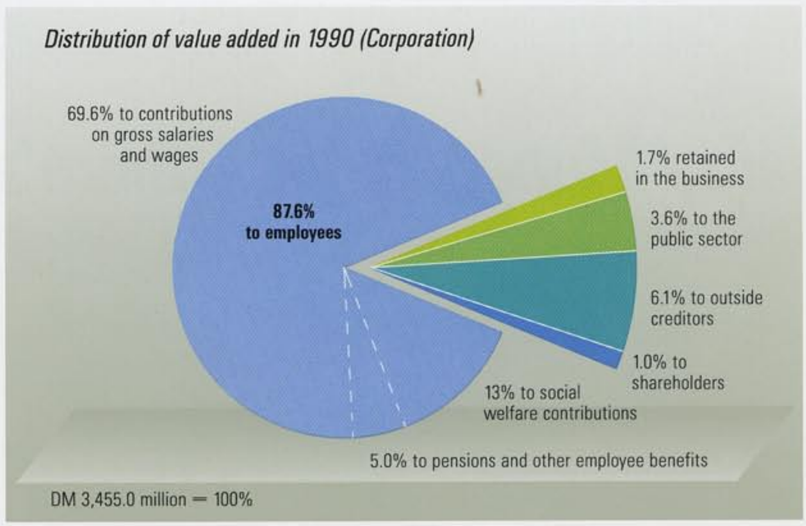
On the other hand, the trend at our foreign subsidiaries and many of our German ones was positive. For example, the accident rate at Bamberger Kaliko decreased from 39.0% to 9.8%, and the rate at our Aachen plant, which, at 12.7%, was already very low, was reduced to 8.9%.

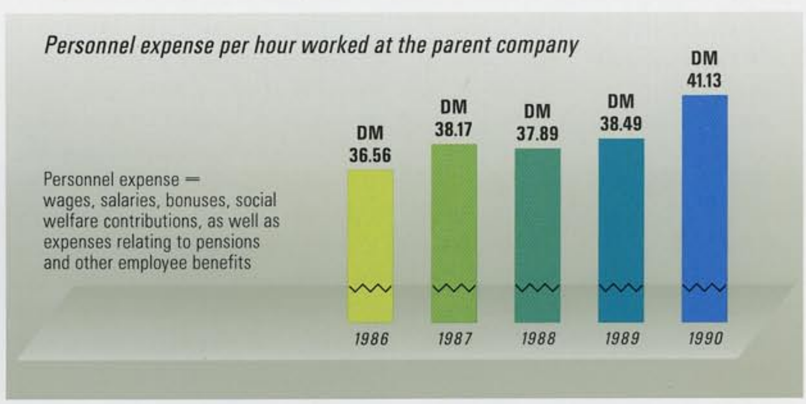
Personnel Expense

Corporate personnel expense (wages, salaries, social welfare contributions, and expenses for pension plans and other employee benefits) rose from DM 2,724.8 million in 1989 to DM 3,028.5 million in 1990, corresponding to an increase of 11.1%. At Continental AG, personnel expense per hour worked changed from DM 38.49 to DM 41.13 (up 6.83%). Total corporate personnel expense per employee rose from DM 57,830 to DM 62,099, and at Continental AG from DM 62,030 to DM 63,431.

Increase in Illness Rates

Absenteeism due to illness at Continental AG was higher than in the previous year, increasing from 7.5% in 1989 to 8.0% in 1990, with a range from 7.7% to 9.3% at the individual plants. At the Corporation's other German companies, the rate was between 6.5% (Vergölst) and 11.4% (Bamberger Kaliko). At the plants and companies in other European countries, however, the illness rates ranged only from 4.4% (Clairoix) to 6.5% (Newbridge and Anoflex).





Company Suggestion Plan

In 1990, efforts to promote the Continental suggestion plan continued to meet with success. At Continental AG, 4,247 suggestions were submitted, or 7.8% more than in 1989. Cash awards rose by 9.3% to DM 854,000.

Corporate Culture

The "Basics" adopted by Continental in 1989 have been approved by the Corporation's executives and employees and applied in numerous discussions to the problems of the individual sectors. They are developing into guiding principles for our requirements and our actions, which everyone in the Corporation must conform to.

Of the seven Basics, we intend to pay particular attention to Quality. For this purpose, a Total Quality Program will be implemented, spanning the entire Company. Its objective is to orient our work toward both internal and external customers, especially in non-technical areas. In order to be successful, this task cannot merely be attuned to cooperative thinking from a functional viewpoint, but must also involve consciousness raising and behavioral adaptation.

Several hundred employees from Lower Saxony made no secret of their opinions before the start of the Special Shareholders' Meeting.

Total Quality Management – there's no other way

The quality of the service that a customer receives is a mirror image of the quality of the work within a company. And that applies to Continental as well.

This is obvious to everyone right away. Many people have recognized this and talk about it, but it's what they do about it that separates the wheat from the chaff. That is, the results manifest themselves in actions, not words.

Take, for example, the following quality story from one of our Groups: "It's Friday afternoon. A customer with whom we have done business for many years calls up. He urgently needs four passenger tires for one of his customers, who has an important errand to do. The answer given to the tire dealer: 'All the delivery trucks are out on the road; it's too late to get the tires to you today.' Luckily, we get another chance. Instead of switching to a competitor, the customer thinks it over and makes another call. He knows that the employee he is calling, even though she does not usually handle matters of this kind, is always unconditionally ready to provide service and assistance.

This time he succeeds. The woman takes action. She orders a taxi, the tires are delivered, and the customer is happy."

What's the point of this story? In the past, we concentrated our energy too intensively on the quality of our products. As a result, only a part of the Company's activities was systematically covered. In 1990, we gave the green light to a new phase in our quality strategy. We will achieve total customer satisfaction only if everybody participates. And we mean everybody. Our goal is Total Quality Management. Everyone gives and receives services. Everyone can and must review his or her service contributions on an ongoing basis, analyze mistakes and take steps to improve them.

This is easier said than done. Technical know-how can, if necessary, be purchased; the concept of TQM, which has been outstandingly exemplified at companies in Japan and elsewhere, can to some extent also be acquired through consultants. Employee commitment and enthusiasm, however, can be neither purchased nor commanded. Quality

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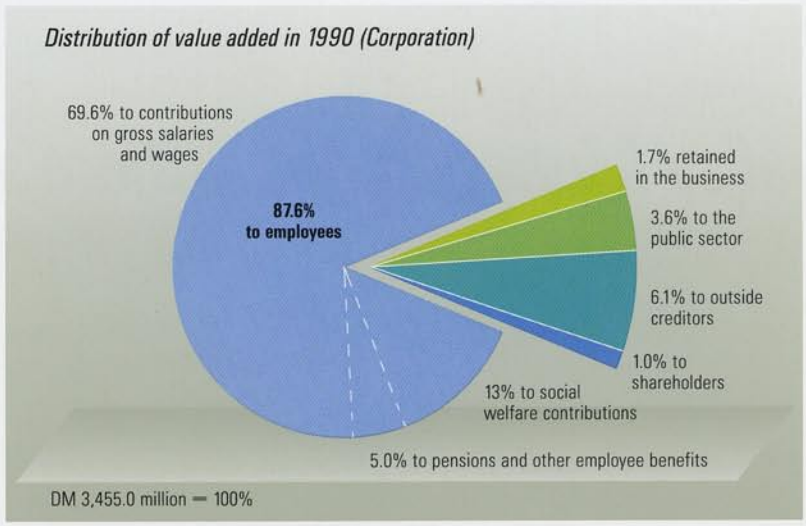

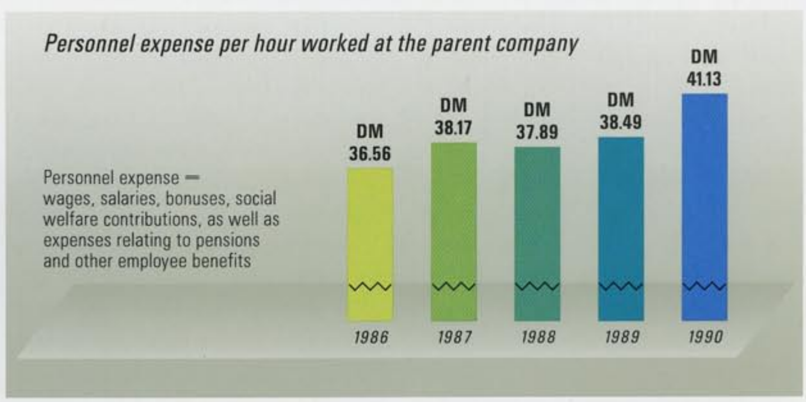

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leadership presupposes that the leaders start off by setting an example and generate an intellectual groundswell centering on the quality theme. For this reason, our first step was to have top management throughout the Corporation attend seminars in TQM to prepare them for this challenge. After all, people put greater trust in their eyes than in their ears. That's why it is a lengthy - and often hopeless - process to instruct them by means of rules and precepts, but a short and effective one to do so with the aid of examples. However, these examples must come from the management.

TQM dovetails perfectly with our BASICS, a corporate philosophy that has been set down in writing, which we described in detail in our last annual report.

The BASICS express our visions and attempt to provide new conceptual points of departure. Much of this has already become a reality in our Corporation. But much remains to be dealt with. As a globally active company, we have conceived the BASICS as a common denominator for the various markets, brands, employees, nations and cultures. These principles, formulated in an extended communication process, have been in existence since 1989, enabling the people at Continental to act together throughout the world.

Seven main points of the BASICS clearly reflect our future-oriented thinking:

1. We Are Committed to Quality

The responsibility for high quality has absolute priority. The wishes and needs of our customers are the standard for our work. We are concerned with an all-embracing concept of quality. Not only must the product measure up, but we must also think and act, both within the Company and outside it, in a manner oriented to the customer. An important component is outstanding service in all sectors.

2. We Are Committed to Our Customers

Our customers come first. In the final analysis, they are our employers. For this reason, we use all our efforts to make them happy.

3. We Are Committed to Our Employees

Well-trained, highly motivated and performance-oriented employees are the primary resource for our long-term success. The basis for this is a frank, contemporary management style.

4. We Are Committed to Profit

The well-being of the Company depends upon its earning power and financial performance capability. This safeguards jobs, while permitting capital investments and the payment of dividends to our shareholders.

5. We Are Committed to Cost Control

Cost-consciousness is a strategic issue at Continental. Our overall aim is to be better than others, or, in other words, to provide a better service at lower cost. This will determine our competitive strength and our future success.

6. We Are Committed to Innovation

Without innovations at every level, not merely in the technical sector, we cannot survive. Innovations are the basis for successful competition in a global market.

7. We Are Committed to Globalization

We are well aware of the increasing concentration in our industry, with all its opportunities and risks, and of the expectations of our customers with regard to our worldwide presence and collaboration.

We in the Company are trying to live according to these seven principles, to orient all our actions to them. Sometimes, we still find ourselves acting against our own convictions. We must work to remedy this. There are still occasional discrepancies between our actions and the requirements of the BASICS.

Ultimately, we find that our Total Quality Philosophy is implicit in the structure of the BASICS.

Total Quality Management is part of our corporate philosophy: BASICS

Total Quality is everyone's business: from the Executive Board to each individual employee.

An outward reflection of our efforts is a newly formulated Quality Guideline distributed throughout the Corporation, which clarifies the concept of a comprehensive quality maxim. Here customer orientation is the primary concern. Quality relates not only to the product, but also expressly to all the other services and activities of every employee. The Quality Guideline also requires every organizational unit to determine quality objectives each year in connection with its budget planning, so that it can subsequently measure its performance against them.

The Quality Guideline has been signed by all the members of the Executive Board and thus documents the joint actions of every department. Quality is everyone's business.

In order to proceed successfully on our way to Total Quality, we do not hesitate to borrow intellectual and practical concepts from others. We are training our sights on quite specific examples, in Europe, Japan and the U.S.A.

We believe that at Continental the movement toward quality at all levels will take place on three axes, namely

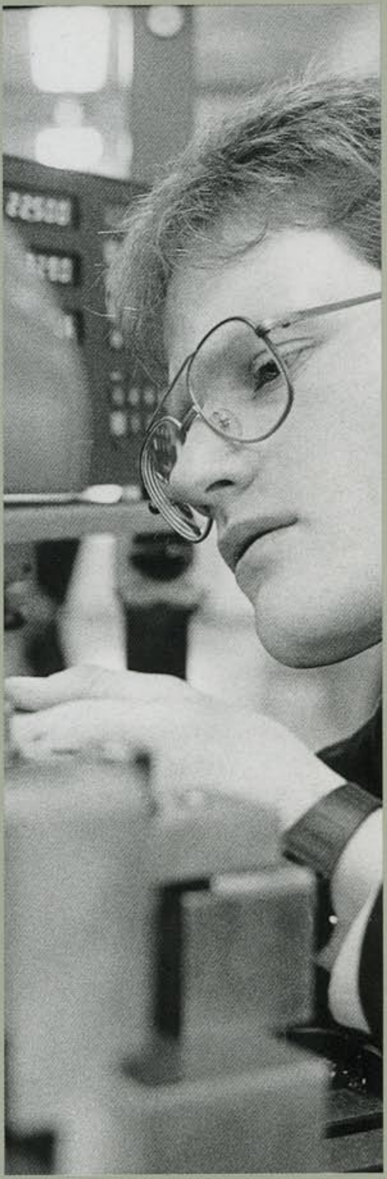
- in insight and behavior,
- through management and organization,
- with instruments and technologies.

For the realization of our Total Quality concept, changes and developments on all three axes will be necessary. Therefore workshops and training courses, transcending all hierarchic boundaries, are essential. Insights and changes in behavior cannot be dictated by decree. Changes begin in people's minds.

We intend ultimately to include all our executives and employees. Whatever the obstacles, Total Quality must be experienced, enacted and exemplified in everyday life. From the top to the bottom of the Company, but also from its foundation to its pinnacle.

Therefore, as the first step, more than a hundred top managers took part in a training course to inform them about the philosophy, process and methods of implementation of the concept. By this means, we have set in motion something that will now cascade down through the Corporation. In addition to activities that were already in existence, a large number of new workshops with concrete objectives in many different business sectors have recently taken place. The organizational units are given great freedom in planning the workshops, to permit individual solutions within the overall framework.

Quality was the dominant theme in the technical areas during the eighties, with attention focusing on the product in question. As a result, many employees have built up a standard "know-how repertoire." What's new is that each and every activity is now open to discussion, in order to gradually reduce the incidence of errors.



This is shown with great clarity by the five priority tasks we are tackling at our European plants:

1. Examination of the internal customer-supplier chain
2. Intensified employee training, with emphasis on quality orientation
3. Laying a solid groundwork for the Total Quality approach
4. Improvement of communication and organization
5. Improvement of processes that lack stability

"BEGIN" is the core word that is pivotal in such sectors as marketing, finance and personnel. It is worth noting, for example, how the Marketing group has started to implement

TQM is a process, an unending story. A movement that changes the entire Company.

the principles of our Quality Guideline. The logical sequence is as follows:

1. Record the customer's wishes
2. Measure the customer's satisfaction
3. Define promised performance and service quality
4. Formulate plans of action
5. Disseminate quality standards
6. Identify errors systematically
7. Measure progress and results
8. Provide employees with support and motivation

It would be premature to speak of results, but the commitment, the sense of obligation, is there. The way is difficult and requires perseverance and learning, for achievement in these areas means rendering services. And services are not like products, which can be produced and put on the shelf, after the inferior ones have been sorted out by quality control.

Where services are concerned, quality is generated in real time; in other words, production, delivery and use occur almost simultaneously. Here, the emotions, value judgments, perceptions and modes of behavior of the people play a more important role than in the manufacture of a tangible product. Consciousness of and dedication to quality are all the more important.

We are fully aware of the difficulties inherent in initiating such a process of change on a broad basis and keeping it in motion. Resistance from administrative and operating personnel should not deter us. We must systematically continue our work of convincing them. We are prepared, of course, for setbacks and failures. We know that we will not do everything right the first time. We are prepared to make mistakes and to remedy them. The way to Total Quality is long; here and there, it is thorny as well. But this is the way we have chosen, because we are convinced that it is the right one.

Thus, TQM is not a program, but a process, an unending story. As a movement, it originated and grew in Japanese companies. Japan's reputation as a quality producer is the most spectacular quality success story of our time. Like it or not, anyone who wishes to be a player in the game of global competition must follow the trend. TQM – there's no other way.

The Continental Share

Dividend Reduced

In view of the net income for the fiscal year, we are obliged to propose to the Shareholders' Meeting a dividend for 1990 of DM 4.00 per share of DM 50.00, or half the amount distributed for 1989. Including the tax credit, the payout to domestic shareholders amounts to DM 6.25 per share.

Since the capital stock entitled to the dividend totals DM 439.1 million, DM 35.1 (1989: DM 69.6) million will be needed for the distribution. The dividend will thus require 83.2% of the net income of Continental Aktiengesellschaft, compared with 85.7% in the previous year.

The payout comes to 37.6% of consolidated net income and, on this basis, is higher than in 1989 (30.6%).

Price Trend

The upswing on the German stock markets that had persisted throughout 1989 continued at the beginning of 1990. The Frankfurter Allgemeine Zeitung's share price index started 1990 at 740.93 and reached its highs at the end of March and in mid-July. On July 19, 1990, it was 832.32. The beginning of the Gulf crisis triggered a steep decline: the FAZ index dropped to 569.69 on September 28, 1990, and closed the year at 603.06.

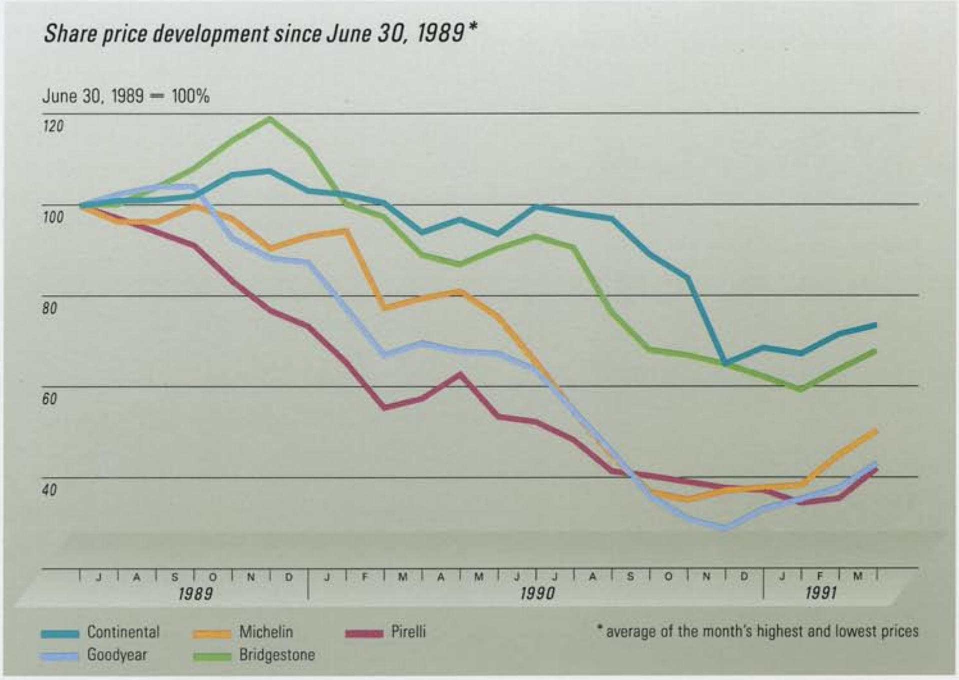
During the first few weeks of 1991, the sideways movement continued. It was not until the end of the Gulf crisis that the FAZ index started to go up again, reaching 677.11 on April 9, 1991.

At the beginning of 1990, the Continental share was quoted at DM 322.00; it rose to DM 345.50 and then fluctuated around DM 300.00 until mid-September.

The announcement of Pirelli's takeover proposal caused the price to plunge to DM 207.50 at year-end, with a low of DM 189.50 in November.

In anticipation of the Special Shareholders' Meeting on March 13, 1991, the Continental share rallied briefly to DM 250.00, but then fell back to DM 220.00.

Share trading at Zurich's circular stock exchange. To internationalize the Continental share, we have been giving frequent presentations of the Company since 1987 to investors and analysts, for example in Tokyo, New York, Boston, London, Zurich, Vienna and Frankfurt.



Listing on the International Stock Exchanges

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

We are contemplating further listings on foreign stock exchanges, as part of the long-term program to internationalize the Continental share.

Since the turn of the year, nine market makers in London are regularly quoting the Continental share over SEAQ (Stock Exchange Automatic Quotes).

As a further step toward internationalization, Continental is considering a listing on the Milan stock exchange.

Strong Share Liquidity

Total sales of German shares on the German stock exchanges amounted to DM 1,621.2 billion in 1990. DM 21.6 billion or about 1.3% (1989: 1.6%) of these sales was attributable to the Continental share. The capital stock was turned over 8.1 times in 1990, compared with 7.6 times in the previous year. Thus, the Continental share was again one of the most liquid securities on the German stock market.

Change in Shareholder Structure

Since the last shareholder survey in November 1989, substantial changes have occurred in the composition of our shareholder population. In the fall of 1990 and at the beginning of 1991, several major domestic and foreign shareholders publicly disclosed their identity as follows: Allianz Group 5%, Deutsche Bank 5%, Italmobiliare (Italy) 3%, Mediobanca (Italy) 5%, Norddeutsche Landesbank 3%, Pirelli Verwaltungs-Gesellschaft 5%, Sopaf (Italy) 5%.

In addition, the following shareholders have informed us or the public that they are holding substantial blocks of Continental shares: BMW AG, Daimler-Benz AG, FIAT SpA (temporarily), Dresdner Bank AG, Merrill Lynch, Mr. Alberto Vicari and Volkswagen AG. We do not have complete information concerning the size of these blocks. However, they are all less than 5%.

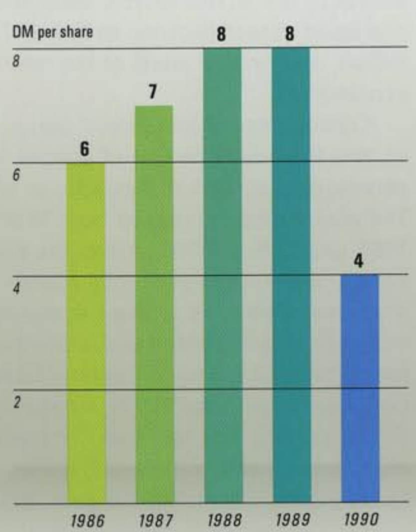
Earnings According to the DVFA/SG

The 1990 per-share earnings computed according to the methods of the German Association of Financial Analysts (DVFA/SG), at DM 11.10, are below the previous year's figure of DM 26.20. The cash flow per share amounts to DM 58.05 (1989: DM 69.50).

Per-Share Data for the Continental Share (in DM)

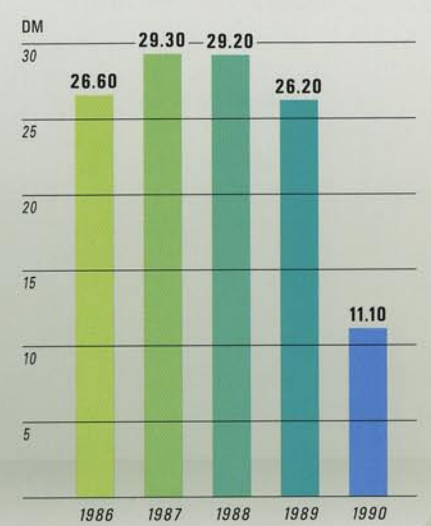
	1990	1989
Net income	10.64	26.19
Cash dividend	4.00	8.00
Dividend with tax credit	6.25	12.50
Earnings (DVFA)	11.10	26.20
Cash flow	58.05	69.50
Book value	198.38	198.31
Market price (12/31)	207.50	322.00
Number of shares at year-end (in thousands)	8,782	8,700

Cash dividends



Amounts distributed to shareholders

*Earnings per share according to DVFA/SG**



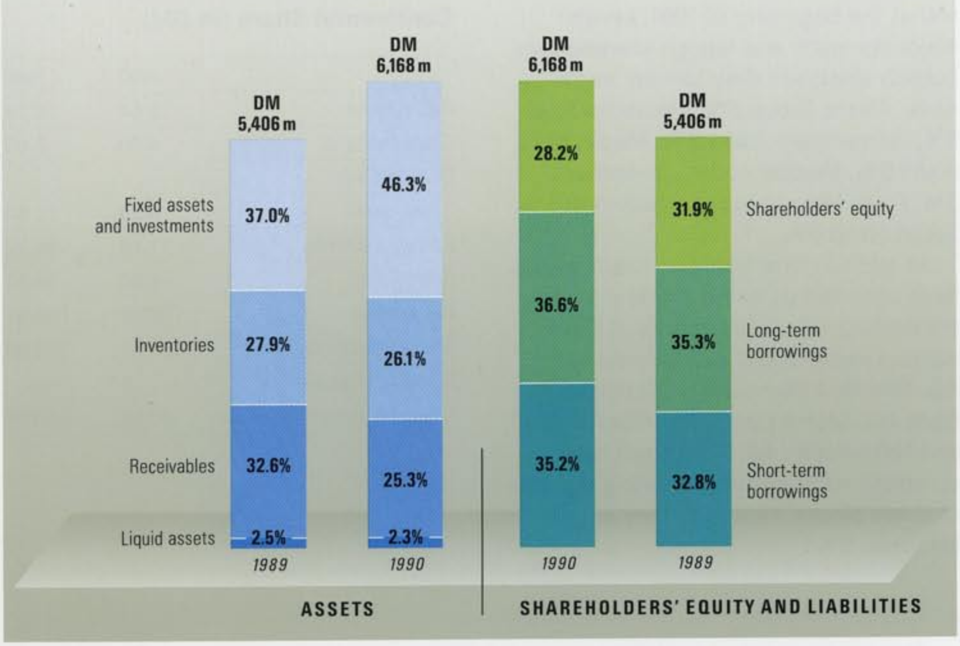
* DVFA up to 1989

Assets, Financial Position and Earnings of the Corporation

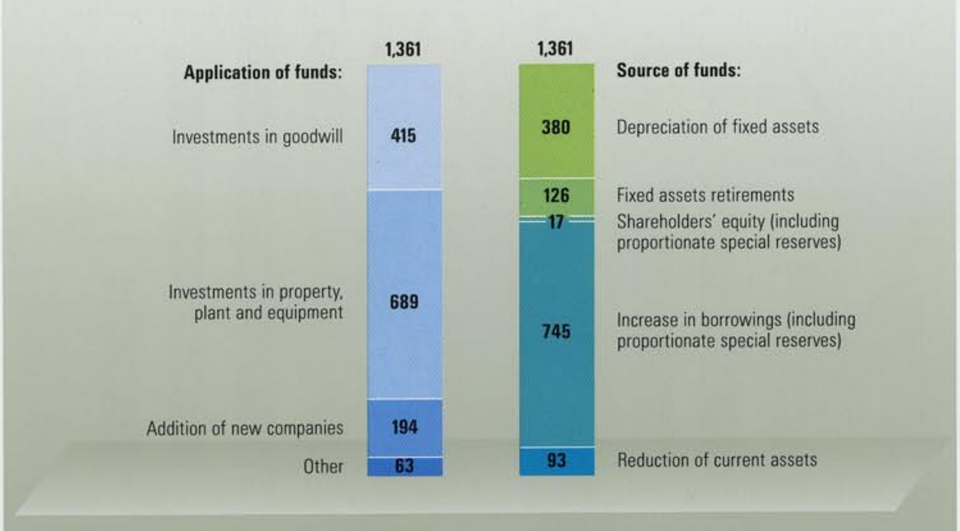
Changes Compared with 1989

Consolidated sales for 1990 were up DM 169.1 million, or 2.0%. DM 336.9 million of the total was attributable to the following companies included for the first time: Clouth Gummiwerke AG, Cologne; IMAS S.A., Volos, Greece; Hycop AB, Maersta, Sweden (as of June 1, 1990), and Continental MABOR S.A., Lousado, Portugal (as of July 1, 1990). ContiTech AGES S.r.l., Santena, Italy, which was also acquired in 1990, was included in the consolidated financial statements only with respect to its assets and liabilities.

Structure of the consolidated balance sheet



Corporate financing in 1990 (DM million)



Without these new companies, consolidated sales would have been 2% lower than in 1989.

However, it should be noted that, due to the decline in the exchange rate of the U.S. dollar, the translation of the General Tire Group's sales into DM caused a decrease of approximately DM 340 million (4%), so that on a comparative currency basis, excluding the new companies, consolidated sales rose by 2%.

Balance Sheet Structure and Financial Position

Total assets grew by 14.1%, amounting to DM 6,167.6 million on December 31, 1990.

DM 589.3 million of the increase in total assets was attributable to companies included for the first time. On a comparable basis, total assets grew by only 3.2%.

Fixed assets and investments rose from 37.0% to 46.3% of total assets. The increase in fixed assets and investments was divided almost equally between intangible assets and property, plant and equipment.

Despite the inclusion of new companies, current assets decreased once again, dropping by 2.5% to DM 3,283.2 million. While inventories rose by 7% and trade accounts receivable and other assets by 6.4%, marketable securities and liquid assets declined to DM 277.3 million, mainly as a result of the new acquisitions.

Consolidated shareholders' equity, including the equity portion of special reserves, rose by DM 16.9 million, or 1%. The equity ratio decreased from 31.9% in 1989 to 28.2% in 1990, due to the exceptionally strong growth of total assets. It thus continues to lie within the standard range for internationally active companies. The equity ratio of Continental Aktiengesellschaft was 51.7%, as against 61.7% in 1989. The fact that Continental AG has been acting more and more as a holding company during the past few years is becoming increasingly apparent in this result.

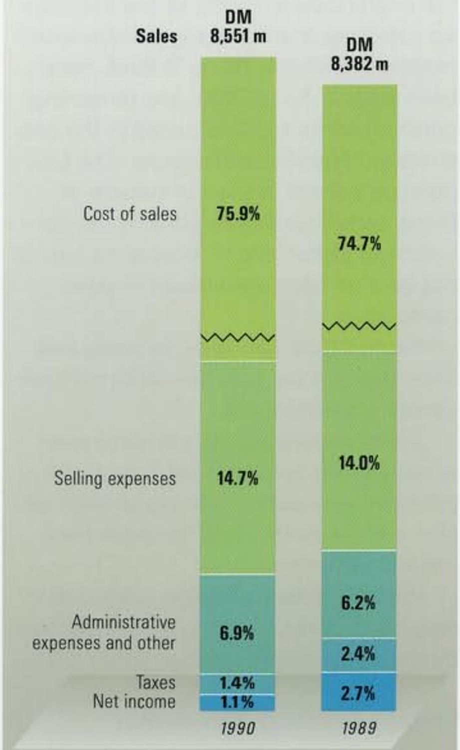
The increase of DM 335.6 million in provisions for pensions includes an addition of DM 270.7 million to cover claims for medical benefits which may be made by employees of General Tire Inc., Akron, Ohio, U.S.A. after their retirement. We have already applied the new American accounting regulations (FASB No. 106) which were published at the end of 1990 - although they will not take effect until 1993 - by including the full amount in question in the consolidated balance sheet. To balance this entry, goodwill deducted from consolidated retained earnings at the time of the acquisition of General Tire was capitalized in the same amount.

Indebtedness rose by DM 616.4 million and amounted to DM 88.7% (1989: 53.9%) of shareholders' equity. DM 295.5 million of the increase in indebtedness is attributable to the acquisition of new companies, and DM 205.9 million to the net additions to property, plant and equipment (without the new companies).

The capital turnover rate decreased from 1.6 to 1.4.

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

Structure of the consolidated statement of income (DM million)



Continental Corporation		
	12/31/1990	12/31/1989
Total assets (DM million)	6,167.6	5,405.9
Fixed assets and		
investments (%)*	46.3	37.0
Current assets (%)*	53.7	63.0
Equity ratio (%)*		
– Consolidated	28.2	31.9
– Continental AG	51.7	61.7
Indebtedness (DM million)	1,549.9	929.5
Capital turnover	1.4	1.6
Long-term financing		
of fixed assets,		
investments		
and inventories (%)	89.6	103.7
Self-financing (%)	68.1	94.4
Liquidity ratio (%)	77.1	105.0

* As a % of total assets

In 1990, 68.1% of the additions to fixed assets and investments were financed by the cash flow (1989: 94.4%).

Earnings and Liquidity

1990 net income was down DM 134.4 million, or 59%, from the previous year.

Sales advanced by 2%, compared with 6% in 1989. The rise in manufacturing, selling and administrative costs was considerably higher than the sales increase. This is a reflection of the worldwide pressure on prices and costs in our industry, especially with regard to tires, which intensified further during 1990. While capacities were fully utilized and volumes rose substantially, it was not possible to pass on the higher costs to our customers. Especially in the tire sector – above all in business with the automotive industry – we were actually forced by the competition to make price concessions that could hardly be justified in terms of normal business practice.

At 39.1%, the income tax ratio for the Corporation was slightly higher than in 1989 (38.3%).

The net profit margin of 1.1% was significantly lower than in 1989 (2.7%) and, like the return on shareholders' equity, which came to only 5.4% (1989: 13.2%), was totally unsatisfactory.

Despite an increase in depreciation and writedowns, the cash flow declined to DM 510.0 million (1989: 604.9 million), as a result of the sharp decline in net income. Its proportion of sales dropped to 6.0% (1989: 7.2%).

The debt ratio rose to 3.5 in 1990, primarily because of the acquisition of new companies and the reduced cash flow.

Continental Corporation		
	1990	1989
Sales (DM million)	8,551.0	8,381.9
Net income (DM million)	93.4	227.8
Cost of sales (%)*	75.9	74.7
Selling expenses (%)*	14.7	14.0
Administrative		
expenses (%)*	5.9	5.7
Income tax ratio (%)	39.1	38.3
Net profit margin (%)	1.1	2.7
Return on shareholders'		
equity (%)	5.4	13.2
Cash flow (DM million)	510.0	604.9
Cash flow (%)*	6.0	7.2
Interest ratio (%)	1.7	1.3
Debt ratio	3.5	1.9
Personnel expense		
(DM million)	3,028.5	2,724.8
Cost of materials		
(DM million)	3,530.0	3,298.8

* As a % of sales

Notes to the 1990 Consolidated Financial Statements and the Financial Statements of Continental Aktiengesellschaft

Scope of Consolidation

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

We have consolidated 46 domestic and 104 foreign companies. 11 domestic and 36 foreign companies were added in 1990. Six companies are no longer included because they were merged with other consolidated companies.

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

Principles of Consolidation

104 subsidiaries, whose financial statements are prepared according to principles of accounting and valuation that are uniform throughout the Corporation, are fully consolidated. With the exception of a few smaller companies, all the financial statements included are prepared as of the date of the Corporation's financial statements. The assets and liabilities of our subsidiaries are entered in the consolidated balance sheet, instead of their book value. The acquisition cost is offset against our interest in the shareholders' equity of the subsidiary on the date of acquisition. When the book value of our investment in a company is higher than the Corporation's interest in its shareholders' equity, the company's undisclosed reserves, primarily those relating to land, have been added in its balance sheet. This year, for the first time, any remaining goodwill items have been capitalized in the consolidated financial statements.

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

45 associated companies are valued by the equity method. If the acquisition cost exceeds the Corporation's interest in the shareholders' equity of the associated company, the company's undisclosed reserves, primarily those in land, have been added. As of 1990, any remaining goodwill items are capitalized in the consolidated financial statements. The Corporation's share in the net income of these companies is included in the consolidated statement of income as part of net income from investment in other companies.

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

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

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

Foreign Currency Translation

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

Losses which result from foreign exchange rates and have not yet been realized on the balance sheet date are covered by provisions charged to income; unrealized profits are disregarded.

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

Expenses and income are translated at the average rates for the year.

Principles of Accounting and Valuation

Assets

Acquired intangible assets are carried at acquisition cost and amortized by the straight-line method over their anticipated useful life. Capitalized goodwill resulting from the acquisition of companies is deducted in instalments from retained earnings on the balance sheet, over periods estimated individually at from 10 to 20 years.

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation.

Continental Aktiengesellschaft uses the declining balance method to depreciate movable fixed assets, while the straight-line method is used for all other fixed assets. We change over from the declining balance method to the straight-line method as soon as this leads to higher depreciation. In the financial statements of Continental Aktiengesellschaft, the special depreciation permitted by the tax laws is taken insofar as necessary in view of the fact that the commercial balance sheet is the basis for the balance sheet prepared in accordance with the tax regulations.

Since 1989, pursuant to internationally accepted accounting principles, additions have been depreciated exclusively by the straight-line method in the consolidated financial statements.

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

Buildings up to 33 years;
additions from 1990 on, up to 25 years,

Technical facilities and machinery
10 years,

Plant and office equipment
4 to 7 years,

Molds up to 4 years.

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

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

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

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

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

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

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

Insofar as permissible, we have continued to take all the extraordinary depreciation and writedowns, as well as the depreciation and writedowns for tax purposes, which were taken in previous years on fixed assets, investments, and current assets.

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

Shareholders' Equity and Liabilities

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

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

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

The pension obligations of American companies are valued according to the stricter valuation rules that have been in force in the U.S.A. since 1987. The provision made for this purpose in the balance sheet is slightly higher than if the corresponding German method of computation had been applied.

The obligations of General Tire Inc., Akron, Ohio, for post-retirement medical benefits are fully covered by provisions computed according to actuarial principles. New U.S. regulations (FASB No. 106) require that by no later than 1993, a provision must be established for not only the retirees and vested work force, but also for the non-vested employees. Although this regulation allows a build-up of the provision over a twenty year period, we have already transferred the full additional amount required (DM 270.7 million) to the provisions shown on the consolidated balance sheet. To balance this item, goodwill deducted from consolidated retained earnings at the time of the acquisition of General Tire has been capitalized in the same amount.

As a rule, provisions for repairs that have been postponed to the subsequent year are established in the amount of the probable cost.

When there are temporary differences between the values of the individual companies' assets and liabilities as determined according to the tax laws and those appearing in their balance sheets, which are prepared according to valuation principles that are uniform throughout the Corporation, deferred taxes may result. We show the latter only when they are reflected in provisions for future tax expense. Liabilities are stated at the redemption amount.

Notes to the Balance Sheet

Assets

Fixed Assets and Investments

The separate categories of fixed assets and investments that are combined in the balance sheets and the changes in them during the fiscal year are shown on pages 60 and 61. The various assets are shown according to the gross value method at the original acquisition or manufacturing cost, or at the residual book value at the time of acquisition.

(1) Intangible Assets

The additions in the amount of DM 426.9 million consist mainly of the goodwill from the acquisition of General Tire, ContiTech AGES S.r.l., Santena, Italy, and NIVIS TYRE AB, Gothenburg, Sweden. This item also includes the goodwill acquired for consideration by the companies belonging to the Corporation. Goodwill of this kind is charged against income.

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

(2) Property, Plant and Equipment

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

The initial consolidation of new companies caused an increase of DM 193.7 million (DM 351.8 million, less accrued depreciation of DM 158.1 million) in property, plant and equipment.

The other additions are shown in the table below:

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Tires (CUS)	70,404	279,457	66,266	225,934
General Tire	–	265,854	–	208,858
ContiTech	68,802	129,166	51,613	79,713
Other	14,983	15,032	17,810	17,926
	154,189	689,509	135,689	532,431

(3) Investments

Interests in affiliated companies included in the balance sheet of Continental Aktiengesellschaft increased by DM 241.2 million. The principal additions resulted from capital increases at ContiTech AGES S.r.l., Santena, Italy, which was formed in 1990, and Continental Coordination Center S.A., Herstal, Belgium, and capital increases to finance extensive capital investment programs at General Tire Inc., Akron, Ohio, U.S.A., and General Tire Canada Inc., Barrie, Ontario, Canada. Writedowns on investments relate mainly to Semperit (Ireland) Ltd., Dublin, Ireland. To reflect a capital decrease which was used to eliminate a deficit at this company, the book value of our investment was written down, and the capital base was then restored by an infusion of capital.

The growth of interests in associated companies was due primarily to the acquisition of 49% of NIVIS TYRE AB, Gothenburg, Sweden, the majority of which is held by the Swedish group KF INDUSTRI AB, Stockholm. In the balance sheet of Continental Aktiengesellschaft, there were additional increases in participations as a result of changes within the corporate structure. A list of the major companies included in the Continental Corporation can be found on page 62 of this report.

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

(4) Inventories

	12/31/1990		12/31/1989	
DM 000	**Continental AG**	**Consolidated**	**Continental AG**	**Consolidated**
Raw materials and supplies	90,180	308,766	98,533	304,497
Work in process	82,747	219,971	74,815	177,587
Finished goods and merchandise	234,907	1,080,750	214,086	1,021,625
Advances to suppliers	3,936	6,232	3,258	4,040
Advances from customers	4,075	4,153	977	978
	407,695	1,611,566	389,715	1,506,771

DM 80.8 million of the increase in the Corporation's inventories is attributable to the initial consolidation of new companies. The remainder results from the additional stocks kept to handle rising sales, and from the unsatisfactory tire business in the U.S.A.

(5) Receivables and Other Assets

Continental AG		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1990	1 year	12/31/1989	1 year
Trade accounts receivable	189,266	1,182	181,323	985
Receivables from affiliated companies	80,134	–	108,241	–
Receivables from companies in which participations are held	–	–	133	–
Other assets	34,111	6,502	32,101	11,115
	303,511	7,684	321,798	12,100

Consolidated		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1990	1 year	12/31/1989	1 year
Trade accounts receivable	1,271,072	3,020	1,200,559	4,747
Receivables from affiliated companies	8,342	–	7,875	–
Receivables from companies in which participations are held	8,282	–	3,074	–
Other assets	187,861	13,983	174,704	15,598
	1,475,557	17,003	1,386,212	20,345

Of the parent company's trade accounts receivable in the amount of DM 189.3 million, 74.6% is attributable to domestic customers and 25.4% to customers abroad. The DM 70.5 million increase in consolidated trade accounts receivable reflects the addition of DM 121.6 million due to the initial consolidation of new companies.

(6) Marketable Securities

The portfolio consists almost exclusively of fixed-interest securities. Those denominated in foreign currencies have been hedged.

(7) Liquid Assets

	12/31/1990		12/31/1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Checks	4,365	5,421	11,803	17,635
Cash on hand, deposits at the Bundesbank and in postal checking accounts	1,475	5,631	1,799	6,748
Cash in banks	91,905	133,573	11,028	109,696
	97,745	144,625	24,630	134,079

The Corporation's liquid assets and marketable securities were sharply reduced as a result of heavy capital expenditures and investments. Marketable securities and liquid assets now total DM 196.1 million (1989: DM 473.3 million).

(8) Prepaid Expenses

	12/31/1990		12/31/1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Discount on loans/bonds	–	4,078	–	4,848
Miscellaneous	699	26,992	518	36,244
	699	31,070	518	41,092

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

Shareholders' Equity and Liabilities

(9) Subscribed Capital

The subscribed capital has increased slightly since 1989, due to the exercise of conversion and option rights.

The Company still has authorized capital available in the amount of DM 10.0 million for the issuance of employee shares.

Type	No. of shares	Par value per share in DM	Capital stock in DM
Common shares	409,894	1,000	409,894,000
Common shares	171,584	100	17,158,400
Common shares	240,901	50	12,045,050
			439,097,450

DM 153.4 million of the conditionally authorized capital of DM 213.4 million has been used to cover new conversion and option rights. Another DM 60 million is still available for the issuance of convertible debentures and/or bonds with warrants attached.

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

		DM 000
Conditionally authorized capital as of 12/31/1989		212,521
Utilization:	warrants attached to 1984/94 bonds	3,933
	1986 convertible loan notes	142
Contribution as per resolution of the Shareholders' Meeting on 6/27/1990		5,000
Conditionally authorized capital as of 12/31/1990		213,446

(10) Capital Reserves

This item includes amounts received upon the issuance of shares in excess of their par value totaling DM 724.9 million, as well as the premium of DM 237.4 million paid upon the exercise of warrants attached to the bonds issued in 1984, 1986 and 1987 and to the 1986 convertible debentures. Capital reserves increased by DM 6.0 million due to the exercise of conversion and option rights in 1990.

(11) Retained Earnings

DM 000	Continental AG	Consolidated
As of 12/31/1989	141,699	133,770
Differences from currency translation	–	– 55,009
Other	–	– 147
Allocation from net income	8,000	59,174
As of 12/31/1990	149,699	137,788

(12) Minority Interests

This item shows the interests of outsiders in capital and earnings. The increase was due primarily to the scheduled capital contribution made by the Japanese partners to our joint venture GTY Tire Company, Akron, Ohio, U.S.A.

(13) Reserve for Retirement Benefits

The parent company's reserve for retirement benefits was established to compensate for shortfalls in the provision for pension plans, which cannot yet be made up for tax purposes. This reserve was reduced, according to schedule, by DM 0.8 million to DM 2.9 million.

(14) Special Reserves

	12/31/1990		12/31/1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Reserve under § 3, Foreign				
Investment Act	59,766	15,000	84,312	38,265
Reserve under § 6b, Income Tax Act	–	448	–	289
Reserve under § 52 Par. 8,				
Income Tax Act	705	1,069	940	1,425
Governmental capital investment subsidies	–	57,664	–	60,988
Other	2,533	6,371	4,137	17,136
	63,004	80,552	89,389	118,103

The decrease in special reserves is due, in particular, to the elimination of the special reserve pursuant to § 3 Foreign Investment Act, following the write-down made in connection with Semperit (Ireland) Ltd., Dublin, Ireland.

The special reserves are divided into an equity portion of DM 69.5 million and a debt portion of DM 11.1 million, representing deferred taxes, which will be paid in due course when the reserves are eliminated. Including the shareholders' equity of DM 1,672.7 million shown on the balance sheet, the actual shareholders' equity amounts to DM 1,742.2 million and the equity ratio to 28.2%.

(15) Provisions

	12/31/1990		12/31/1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Provisions for pensions and similar obligations	220,977	972,173	206,374	636,626
Provisions for taxes	31,937	72,210	53,144	92,265
Miscellaneous provisions	191,465	689,057	188,817	657,908
	444,379	1,733,440	448,335	1,386,799

The Corporation's provisions for pensions and similar obligations rose considerably. Apart from normal allocations, this increase was due, in particular, to an addition to cover claims for medical benefits which may be made by employees of General Tire Inc., Akron, Ohio, U.S.A., after their retirement.

At two of our retirement benefit organizations, there is a shortfall of DM 22.0 million in the coverage of pension obligations. The provisions at four other German companies have been funded only to the maximum amount permitted for tax purposes.

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

Provisions for deferred taxes in the individual financial statements, after deduction of the net prepaid taxes arising from consolidation procedures, amounted to DM 7.4 million.

Miscellaneous provisions cover all perceivable risks and other undetermined obligations. In addition to provisions for warranties, bonuses and miscellaneous risks, they consist mainly of provisions for personnel and social welfare payments, deferred repairs and service anniversaries.

(16) Liabilities

Continental AG		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1990	1 year	5 years	12/31/1989	1 year	5 years
Bonds, convertible*	72,479	242	2,237	71,508	230	1,278
Bank borrowings	444,361	436,398	–	60,828	49,306	–
Advances from customers	–	–	–	849	849	–
Trade accounts payable	132,067	132,067	–	147,887	147,502	–
Payables to affiliated companies	286,465	271,638	14,827	137,288	123,489	13,799
Payables to companies in which participations are held	9,290	9,290	–	5,823	5,823	–
Other liabilities*	90,182	84,166	–	89,904	81,879	–
tax liabilities	(23,751)	–	–	(17,821)	–	–
liabilities relating to social security and similar obligations	(20,268)	–	–	(21,577)	–	–
	1,034,844	933,801	17,064	514,087	409,078	15,077

* total amount secured by mortgages: DM 78.0 million

Consolidated		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1990	1 year	5 years	12/31/1989	1 year	5 years
Bonds, convertible*	661,296	242	591,054	704,258	230	634,028
Bank borrowings*	820,941	609,441	50,090	561,922	404,246	59,040
Advances from customers	2,547	2,547	–	3,457	3,457	–
Trade accounts payable	608,392	594,772	–	540,102	539,717	–
Liabilities on acceptances						
and notes payable	77,903	77,900	–	55,389	55,310	–
Payables to						
affiliated companies	11,808	8,758	–	10,948	1,348	–
Payables to companies in						
which participations						
are held	9,999	9,963	–	6,228	6,192	–
Other liabilities*	488,049	364,978	16,636	372,265	321,200	21,950
tax liabilities	(73,371)	–	–	(64,808)	–	–
liabilities relating						
to social security and						
similar obligations	(69,140)	–	–	(72,226)	–	–
	2,680,935	1,668,601	658,680	2,254,569	1,331,700	715,018

*amount secured by land charges, mortgages and comparable collateral: DM 127.4 million

Guarantees and Other Commitments

	12/31/1990		12/31/1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Acceptance liability	120,447	307,478	113,843	279,379
due to affiliated				
companies	40,987	–	38,006	–
Liabilities on guarantees	802,752	26,188	700,567	31,219
Liabilities on warranties	2,178	12,912	5,094	12,737
Liability on shares in				
cooperatives	81	81	82	82

The contingent liabilities on notes result from discounting trade bills. With the exception of DM 4.7 million, Continental Aktiengesellschaft's liabilities under guarantees and warranties relate to liabilities of subsidiaries and other companies held as investments, in particular guarantees in the amount of DM 648.9 million for capital market financing by Conti-Gummi Finance B.V., Amsterdam, Netherlands, and Continental Rubber of America Corp., Wilmington, Delaware, U.S.A. The increase in liabilities under guarantees and warranties is due mainly to obligations assumed to cover the balance of the purchase price of certain acquisitions.

Other Financial Obligations

Liabilities under rental and leasing agreements relate primarily to real estate used for business activities. The breakdown for 1991 and later years is as follows:

DM 000	Continental AG	Consolidated
Rental and leasing agreements	59,021	413,745
Purchase commitments	322,400	497,500

Notes to the Statement of Income

(17) Sales

Continental AG			Change
DM million	1990	1989	in %
Analysis by sector			
Tires (CUS)	1,706.8	1,809.7	− 5.7
ContiTech	1,056.1	1,003.9	+ 5.2
Other sales	303.5	227.2	+ 33.6
	3,066.4	3,040.8	+ 0.8
Analysis by geographical area			
Germany	1,975.9	1,882.6	+ 5.0
Europe (without Germany)	875.4	868.6	+ 0.8
Non-European countries	215.1	289.6	− 25.7

Consolidated			Change
DM million	1990	1989	in %
Analysis by sector			
Tires (CUS)			
Continental	1,755.6	1,675.4	+ 4.8
Uniroyal Englebert	1,047.1	1,054.8	− 0.7
Semperit	879.2	893.9	− 1.6
Merchandise and services	493.6	439.1	+ 12.4
General Tire	2,189.9	2,528.4	− 13.4
ContiTech	2,141.5	1,726.1	+ 24.1
Other sales	44.1	64.2	− 31.3
	8,551.0	8,381.9	+ 2.0
Analysis by geographical area			
Germany	3,266.1	2,931.2	+ 11.4
Europe (without Germany)	2,565.3	2,315.4	+ 10.8
North America	2,351.5	2,758.1	− 14.7
Other countries	368.1	377.2	− 2.4

(18) Cost of Sales

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

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

Cost of sales rose slightly compared with the previous year, reflecting the persisting pressure on costs — and even more so, on prices — in 1990.

(19) Selling Expenses

These include the costs of our sales organization, distribution, and advertising. Due to the expansion of the sales organization and growing requirements in increasingly difficult markets, selling expenses rose faster than sales.

(20) Administrative Expenses

This item consists primarily of personnel and other expenses which cannot be directly allocated to production or sales.

(21) Other Operating Income

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Gains on the disposal of fixed assets and investments	6,179	33,423	2,435	10,753
Credit to income from the reversal of provisions	1,418	17,312	7,400	33,559
Credit to income from the reduction of the general bad debt reserve	–	1,101	–	2,014
Credit to income from the reversal of special reserves	26,385	38,824	12,645	32,456
Miscellaneous income	120,143	103,606	106,843	85,294
	154,125	194,266	129,323	164,076

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

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

(22) Other Operating Expenses

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Losses on the disposal of fixed assets and investments	2,015	6,694	306	4,315
Losses on the disposal of current assets (except inventories)	1,414	19,197	257	22,818
Allocation to special reserves	–	166	46,995	1,278
Miscellaneous expenses	111,504	114,161	89,374	62,940
	114,933	140,218	136,932	91,351

The miscellaneous expenses relate primarily to sideline operations and the establishment of necessary provisions; at the parent company, they include cost apportionments paid to other companies belonging to the Corporation.

(23) Net Income from Investments and Financial Activities

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net income from investments				
Income under profit-and-loss				
transfer agreements	31,235	2	24,892	2
Income from investments				
from affiliated companies	30,291	798	6,510	453
from associated companies	1,060	5,596	1,799	2,721
from other companies	1,614	1,630	–	712
Losses absorbed under profit-and-				
loss transfer agreements	–	–	– 2,352	–
	64,200	8,026	30,849	3,888

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net interest expense				
Income from other securities and				
loans included in investments	538	3,038	568	2,935
Other interest and similar income				
from affiliated companies	22,949	935	17,008	32
from other companies	18,158	61,144	14,801	51,854
Interest and similar expenses				
paid to affiliated companies	– 14,740	– 655	– 13,337	– 584
paid to other companies	– 91,762	– 209,918	– 34,462	– 161,676
	– 64,857	– 145,456	– 15,422	– 107,439

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Writedowns on investments				
and marketable securities				
Writedowns on investments	– 45,774	– 1,347	–	– 1,099
Writedowns on marketable securities	–	–	– 5,930	– 11,886
	– 45,774	– 1,347	– 5,930	– 12,985
Net income from investments				
and financial activities	**– 46,431**	**– 138,777**	**+ 9,497**	**– 116,536**

Continental Aktiengesellschaft's net income from investment in other companies includes DM 61.1 million (1989: DM 30.8 million) from profit-and-loss transfer agreements and dividends of domestic companies. Continental Aktiengesellschaft's net interest expense continued to rise, due to high outlays for investments. The net interest expense of the Corporation amounted to 1.7% (1989: 1.3%) of sales.

(24) Taxes

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
On income	45,747	59,884	75,612	141,476
Other taxes	14,186	63,088	17,527	62,677
	59,933	122,972	93,139	204,153

(25) Minority Interests in Earnings

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

Miscellaneous Data

Cost of Materials

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Cost of raw materials and supplies and merchandise	1,364,120	3,200,096	1,347,077	3,035,180
Cost of outside services	215,246	330,159	195,168	263,658
	1,579,366	3,530,255	1,542,245	3,298,838

Personnel Expense

	1990		1989	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Wages and salaries	849,519	2,403,812	796,484	2,185,244
Social welfare contributions and expenses related to pensions and other employee benefits	174,137	624,696	164,100	539,536
expenses for pensions	26,861	77,658	25,122	66,690
	1,023,656	3,028,508	960,584	2,724,780

Number of employees (quarterly average)	Continental AG	Consolidated
Salaried employees	4,544	11,217
Wage earners	11,244	36,986
	15,788	48,203

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 60 and 61).

They include special depreciation for tax purposes in the amount of DM 6.4 million for Continental Aktiengesellschaft under § 6b, Income Tax Act; § 3, FRG/GDR Border Area Assistance Act, and § 7d, Income Tax Act.

Additional depreciation taken for tax purposes with respect to 1990 and the previous fiscal years (for example, pursuant to § 3, FRG/GDR Border Area Assistance Act or § 6b, Income Tax Act) will result in a future credit in the parent company's statement of income, and, to some extent, in the consolidated statement of income as well.

Remuneration of the Supervisory Board and the Executive Board

Provided that the Shareholders' Meeting on July 10, 1991 approves the proposed dividend, total remuneration of the Supervisory Board will be DM 445,000, of the Executive Board DM 6,921,000 (including remuneration paid by subsidiaries) and of former members of the Executive Board and their surviving dependents DM 2,077,000.

DM 14,995,000 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 36,383,014**
The Supervisory and Executive Boards recommend that the Shareholders' Meeting approve payment of a dividend of DM 4.00 on each share with a par value of DM 50.00, or	**DM 35,127,796**
The remaining amount of	**DM 1,255,218**
is to be carried forward.	

Hanover, April 9, 1991

Continental Aktiengesellschaft
The Executive Board

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

Continental Aktiengesellschaft
Consolidated Balance Sheet at December 31, 1990

Assets	See Note No.	DM 000	12/31/1990 DM 000	12/31/1989 DM 000
Fixed assets and investments				
Intangible assets	(1)	430,920		11,944
Property, plant and equipment	(2)	2,196,724		1,797,125
Investments	(3)	225,729		189,428
			2,853,373	**1,998,497**
Current assets				
Inventories	(4)	1,611,566		1,506,771
Receivables and other assets	(5)	1,475,557		1,386,212
Marketable securities	(6)	51,426		339,219
Liquid assets	(7)	144,625		134,079
			3,283,174	**3,366,281**
Prepaid expenses	(8)		**31,070**	**41,092**
			6,167,617	**5,405,870**

Shareholders' equity and liabilities	See Note No.	DM 000	12/31/1990 DM 000	12/31/1989 DM 000
Shareholders' equity				
Subscribed capital	(9)	439,097		435,022
Capital reserves	(10)	962,275		956,240
Retained earnings	(11)	137,788		133,770
Minority interests	(12)	94,286		46,692
Reserve for retirement benefits	(13)	2,861		3,691
Net income available for distribution		36,383		70,984
			1,672,690	**1,646,399**
Special reserves	(14)		**80,552**	**118,103**
Provisions	(15)		**1,733,440**	**1,386,799**
Liabilities	(16)		**2,680,935**	**2,254,569**
			6,167,617	**5,405,870**

Continental Aktiengesellschaft
Consolidated Statement of Income for the period from January 1 to December 31, 1990

	See Note No.	DM 000	1990 DM 000	1989 DM 000
Sales	(17)		**8,551,015**	**8,381,860**
Cost of sales	(18)	6,490,128		6,256,858
Gross profit on sales			**2,060,887**	**2,125,002**
Selling expenses	(19)	1,255,474		1,174,268
Administrative expenses	(20)	504,277		474,932
Other operating income	(21)	194,266		164,076
Other operating expenses	(22)	140,218		91,351
Net income from investments and financial activities	(23)	– 138,777		– 116,536
Net income from regular business activities			**216,407**	**431,991**
Taxes	(24)	122,972		204,153
Net income for the year			**93,435**	**227,838**
Balance brought forward from previous year			1,380	1,199
Minority interests in earnings	(25)		– 88	– 58
Withdrawal from the reserve for retirement benefits			+ 830	+ 544
Change in reserves			– 59,174	– 158,539
Net income available for distribution			**36,383**	**70,984**

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 8, 1991

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Kirste
Certified Public Accountant	Certified Public Accountant

Continental Aktiengesellschaft
Balance Sheet at December 31, 1990

Assets				
	See Note No.	DM 000	12/31/1990 DM 000	12/31/1989 DM 000
Fixed assets and investments				
Intangible assets	(1)	11,378		6,867
Property, plant and equipment	(2)	409,145		387,212
Investments	(3)	1,868,836		1,495,230
			2,289,359	**1,889,309**
Current assets				
Inventories	(4)	407,695		389,715
Receivables and other assets	(5)	303,511		321,798
Marketable securities	(6)	33,533		33,477
Liquid assets	(7)	97,745		24,630
			842,484	**769,620**
Prepaid expenses	(8)		**699**	**518**
			3,132,542	**2,659,447**

Shareholders' equity and liabilities				
	See Note No.	DM 000	12/31/1990 DM 000	12/31/1989 DM 000
Shareholders' equity				
Subscribed capital	(9)	439,097		435,022
Capital reserves	(10)	962,275		956,240
Retained earnings	(11)	149,699		141,699
Reserve for retirement benefits	(13)	2,861		3,691
Net income available for distribution		36,383		70,984
			1,590,315	**1,607,636**
Special reserves	(14)		**63,004**	**89,389**
Provisions	(15)		**444,379**	**448,335**
Liabilities	(16)		**1 034,844**	**514,087**
			3,132,542	**2,659,447**

Continental Aktiengesellschaft
Statement of Income for the period from January 1 to December 31, 1990

	See Note No.	DM 000	1990 DM 000	1989 DM 000
Sales	(17)		**3,066,355**	**3,040,811**
Cost of sales	(18)	2,554,198		2,477,275
Gross profit on sales			**512,157**	**563,536**
Selling expenses	(19)	224,845		216,462
Administrative expenses	(20)	177,967		174,582
Other operating income	(21)	154,125		129,323
Other operating expenses	(22)	114,933		136,932
Net income from investments and financial activities	(23)	– 46,431		+ 9,497
Net income from regular business activities			**102,106**	**174,380**
Taxes	(24)	59,933		93,139
Net income for the year			**42,173**	**81,241**
Balance brought forward from previous year			1,380	1,199
Withdrawal from the reserve for retirement benefits			+ 830	+ 544
Transfers to retained earnings			– 8,000	– 12,000
Net income available for distribution			**36,383**	**70,984**

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 8, 1991

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Kirste
Certified Public Accountant	Certified Public Accountant

Changes in **Consolidated** Fixed Assets and Investments

	Acquisition/Manufacturing Cost					Depreciation					Net value	
	As of 1/1/1990 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1990 DM 000	As of 1/1/1990 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1990 DM 000	As of 12/31/1990 DM 000	As of 12/31/1989 DM 000
I. Intangibles												
Concessions, industrial and similar rights and assets and licenses in such rights and assets	22,143	9,433	3,593	820	34,349	14,510	5,955		592	19,873	14,476	7,633
Goodwill		414,761 *			414,761		1,693			1,693	413,068	
Payments to suppliers	4,311	2,665	−3,593	7	3,376						3,376	4,311
	26,454	**426,859**		**827**	**452,486**	**14,510**	**7,648**		**592**	**21,566**	**430,920**	**11,944**
II. Property, plant and equipment												
Land, land rights and buildings including buildings on third party land	1,126,677	150,711	20,649	50,308	1,247,729	490,142	62,751	− 141	14,210	538,542	709,187	636,535
Technical equipment and machines	2,603,450	353,208	123,210	137,973	2,941,895	1,880,395	311,850	−3,852	93,923	2,094,470	847,425	723,055
Other equipment, factory and office equipment	917,741	167,230	30,783	74,704	1,041,050	698,824	154,628	3,993	67,657	789,788	251,262	218,917
Payments to suppliers and assets under construction	218,618	370,183	−174,642	25,260	388,899		50		1	49	388,850	218,618
	4,866,486	**1,041,332**		**288,245**	**5,619,573**	**3,069,361**	**529,279**		**175,791**	**3,422,849**	**2,196,724**	**1,797,125**
III. Investments												
Shares in affiliated companies	1,116	3,126		40	4,202	157				157	4,045	959
Loans to affiliated companies	47	617			664	47				47	617	
Shares in associated companies	62,260	34,976	1,506	21,025	77,717	22,825	40		21,025	1,840	75,877	39,435
Loans to associated companies	6,837			6,837								6,837
Investments	92,469	2,534	−1,506	237	93,260	725	56			781	92,479	91,744
Securities included in investments	22,052	1,135		1,119	22,068	797	1,244			2,041	20,027	21,255
Other loans	33,777	9,535		7,021	36,291	4,579	192		1,164	3,607	32,684	29,198
	218,558	**51,923**		**36,279**	**234,202**	**29,130**	**1,532**		**22,189**	**8,473**	**225,729**	**189,428**
	5,111,498	**1,520,114**		**325,351**	**6,306,261**	**3,113,001**	**538,459**		**198,572**	**3,452,888**	**2,853,373**	**1,998,497**

* Including the goodwill from the acquisition of General Tire Inc. (cf. page 43).

Changes in Fixed Assets and Investments of Continental Aktiengesellschaft

	Acquisition/Manufacturing Cost					Depreciation					Net value	
	As of 1/1/1990 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1990 DM 000	As of 1/1/1990 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1990 DM 000	As of 12/31/1990 DM 000	As of 12/31/1989 DM 000
I. Intangibles												
Concessions, industrial and similar rights and assets and licenses in such rights and assets	8,497	4,809	3,398	227	16,477	5,740	2,650		227	8,163	8,314	2,757
Payments to suppliers	4,110	2,352	−3,398		3,064						3,064	4,110
	12,607	**7,161**		**227**	**19,541**	**5,740**	**2,650**		**227**	**8,163**	**11,378**	**6,867**
II. Property, plant and equipment												
Land, land rights and buildings including buildings on third party land	399,812	7,523	4,849	7,747	404,437	265,110	10,985		6,592	269,503	134,934	134,702
Technical equipment and machines	1,141,984	45,689	18,467	45,545	1,160,595	994,929	65,438		44,197	1,016,170	144,425	147,055
Other equipment, factory and office equipment	428,347	57,195	3,173	24,688	464,027	359,917	51,655		23,013	388,559	75,468	68,430
Payments to suppliers and assets under construction	37,025	43,782	−26,489		54,318						54,318	37,025
	2,007,168	**154,189**		**77,980**	**2,083,377**	**1,619,956**	**128,078**		**73,802**	**1,674,232**	**409,145**	**387,212**
III. Investments												
Shares in affiliated companies	1,459,765	286,937	+21,025		1,767,727	5,216	45,774	+21,025		72,015	1,695,712	1,454,549
Investments	47,166	130,737	−21,025	26	156,852	21,025		−21,025			156,852	26,141
Other loans	14,563	2,330		601	16,292	23			3	20	16,272	14,540
	1,521,494	**420,004**		**627**	**1,940,871**	**26,264**	**45,774**		**3**	**72,035**	**1,868,836**	**1,495,230**
	3,541,269	**581,354**		**78,834**	**4,043,789**	**1,651,960**	**176,502**		**74,032**	**1,754,430**	**2,289,359**	**1,889,309**

Major Companies of the Continental Corporation at December 31, 1990

Company	Corporate interest in %	Shareholders' equity DM 000	Net income DM 000
I. Affiliated companies			
1. Domestic companies (according to accounting and valuation principles uniform throughout the Corporation)			
Uniroyal Englebert Reifen GmbH, Aachen	100.0	56,548	1,303*
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	2,097	4,112
Göppinger Kaliko GmbH, Eislingen	96.3	35,288	524*
Bamberger Kaliko GmbH, Bamberg	96.3	4,347	93*
Techno-Chemie Kessler & Co. GmbH, Karben	100.0	16,837	338
Deutsche Semperit GmbH, Munich	100.0	26,925	12,162
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	100.0	6,487	3,379
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	1,717	1,655
Clouth Gummiwerke AG, Cologne	98.3	– 4,109	6,635
2. Foreign companies (according to accounting and valuation principles uniform throughout the Corporation)			
SICUP SARL, Sarreguemines/France	100.0	157,570	9,660
Société des Flexibles Anoflex SA, Caluire/France	100.0	13,323	– 1,879
Semperit Reifen Aktiengesellschaft, Vienna/Austria	95.0	257,869	26,410
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	14,992	– 19,777
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	53,977	6,804
Continental Industrias del Caucho SA, Coslada, Madrid/Spain	100.0	23,125	1,932
Continental Mabor Industria de Pneus S.A., Lousado/Portugal	60.0	36,875	620
Semperit (Ireland) Ltd., Dublin/Ireland	100.0	14,790	– 34**
Uniroyal Englebert Tyres Ltd., Newbridge/UK	100.0	54,687	– 3,476
General Tire Inc., Akron, Ohio/USA	100.0	473,423	– 48,631
General Tire Canada Inc., Barrie, Ontario/Canada	100.0	93,955	– 36,151
General Tire & Rubber Company of Morocco, Casablanca/Morocco	53.1	14,967	6,853
General Tire de Mexico SA de C.V., Mexico City/Mexico	99.1	25,246	10,442
C.U.P. SNC, Roissy/France	100.0	21,317	1,470
C.U.P. Ltd., West Drayton/UK	100.0	27,724	2,212
Semperit (UK) Ltd., Slough/UK	100.0	11,055	859
Continental Caoutchouc (Suisse) S.A., Zurich/Switzerland	100.0	13,724	382
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	8,695	746
Semperit (Schweiz) AG, Dietikon/Switzerland	100.0	16,173	362
Continental Italia S.p.A., Milan/Italy	100.0	7,975	514
ContiTech AGES S.r.l., Santena/Italy	100.0	66,332	57
Hycop AB, Maersta, Stockholm/Sweden	100.0	4,170	144
Continental Coordination Center S.A., Herstal-lez-Liège/Belgium	100.0	318,605	18,732
II. Associated companies			
KG Deutsche Gasrusswerke GmbH & Co., Dortmund	32.1	16,500	1,500
Deutsche Gasrusswerke GmbH, Dortmund	35.0	292	42
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	22,328	1,328
Drahtcord Saar Geschäftsführung GmbH, Merzig/Saar	50.0	67	7
SAVA-Semperit, Kranj/Yugoslavia	27.8	81,578	2,163
Compañia Ecuatoriana del Caucho, Cuenca/Ecuador	35.8	10,419	– 299
Nivis Tyre AB, Gothenburg/Sweden	49.0	68,044	6,491

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.
** After equalization by Continental AG.

Continental Corporation

Tire Group (Continental, Uniroyal, Semperit)

Production and Sales

- Continental Plant Hanover-Stöcken
- Continental Plant Korbach
- Continental Plant Sarreguemines / France
- Continental Mabor S.A., Lousado / Portugal
- Uniroyal Plant Aachen
- Uniroyal Plant Herstal-lez-Liège / Belgium
- Uniroyal Plant Clairoix / France
- Uniroyal Plant Newbridge / United Kingdom
- Semperit Plant Traiskirchen / Austria
- Semperit Plant Dublin / Ireland
- Semperit Plant Kranj / Yugoslavia □
- Uniroyal Englebert Textilcord S.A., Steinfort / Luxembourg
- Nivis Tyre AB, Gothenburg / Sweden
- KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund □
- Drahtcord Saar GmbH & Co. KG, Merzig / Saar □

Dealer Organizations in

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

ContiTech Group

Production and Sales

- Continental Plant Hanover-Limmer
- Continental Plant Hanover-Vahrenwald
- Continental Plant Northeim
- Continental Plant Korbach
- Continental Plant Dannenberg
- Continental Plant Gohfeld
- Continental Plant Mendig
- Techno-Chemie Kessler & Co. GmbH, Karben, Berlin
- Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen
- KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf
- Kaliko Companies, Eislingen, Bamberg, Überherrn
- Flockgarn GmbH, Mönchengladbach, Rheydt
- Clouth Gummiwerke AG, Cologne □
- Anoflex Companies, Lyon / France
- ContiTech-Elastorsa S.A., Arnedo / Spain □
- ContiTech AGES S.r.l., Santena / Italy
- Hycop AB, Maersta, Stockholm / Sweden

General Tire Group

Production and Sales

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

Dealer Organizations in

- U.S.A.
- Canada

Sales Companies

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

□ Interest of 50% or less

At December 31, 1990

Continental Corporation
Ten Year Survey

		1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Balance sheet											
Fixed assets and investments	DM million	827.2	815.7	782.9	764.9	1075.3	1063.6	1647.0	1794.9	1998.5	2853.4
Current assets	DM million	1145.3	1103.0	1104.5	1200.8	1761.9	2029.5	3156.2	3660.0	3407.4	3314.2
Balance sheet total	DM million	1972.5	1918.7	1887.4	1965.7	2837.2	3093.1	4803.2	5454.9	5405.9	6167.6
Shareholders' equity	DM million	401.9	420.6	442.7	522.2	638.4	808.0	1515.8	1657.9	1725.3	1742.2
Long-term debt	DM million	729.4	694.3	680.1	692.6	965.2	998.9	1541.6	1644.3	1598.6	1995.6
Investments in property, plant and equipment	DM million	158.4	131.9	128.2	149.8	253.9	284.8	300.1	447.7	532.4	689.5
Equity ratio	%	20.4	21.9	23.5	26.6	22.5	26.1	31.6	30.4	31.9	28.2
Long-term financing of fixed assets, investments and inventories	%	83.7	84.2	88.3	91.2	86.3	103.8	118.6	113.6	103.7	89.6
Total indebtedness	DM million	909.8	806.4	695.0	594.0	992.5	741.2	672.7	826.4	929.5	1545.9
Self-financing ratio	%	69.1	133.0	170.4	143.5	113.1	126.7	150.9	112.3	94.4	68.1
Liquidity ratio	%	71.0	71.1	77.7	82.1	76.4	104.3	134.7	119.9	105.0	77.1
Statement of income											
Sales	DM million	3229.0	3248.8	3387.2	3534.0	5003.3	4968.6	5097.6	7905.8	8381.9	8551.0
Foreign markets' share	%	38.0	37.3	36.4	40.1	49.9	48.3	47.5	64.3	65.0	61.8
Cost of sales[1]	%							71.1	74.6	74.7	75.9
Selling expenses[1]	%							14.9	13.1	14.0	14.7
Administrative expenses[1]	%							7.0	6.4	5.7	5.9
Cost of materials	DM million	1335.0	1361.3	1420.0	1569.4	2311.8	1981.9	2027.5	3111.7	3298.8	3530.3
Personnel expense	DM million	1276.3	1283.2	1288.2	1334.8	1693.8	1778.5	1878.4	2532.2	2724.8	3028.5
Depreciation	DM million	120.0	123.8	135.5	150.8	205.5	229.4	263.8	375.8	367.5	378.0
Cash flow	DM million	108.2	144.2	190.7	204.9	303.5	375.9	464.0	623.4	604.9	510.0
Value added	DM million	1426.1	1476.3	1486.3	1519.0	1982.4	2161.8	2267.4	3051.0	3319.0	3455.0
Net income	DM million	− 17.8	18.3	40.2	41.2	77.2	114.5	138.8	194.8	227.8	93.4
Employees											
Annual average	000	29.6	28.2	27.1	26.3	31.7	31.9	32.3	45.4	47.5	48.8

[1] As a % of sales

Continental Aktiengesellschaft Ten Year Survey

		1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Balance sheet											
Fixed assets and investments	DM million	704.6	701.4	663.7	677.7	750.0	761.7	1358.3	1409.5	1889.3	2289.3
Current assets	DM million	530.3	513.1	492.2	527.0	631.4	741.0	1115.2	1133.9	770.1	843.2
Balance sheet total	DM million	1234.9	1214.5	1155.9	1204.7	1381.4	1502.4	2473.5	2543.4	2659.4	3132.5
Shareholders' equity	DM million	406.8	418.3	419.3	480.6	499.2	667.1	1567.2	1601.3	1641.1	1620.4
Long-term debt	DM million	449.1	429.9	415.2	413.7	457.8	402.0	375.3	344.4	367.4	354.9
Investments in property, plant and equipment	DM million	90.2	66.1	58.9	85.4	102.2	102.6	119.7	138.5	135.7	154.2
Equity ratio	%	32.9	34.4	36.3	39.9	36.1	44.4	63.4	63.0	61.7	51.7
Long-term financing of fixed assets, investments and inventories	%	88.7	88.7	92.7	94.7	90.9	105.5	122.8	116.7	92.8	76.1
Total indebtedness	DM million	409.6	373.6	288.0	233.7	250.5	192.9	+ 139.6	+ 171.0	99.1	604.1
Self-financing ratio	%	58.2	121.1	226.2	102.0	78.9	146.6	31.5	103.5	35.0	26.8
Liquidity ratio	%	68.3	66.6	76.4	81.5	74.7	117.0	192.7	163.6	69.7	40.3
Statement of income											
Sales	DM million	1823.9	1866.3	1992.7	2079.3	2312.9	2391.0	2423.1	2813.3	3040.8	3066.4
Foreign markets' share	%	29.3	28.6	28.2	33.4	34.4	35.4	36.2	36.8	38.1	36.0
Cost of sales[1]	%							80.4	80.4	81.5	83.3
Selling expenses[1]	%							7.9	7.1	7.1	7.3
Administrative expenses[1]	%							7.4	6.5	5.7	5.8
Cost of materials	DM million	825.3	835.3	893.8	998.0	1152.2	1107.2	1088.6	1392.1	1542.2	1579.4
Personnel expense	DM million	745.7	753.4	766.3	790.0	846.7	895.2	928.6	924.5	960.6	1023.7
Depreciation	DM million	69.5	73.5	78.7	85.5	105.5	111.2	121.8	134.9	129.9	130.7
Cash flow	DM million	73.6	89.5	122.8	120.7	158.1	209.9	263.4	262.4	282.5	224.1
Value added	DM million	838.6	847.7	865.3	886.2	971.4	1071.9	1122.2	1129.8	1182.8	1232.3
Net income	DM million	0.2	3.9	15.1	18.3	37.2	55.0	55.8	80.9	81.2	42.2
Dividend paid	DM million	—	—	16.2	17.9	29.9	37.5	48.0	69.2	69.6	35.1
Employees											
Annual average	000	17.4	16.3	15.6	15.4	15.5	15.4	15.3	15.1	15.9	16.1

[1] As a % of sales

Selected Financial Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DVFA/SG earnings. Computation of per-share earnings according to DFVA/SG is based on a joint recommendation of the DVFA (German Assocation of Financial Analysts and Investment Counselors) and SG (Schmalenbach-Gesellschaft, German Business Administration Company). The DVFA is an organization consisting of representatives of German banks, whereas SG is an organization consisting of notable representatives of industry and universities. The members of the DVFA Committee on Methods of Investment Analysis on the one hand, and the members of Schmalenbach-Gesellschaft's "external company accounting" study group on the other hand, have meanwhile agreed on a joint recommendation for determining the earnings per share. The objective of this new computing method remains to eliminate the effects of extraordinary and aperiodic influences on the earnings of corporations listed on the stock exchange.

The main changes, compared with earnings computed according to the DVFA method prior to 1990, arise only in the treatment of tax-loss carryforwards and in the greater emphasis on the materiality approach with regard to adjustments, i.e. only those adjustments are made that amount to more than 5% of net income. Overall, earnings according to the DVFA/SG method are intended to provide investors with a more uniform basis for comparison over the course of time.

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

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

FASB. The Financial Accounting Standards Board of the U.S. Financial Accounting Foundation is the supreme institution in the U.S.A. that is responsible for establishing the principles of accounting and valuation. Pronouncements issued by this institution are considered as being virtually mandatory for U.S. reporting methods. They supplement the statutory rules on accounting and valuation to an even greater extent than the statements published by the main panel of experts at the Institute of Certified Public Accountants in Düsseldorf, Germany.

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

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

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

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

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

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

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

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

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

Self-financing ratio. This item shows to what extent the additions to property, plant and equipment are financed by funds generated by the company itself (→ cash flow).

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

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

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

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

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

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

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

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