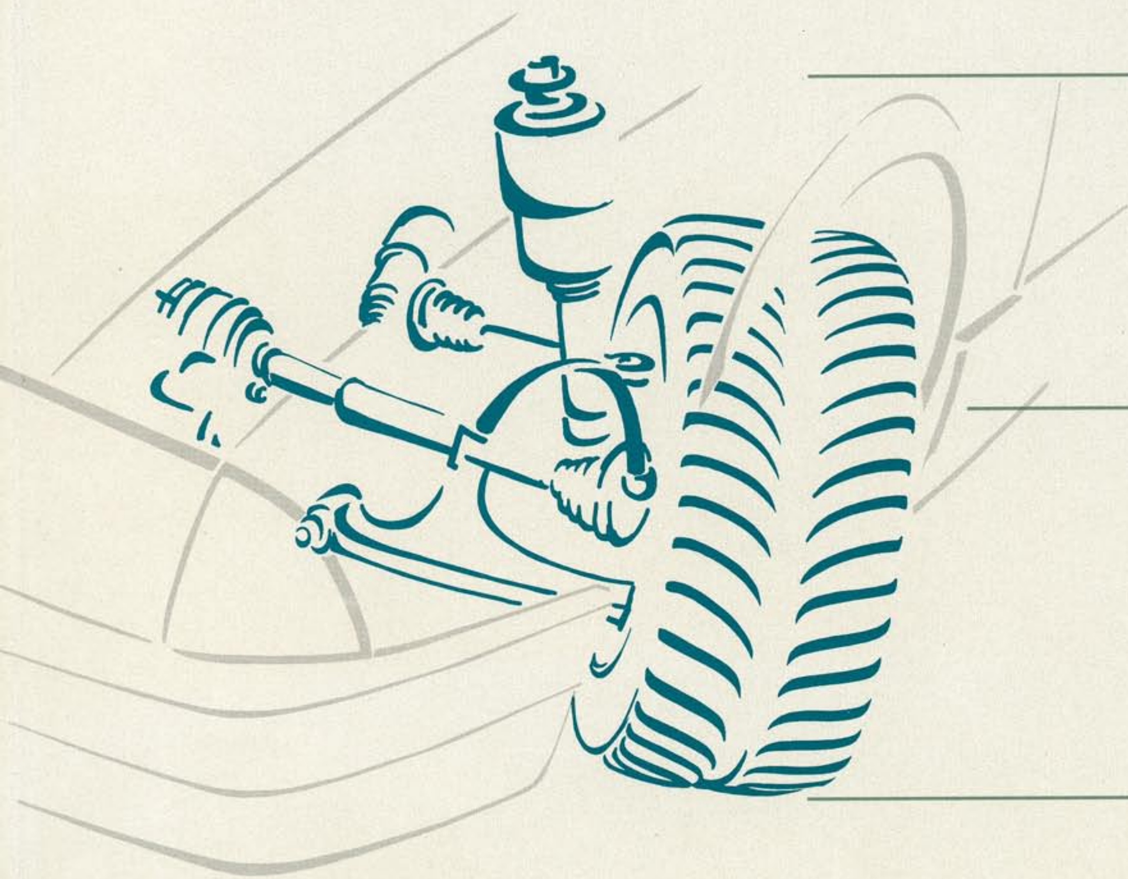
ANNUAL REPORT 1991

Continental
Aktiengesellschaft



CHRONICLE OF PIRELLI TYRE HOLDING'S MERGER ATTEMPT – CONTINUATION

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.

May 9 The Supervisory Board of Continental AG accepts Horst W. Urban's offer to resign as Executive Board Chairman with immediate effect, appointing Wilhelm P. Winterstein as Spokesman for the Executive Board.

May 10 Continental AG and Pirelli S.p.A. announce that they are to meet for round-table talks to discuss the situation without any hostile intentions, proposals or preconditions.

June 23 Pirelli's Board of Directors accepts the resignations of former Managing Director Gianbattista de Giorgi, and of Ludovico Grandi, Chief Executive Officer in charge of the tire business.

July 9 The Supervisory Board appoints Dr. Hubertus von Grünberg Chairman of the Executive Board of Continental AG.

July 10 Annual Shareholders' Meeting. A motion calling for a special investigation into the legality of the Executive and Supervisory Boards' actions in fending off the merger with Pirelli is rejected by those attending the Shareholders' Meeting. Of a total of 6.1 million votes represented at the Meeting, 3.7 million voted against the motion, with 1.4 million abstaining.

November 30 Continental and Pirelli terminate their discussions on the benefits and risks of a possible cooperation or merger of their tire businesses.

Pirelli discloses that the costs in connection with the planned takeover amount to about DM 470 million.

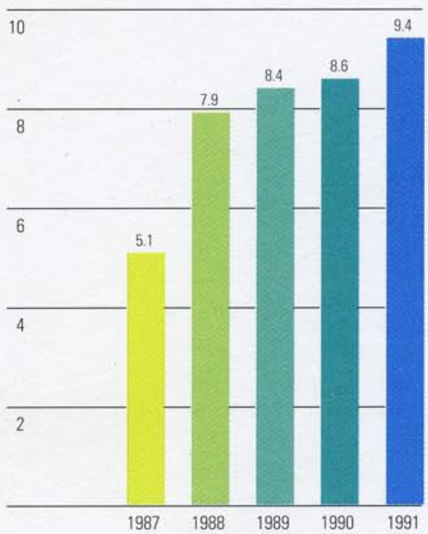
CONTINENTAL CORPORATION AT A GLANCE

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

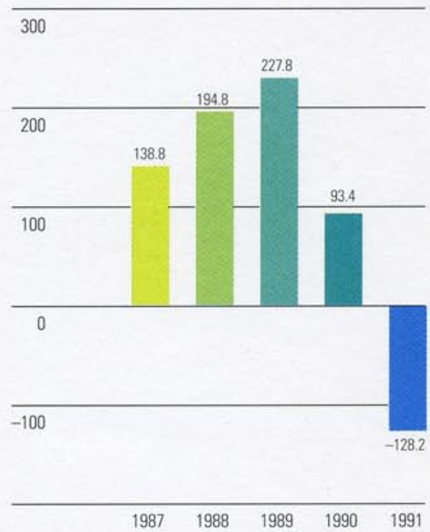
Cover illustration:
The future belongs to suppliers of complete systems. As a manufacturer of tires, air springs, anti-vibration and sealing systems, hose assemblies and vehicle interiors, we are in an excellent position to benefit from this trend.

1991
9,376.9
− 122.9
− 128.2
—
526.1
4.7
829.3
531.0
1,514.7
22.8
49,877
251.5
180.0

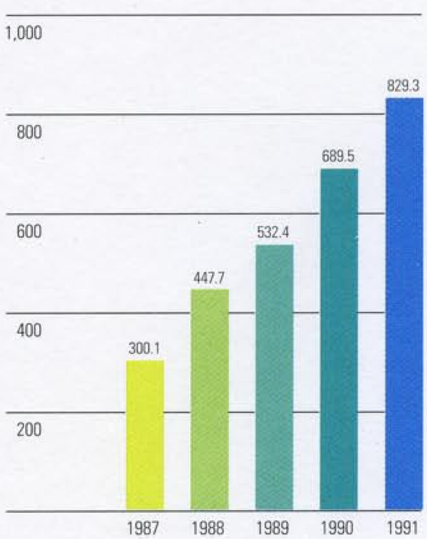
Sales in DM billion



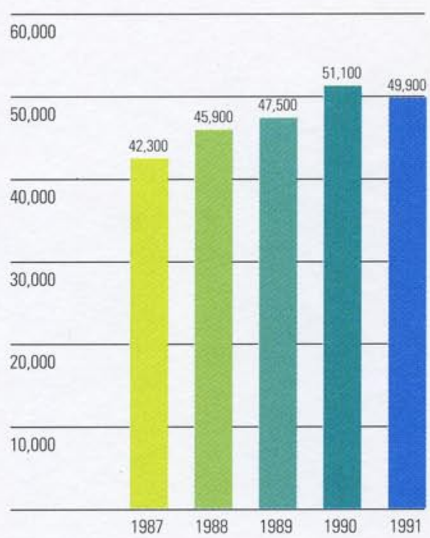
Net income/loss in DM million



Capital expenditure on property, plant and equipment in DM million



Employees at year-end



REPORT ON 1991, THE COMPANY'S 120th FISCAL YEAR

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Dear Shareholders,

The financial statements that we are presenting to you today reflect the far-reaching programs and provisions we have instituted in order to strengthen Continental's position and to secure the medium- and long-term future of one of the largest companies in our industry. Chief among the extraordinary measures taken in

1991 was the shutdown of our tire factory in Canada. We also proceeded with environmental protection programs within the Corporation and the necessary restructuring of the ContiTech Group. All of this caused Continental, for the first time since 1981, to close the fiscal year with a significant loss. However, in the absence of these extraordinary and nonrecurring charges, Continental would again have recorded a substantial profit in 1991. These measures will not affect Continental Aktiengesellschaft's earning power and future dividend payments.

In view of the particularly severe recession in the U.S.A. and Canada, the large overcapacities in the tire industry and its costly restructuring following the takeovers of General Tire by Continental, Firestone by Bridgestone, Armstrong by Pirelli and Uniroyal/Goodrich by Michelin, we, like other companies, made an intensive reappraisal of our commitment in North America. The drastic measures we decided to take led to an extraordinary reduction of the consolidated net income for 1991.

In 1992, General Tire's operating loss will decrease considerably. We are confident that new products, a new management and a customer-oriented organization will soon enable it to reach the breakeven point again.

The earnings situation in the European tire replacement markets is slowly improving, but we are continuing to incur heavy losses in our original equipment business with the automotive industry. In order to improve our efficiency and customer contacts, we also changed our organization in Europe at the beginning of 1992 from its former functional structure to a customer-oriented, divisional system, featuring a Passenger Tire Group combined with Marketing and Sales, headed by Günter H. Sieber, and a Commercial Vehicle Tire Group combined with Research and Environmental Affairs, under the direction of Dr. Klaus-D. Röker. In addition, a General Services Group was created, headed by Haimo Fortmann. This new organization will speed up decision-making and enable us to focus our work to an even greater extent on our customers' desires and requirements. We plan to improve our technological position in the field of heavy truck tires. In North America, our joint venture with two Japanese partners, Toyo and Yokohama, gives us an excellent basis to achieve a leading position with heavy truck tires in that region as well. By the end of 1992, the plant will have an annual capacity of almost 900,000 tires.

Since the beginning of June 1991, the most pressing task has been to bring the talks with Pirelli to a satisfactory conclusion. We invested a great deal of time and management capacity in this endeavor and reached a consensus with Pirelli on all the important points, including the possible advantages and risks in the event of a cooperation, the priorities and the ultimate conclusion reached with the concurrence of the Supervisory Board that, as announced in our joint press release with Pirelli, "under the circumstances neither a business combination nor a wide-ranging long-term cooperation would be in the best interest of the companies' shareholders, customers and employees." In the course of the talks, Pirelli and Continental exchanged top-secret information and bound themselves contractually to treat it with absolute confidentiality. We are therefore not in a position to discuss in detail the reasons that led to this joint conclusion. However, as our shareholders, you can rest assured that your interest in securing the best possible decision for Continental's future has been fully protected. At present, the future shareholder structure of our Company is still unclear, since, as a result of the takeover attempt, Pirelli not only holds the 5% of our capital stock it acquired in 1990, but also has options to buy another 33.4% of the Continental shares. According to a communication sent to its shareholders, Pirelli expects that this investment will increase in value in the course of a general stock market recovery, that the tire industry, and Continental in particular, will return to profitability and that the voting rights limitation will be eliminated.

As far as the speedy elimination of the voting limit is concerned, we do not share Pirelli's expectations. In principle, we believe that this limitation has proved to be an extremely effective protection – both for the Company and the shareholders not associated with Pirelli – against a transaction that would work to their disadvantage. As long as we have no other protective measures at our disposal that are at least equally effective, we will continue to recommend to our shareholders that this provision of the Articles of Incorporation be maintained. We believe that our shareholders should not transfer the control of voting rights to Pirelli by changing the Articles of Incorporation in this way, thereby putting the destiny of Continental into the hands of a weakened competitor, especially without being able to expect anything in return. The same applies in the event that such a large portion of our capital stock is placed on the market as soon as Pirelli sees its expectations fulfilled.

As in the past, we are fully open to cooperations and strategic alliances. The ideal partners for us, in every field and every region, are the companies that will offer us the greatest mutual benefits. In these considerations, we are by no means limiting ourselves to possible partners in the rubber industry. We believe that over the medium and long term the future belongs to those suppliers which offer complete systems to the automotive sector. As a manufacturer of tires, air springs, anti-vibration and sealing systems, hose assemblies and vehicle interiors, we are in an excellent position to benefit from this trend, and we intend to play an active part in shaping it.

In general, we expect the current fiscal year to be a good one for Continental. At our Annual Meeting of Shareholders, to which I cordially invite you on behalf of the Administration, I should be able to give you more detailed information about the progress of our business during the first six months of 1992.

Sincerely,

Hubertus von Grünberg

MEMBERS OF THE SUPERVISORY BOARD

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

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

Rudolf Alt*
Member of the Employee Council
Stöcken Plant

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

Friedrich-Karl Flothow*
Head of Manufacturing Services

Hans Detlev von Garnier
Director of Deutsche Bank AG
Hanover Branch
(through 7/10/1991)

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
(through 7/10/1991)

Günther Saßmannshausen
Member of the Supervisory Board
Preussag AG

Friedrich Schiefer
Managing Director
Robert Bosch GmbH

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

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

Dieter Ullsperger
Member of the Board of Management
Volkswagen AG
(as of 7/10/1991)

Giuseppe Vita
Chairman of the Managing Board
Schering AG
(as of 7/10/1991)

* Employee representatives

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 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.

We have examined the financial statements and the management report and found no grounds for objection. The Supervisory Board concurs in the result of the audit of 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, 1991, which are thereby definitively confirmed.

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

Particularly noteworthy was the Special Shareholders' Meeting of March 13, 1991 that was convened at the request of Mr. Vicari. The Supervisory Board thoroughly examined the proposed resolutions to be acted upon at this Shareholders' Meeting. Thereupon it reviewed, in close consultation with the Executive Board, the actions that were brought after the Meeting against the resolution on the elimination of the voting rights limitation.

Intensive discussions have taken place between Continental and Pirelli since mid-1991 on the possible benefits of a cooperation in the tire business. The Supervisory Board encouraged these discussions and followed them attentively. The outcome is that both companies concurred in their assessment that, under the given circumstances, neither a cooperation nor an association on an even closer basis would result in the advantages to justify such a step.

On July 10, 1991, Klaus Piltz, Chairman of the Managing Board of Veba AG, retired from the Supervisory Board, of which he had been a member for 12 years. We wish to express our special thanks to him for his constructive contributions. Hans Detlev von Garnier, Director of Deutsche Bank AG, Hanover, who in 1990 took the place of Manfred Emcke on the Supervisory Board, resumed his status as a substitute member. Our thanks go to him, too. The Annual Meeting of Shareholders of July 10, 1991 elected Dieter Ullsperger, a member of the Board of Management of Volkswagen AG, Wolfsburg, and Dr. Giuseppe Vita, Chairman of the Managing Board of Schering AG, Berlin, to the Supervisory Board.

The Supervisory Board accepted Dr. Wilhelm Borgmann's request to withdraw prematurely from the Executive Board as of May 3, 1991, in order to retire. We convey our sincere appreciation to him for his 28 years of valuable service at Uniroyal and Continental, most recently as Vice Chairman of Continental AG's Executive Board. On the same day, we appointed Alan L. Ockene as a member of the Executive Board, in charge of the General Tire Group. Dr. Klaus-D. Röker was appointed a deputy member of the Executive Board responsible for Tire Technology, also effective May 3, 1991, and a full member as of January 1, 1992.

At our special meeting of May 9, 1991, the Supervisory Board accepted the resignation of Horst W. Urban, who retired immediately from the Executive Board. We wish to express our special thanks to Mr. Urban, who had been a member of Continental AG's Executive Board for 17 years, most recently as its Chairman, for his untiring and successful efforts on behalf of the Company. On the same day, we appointed Wilhelm P. Winterstein as Spokesman for the Executive Board.

At our meeting of July 9, 1991, we appointed Dr. Hubertus von Grünberg to Continental AG's Executive Board, effective July 20, 1991, and simultaneously elected him Chairman. During the same meeting, Mr. Winterstein was appointed Vice Chairman of the Executive Board.

We complied with Ingolf Knaup's wish to leave the Company as of February 29, 1992, in order to devote himself to new interests. He deserves our particular thanks for his 17 years of valuable activity for Continental, where he last served on the Executive Board as the member in charge of Corporate Finance.

Hanover, May 11, 1992

The Supervisory Board

Ulrich Weiss

Ulrich Weiss, Chairman

MEMBERS OF THE EXECUTIVE BOARD
VICE PRESIDENTS

Executive Board

Hubertus von Grünberg
Chairman
(as of 7/20/1991)

Horst W. Urban
Chairman
(through 5/9/1991)

Wilhelm P. Winterstein
Vice Chairman
(as of 7/9/1991)
Finance and Controlling

Wilhelm Borgmann
Vice Chairman
(through 5/3/1991)

Haimo Fortmann
General Services

Peter Haverbeck
ContiTech

Hans Kauth
Director of Personnel

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

Alan L. Ockene
General Tire
(as of 5/3/1991)

Klaus-D. Röker
Deputy Member
(as of 5/3/1991)
Full Member
(as of 1/1/1992)
Commercial Vehicle Tires /
Environment and Tire Research

Günter H. Sieber
Passenger Tires /
Tire Marketing and Sales

Vice Presidents

Bernd Frangenberg
Marketing and Sales
Uniroyal Tires / OE

Helmut Gieselmann
Marketing and Sales
Continental Tires

Jens P. Howaldt
Law and Corporate Planning

Wilhelm Schäfer
Chairman of the Managing Board
Semperit Reifen AG

ECONOMIC ENVIRONMENT

The 1991 fiscal year was overshadowed by the Gulf War and its negative effects on the global economy. Recessionary trends in the U.S.A., Great Britain and Scandinavia also had a strong influence.

Estimates place the growth of the gross domestic product in the industrialized countries at only about 1% for 1991. In the Federal Republic of Germany, the GDP likewise showed a gain of 1%. The domestic product in the new German states dropped by 34.8%, while a growth rate of 3.4% was recorded in western Germany.

The differences in economic trends in the individual countries became less pronounced during the last six months of the reporting period. In the U.S.A., there are now signs of a modest economic recovery. Domestic demand in Japan declined during the second half of the year; in Germany the surge in demand resulting from reunification began to subside.

Worldwide automotive output decreased by 2.9% during 1991. In the United States, the production of automobiles actually plunged by 10.5%. The market share of Japanese car makers in North America continued to climb; on the other hand, the manufacture of passenger cars in Japan was down 1.9%. With 4.67 million passenger cars coming off the assembly line, the Federal Republic of Germany reached the previous year's total; commercial vehicles showed a particularly strong gain of 12.5%.

In 1991, the rubber industry increased its sales volume in Germany by 4%, but exports were 3.1% lower than in the previous year. Although tire production rose by only 2%, the output of other elastomer products was up 7.5%. International sales volumes of tires and industrial products declined by 3.8% and 0.9%, respectively.

Forecasts for the current year indicate that economic growth in the industrialized countries, including the Federal Republic of Germany, will reach about 1.5%. In the new German states, the ongoing process of privatization and the expansion of the infrastructure will be reflected in a 10% gain in the domestic product. Output is expected to decline by 1% in the automotive industry during 1992, and by 4% in mining.

MANAGEMENT REPORT FOR THE CORPORATION AND CONTINENTAL AKTIENGESELLSCHAFT

A turn for the better is in view. Declining earnings bottomed out in 1991.

The Corporation Shows a Loss for the First Time Since 1981, But Operating Results Are Positive

Worldwide, 1991 was the hardest year our industry had experienced in a long time. Its business was marked by losses - in some cases substantial - plant shutdowns with massive layoffs, and continuing relentless price wars. All the major competitors had to struggle, as we did, with the recession in North America, which had a particularly severe effect on the automotive industry, and therefore on its suppliers as well. This accounts in part for the extremely poor operating results of our subsidiary General Tire.

On the other hand, after years of decline, earnings in the European tire business resumed an upward trend, due primarily to the replacement sector. The ContiTech Group, which manufactures products made of rubber and plastics for a great variety of industrial applications, also operated at a profit. However, owing both to a number of nonrecurring factors and to vigorous competition, its net income was considerably lower than in 1990.

The losses from General Tire's operations were more than offset by the earnings of the Tire and ContiTech Groups, so that overall, before extraordinary charges, the Corporation achieved a profit. However, as a result of the closing of the Canadian plant and the provisions made for restructuring measures, the Corporation reported a deficit of DM 128.2 million for the fiscal year.

Continental AG's income from ordinary operations amounted to DM 193.2 million, compared with DM 147.9 million in 1990, but the result after taxes and nonrecurring expenses was a deficit of DM 417.1 million. In the financial statements of both Continental AG and the Corporation, these deficits were eliminated by a transfer of the corresponding amount from retained earnings.

No Continental/Pirelli Merger

Pirelli's proposal to negotiate a merger of the tire businesses of the two companies was a source of intense concern for the Executive Board and many of our managers throughout the entire year.

The fruitless termination of the talks, which have already been discussed extensively in the Shareholders' Letter, is to be viewed in the light of Pirelli's financial situation, as disclosed on December 1, 1991. We made it clear to the public that Continental will continue to steer its own independent course, based on a systematically income-oriented corporate policy, which it will secure by alliances with suitable partners.

Voting Rights Limitation Continues in Effect

In the 1990 Annual Report, we had already described in detail the results of the Special Shareholders' Meeting of March 13, 1991. At that time, a majority of the capital stock

represented at the meeting voted for the voting rights limitation to be eliminated and for Article 20, Subsection (1) of Continental AG's Articles of Incorporation to be amended accordingly. Two shareholders have brought an action to have the resolution set aside.

When, on December 1, 1991, Pirelli announced that it had agreed under certain circumstances to indemnify associated shareholders, who together possessed 20.4% of

Special tires for race-track cyclists. At the 1991 world championship in Stuttgart, 31 of 60 medals awarded were won on Continental tires.

Continental's capital stock, for fluctuations in the share price and for the financing costs, we considered - and our legal counsel agreed - that the conditions under which these shares were held on account of Pirelli had been fulfilled, pursuant to both Article 20, Subsection (1) of our Articles of Incorporation and Section 20 of the German Stock Corporation Law. Including the 5% of our capital stock from which, under Section 20, Subsection (7) of the German Stock Corporation Law, Pirelli itself could derive no rights and which it therefore also could not vote, at least 25.4% of the capital stock had been voted at the Special Shareholders' Meeting in contravention of the statute and/or the Articles of Incorporation. After these votes had been deducted, it turned out that the motions under Items 4 a) and b) of the Agenda (elimination of the voting rights limitation) had been rejected by bare majorities of 51.06% and 51.98%, respectively. We drew the appropriate procedural consequences from this result, and acknowledged that the cause of action was justified.

Strategic Consolidation of the Corporation; Improved Outlook for the Future

In the course of 1991, we concentrated on the integration and further development of the companies acquired in recent years and on the expansion of existing cooperations. Overall, we achieved a better foundation for the future development of the Corporation.

In the U.S.A., production began at the new truck tire factory. General Tire's Canadian manufacturing plant, which had been incurring heavy losses for several years, was shut down at a cost of DM 107 million to the Corporation. Accordingly, we wrote down the book value of General Tire Canada Ltd., Barrie, Ontario, on the balance sheet of Continental AG to the fair residual amount.

During 1991, we continued our efforts to expand our strategic position in the tire markets in Central and Northern Europe. In Poland, our cooperative venture with Stomil, Olsztyn, started up on schedule, although the volume of business is still small. We signed a preliminary agreement to form a joint venture with Barum-Holding AG in Otrokovice, Czechoslovakia. In addition, we concluded a contract with KFI (Kooperativa Förbundet Industri AB), a Swedish group, to acquire the remaining shares of Nivis Tyre AB, Göteborg (Sweden), in which we formerly held an interest of only 49%.

Our attention will now be focused on exploiting all the earnings opportunities arising from the new participations.

The tire factory we plan to build in Portugal as a joint venture with Mabor, a local company, will be of particular importance in the future, since several major car manufacturers are about to establish new plants in both Portugal and Spain.

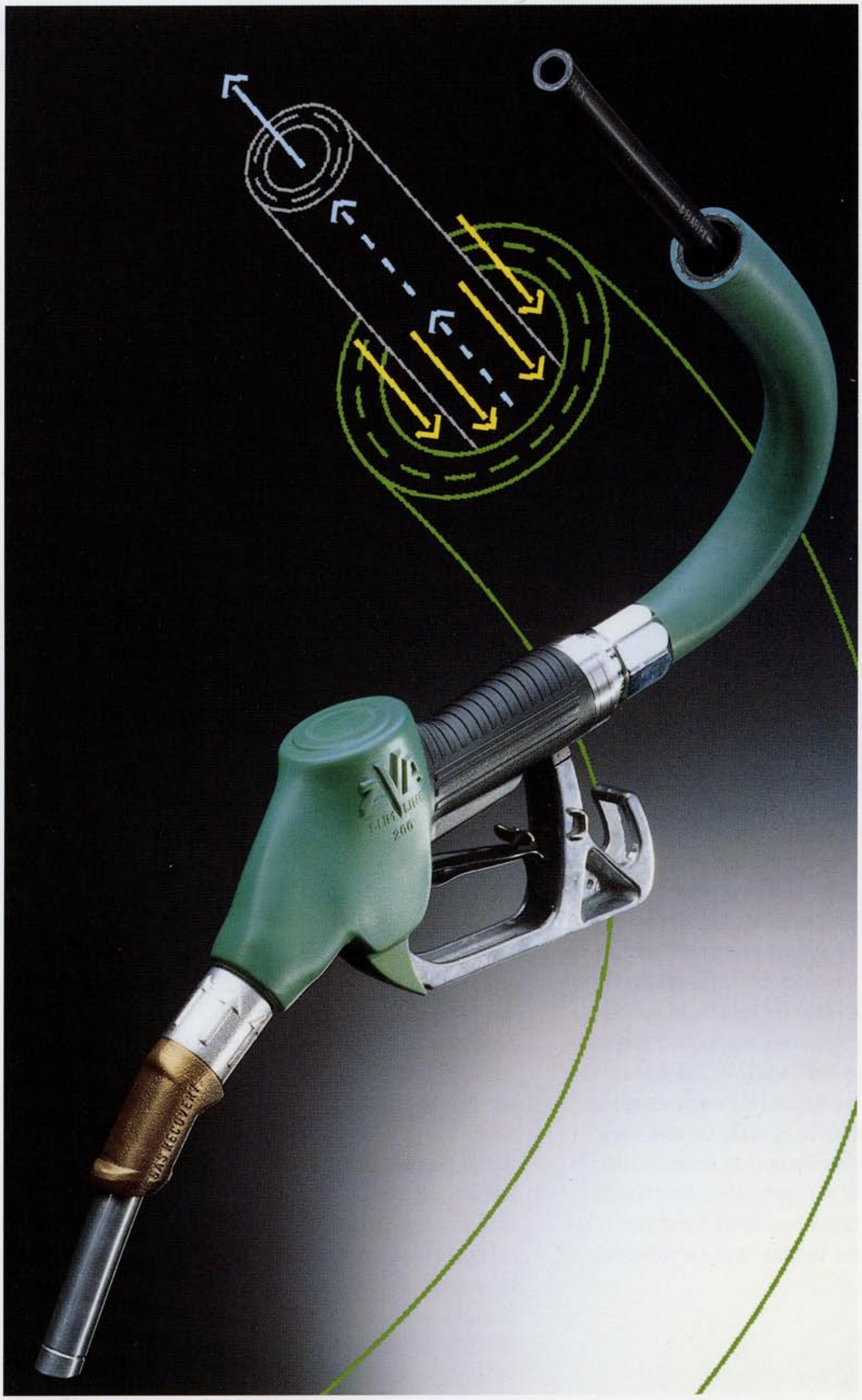
Viewed against the difficult market situation, National Tyre Service Ltd. (NTS) in Great Britain, a dealer chain we took over in March 1991, performed comparatively well, selling more of our products than we had anticipated.

ContiTech completed the structural overhauling of its subsidiary Clouth Gummiwerke AG, Cologne. This had a negative effect on the Group's earnings, but the benefits will already be apparent in 1992. We have instituted a program of operational and strategic reorientation at ContiTech AGES S.p.A., an Italian subsidiary we acquired in 1990.

Tires: Success in Developing Sales Volumes

Although the tire markets were shrinking - some of them substantially - in a number of European countries, the brands sold by the Corporation succeeded in maintaining, or even surpassing, the sales volumes of the previous year.

Competition continued to be extremely tough, and, as a result, losses were again incurred in business with the automotive industry. Price increases that were necessary from an economic point of view were announced in August 1991 for certain parts of our line and have been accepted by the European replacement markets.



The Corporation succeeded in securing more than its share of the growing demand for higher-quality low-profile and snow tires. In Europe, our production facilities for passenger tires operated at a high level, but capacities for truck tires were not always fully utilized.

Against a background of recessionary trends and falling prices, General Tire, which is active almost exclusively in the North American markets, could not quite match its 1990 sales volumes. A step in the right direction was the price increase instituted in autumn for the replacement markets, which was also successful in North America. Here, too, we are observing a trend to products with more sophisticated technology.

ContiTech: The New Structure Proves Its Worth

The restructuring of ContiTech's organization and management, as described in the 1990 Annual Report, was initiated at the beginning of the fiscal year and is fully justifying itself. The planned separation of the former Business Units from Continental AG and their transformation into seven legally independent closed corporations will create a framework in which each of them can operate with greater entrepreneurial efficiency. The organizational prerequisites to give the ContiTech companies operational independence will be in place by the beginning of 1993.

ContiTech's business drew its strength primarily from the boom in the German automotive industry; its other markets, particularly the mining and mechanical engineering sectors, showed pronounced signs of a declining tendency. International business was unsatisfactory in many segments, due to deteriorating economic conditions in neighboring countries. The Group's strategy emphasizes concentration on products and business activities characterized by technological sophistication, high value added and market shares with significant growth potential.

Again in 1991, there was strenuous competition in most of the ContiTech product lines, so that it was barely possible to absorb higher costs through price increases.

Further Sales Growth

Consolidated sales rose by 9.7%, or DM 825.9 million, to DM 9,376.9 million, compared with DM 8,551.0 million in 1990. DM 482.8 million of this amount was attributable to companies included for the first time. Without these companies, consolidated sales would have increased by 4.0%.

The Tire Group and ContiTech achieved sales gains of 14.7% and 5.2% respectively in 1991, while sales at General Tire, expressed in U.S. dollars, dropped by 2.4%. Translated into DM, General Tire's sales rose by 0.2% as a result of the trend in exchange rates.

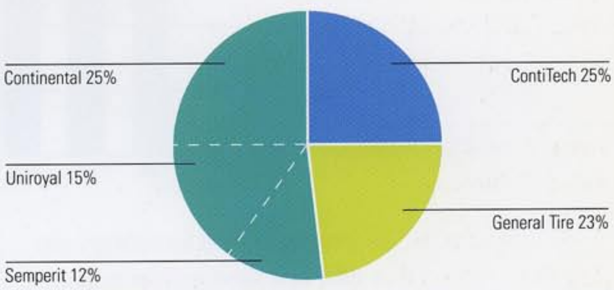
Sales revenues	1991 DM million	1990 DM million	Change in %
Parent company	3,271.6	3,066.4	+ 6.7
Consolidated	9,376.9	8,551.0	+ 9.7

Tires accounted for 75.5% (1990: 74.8%) of consolidated sales, and ContiTech for 24.5% (1990: 25.2%).

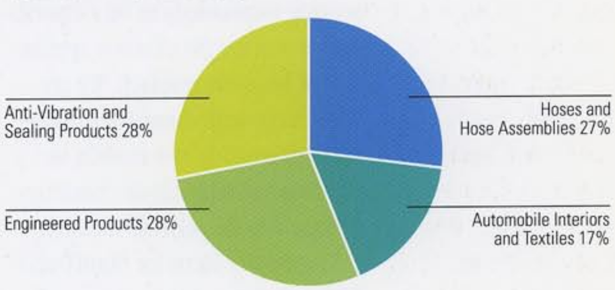
The Corporation employed 49,877 people on December 31, 1991, or 1,187 less than a year earlier.

Pollution control is also important at filling stations. This hose recovers escaping gasoline vapors.

Sales by Group in %



ContiTech Group sales by operations in 1991

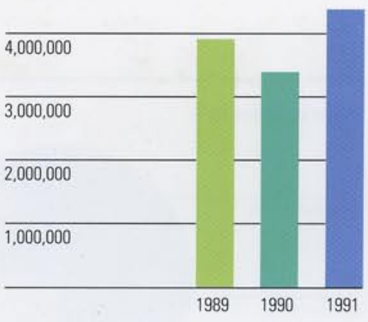


High-tech needs redefining. A vital element is the environmental compatibility of products.

New Challenges for Research and Development

1991 saw the introduction of a great many new products on the market. The ContiAquaContact tire, which won an internationally coveted prize for innovation, deserves special mention. We also addressed the question of the future development of the automobile, of traffic and of the environment. The vehicular traffic of tomorrow will adapt itself to the requirements of society with new concepts and systems and will accordingly also offer new opportunities to us, as manufacturers of tires and industrial rubber products.

Unit sales of snow tires (Corporation)



Corporate-wide projects are proving increasingly to be a central instrument for the effective application of basic tire research. We are using large-scale computers to create mathematical tire models, to simulate tire and vehicle characteristics and to do polymer research.

A primary focus for ContiTech's R&D activities is the invention of products tailored precisely to the emerging trends in the automotive industry. Our development assignments include:

- product systems to enhance functionality or simplify final assembly.
- power transmission and bearing elements, as well as hoses with improved temperature resistance.
- ecologically sound products, such as extremely tight hoses for the transport of aggressive coolants and fuels.
- products that fulfill the prerequisites for recycling.

Purchasing, Logistics and Data Processing

The Corporation spent a total of DM 3,655.3 million, or 39.0% of sales, on materials. On average, prices for raw materials remained stable. The efforts of our suppliers to impose price increases were offset by intensified competitive pressure on the world markets.

The optimization of logistical processes, in order to meet customer requirements and reduce costs, was a prime concern in 1991. The number of different products and the demands of our customers to be supplied promptly and flexibly have been steadily increasing.

We have provided our research and development activities with even stronger data-processing support. A total of over 200 workstation computers have been put into service at the development sites. They are connected with one another, with the Cray supercomputer and with other systems.

Intensified use of data processing in production control at the plants and in the quality and inventory control systems has helped to produce a rise in productivity.

Throughout the Corporation, production, research and development in the tire sector are now even more closely interlinked.

Continued High Level of Capital Investment

Additions to fixed assets increased to DM 829.3 million (1990: DM 689.5 million). Capital expenditures approved in 1991 – some of which, however, will not be reflected in the balance sheet until 1992 or later – amounted to DM 569 million (1990: DM 887 million). The capital expenditure ratio (additions to fixed assets/sales) rose from 8.1% in 1990 to 8.8% in 1991.

Equity Ratio Declines

The capital stock of Continental AG increased only marginally by DM 0.1 million and amounted to DM 439.2 million on December 31, 1991. In addition, the AG has conditionally authorized capital amounting to DM 213.3 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 458.0 million to DM 1,162.4 million and financed 41.4% (1990: 51.7%) of total assets. Consolidated shareholders' equity dropped by DM 227.5 million to DM 1,514.7 million, and amounted to 22.8% (1990: 28.2%) of total assets. The equity ratio of the Corporation is unsatisfactory. We expect that shareholders' equity will start to increase again during 1992.

Semperit is a traditionally strong brand for truck tires. The "Truck Day" at our testing grounds near Vienna always arouses a great deal of enthusiasm among our customers.

No Dividend

The Corporation's deficit of DM 128.2 million could only be eliminated by a transfer from consolidated reserves.

The parent company's deficit amounted to DM 417.1 million, compared with a net income of DM 42.2 million in 1990, and was also offset by transfers from capital reserves and retained earnings.

For the 1990 fiscal year, we paid a dividend of DM 4.00 (8%) on each share with a par value of DM 50.00. In view of the 1991 results, we are unable to pay a dividend for the past fiscal year.

Thanks to Our Employees

In 1991, against a worldwide background of destructive competition, our Company achieved a result which, while by no means satisfactory, must nevertheless be regarded as positive in comparison with those reported by the other large companies with whom we share the market in our industry. The fact that we were able to earn an operating profit despite the uncertainty that the Continental/Pirelli situation ultimately brought to the entire 1991 fiscal year, is a credit to our employees and executives as well as to the Employee Councils and employee representatives. We thank all the Corporation's employees, including those who retired in 1991, for this achievement.

Outlook

The Company has solid intrinsic worth and is moving with increased strength from 1991 into the future.

In recent years, we have reached a size that requires us to put primary emphasis not on further growth, but on consolidation and greater earning power. Our job now is to utilize fully our existing potential in development, production, sales and management. Our top priority is a prompt reorganization of General Tire. We are confident that this will soon be accomplished.

Profits will continue to rise in our European business with both tires and industrial products, so that we can make a generally positive earnings forecast for 1992.

TIRE GROUP
CONTINENTAL, UNIROYAL, SEMPERIT

Tire Group's (Continental, Uniroyal, Semperit) share of total sales 52%

During the fiscal year, the Tire Group strengthened the market shares of its Continental, Uniroyal and Semperit brands in individual European countries, even though the tire market was shrinking – in some cases substantially – so that competition became particularly severe.

Consolidated sales of the three brands, including our dealer organizations, amounted to DM 4,788.0 million, a gain of 14.7% over 1990. Without the companies included for the first time in 1991, sales rose by 3.2%.

Overall, compared with 1990, the Group succeeded in increasing its earnings.

Improved Product Mix and Quality

During the past five years, the proportion of high-performance passenger tires sold in Western Europe has risen by more than 50%. Our brands derived exceptional benefits from this trend. In Europe, we now have a share of over 20% of the market in the higher performance segment.

All our brands profited from the strong demand for snow tires, reflecting our customers' increased awareness of safety. This trend was encouraged by the positive test results for our products, and our snow tires in particular, that have been published in the trade journals.

The Total Quality Management (TQM) program, an ongoing process in which all our employees participate, has led to a wealth of initiatives and actions within the Corporation, designed to satisfy the exacting requirements of our customers. In the U.S.A. and Europe, we have been distinguished by several customers and a trade journal for outstanding quality awareness.

Customer-Oriented Multi-Brand Policy

Thanks to the two new brands, Gislaved and Viking, which were added to our product line after we acquired the remaining shares of the Swedish company Nivis, we will be able to satisfy our customers' requests on an even more individual basis from 1992 on. This is true

both of sales through dealers and, in particular, of the Scandinavian region, where we are now the market leader.

After a reorganization of our original equipment sector, which is structured quite differently from the replacement business, we are now able to offer our customers in the automotive industry all the Corporation's brands from a single source.

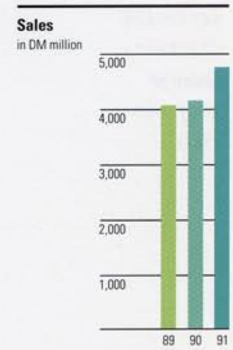
General Motors Europe granted us the "Q.S.P. Award" for outstanding performance as a supplier.

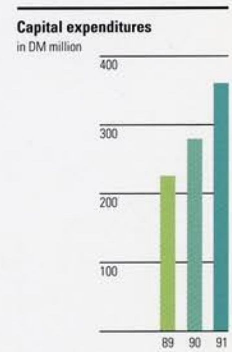
Growing Importance of Our Dealers

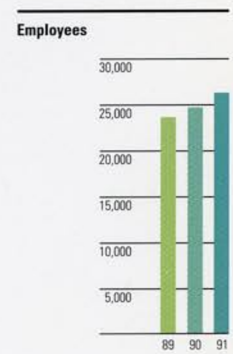
The Corporation's own dealer organizations are becoming increasingly important for marketing and servicing our products. Our aim is to use these companies to assure a broader distribution of our products in the markets, in order to supplement and strengthen the services provided by independent tire dealers and other qualified retailers. During 1991, the dealer organizations, including the British chain National Tyre Service Ltd. (NTS), recorded gratifying growth in sales volume and revenues compared with the previous year. Sales at Vergölst, the large dealer organization in Germany, were also positive. We now have the second-largest dealership network of any tire manufacturer in Europe.

Too Valuable for the Dump

In 1991, approximately 100,000 tons of used tires were processed into retreaded tires. This economical and ecologically sound recycling process must be further intensified, because about 560,000 more tons of tires are being discarded in Germany each year, and at present only 35% of them can be used by the cement industry as high-quality fuel and another 10% as raw material. The majority of them, however, are disposed of in dumps. It is foolish not to make better use of such a valuable raw material as scrap tires. We are therefore seeking ways of recycling old tires, in order to use them in an environmentally acceptable and controlled manner.







Safety needs of car drivers are increasing. Endless testing goes into finding the optimum tread pattern to minimize the risk of aquaplaning.

Continental Division's share of total sales 25%

The Continental Division did good business in 1991, despite the difficult conditions in the industry. Sales rose by 3.7% to DM 1,820.2 million.

Success with New Product Concepts

Demand for high-performance tires has continued to rise. By successfully introducing ultra-modern low-profile tires of the SportContact generation and the new AquaContact product line, we have turned an innovative product concept into a reality. We have also succeeded to an increasing extent in establishing our new low-profile tires in the market. We are pleased to report a further gain in the number of engineering approvals received from our customers in the automotive industry, which are a prerequisite for any supply contract. The approvals won by the SportContact with directional tread for the new Porsche 968 and other cars deserve special mention in this connection.

With the introduction of our AquaContact technology, we have become established in a special segment of high-performance tires. These tires provide up to 20% more resistance to the dreaded aquaplaning on rain-flooded roads.

In the replacement business, especially in Germany, demand has also continued to shift to tires with a higher technological content and an attractive appearance. A broad-based television campaign enabled us to increase significantly the recognition and reputation of the Continental brand.

Snow tire customers also want products that are visually appealing and more powerful. The share of snow tires approved for speeds up to 130 mph has increased by 50%. In 1991, Continental's snow tire business hit a record high. Since the dealers were able to reduce their inventories almost to zero, we expect good sales figures in 1992 as well.

Commercial Vehicle Tires: Service Has Priority

In the commercial vehicle sector as well, we are observing a trend to lower aspect ratios. A new concept called Continental EuroService, an emergency tire service operating around the clock throughout Europe, which was developed especially for the large international truck fleets, has proved its worth and was further expanded during the fiscal year. Continental actively supported its marketing of commercial vehicle tires with new service elements, which include not only additional service in the market but also new ideas for disposal by retreading used tires.

During 1991, as in the previous year, heavy trucks equipped with Continental tires won the increasingly popular European Truck Racing Cup championship in categories A, B and C.

Distinctive tread design of Continental's new low-profile tire. The "aquachannel" makes driving on rain-flooded roads much safer.

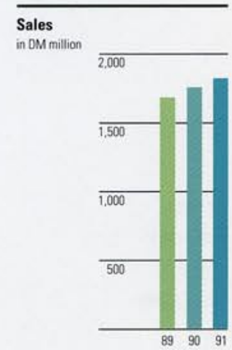
Getting Established in Central Europe

Although the economic situation in the new German states remains difficult, this market has opened up fine opportunities for us. We have achieved our goal of becoming the leading tire supplier in this region. The expansion of our sales centers and the increased availability of personnel specially trained at considerable expense in continuing education programs have contributed to this success. We intensified our cooperation with 500 dealers. The markets in Central and South-East Europe offer great potential for the future, which we intend to exploit as much as possible.

Industrial and Agricultural Tires Score Successes

Sales of industrial tires continued to grow during the fiscal year. In order to increase efficiency, all activities have now been combined in an independent division so as to achieve a concentration of our resources in this special segment. Our position in the German original equipment market was significantly strengthened.

By broadening our product spectrum and intensifying our marketing efforts, we were able to improve earnings in the agricultural tire sector over the previous year. A new tractor tire, presented at the German "Agritechnica" fair, provided additional momentum for our sales in this product segment, which are made primarily to the German replacement market.



Bicycle Tires: Focusing on Deluxe Products

Demand for bicycle tires has increased steadily during the past few years. The future prospects for deluxe tires, especially puncture-proof tires, are excellent. More than half the medalists at the bicycle world championship in Stuttgart used Continental tires. Both German and foreign manufacturers of high-tech bicycles are showing increasing interest in our products.

The market introduction of a new ContiSport generation provided fresh impetus for the motorcycle tire business.

Uniroyal Division's share of total sales 15%

During 1991, Uniroyal was able to achieve an above-average increase in sales of 6.2% to DM 1,112.2 million.

A Good Start with a New Tire Generation

A new top product from Uniroyal immediately attained an excellent position in the high-performance tire segment. The keen reception accorded by original equipment manufacturers to this low-profile tire for higher speeds is underscored by engineering approvals for the new Mercedes-Benz Series S. Tire tests conducted by renowned German and international automotive trade journals have also confirmed that this new product meets the most stringent technical requirements. More than 200 trade journalists and over 3,000 tire dealers from Germany and other countries attended its presentations at the Nürburgring. Together with previously established lines, unit sales of this new high-performance tire, which exceeded our expectations, caused a substantial gain in volume over 1990.

Good Business in Most Replacement Markets

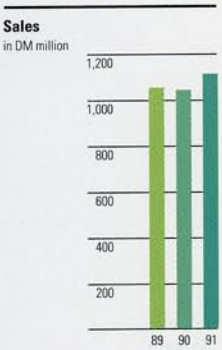
In addition, the product mix has been considerably improved, especially in the Southern European replacement markets. For passenger tires, this is particularly true in Spain, Italy and Portugal. Volumes also rose in the Netherlands and Switzerland.

Uniroyal is a classic brand in snow tires, but recent snowless winters have had a drastic effect on sales volume. The trend in 1991 was all the more gratifying: Sales of snow tires were up substantially over the previous year, with a particularly impressive growth rate being recorded for the German market.

Advertising and PR Ensure a Vivid Image

Our advertising campaign, which is conducted mainly on television, has been successful for many years. Based on a popular commercial, which has attracted a great deal of attention, it has made a vital contribution to the Uniroyal brand's recognition and image.

For some time, we have been carrying out traffic research projects, together with outstanding experts in the field. "Driving at Night," the research report published in 1991, aroused great public interest. The importance of Uniroyal's meaningful information policy was highlighted by the fact that HUK, an association of German liability, accident and automobile insurers, awarded the Division its "Christopher Prize." This makes the second time that we have received this coveted award.



Uniroyal has developed an ultra-wide tire for the replacement market. Designed for the top speed category, this tire is ideal for wet-weather driving.

Mixed Results with Commercial Vehicle Tires

New tires with low aspect ratios were added to our product spectrum, thereby strengthening our position as a major manufacturer. Commercial vehicle tires of this kind have many different advantages for the customer: They lower the entrance level of buses, reduce truck loading-platform height, increase the payload space, lower the center of gravity of the vehicle and have larger ground contact areas.

Sales volumes of light and heavy truck tires in the German replacement market showed a gratifying gain, but no significant growth trend is observable for Uniroyal in the international markets. However, the brand was able to achieve considerable increases in unit sales in Spain and France.

Uniroyal encountered difficulties in selling tires for heavy commercial vehicles to original equipment manufacturers, and volumes fell short of the 1990 level.

Semperit Division's share of total sales 12%

During 1991, Semperit achieved a significant increase in sales volume, especially in its passenger tire product group. Revenues rose 2.4% to DM 900.1 million.

Continuing Shift in Demand

During the fiscal year, we achieved our goal of increasing sales volumes for high-quality products, and earnings improved.

For the first time, Semperit offered its specialty snow tire in a full spectrum, enabling it to benefit from the excellent opportunities in the market. This tire, which has gained the title "King of the Snow," posted outstanding growth rates.

An increasing trend to high-performance tires was also noticeable in the regular tire sector. The new generation of passenger tires that meets these performance criteria encountered growing customer demand.

Together with our partner Mabor and the Nivis sales organization, we will strongly intensify our distribution efforts in a number of European markets, for example in Portugal and Norway, where we anticipate good opportunities for Semperit's products.

Difficult Business Conditions for Commercial Vehicle Tires

Unit sales of commercial vehicle tires declined and revenues were unsatisfactory. Important export markets were burdened by the effects of the Gulf War.

On our traditional "Truck Day," we presented the complete product spectrum to motor vehicle manufacturers, trucking companies and trade journals. Forty vehicle makers and automotive suppliers, driving more than 100 commercial vehicles, took the opportunity to test trucks and tires on our testing grounds at Kottingbrunn near Vienna. Both the trade and the press participated enthusiastically.

New Opportunities in Central Europe

Fresh market opportunities for our latest products are being provided both in the new German states and in the other Central European markets. Purchasing power is not yet sufficient everywhere for major deals. However, we are convinced that new sales opportunities will open up for Semperit in Austria's neighboring markets, once their economic reorganization is successfully completed.

In these countries, the company maintains business connections established long ago, which have

The Austrian tire brand, Semperit, recorded good sales with snow tires. Key markets are Switzerland and Southern Germany, in addition to Semperit's home market.

now become a tradition. The formation of Semperit Gumiabroncs Kft. in Hungary has given us a base for servicing the market directly. We are planning to establish a sales organization headquartered in Budapest, which will set up a dealer network to sell passenger and commercial vehicle tires. Both the trade and the public have shown great interest right from the start.

Our affiliated company Sava in Slovenia used its expertise and self-reliance to cope with the effects of the battles in the disintegrating multinational state of Yugoslavia. Its executives and employees managed to continue production without interruptions. At the same time, the company succeeded in further improving the quality of its products and once again earned a profit.

On behalf of the Corporation, Semperit is continuing the negotiations with the Czech tire manufacturer Barum in order to establish the conditions for the formation of a joint venture. Although these negotiations are difficult, they are progressing in a promising manner.

Securing the Future Through Quality and Innovation

The quality improvement program started in 1990 continued on schedule during the fiscal year. The intensive, broad-based training programs for our employees are designed to promote their understanding of our customers' demands for quality and their ultimate satisfaction. The measurable criteria indicate a significant success.

A new development center has enabled us to bring the existing high technological potential more effectively to fruition. Creative thinking, together with the application of the latest know-how, are the prerequisites for projects designed to include not only functional but also aesthetic aspects, so that we can set new standards in future tire design, as well as in other fields. In addition, new concepts are being developed to provide, with dealer assistance, for the ecologically sound disposal of used tires.

General Tire Group's share of total sales 23%

The General Tire Group continues to be a source of great concern to us. Its business was exceptionally hard hit by the recession in the U.S.A. and Canada.

However, the unexpectedly large increase in the Group's losses, compared with the previous year, is largely attributable to nonrecurring charges from the reorganization and restructuring programs that have been initiated.

Sales Approach the 1990 Level

The Group's sales for the fiscal year amounted to DM 2,195.0 million (1990: DM 2,189.9 million). At $ 1,322.8 million, sales in U.S. dollars – which are the true index of General Tire's operations – were only 2.4% short of the 1990 level.

In the original equipment business, the drop in motor vehicle production was instrumental in causing a 7% decline in sales, although the market share remained the same.

Ford honored General Tire with its top quality citation, the "TQE Award," which was granted to only 12 of its 4,000 suppliers. We are proud of this recognition of our product quality.

Almost 75% of General Tire's replacement business is based on General and Continental brand tires, and a good 25% on private brands. It easily maintained its market position in passenger and light truck tires and achieved above-average growth in high-performance tires, a rapidly expanding and more profitable segment.

Our share of the market for commercial vehicle tires was lower than in the previous year. The economic slump produced a sharp contraction in demand, resulting in

Extreme situations call for highly reliable materials. The Paris-Dakar rallye is a grueling test of endurance for the tires, as well.

ruinous competition. The introduction of important new products under the General and Continental brands, which we are confident will improve our position, is pending.

On the other hand, we achieved gratifying sales increases over 1990 in the export business, both in Canada and Mexico.

Reorganization Programs Launched

A great number of reorganization and restructuring measures were initiated and completed during the fiscal year.

For example, in September 1991, we closed down the tire factory in Canada, which was operating at a substantial loss because of its inadequate cost structure. Its production was shifted to General Tire's U.S. plants; since then the Canadian market has been supplied from these factories.

The Group's 90 tire sales outlets, which were also below the profit line, have been sold to independent dealers. Contractual agreements were concluded with the purchasers, which ensure that in the future our sales volumes will actually increase.

The output of the American tire factories had to be significantly decreased to adjust to the decline in demand. We therefore cut the work week at our plants from 6 to 5 days in Mayfield, Kentucky, and from 7 to 6 days in Charlotte, North Carolina, incurring heavy financial charges in doing so.

These measures enabled us to reduce inventories by 25%. The work force was reduced by more than 2,000 employees to its present total of 9,219.

Positive Signs

Our new plant for commercial vehicle tires in Mt. Vernon, Illinois, was opened on schedule in July 1991. Production will be raised gradually to full capacity by the end of 1992. Ultra-modern truck tires are being produced by this European-Japanese-American joint venture.

We have reoriented the Group to strategic fields of activity, which will be managed in the future by nine Business Units. These smaller, more powerful entities are highly motivated and are now in a position to operate more rapidly and in closer contact with their customers.

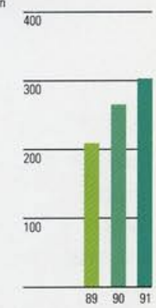
General Tire has already renewed substantial parts of its product range, and almost all the remaining old product lines will be replaced in the next few months. We will thus be able not only to raise the quality standard, but also to improve both prices and the product mix.

On October 1, 1991, prices in the replacement business were increased for all our product lines. The resulting favorable effect was already apparent in fourth-quarter earnings.

We are confident that these measures will permit us to achieve a significant improvement in profits as early as 1992.

Sales
in DM million

Capital expenditures
in DM million



Employees

ContiTech Group's share of total sales 25%

In 1991, sales of the ContiTech Group, at DM 2,253.0 million, were 5.2% higher than in the previous year. This figure includes ContiTech AGES S.p.A., Italy, a subsidiary consolidated for the first time.

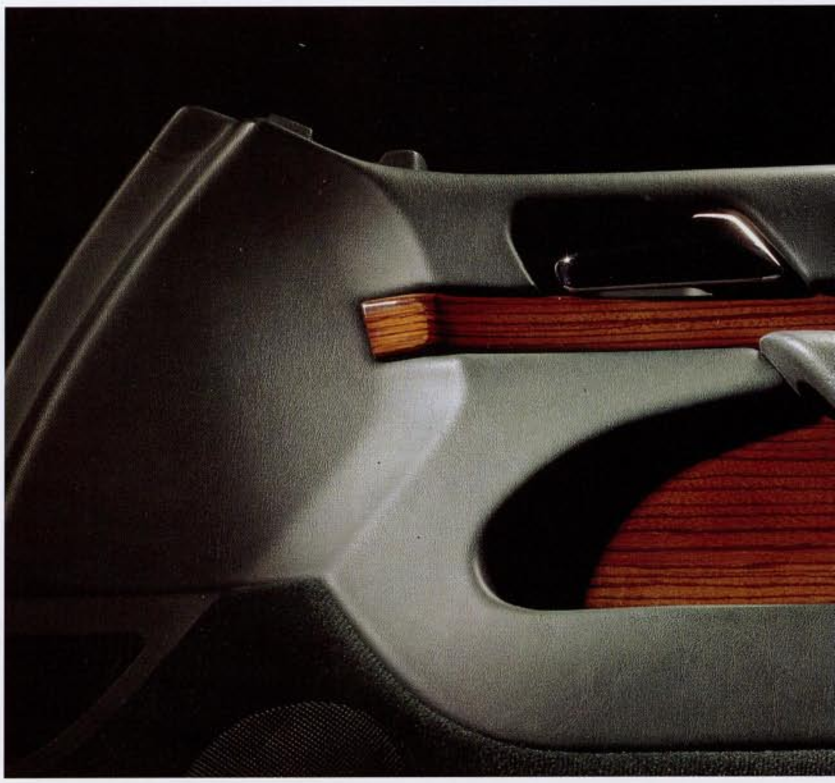
Automobile Interiors and Textiles

Although demand in Germany was strong, weakness in the foreign motor vehicle markets caused sales to stagnate at Göppinger Kaliko GmbH. We are increasing our expenditures to develop, in close collaboration with the European automotive industry, products made without PVC. These charges and steep rises in employment costs could not be absorbed entirely by rationalization measures, so that net income did not reach the level achieved in 1990.

Marked increases in volume, particularly in the new German states, produced healthy gains in revenues for bookbinding and windowshade materials at Bamberger Kaliko GmbH. Although costs rose considerably, this business expansion, combined with improvements in productivity, led to a further increase in earnings.

Flockgarn GmbH also improved its sales. Demand from European car makers for flock yarn, which is used for automobile seat covers, rose significantly, due to its active-breathing and wear-resistant properties.

Gratifying sales gains were also recorded at ContiTech Formpolster in 1991, both for products made of flexible polyurethane foam and for high-quality seat-padding elements of rubberized hair. Although the trend in market prices was unsatisfactory, we earned a good profit. Extensive investments were made in the plants.



Hoses and Hose Assemblies

The brisk order inflow at ContiTech Schlauch enabled the plants at Korbach and Northeim to operate at full capacity. A new generation of hoses for air-conditioners went into mass production. This coolant hose is a perfect example of the high quality standards of automobile manufacturers. In addition, ecologically sound coaxial hoses for the recovery of gasoline vapors at filling stations were added to our manufacturing program.

Techno-Chemie Kessler & Co. GmbH, which makes hose assemblies for power steering systems and other applications, vigorously expanded its sales and earnings. This is attributable, among other things, to improvements in product mix and customer structure and to the optimization of the manufacturing processes.

Our French hose coupling company, Anoflex SA, was able to compensate for weak demand from the local automotive industry by exports to other European markets. Earnings improved substantially, thanks to a pronounced gain in employee productivity. Concentration on hose assemblies for power steering and air-conditioning systems should ensure future sales growth, even if automotive production is stagnant. Difficulties in connection with the start-up of the new Spanish manufacturing facility, which have since been rectified, had a marked impact on earnings, but for 1992 we expect to earn a profit there.

Sales of our Swedish hose assembly company, Hycop AB, were affected by the decline in local motor vehicle production. Now that the restructuring program has been completed, its earnings have improved. The company has succeeded in developing hose assemblies for air-conditioners operated with an environmentally compatible substitute for the coolant Freon.

Anti-Vibration and Sealing Products

The negative trend in the automotive industry in neighboring countries, together with unsatisfactory prices, caused ContiTech Formteile to fall just short of its sales and earnings targets. Nevertheless, operating income was higher than in the previous year.

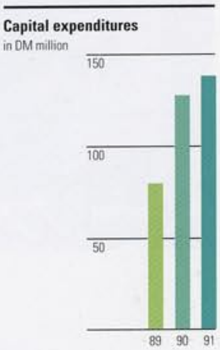
ContiTech Profile maintained its sales at the 1990 level, owing to large-scale orders from automobile manufacturers for new products which it was the first company to develop. These orders enabled us to compensate for sales lost because of the policy of the automobile companies to purchase less technologically sophisticated products at lower prices from foreign suppliers. The requisite shift in the production plan, together with the related capital outlays and start-up problems, had a negative effect on operating income.

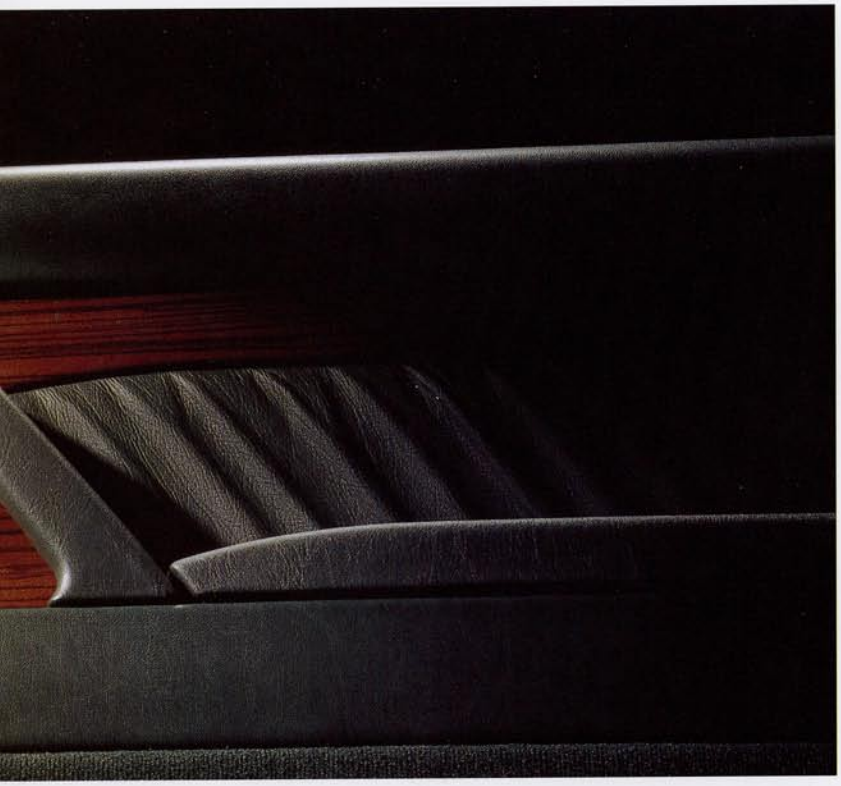
ContiTech Elastorsa S.A., Spain, reported a substantial increase in its deliveries to the automotive industry. The company has started to construct a factory, in order to fully exploit the sales potential. A substantial profit is expected for 1992.

Engineered Products

ContiTech Antriebssysteme succeeded in further expanding its business in the automotive sector, thanks to a number of new products. Sales declines in our industrial business were unavoidable in Germany, still more so on the international market, so that total revenues were only slightly higher than in 1990. Through measures to reduce costs and improve structures, we were again able to earn a good profit despite the heavy pressure on prices.

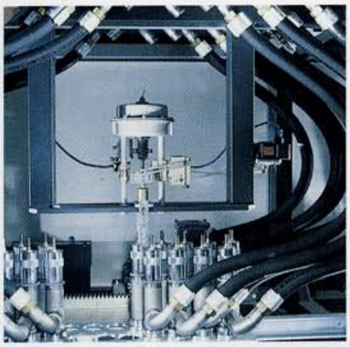
At ContiTech Luftfedersysteme, sales and earnings continued to grow. In business with air springs





Our customers' most exacting requirements are a permanent challenge to Göppinger Kaliko, too. For the new series S, these were fulfilled by employing the latest technologies.

Large synchronous drive belts made from polyurethane are used in high-bay racking control systems.



Chemical hoses guarantee a uniform ultra-thin coat of paint during the enameling process.

Specially coated extrusions ensure smooth, reliable window operation.

A brickmaking plant in Eastern Germany uses textile-ply belts to convey materials over a distance of $4^1/_2$ miles.

for commercial vehicles, sales in the new German states more than compensated for the decrease in exports to Western European countries caused by the general economic decline. Industrial air springs made gratifying progress.

The conveyor belting division of ContiTech Förder- und Beschichtungstechnik reported a decline in both sales and earnings. A drop in coal production and serious weakness in the markets of Central and Eastern Europe were the main reasons for the lower demand for conveyor belts. Nevertheless, further measures to improve efficiency enabled the division to remain profitable.

KA-RI-FIX, a subsidiary engaged in servicing conveyor belts, opened branches at Bad Blankenburg, Etzdorf and Senftenberg.

Increased sales, cost-reduction programs and the exceptional quality-consciousness of the work force all contributed to a distinct improvement in earnings at the coated fabrics division. The product mix was improved by adding new lines of processing belts, health-care materials and methanol-resistant membranes.

Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG recorded a further gain in sales. On April 1, 1991, the company took over the life-raft division of Seetex GmbH in Großschönau, Saxony, with about 100 employees. Earnings in the business were good.

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

Sales declined at Clouth Gummiwerke AG, Cologne, and had a negative effect on operating income. The liabilities incurred in connection with the lining of flue-gas desulfurization systems have been definitively limited by settlement agreements. Personnel reductions and programs to cut employment costs caused further charges against income for severance and compensation payments. The result was a substantial loss; however, we expect that the company will be operating at a profit again as early as 1992.

With increased sales and good capacity utilization, IMAS S.A., a Greek subsidiary of Clouth that manufactures conveyor belts, earned a satisfactory net income.

ContiTech AGES was fully consolidated for the first time in 1991. About 80 % of its business depends on the Italian auto industry, which was obliged to cut down considerably on production. Lower prices, with a simultaneous rise in costs, also had a prejudicial effect on earnings and sales. To counter this trend, we have started to implement restructuring programs. We also intensified our efforts to open up new markets in the automotive sector and other industries.

The number of our employees declined for the first time, after several years of increase. On December 31, 1991 there were 49,877 men and women working for the German and foreign companies of the Corporation. This represents a reduction of 1,187 since the end of 1990.

At the end of 1991, employees at Continental AG totaled 8,698. The decrease of 7,462 employees compared with the previous year is mostly attributable to the transfer of 6,957 persons to the new ContiTech closed corporations, so that there were in effect 505 fewer employees. At the other German companies, the total work force declined by 361 to 7,549.

Employees in Germany dropped by 866 to 23,204. The work force in the other European countries increased by 1,756 to 16,766, which is due primarily to the first-time consolidation of NTS (2,200 employees).

The greatest change took place at the General Tire Group in the U.S.A. Due to the closing of the Canadian plant, the sale of General Tire's U.S. dealer organizations and further reductions in the administrative departments, the number of employees decreased by 2,032 to 9,219 at year-end.

We employed 688 people in other countries.

The table below shows the trend in the number of employees by country of origin:

	1991	1990
Germany	19,239	19,943
U.S.A.	7,891	8,972
Great Britain	3,635	1,411
France	3,527	3,513
Austria	3,177	3,521
Turkey	2,228	2,452
Italy	1,523	1,745
Mexico	1,146	1,234
Portugal	1,075	1,131
Belgium	1,072	1,307

Good Dialog with Employee Representatives

Negotiations and discussions with the employee representatives during 1991 were again characterized by a joint effort to ensure a stable future for the Corporation. In the Continental/Pirelli matter, for example, the employee representatives sided wholeheartedly with the management and, particularly at the Special Shareholders' Meeting of March 13, 1991, supported our desire to remain independent.

The Employee Council of the Corporation, which represents the work force of our German companies, was kept regularly informed by us in oral and written communications, which has helped to promote and maintain cooperation based on mutual trust. On the European level, there emerged a steadily growing need for an independent body through which the European employee representatives, their managements and the Corporation's management could exchange information. The first joint meeting therefore took place in June 1991, and others are planned.

In the U.S.A., a new collective bargaining agreement was negotiated for the plant in Mayfield, Kentucky, which will form the basis for its restructuring.

There were no labor disputes in 1991 that could have led to major losses of production.

Personnel Expense at the Corporation Up 6.9 %

Corporate personnel expense (wages, salaries, social welfare contributions, and expenses for pension plans and other employee benefits) rose from DM 3,028.5 million to DM 3,236.4 million, corresponding to an increase of 6.9 %. At Continental AG, personnel expense per hour worked changed from DM 41.13 to DM 43.23 (+ 5.1 %); at the Corporation it amounted to DM 38.77. Total corporate personnel expense per employee rose from DM 62,099 to DM 62,957 (+ 1.4 %); at Continental AG, it increased from DM 63,431 to DM 66,784 (+ 5.3 %).

Personnel Development as a Strategic Management Task

In view of the increasing globalization – and simultaneous decentralization – of our activities, personnel development is playing an increasingly important role for all of Continental's companies.

Again, numerous young people interested in our Company sought vocational guidance at the 1992 Industry Fair in Hanover.

To ensure an adequate succession and to develop our employees' abilities are important tasks for our executives. We are promoting the dialog between executives and employees, not only to facilitate strategic measures which the Company considers necessary, but also to take individual abilities and preferences into account. We want our executives to have an understanding of personnel development which extends beyond their own departments and areas of responsibility. We expect our employees not only to be prepared to show independent initiative, to realize their potential and to demonstrate their flexibility and mobility, but also to be aware that no long-term personnel development is possible without the sincere commitment of each individual.

Continuing Education for Higher Efficiency

The structure of the management and the junior staff in our Corporation is also becoming more and more international. Fourteen nationalities participated, for example, in our seminar on "Leadership and Corporate Culture." Preparation of our staff for assignments abroad also involves their family members.

We have placed increasing emphasis on projects to develop the most efficient possible organizational structures. "Lean organization," with a less cumbersome hierarchy, clearly defined individual responsibilities and corresponding powers for the managers, is being introduced step by step. We are paying special attention to the foremen. On all levels, targets are being formulated in such a way that responsibility for results is paramount, regardless of functional limits. Tighter organization, cross-functional goals and their achievement by teamwork are resulting in faster decisions and shortening the time required for execution, thanks to more direct reporting channels and complete information.

On-the-Job Safety, Illness, and the Suggestion Plan

We are not satisfied with the results of our efforts to improve occupational safety. On-the-job safety will therefore be made an even more closely integrated part of management priorities.

The negative trend in occupational safety at the plants of Continental AG during the first six months was halted during the second half of the year.

Nevertheless, the total number of reportable workplace accidents per million working hours rose from 19.2 in 1990 to 20.1 in 1991.

The trend in absenteeism due to illness is also unsatisfactory. In the production-related departments it reached percentage rates of between 8.4 and 12.6 at our German companies. The resulting costs are steadily reducing the financial leeway of the companies to offer other social welfare benefits. We note with regret that, as in previous years, the illness rates at our foreign plants are more than 50% lower than those in Germany, even though similar machines and production processes are used.

By contrast, the Continental suggestion plan developed in a gratifying manner during 1991. The number of suggestions submitted continued to climb. At the parent company 33% more suggestions received awards, and the cash awards, at DM 1.09 million, exceeded DM 1 million for the first time.

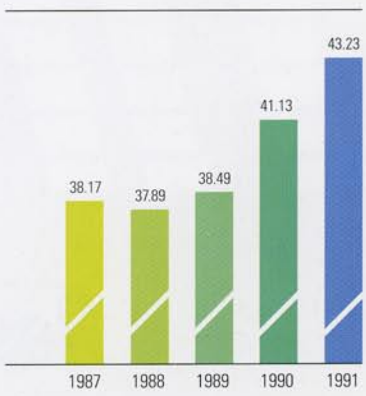
More Support for Women and Families

We want to give our female employees greater equality of opportunity in reaching their occupational goals. For this reason the Executive Board and the Joint Employee Council concluded an agreement in November 1991 which includes a promise for reinstatement in a comparable job after an interruption of several years for bringing up children. The agreement also contains special measures to provide greater support for the development potential of the women who work for us.

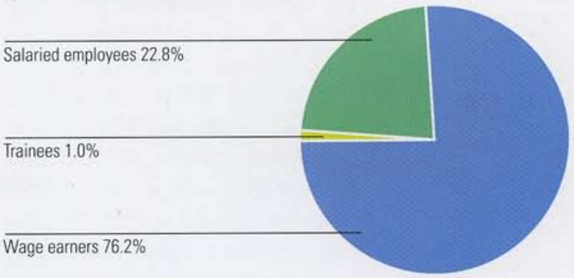
In addition to the rights granted under the collective bargaining agreement, male and female employees can request leave for periods of up to two months to take care of family members. This provision, as well as the intensification of the professional training of young women and of women starting their careers, is a meaningful response to social and economic change.

Personnel expense per hour worked at the parent company
in DM

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



Structure of employees (Corporation)



Tires

Research and Development

The tire is a product whose performance characteristics are critical in determining the behavior of the vehicle on the road — much more so than any other component.

For high-performance passenger tires, as well as for agricultural, bicycle and bus tires, these characteristics are described and defined by a multitude of individual criteria. The complex construction, design and development of all the properties of a tire cannot be deduced simply from its dimensions and the typical aspects of its external appearance. Above all, its characteristics depend upon the raw materials selected and the process methods and parameters that are applied. This requires a research and development effort which goes far beyond that required for many other industrial products in terms of scope and scientific expertise.

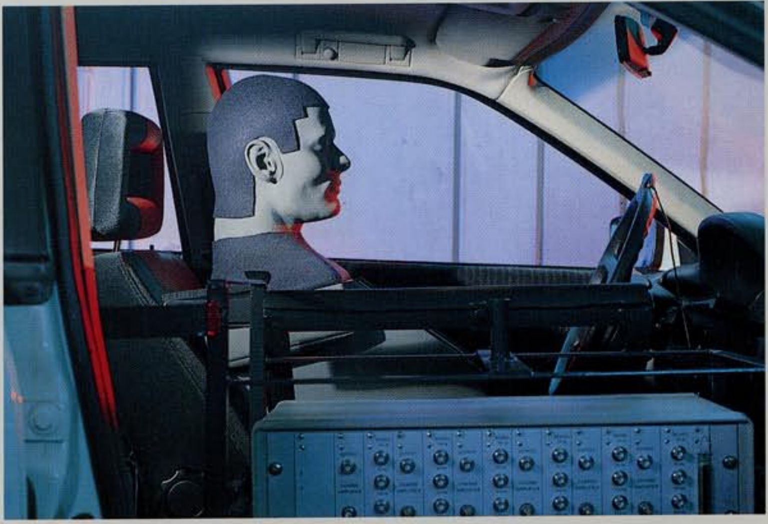
A Quest for the Optimum

The process of optimization requires solid fundamentals, skilled computation and both objective and subjective applications engineering, not only as regards exterior design, but also with respect to materials development and manufacturing techniques. This is reflected in the employment of substantial numbers of engineers and chemists, physicists and mathematicians, process technicians and data processing experts. Large expenditures must also be made for supercomputers and topflight laboratory technology, for test vehicles and test tracks, both for in-house trials and for experiments made under conditions prescribed by customers.

While many performance characteristics relate to the interaction between the tire and the roadway, and the development process is focused on these parameters, other properties are attributable exclusively to the interaction between tires and vehicle components: High-quality tires almost always require joint development work, carefully coordinated between the vehicle and tire manufacturers.

Four Development Centers with Four Different Assignments

The creation of the Continental Corporation in its present form was accomplished primarily during the 1980's. The union of several different brands — Continental, Uniroyal, Semperit and General Tire — with their traditional markets and the corresponding products also brought together the technical and scientific potential of four develop-



1

1 — Vibration-induced noise is recorded using microphones installed in a dummy head.

ment centers at Hanover, Aachen, Traiskirchen and Akron.

The skilled consolidation of development techniques and cultures, the establishment of research and development priorities, the use of modern, function-oriented management methods and the introduction of the latest manufacturing processes throughout the Corporation gave

birth to a competent, effective and highly motivated team of R&D personnel.

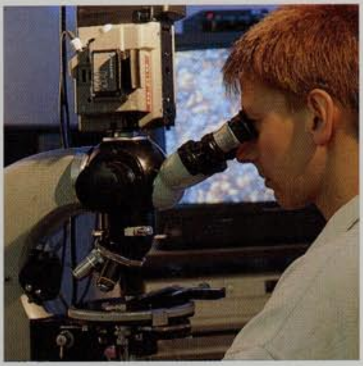
The research center in Hanover is equipped with central, large-scale equipment, including supercomputers, analysis systems and testing facilities, and handles current problems in basic research that are not related to a specific brand.

The European and American development centers concentrate on customer-oriented product development. High-performance networks, modern communication systems, standardized procedures and joint planning tools pave the way for efficient use of human and technical resources and ensure optimum transfer of know-how and exploitation of synergies.

Recyclability and Environmental Protection

Among the most important applications of basic research are the perfecting of mathematical tire models, the simulation of tire and vehicle characteristics and the development of polymers. But ultimately these general projects reflect the imperative requirements of the marketplace and the environment. We must create products which achieve objectives

that have traditionally conflicted: Solution polymers with structures specifically designed to help optimize at a high level such performance characteristics as durability, rolling resistance and wet traction. Innovative fibers and steel cords will minimize weight and rolling



resistance, improve other driving properties and increase recyclability, with a corresponding reduction in environmental impact.

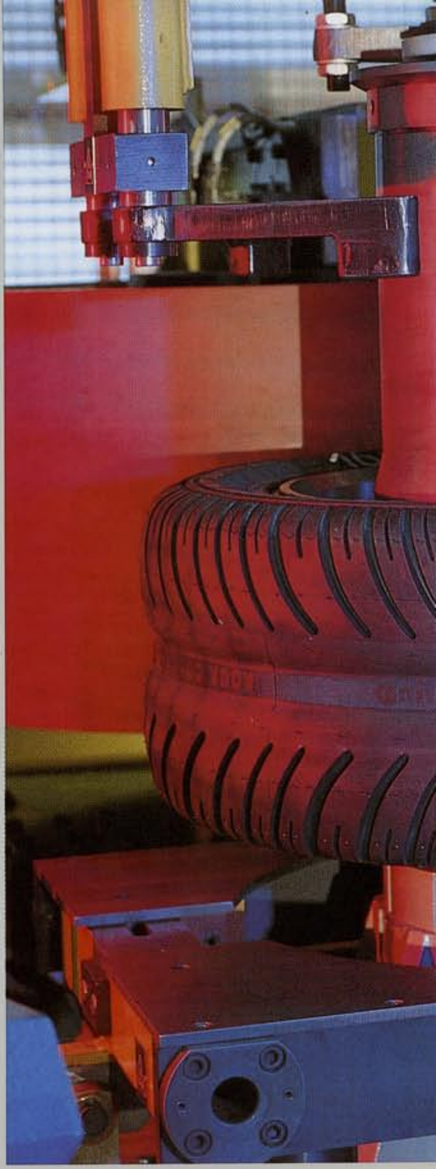
If we understand environmental protection as the duty to reduce energy and raw material requirements — and thus emissions as well — then tires, too, have significant potential in the three main areas of production, use and disposal. Using raw materials economically to reduce weight, manufacturing from nonpolluting, environmentally compatible substances, and developing retreadable products that save fuel because of their low rolling resistance are tasks that have always had an important place in the Corporation's list of priorities.

2 — At an early design stage, tread patterns are carved into plain-tread tires with maximum reproducibility by a robot.

3 — Structural durability of tire components is calculated on a Cray supercomputer using the finite element method (FEM).

4 — Measuring vibratory behavior of vehicles on the vibration test stand.

5 — Computer-aided materials analysis on thin rubber slices using a video microscope is just one of the numerous analytical investigation methods.



1

1 — Physical analysis and psychoacoustic evaluation of recorded tire/roadway noise.

2 — Noise emitted by a passing vehicle is measured and assessed by a measuring vehicle.

3 — Noise levels are displayed as a vehicle drives past two measuring microphones.

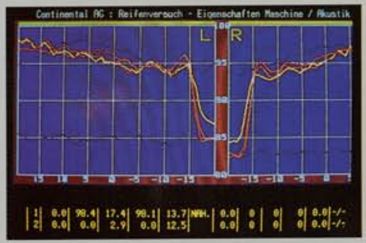
The Tire — An Unknown Element

An interested consumer wants not only to know why certain development projects are in train, but also to understand how the goals are achieved. Typical passenger tires, for example, comprise around 20 individual parts; a modern truck tire is constructed from about 35 components. The geometry and materials of the individual elements are optimized for the specific application: The tread, for example, must be wear- and skid-resistant, the sidewall must be flexible and puncture-proof, the bead heel must stand up against abrasion by the rim. All these special requirements can be satisfied only with a variety of raw materials, including several types of rubber, carbon black, fillers or textiles, and steel cords. Thus, at least 10 different rubber mixtures go into a passenger tire; at least 12 go into a modern truck tire. The chemist and the process engineer make sure that the 12 to 16 discrete raw materials are combined successfully in a mixture and that the desired characteristics are produced by the vulcanization process.

Suitable additives and processes can form bonds — even between such "alien" materials as rubber and steel — which are so strong and permanent that they can withstand millions of load cycles over a number of tire lives resulting from successive retreadings.

Less Weight, Noise and Fuel Consumption

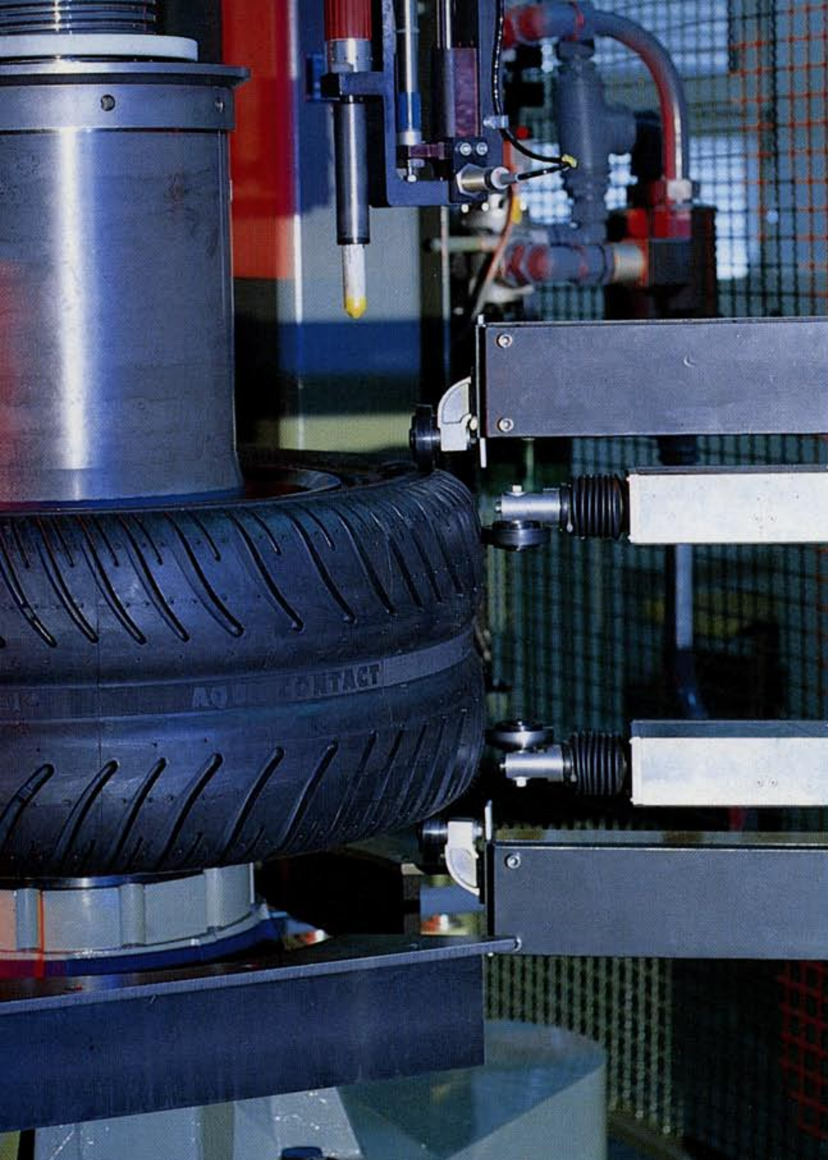
By cutting down on the weight of the vehicle, improving driving properties and increasing load capacity, low tire weight not only saves resources, but also reduces rolling resistance and emissions. But it can be achieved only by the use of extremely sturdy materials, precision design of geometry and strength, and adherence to consistent production standards at every stage of manufacturing. Over the long term, we believe that we can reach weight reductions of 20%.



3

The potential reduction of rolling resistance, as a means of directly economizing on fuel, amounts to about 30% over the medium term. This corresponds to an actual fuel saving of about 5%. The technical and scientific means to this end again consist of improved raw materials, computation methods and process technology.

2



The noise made when vehicles pass one another is the chief topic of interest in noise abatement. Various countries have imposed very tough statutory restrictions on overall driving noise, which is the combined result of engine noise and the impact of the tires on the road. Legislation has already been passed to make these restrictions even more stringent in the coming years. In tires, tread elements of different lengths are distributed, by computerized techniques, in such a manner that annoying frequency peaks are suppressed. Individual tread components are designed so that they will not generate excessive noise as they enter and exit the contact area. When other criteria permit their use, components made of sound-damping materials are employed to create the "whispering" tire. In this field, too, simulation helps to point the way in the initial design stage. Psychoacoustic tests make it possible to determine the level of annoyance produced by individual sounds.

No Future Without Computers

Computations and simulations on supercomputers are the preliminaries to intensive testing in the laboratory and on the road. Constant test parameters are the prime advantage of laboratory experiments. Great efforts are therefore being made to develop objective testing methods. Measurements of noise and temperature, investigations of structure, and endurance tests, examination of the whole tire and its individual components, high-speed and high-resolution slow-motion photography, all provide the necessary or desirable insights into the nature of the tire.

A Thousand Tests for the Customer

The spectrum of a tire's on-the-road driving characteristics is determined for the most part on our Corporation's testing grounds in Europe and the U.S.A. With the requisite safety for the testing engineers and without danger to regular road traffic, the limits of tire and vehicle performance are explored, the smoothness of transition between modes of driving is examined and the suitability of the tires for specific vehicles with various loads is ascertained.

The necessity of perfecting tires for use on prototype vehicles is the basis for a close collaboration with our original equipment customers. At an early stage in the development of a new model, the first adaptation tests with prototype tires are already being made by the vehicle manufacturer's engineers. Under the pressure of the deadline for the start-up of production, many joint trials – some of them on our own testing grounds – with progressively improved and adapted tires lead to the ultimate goal: a new product for the benefit of our customer and a proud achievement for our engineers, chemists, physicists, mathematicians, process technicians and their numerous assistants!

4 – Measuring the uniformity and true running of a large-volume, low-profile passenger tire.

5 – Highly reproducible testing of wet road traction with a rail-guided vehicle.

Our share is traded in Hanover and at the other seven German stock exchanges; it is also listed on four stock exchanges elsewhere in Europe.

Dividend

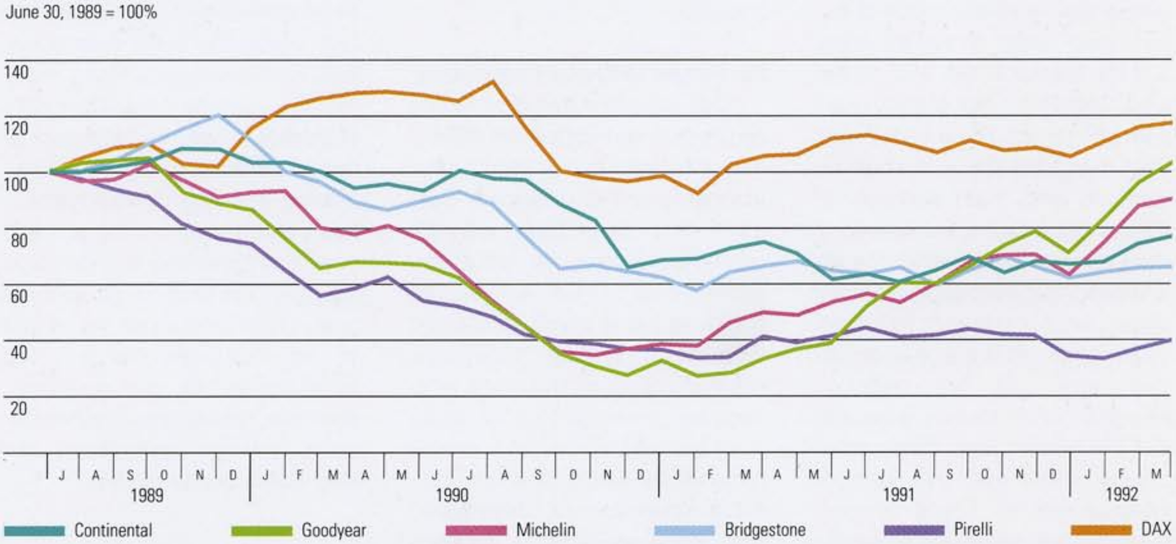
In view of the deficit recorded last year, no dividend can be paid for 1991.

Price Trend

In the shadow of the Gulf crisis, the German Share Index (DAX) started 1991 at 1,398.23, close to the previous year's low of 1,354.08. By January 16, 1991, at 1,322.68, it had already hit bottom for the year. However, due to the positive developments in the Gulf War, the DAX rose almost continuously during the following months, reaching its high point for the year on June 11, 1991, at 1,715.80. In the second half, German shares remained at a comparatively high level; only at the very end of the year was there a slight decline, caused by a number of major sales. The DAX closed at 1,577.98, somewhat above its annual average of 1,519.24.

On the first trading day of 1991, the Continental share was quoted at DM 207.00. With the approach of the Special Shareholders' Meeting of March 13, 1991, the price climbed to DM 251.50 on March 4, 1991. The rapidly changing predictions with regard to the possible outcome of the negotiations with the Pirelli Group subsequently led, initially, to a waning interest in Continental shares. For this reason, the price underwent a temporary decline, reaching a

Share price development since June 30, 1989 *



* average of the month's highest and lowest prices

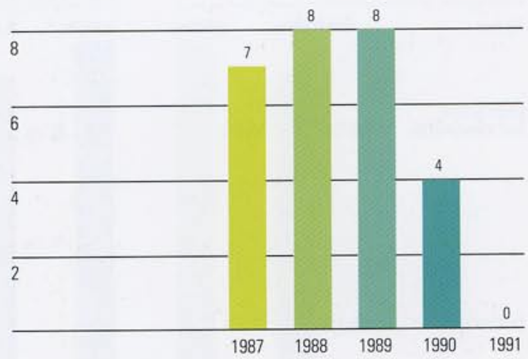
low of DM 180.00 on May 16, 1991. In the second half of the year, a pronounced recovery took place, and the share was traded at prices ranging from DM 200.00 to DM 220.00 during this period. The year-end quotation of DM 207.00 was exactly the same as on the first trading day of 1991.

The price rose significantly again during the first quarter of 1992, and was not affected by the publication of the negative results at the end of March 1992. On the contrary, the price of the Continental share continued to increase, topping the previous year's high on April 7, 1992 at DM 255.00.

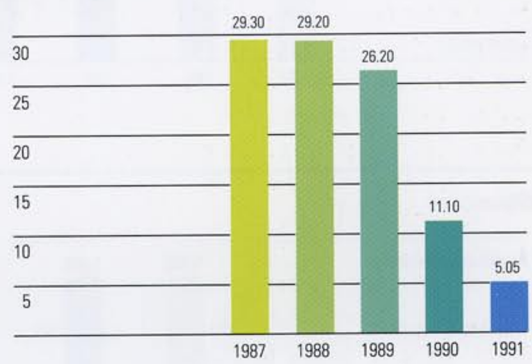
Listing on the International Stock Exchanges

The Continental share is listed on all eight German stock exchanges and on four other floor-trading stock exchanges in Europe. In addition, since May 1989 it has been traded in the U.S.A. in the form of a sponsored ADR (American Depositary Receipt). In the City of London, the share has been quoted since the beginning of 1991 as part of a U.S. market-maker system known as SEAQ (Stock Exchange Automatic Quotes). In fact, a certain trend to computerized trading by means of market-maker systems is noticeable in international financial centers; they are beginning to establish themselves to an increasing extent side-by-side with the traditional exchanges which use the brokerage system. This new kind of system permits shares and other securities to be traded, even if they are not officially listed, beyond the narrow limits of stock exchange business hours, thus encouraging their international distribution.

Cash dividends
DM per share



Earnings per share according to DVFA/SG*
in DM



* DVFA up to 1989

High Share Liquidity

Total sales of German shares on the German stock exchanges amounted to DM 1,259.2 billion in 1991. DM 8.7 billion or about 0.69% (1990: 1.3%) of these sales was attributable to the Continental share, which therefore, despite the reductions in the proportion of the free capital stock that have recently occurred, continues to be a highly liquid Euro equity investment.

Earnings According to the DVFA/SG

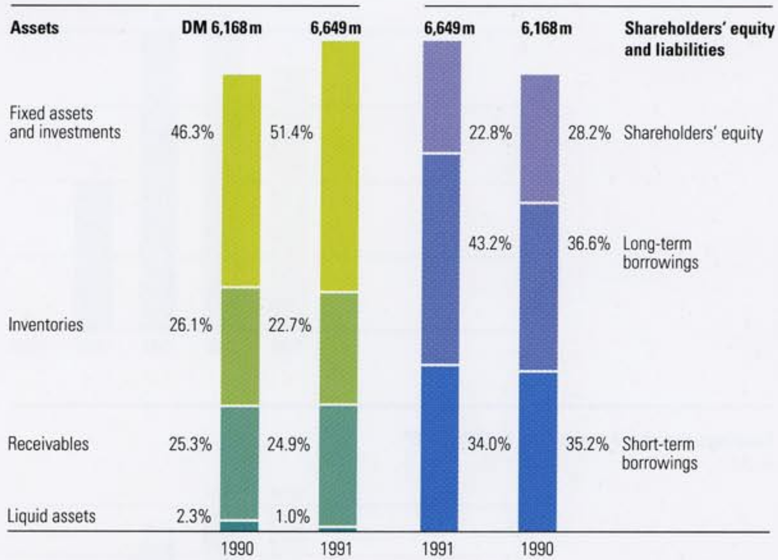
The 1991 per-share earnings, computed according to the methods of the German Association of Financial Analysts (DVFA/SG), at DM 5.05, are below the previous year's figure of DM 11.10. Cash flow per share amounts to DM 59.89 (1990: DM 58.05).

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

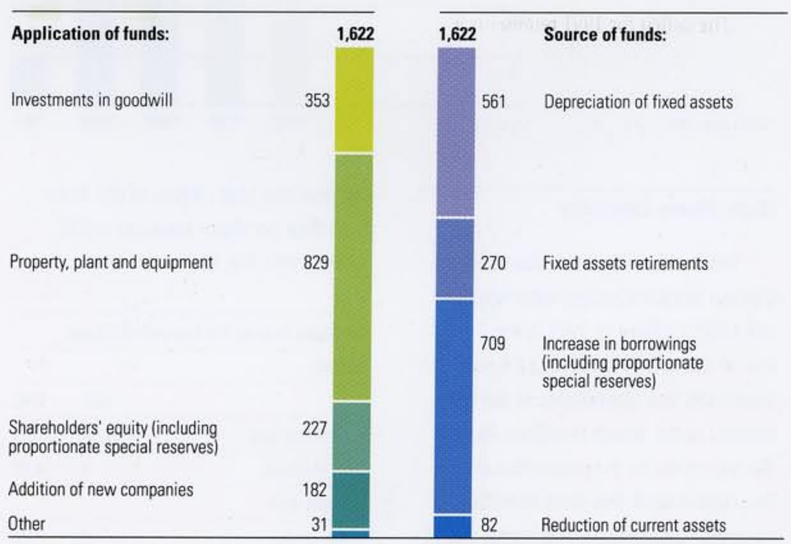
	1991	1990
Net income/loss	−14.59	10.64
Cash dividend	0	4.00
Dividend with tax credit	0	6.25
Earnings (DVFA/SG)	5.05	11.10
Cash flow	59.89	58.05
Book value	172.42	198.38
Market price (12/31)	207.00	207.00
Number of shares at year-end (in thousands)	8,785	8,782

ASSETS, FINANCIAL POSITION AND EARNINGS OF THE CORPORATION

Structure of the consolidated balance sheet



Corporate financing in 1991 (DM million)



Changes Compared with 1990

Consolidated sales for 1991 rose by DM 825.9 million, or 9.7%. National Tyre Service Ltd., Stockport (Manchester), U.K, which was acquired in 1991, accounted for DM 443.2 million of this increase. Excluding the companies consolidated for the first time, consolidated sales rose by a total of 4.0%.

Balance Sheet Structure and Financial Position

Total assets grew by only 7.8%, somewhat less than the increase in sales. They amounted to DM 6,649.3 million on December 31, 1991.

Companies included for the first time accounted for DM 623.4 million of the increase in total assets. On a comparable basis, total assets decreased by 2.3%.

The proportion of fixed assets and investments to total assets continued to climb, rising from 46.3% to 51.4%. About half of the increase in fixed assets and investments was attributable to intangible assets, and the remainder to property, plant and equipment. Current assets showed a further decrease of 2.6% to DM 3,197.0 million, in spite of the additions arising from the inclusion of new companies. While inventories were 6.3% lower, trade accounts receivable and other assets rose by 9.8%. Marketable securities and liquid assets declined by DM 128.7 million, due largely to the acquisition of companies.

Consolidated shareholders' equity, including the equity portion of special reserves, decreased by DM 227.5 million, or 13.1%, due to the deficit for the year, the offsetting of goodwill items and the net result of foreign exchange differences that do not affect earnings. The equity ratio decreased significantly, from 28.2% in 1990 to 22.8%. The equity ratio of Continental Aktiengesellschaft was 41.4%, as against 51.7% in 1990. This result clearly reflects the fact that Continental AG has been operating more and more as a holding company during the past few years.

Provisions again showed a sharp increase, due in particular to the provisions for restructuring programs. They now amount to 28.7% of total assets. The provisions available to the Corporation on a long-term basis, consisting mainly of provisions for pension plans and similar items, amounted to DM 1,312.2 million.

In April 1991, a five-year multicurrency revolving credit facility in the amount of DM 750 million was offered to investors. It was significantly oversubscribed, testifying to the standing of the Continental Corporation on the financial markets.

Continental Corporation	12/31/1991	12/31/1990
Total assets (DM million)	6,649.3	6,167.6
Fixed assets and		
investments (%)*	51.4	46.3
Current assets (%)*	48.6	53.7
Equity ratio (%)*		
— Consolidated	22.8	28.2
— Continental AG	41.4	51.7
Indebtedness (DM million)	2,152.9	1,545.9
Capital turnover	1.4	1.4
Long-term financing		
of fixed assets,		
investments		
and inventories (%)	89.0	89.6
Self-financing (%)	52.1	68.1
Liquidity ratio (%)	74.6	77.1

* As a % of total assets

Indebtedness rose by DM 607.0 million, reaching 142.1% (1990: 88.7%) of shareholders' equity. DM 470.5 million of the increase in indebtedness is attributable to the acquisition of new companies and DM 149.6 million to the net additions to property, plant and equipment (excluding the new companies).

The capital turnover rate remained constant at 1.4.

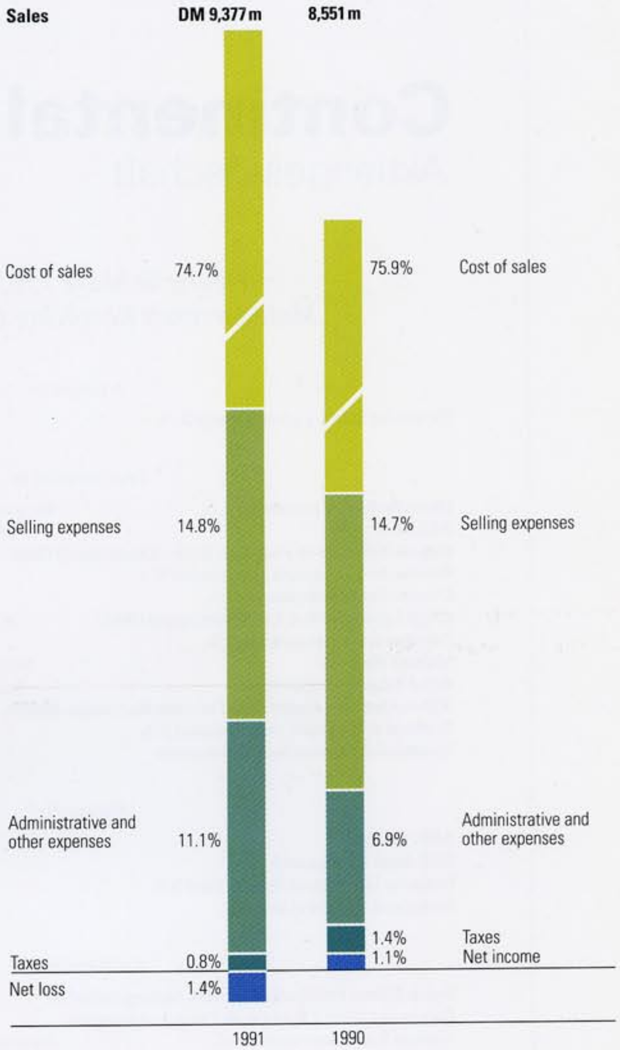
The balance sheet structure of the Continental Corporation continues to be strong. This is reflected in the fact that a high proportion of fixed assets, investments and inventories was again financed by shareholders' equity and long-term borrowings. In 1991, 52.1% of the additions to fixed assets and investments were financed by the cash flow (1990: 68.1%).

Earnings and Liquidity

The deficit for 1991 represents a decrease in earnings of DM 221.6 million compared with the previous year. However, net income before extraordinary expenses and income taxes showed only a moderate decline - from DM 153.3 million in 1990 to DM 131.8 million.

With sales rising by 9.7% to DM 9.4 billion, operating income was up 11.4% over 1990. The pronounced decline at General Tire and slight setbacks at ContiTech were outweighed by gains in the European tire business. Although our industry continues to suffer from worldwide pressure on prices and costs, systematic efforts to optimize processes, combined with generally high capacity utilization and strong sales of snow tires, generated a positive trend for our activities in Europe. However, especially in business with the automotive industry, competition is continuing to necessitate

Structure of the consolidated statement of income



Continental
Aktiengesellschaft

Deutsche Mark 750,000,000
Multicurrency Revolving Credit Facility

Arranged by:

Deutsche Bank Luxembourg S.A. | J.P. Morgan Securities Ltd.

Lead Managed by:

Deutsche Bank Luxembourg S.A.
Morgan Guaranty Trust Company of New York
BfG:Bank
The Bank of Tokyo, Ltd., Hamburg Office
Banque Nationale de Paris S.A. & Co. (Deutschland) OHG
Bayerische Vereinsbank International S.A.
Chemical Bank AG
Commerzbank International S.A.
Creditanstalt-Bankverein
Crédit Lyonnais SA & Co (Deutschland) OHG
DG Bank - Deutsche Genossenschaftsbank
Dresdner Bank Luxembourg S.A.
Hypobank International S.A.
Midland Bank plc
Norddeutsche Landesbank Luxemburg S.A.
Royal Bank of Canada Group
Société Générale – Elsässische Bank & Co.
Südwestdeutsche Landesbank Girozentrale, London Branch
Trinkaus & Burkhardt (International) S.A.
Union Bank of Switzerland
Westdeutsche Landesbank Girozentrale

Managed by:

ABN AMRO
Banco Central, S.A
BHF-Bank International
The Dai-Ichi Kangyo Bank, Ltd.
Deutsche Girozentrale International S.A.
Hessische Landesbank - Girozentrale -
Scotiabank (Ireland) Limited

Co-Managed by:

Banco Bilbao Vizcaya Deutschland Aktiengesellschaft
Banque et Caisse d'Epargne de l'Etat, Luxembourg
Generale Bank
Nomura Bank International PLC
Österreichische Länderbank Aktiengesellschaft
Vereins- und Westbank AG
Westfalenbank International S.A.

Agent

Deutsche Bank Luxembourg S.A.

This announcement appears as a matter of record only | April, 1991

To substantially improve the financing structure of the Corporation, the multicurrency revolving credit facility for DM 750 million was signed on April 8, 1991.

price concessions and the conclusion of unacceptable contracts.

Net income from investments and financial activities declined because of the substantial increase in indebtedness, which was due in the final analysis to heavy outlays on fixed assets and acquisitions.

Extraordinary charges include the expenses for shutting down the General Tire factory in Barrie, Ontario, Canada, and the provisions for structural improvements.

If the extraordinary expenses are disregarded, the net profit margin and the return on shareholders' equity are only slightly below the 1990 level, which, however, was unsatisfactory.

The cash flow increased slightly compared with the previous year, but its proportion of sales dropped from 6.0% to 5.6%.

The debt ratio rose to 4.7 in 1991, primarily because of the acquisition of new companies.

Continental Corporation	1991	1990
Sales (DM million)	9,376.9	8,551.0
Net income/loss (DM million)	– 128.2	93.4
Cost of sales (%)*	74.7	75.9
Selling expenses (%)*	14.8	14.7
Administrative expenses (%)*	6.5	5.9
Income tax ratio (%)	– 4.3	39.1
Net profit margin (%)	– 1.4	1.1
Return on shareholders' equity (%)	– 8.5	5.4
Cash flow (DM million)	526.1	510.0
Cash flow (%)*	5.6	6.0
Interest ratio (%)	2.2	1.7
Debt ratio	4.7	3.5
Personnel expense (DM million)	3,236.4	3,028.5
Cost of materials (DM million)	3,655.3	3,530.3

* As a % of sales

NOTES TO THE 1991 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 111 foreign companies. Seven foreign companies were added in 1991. Three 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 values of the Corporation are not consolidated.

Principles of Consolidation

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

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

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

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

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

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

Foreign Currency Translation

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

In the financial statements of foreign companies, the balance sheet items, including net income, are translated at the rate prevailing on the balance-sheet date. 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 consolidated reserves.

Income and expenses are translated at the average rates for the year.

Principles of Accounting and Valuation

Assets

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

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation. Interest paid by the Corporation on loans during several years in which new tire factories were being built is included with these assets.

Continental Aktiengesellschaft uses the declining balance method to depreciate movable fixed assets, while the straight-line method is used for all other fixed assets. We change over from the declining balance method to the straight-line method as soon as this leads to higher cumulative depreciation. Any special depreciations permitted in tax law have been provided in the Continental Aktiengesellschaft financial statements, since the latter form the basis of the balance sheet in accordance with tax regulations. In the consolidated financial statements, additions are depreciated by the straight-line method.

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

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

Technical facilities and machinery 10 years,

Plant and office equipment 4 to 7 years,

Molds up to 4 years.

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

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

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

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

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

Insofar as 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 General Tire Inc., Akron, Ohio, 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. for post-retirement medical benefits in the U.S.A. are fully covered by provisions computed according to actuarial principles. Furthermore, in anticipation of the new U.S. regulation that will be applicable as of 1993, we made a provision in the consolidated balance sheet for the retirees and vested work force, as well as the non-vested employees.

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

Liabilities are stated at the redemption amount.

Assets

Fixed Assets and Investments

The separate categories of fixed assets and investments that are combined in the balance sheets and the changes in them during the fiscal year are shown on pages 56 and 57. 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 377.9 million consist mainly of the goodwill from the acquisition of National Tyre Service Limited (NTS), Stockport, U.K. This item also includes the goodwill acquired for consideration by the companies belonging to the Corporation. Goodwill of this nature is charged in the statement of 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 the high-rise administrative building in Hanover, the sales outlets of General Tire in the U.S.A., as well as of land that was not needed for our operations and of technologically and economically obsolete machinery and facilities. Special depreciation amounted to DM 18.9 million.

The initial consolidation of new companies caused an increase of DM 160.7 million (DM 201.8 million, less accrued depreciation of DM 41.1 million) in property, plant and equipment.

The other additions are shown in the table below:

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Tires (CUS)	89,058	361,021	70,404	279,457
General Tire	–	314,491	–	265,854
ContiTech	79,159	138,519	68,802	129,166
Other	15,265	15,288	14,983	15,032
	183,482	829,319	154,189	689,509

(3) Investments

Interests in affiliated companies in the Continental Aktiengesellschaft balance sheet decreased following writedown to the fair value of interests in Continental Rubber Holding, Inc., Wilmington, Delaware, U.S.A.; General Tire Canada, Inc., Barrie, Ontario, Canada; and Pneu Uniroyal Englebert S.A., Herstal-lez-Liège, Belgium. The principal additions resulted from capital increases in both Uniroyal Reifen GmbH, Aachen, and Uniroyal Englebert Tyres Ltd., Newbridge, U.K., to finance the acquisition of NTS. A list of the major companies included in the Continental Corporation is presented on page 58 of this report.

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

(4) Inventories

	As of 12/31/1991		As of 12/31/1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Raw materials and supplies	87,976	291,231	90,180	308,766
Work in process	84,664	196,763	82,747	219,971
Finished goods and merchandise	232,810	1,018,565	234,907	1,080,750
Advances to suppliers	2,282	5,498	3,936	6,232
Advances from customers	2,547	2,764	4,075	4,153
	405,185	1,509,293	407,695	1,611,566

The decrease in the Corporation's inventories is attributable mainly to a reduction of DM 115.9 million in the inventories of General Tire. This has been offset in part by an increase of DM 51.1 million in finished goods and merchandise arising from the initial consolidation of NTS.

(5) Receivables and Other Assets

Continental AG		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1991	1 year	12/31/1990	1 year
Trade accounts receivable	189,363	730	189,266	1,182
Receivables from affiliated companies	88,547	–	80,134	–
Receivables from companies in				
which participations are held	1,617	–	–	–
Other assets	34,135	17,938	34,111	6,502
	313,662	18,668	303,511	7,684

Consolidated		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1991	1 year	12/31/1990	1 year
Trade accounts receivable	1,337,412	10,220	1,271,072	3,020
Receivables from affiliated companies	10,222	17	8,342	–
Receivables from companies in				
which participations are held	21,143	–	8,282	–
Other assets	251,678	27,216	187,861	13,983
	1,620,455	37,453	1,475,557	17,003

Of the parent company's trade accounts receivable, 74.9% are attributable to domestic customers and 25.1% to customers abroad. The DM 66.3 million increase in consolidated trade accounts receivable reflects the addition of DM 63.4 million due to the initial consolidation of new companies.

(6) Liquid Assets

	As of 12/31/1991		As of 12/31/1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Checks	3,659	5,500	4,365	5,421
Cash on hand, deposits at the				
Bundesbank and in postal				
checking accounts	1,649	7,090	1,475	5,631
Cash in banks	9,132	53,696	91,905	133,573
	14,440	66,286	97,745	144,625

The Corporation's liquid assets and marketable securities were reduced by a total of DM 128.8 million, as a result of heavy capital expenditures and investments.

(7) Prepaid Expenses

	As of 12/31/1991		As of 12/31/1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Discount on loans/bonds	–	4,041	–	4,078
Miscellaneous	2,287	31,380	699	26,992
	2,287	35,421	699	31,070

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

Shareholders' Equity and Liabilities

(8) Subscribed Capital

The subscribed capital has increased slightly since 1990, due to the exercise of conversion and option rights.

The Company 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	410,019	1,000	410,019,000
Common shares	171,584	100	17,158,400
Common shares	240,988	50	12,049,400
			439,226,800

DM 153.3 million of the conditionally authorized capital of DM 213.3 million has been applied to cover new conversion and option rights. A further DM 60.0 million is 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 12/31/1990	213,446
Utilization: warrants attached to 1984/1994 bonds	130
Conditionally authorized capital as of 12/31/1991	213,316

On January 20, 1992, Pirelli SpA, Milan, Italy (hereinafter referred to as "Pirelli"), informed us, pursuant to Section 20, Subsections 1 and 2, German Stock Corporation Law, that

a) Pirelli itself owns shares with a total par value of DM 5,000.00 and has options to purchase additional shares with a total par value of DM 146,516,100.00, and

b) Pirelli Verwaltungs GmbH, Breuberg, Odenwald, a company controlled by Pirelli, owns shares with a total par value of DM 21,953,050.00.

This block of shares, together with the purchase options of which we have been notified and which, pursuant to Section 20, Subsection 2, German Stock Corporation Law, must be added to it, represents a total of 38.4% of our Company's stock. The participation reported to us was announced in Federal Gazette No. 25 of February 6, 1992.

In its letter dated April 29, 1992, Mediobanca Banca di Credito Finanziario SpA, Milan, Italy (hereinafter referred to as "Mediobanca"), informed us, pursuant to Section 20, Subsections 1 and 2, German Stock Corporation Law, that

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

b) Mediobanca has granted Pirelli SpA an option to purchase all the shares in our Company that are owned by Mediobanca itself and for which it has an option to purchase.

The block of shares of which we have been notified, together with the purchase option which, pursuant to Section 20, Subsection 2, German Stock Corporation Law, must be added to it, represents a total of more than one quarter of our Company's stock.

(9) 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 237.6 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 0.2 million due to the exercise of conversion and option rights in 1991. To cover the deficit for the year, the amount not covered by transfers from retained earnings was withdrawn from capital reserves. The capital reserves were then as follows:

DM 000	Continental AG
As of 12/31/1990	962,275
Increase due to the exercise of option rights	179
Withdrawal to cover losses	265,817
As of 12/31/1991	696,637

Retained Earnings

DM 000	Continental AG
As of 12/31/1990	149,699
Withdrawal to cover losses	149,699
As of 12/31/1991	–

(10) Consolidated Reserves

DM 000	Consolidated
As of 12/31/1990	1,100,063
Differences from currency translation	2,126
Instalment deduction of goodwill	– 27,234
Other	– 13,905
Withdrawal to cover losses	– 125,904
As of 12/31/1991	935,146

Due to the special situation during the past fiscal year, we have combined the Corporation's capital reserves and retained earnings, which were previously shown separately in the consolidated financial statements, in order to give a clearer picture of the Corporation's asset situation.

(11) Minority Interests

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

(12) Reserve for Retirement Benefits

The parent company's reserve for retirement benefits was established to compensate for shortfalls in the provision for pension plans, which cannot yet be made up for tax purposes. This reserve was reduced, according to schedule, by DM 0.4 million to DM 2.5 million.

(13) Special Reserves

	As of 12/31/1991		As of 12/31/1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Reserve under Sect. 3, Foreign Investment Act	23,494	2,830	59,766	15,000
Reserve under Sect. 6 b, Income Tax Act	24,779	–	–	448
Reserve under Sect. 52, Subsect. 8, Income Tax Act	470	713	705	1,069
Governmental capital investment subsidies	–	40,673	–	57,664
Other	1,536	1,536	2,533	6,371
	50,279	45,752	63,004	80,552

The decrease in the special reserve pursuant to Section 3, Foreign Investment Act, relates to the writedown of our interest in General Tire Canada.

At the parent company, the increase in the reserve pursuant to Section 6b, Income Tax Act, is attributable to the establishment of a reserve for the same amount as the book profits generated by the sale of the high-rise administrative building at Königsworther Platz in Hanover.

The Corporation's special reserves are divided into an equity portion of DM 41.2 million and a debt portion of DM 4.6 million, representing deferred taxes, which will be paid in due course when the reserves are eliminated. Including the shareholders' equity of DM 1,473.5 million shown on the balance sheet, the Corporation's total actual shareholders' equity amounts to DM 1,514.7 million, and the equity ratio to 22.8%.

(14) Provisions

	As of 12/31/1991		As of 12/31/1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Provisions for pensions and similar obligations	204,349	973,836	220,977	972,173
Provisions for taxes	18,498	44,146	31,937	72,210
Miscellaneous provisions	212,626	891,367	191,465	689,057
	435,473	1,909,349	444,379	1,733,440

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

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 3.3 million.

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

(15) Liabilities

Continental AG		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1991	1 year	5 years	12/31/1990	1 year	5 years
Bonds, convertible*	72,477	351	897	72,479	242	2,237
Bank borrowings	494,910	490,436	103	444,361	436,398	–
Trade accounts payable	140,337	140,337	–	132,067	132,067	–
Payables to affiliated companies	369,957	354,026	15,931	286,465	271,638	14,827
Payables to companies in which participations are held	5,407	5,407	–	9,290	9,290	–
Other liabilities*	102,502	98,496	–	90,182	84,166	–
tax liabilities	(23,119)	–	–	(23,751)	–	–
liabilities relating to social security and similar obligations	(15,332)	–	–	(20,268)	–	–
	1,185,590	1,089,053	16,931	1,034,844	933,801	17,064

* total amount secured by mortgages: DM 76.0 million.

Consolidated		Due in			Due in	
	As of	less than	more than	As of	less than	more than
DM 000	12/31/1991	1 year	5 years	12/31/1990	1 year	5 years
Bonds, convertible*	871,096	350	450,507	661,296	242	591,054
Bank borrowings	1,095,030	580,773	37,356	820,941	609,441	50,990
Advances from customers	5,638	5,638	–	2,547	2,547	–
Trade accounts payable	650,109	635,951	–	608,392	594,772	–
Liabilities on acceptances						
and notes payable	55,110	55,110	–	77,903	77,900	–
Payables to affiliated						
companies	12,007	412	–	11,808	8,758	–
Payables to companies in which						
participations are held	6,289	6,253	–	9,999	9,963	–
Other liabilities*	525,421	381,526	11,472	488,049	364,978	16,636
tax liabilities	(85,179)	–	–	(73,371)	–	–
liabilities relating to social						
security and similar obligations	(69,753)	–	–	(69,140)	–	–
	3,220,700	1,666,013	499,335	2,680,935	1,668,601	658,680

* amount secured by land charges, mortgages and comparable collateral: DM 124.0 million

Guarantees and Other Commitments

	As of 12/31/1991		As of 12/31/1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Acceptance liability	120,178	336,445	120,447	307,478
due to affiliated companies	31,358	123	40,987	–
Liabilities on guarantees	739,154	24,711	802,752	26,188
Liabilities on warranties	1,851	9,492	2,178	12,912
Liability on shares in cooperatives	81	81	81	81

The contingent liabilities on notes result from discounting trade bills. With the exception of DM 4.5 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 650.6 million for capital market financing by Conti-Gummi Finance B.V., Amsterdam, Netherlands, and Continental Rubber of America Corp., Wilmington, Delaware, U.S.A.

Other Financial Obligations

Liabilities under rental and leasing agreements relate primarily to real estate used for business activities. The breakdown for 1992 and later years is as follows:

DM 000	Continental AG	Consolidated
Rental and leasing agreements	230,005	649,643
Purchase commitments	52,300	253,718

NOTES TO THE STATEMENT OF INCOME

(16) Sales

Continental AG DM million	1991	1990	Change in %
Analysis by Group			
Tires (CUS)	1,841.8	1,706.8	+ 7.9
ContiTech	1,073.2	1,056.1	+ 1.6
Other sales	356.6	303.5	+ 17.5
	3,271.6	3,066.4	+ 6.7
Analysis by geographical area			
Germany	2,066.0	1,975.9	+ 4.6
Europe (without Germany)	1,019.0	875.4	+ 16.4
Non-European countries	186.6	215.1	− 13.2

Consolidated DM million	1991	1990	Change in %
Analysis by Group/Division			
Tires			
Continental	1,820.2	1,755.6	+ 3.7
Uniroyal	1,112.2	1,047.1	+ 6.2
Semperit	900.1	879.2	+ 2.4
Merchandise and services	875.0	462.3	+ 89.3
General Tire	2,195.0	2,189.9	+ 0.2
ContiTech	2,253.0	2,141.5	+ 5.2
Other sales	221.4	75.4	+ 193.6
	9,376.9	8,551.0	+ 9.7
Analysis by geographical area			
Germany	3,488.2	3,266.1	+ 6.8
Europe (without Germany)	3,169.4	2,565.3	+ 23.6
North America	2,250.5	2,351.5	− 4.3
Other countries	468.8	368.1	+ 27.4

Of the 9.7% sales increase, 5.7% is due to new companies which were consolidated for the first time.

(17) 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 expenses. Neither interest payments nor taxes chargeable as expenses are included.

(18) Selling Expenses

These include the costs of our sales organization, distribution and advertising. On the whole, in spite of the expansion of our sales organization and growing requirements in increasingly difficult markets, selling expenses rose no faster than sales. Selling expenses of NTS, in the amount of DM 125.7 million, are included for the first time.

(19) Administrative Expenses

This item consists primarily of personnel and other expenses which cannot be directly allocated to production or sales. If the effects of new companies and reclassifications are eliminated, the increase in administrative expenses amounts to only 2.8%.

(20) Other Operating Income

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Gains on the disposal of fixed assets and investments	27,736	51,092	6,179	33,423
Credit to income from the release of provisions	2,995	73,116	1,418	17,312
Credit to income from the reduction of the general bad debt reserve	–	1,045	–	1,101
Credit to income from the release of special reserves	39,040	29,802	26,385	38,824
Miscellaneous income	100,091	81,063	120,143	103,606
	169,862	236,118	154,125	194,266

The Corporation's credits to income from the release of provisions rose substantially. A large part of the increase consists of the amount of DM 39.5 million which was released as a result of changes in the plan agreed upon with the trade unions, to cover the future medical expenses of retirees of General Tire Inc. In addition to current income from rentals, leasing and miscellaneous sideline operations, other operating income includes indemnification paid by insurance companies and income attributable to other fiscal years.

In the parent company, this item consists mainly of cost apportionments received from other corporate companies.

(21) Other Operating Expenses

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Losses on the disposal of fixed assets and investments	5,636	21,520	2,015	6,694
Losses on the disposal of current assets (except inventories)	890	23,890	1,414	19,197
Allocation to special reserves	26,315	1,544	–	166
Miscellaneous expenses	127,713	172,662	111,504	114,161
	160,554	219,616	114,933	140,218

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 corporate companies.

(22) Net Income from Investments and Financial Activities

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net income from investments				
Income under profit-and-loss				
transfer agreements	44,543	2	31,235	2
Income from investments				
from affiliated companies	66,985	408	30,291	798
from associated companies	1,163	5,476	1,060	5,596
from other companies	1,415	1,415	1,614	1,630
Losses absorbed under profit-and-				
loss transfer agreements	– 8,317	– 181	–	–
	105,789	7,120	64,200	8,026

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Net interest expense				
Income from other securities				
and loans included in				
investments	520	3,352	538	3,038
Other interest and similar income				
from affiliated companies	23,870	28	22,949	935
from other companies	10,954	47,647	18,158	61,144
Interest and similar expenses				
paid to affiliated companies	– 34,331	– 709	– 14,740	– 655
paid to other companies	– 110,717	– 253,301	– 91,762	– 209,918
	– 109,704	– 202,983	– 64,857	– 145,456

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Writedowns on investments				
and marketable securities				
Writedowns on investments	– 6,553	– 301	–	– 1,347
Writedowns on marketable				
securities	–	– 24	–	–
	– 6,553	– 325	–	– 1,347
Net income from investments				
and financial activities	**– 10,468**	**– 196,188**	**– 657**	**– 138,777**

Continental Aktiengesellschaft's income from investment in other companies, net of losses assumed, includes DM 74.1 million (1990: DM 62.1 million) from profit-and-loss transfer agreements and dividends of domestic companies. Its net interest expense continued to rise, due to high outlays for investments. The Corporation's net interest expense amounted to 2.2% (1990: 1.7%) of sales.

(23) Extraordinary Charges

Extraordinary charges consist essentially of the necessary changes in book values of the parent company's investments and of the related expenses and provisions, which, for some of the companies in the General Tire Group, correspond directly to the changes in book value. This item also includes provisions for restructuring. In order to permit comparison, the corresponding items in the previous year were reclassified.

(24) Taxes

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
On income	– 4,739	5,297	45,747	59,884
Other taxes	12,447	67,495	14,186	63,088
	7,708	72,792	59,933	122,972

As a result of the loss carried back, the parent company received a corporate income tax credit.

(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

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Cost of raw materials and				
supplies and merchandise	1,376,711	3,163,216	1,364,120	3,061,096
Cost of outside				
services	665,904	492,034	215,246	469,159
	2,042,615	3,655,250	1,579,366	3,530,255

Personnel Expense

	1991		1990	
DM 000	Continental AG	Consolidated	Continental AG	Consolidated
Wages and salaries	518,364	2,584,619	849,519	2,403,812
Social welfare contributions and				
expenses related to pensions				
and other employee benefits	113,687	651,757	174,137	624,696
expenses for pensions	27,327	76,362	26,861	77,658
	632,051	3,236,376	1,023,656	3,028,508

	Continental AG	Consolidated
Number of employees (quarterly average)		
Salaried employees	3,098	11,698
Wage earners	5,437	39,162
	8,535	50,860

The change in the cost of outside services and the reduction of personnel expense at the parent company were due primarily to the transfer of employees to the new ContiTech companies.

Depreciation, Amortization and Writedowns

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

They include special tax-allowed depreciation at Continental Aktiengesellschaft in the amount of DM 5.0 million (Section 3, FRG/GDR Border Area Assistance Act, and Section 7d, Income Tax Act).

Additional depreciation taken for tax purposes with respect to 1991 and the previous fiscal years (for example, pursuant to Section 3, FRG/GDR Border Area Assistance Act, or Section 6b, Income Tax Act) will result in a future credit in the parent company's statement of income and, to some extent, also in the consolidated statement of income.

Remuneration of the Supervisory Board and the Executive Board

The total remuneration of the Supervisory Board was DM 307,000, of the Executive Board DM 9,403,000 (including remuneration paid by subsidiaries) and of former members of the Executive Board and their surviving dependents DM 8,277,000.

DM 14,059,000 has been set aside for pension commitments to former members of the Executive Board and their surviving dependents.

Hanover, March 1992

Continental Aktiengesellschaft
The Executive Board

CONTINENTAL AKTIENGESELLSCHAFT
CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1991

Assets	See Note No.	12/31/1991 DM 000	12/31/1990 DM 000
Fixed assets and investments			
Intangible assets	(1)	759,931	430,920
Property, plant and equipment	(2)	2,498,375	2,196,724
Investments	(3)	158,535	225,729
		3,416,841	**2,853,373**
Current assets			
Inventories	(4)	1,509,293	1,611,566
Receivables and other assets	(5)	1,620,455	1,475,557
Marketable securities		963	51,426
Liquid assets	(6)	66,286	144,625
		3,196,997	**3,283,174**
Prepaid expenses	(7)	**35,421**	**31,070**
		6,649,259	**6,167,617**

Shareholders' equity and liabilities	See Note No.	12/31/1991 DM 000	12/31/1990 DM 000
Shareholders' equity			
Subscribed capital	(8)	439,227	439,097
Consolidated reserves	(10)	935,146	1,100,063
Minority interests	(11)	96,590	94,286
Reserve for retirement benefits	(12)	2,495	2,861
Net income available for distribution		—	36,383
		1,473,458	**1,672,690**
Special reserves	(13)	**45,752**	**80,552**
Provisions	(14)	**1,909,349**	**1,733,440**
Liabilities	(15)	**3,220,700**	**2,680,935**
		6,649,259	**6,167,617**

CONTINENTAL AKTIENGESELLSCHAFT
CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 1991

	See Note No.	1991 DM 000	1990 DM 000
Sales	(16)	**9,376,924**	**8,551,015**
Cost of sales	(17)	7,006,176	6,490,128
Gross profit on sales		**2,370,748**	**2,060,887**
Selling expenses	(18)	1,382,712	1,255,474
Administrative expenses	(19)	609,055	504,277
Other operating income	(20)	236,118	194,266
Other operating expenses	(21)	219,616	140,218
Net income from investments and financial activities	(22)	− 196,188	− 138,777
Net income from regular business activities		**199,295**	**216,407**
Extraordinary charges	(23)	− 254,656	−
Taxes	(24)	72,792	122,972
Net income/loss for the year		**− 128,153**	**93,435**
Balance brought forward from previous year		1,255	1,380
Minority interests in earnings	(25)	+ 628	− 88
Change in consolidated reserves		+ 125,904	− 59,174
Withdrawal from the reserve for retirement benefits		+ 366	+ 830
Net income available for distribution		−	**36,383**

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 13, 1992/May 9, 1992

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Certified Public
Accountant

Kirste
Certified Public
Accountant

CONTINENTAL AKTIENGESELLSCHAFT
BALANCE SHEET AT DECEMBER 31, 1991

Assets	See Note No.	12/31/1991 DM 000	12/31/1990 DM 000
Fixed assets and investments			
Intangible assets	(1)	15,494	11,378
Property, plant and equipment	(2)	416,469	409,145
Investments	(3)	1,642,164	1,868,836
		2,074,127	**2,289,359**
Current assets			
Inventories	(4)	405,185	407,695
Receivables and other assets	(5)	313,662	303,511
Marketable securities		–	33,533
Liquid assets	(6)	14,440	97,745
		733,287	**842,484**
Prepaid expenses	(7)	**2,287**	**699**
		2,809,701	**3,132,542**

Shareholders' equity and liabilities	See Note No.	12/31/1991 DM 000	12/31/1990 DM 000
Shareholders' equity			
Subscribed capital	(8)	439,227	439,097
Capital reserves	(9)	696,637	962,275
Retained earnings	(9)	–	149,699
Reserve for retirement benefits	(12)	2,495	2,861
Net income available for distribution		–	36,383
		1,138,359	**1,590,315**
Special reserves	(13)	**50,279**	**63,004**
Provisions	(14)	**435,473**	**444,379**
Liabilities	(15)	**1,185,590**	**1,034,844**
		2,809,701	**3,132,542**

CONTINENTAL AKTIENGESELLSCHAFT STATEMENT OF INCOME FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 1991

	See Note No.	1991 DM 000	1990 DM 000
Sales	(16)	**3,271,624**	**3,066,355**
Cost of sales	(17)	2,649,192	2,554,198
Gross profit on sales		**622,432**	**512,157**
Selling expenses	(18)	241,681	224,845
Administrative expenses	(19)	186,347	177,967
Other operating income	(20)	169,862	154,125
Other operating expenses	(21)	160,554	114,933
Net income from investments and financial activities	(22)	– 10,468	– 657
Net income from regular business activities		**193,244**	**147,880**
Extraordinary charges	(23)	– 602,673	– 45,774
Taxes	(24)	7,708	59,933
Net income / loss for the year		**– 417,137**	**42,173**
Balance brought forward from previous year		1,255	1,380
Withdrawal from capital reserves		265,817	–
Change in retained earnings		+ 149,699	– 8,000
Withdrawal from the reserve for retirement benefits		+ 366	+ 830
Net income available for distribution		–	**36,383**

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 13, 1992 / May 9, 1992

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Certified Public
Accountant

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Accountant

CHANGES IN **CONSOLIDATED** FIXED ASSETS AND INVESTMENTS

	Acquisition/Manufacturing Cost					Depreciation					Net value	
	As of 1/1/1991 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1991 DM 000	As of 1/1/1991 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1991 DM 000	As of 12/31/1991 DM 000	As of 12/31/1990 DM 000
I. Intangibles												
Concessions, industrial and similar rights and assets and licenses in such rights and assets	34,349	21,103	1,942	2,687	54,707	19,873	17,669		2,521	35,021	19,686	14,476
Goodwill	414,761	353,126		1,244	766,643	1,693	31,044*		1,233	31,504	735,139	413,068
Payments to suppliers	3,376	3,663	−1,908	25	5,106						5,106	3,376
	452,486	**377,892**	**34**	**3,956**	**826,456**	**21,566**	**48,713**		**3,754**	**66,525**	**759,931**	**430,920**
II. Property, plant and equipment												
Land, land rights and buildings including buildings on third party land	1,247,729	178,609	39,547	151,079	1,314,806	538,542	80,759	230	35,948	583,583	731,223	709,187
Technical equipment and machines	2,941,895	254,417	344,568	161,059	3,379,821	2,094,470	296,811	8,690	116,932	2,283,039	1,096,782	847,425
Other equipment, factory and office equipment	1,041,050	232,823	21,222	72,792	1,222,303	789,788	174,802	−8,920	61,239	894,431	327,872	251,262
Payments to suppliers and assets under construction	388,899	365,233	−405,371	6,004	342,757	49	259		49	259	342,498	388,850
	5,619,573	**1,031,082**	**−34**	**390,934**	**6,259,687**	**3,422,849**	**552,631**		**214,168**	**3,761,312**	**2,498,375**	**2,196,724**
III. Investments												
Shares in affiliated companies	4,202	1,353		3,125	2,430	157	1,234			1,391	1,039	4,045
Loans to affiliated companies	664			664		47			47			617
Shares in associated companies	77,717	20,019	1,121	342	98,515	1,840			123	1,717	96,798	75,877
Investments	93,260	43	−1,121	85,975	6,207	781	57		3	835	5,372	92,479
Securities included in investments	22,068	1,535		301	23,302	2,041	217		60	2,198	21,104	20,027
Other loans	36,291	4,897		3,473	37,715	3,607	499		613	3,493	34,222	32,684
	234,202	**27,847**		**93,880**	**168,169**	**8,473**	**2,007**		**846**	**9,634**	**158,535**	**225,729**
	6,306,261	**1,436,821**		**488,770**	**7,254,312**	**3,452,888**	**603,351**		**218,768**	**3,837,471**	**3,416,841**	**2,853,373**

* DM 27.2 million of depreciation have been offset directly against consolidated reserves.

CHANGES IN FIXED ASSETS AND INVESTMENTS OF CONTINENTAL AKTIENGESELLSCHAFT

	Acquisition/Manufacturing Cost					Depreciation				Net value	
	As of 1/1/1991 DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	As of 12/31/1991 DM 000	As of 1/1/1991 DM 000	Additions DM 000	Retire-ments DM 000	As of 12/31/1991 DM 000	As of 12/31/1991 DM 000	As of 12/31/1990 DM 000
I. Intangibles											
Concessions, industrial and similar rights and assets and licenses in such rights and assets	16,477	7,086	1,617	272	24,908	8,163	5,702	272	13,593	11,315	8,314
Payments to suppliers	3,064	2,732	− 1,617		4,179					4,179	3,064
	19,541	**9,818**		**272**	**29,087**	**8,163**	**5,702**	**272**	**13,593**	**15,494**	**11,378**
II. Property, plant and equipment											
Land, land rights and buildings including buildings on third party land	404,437	6,603	5,715	38,244	378,511	269,503	8,816	4,125	274,194	104,317	134,934
Technical equipment and machines	1,160,595	71,786	26,278	25,008	1,233,651	1,016,170	69,309	23,962	1,061,517	172,134	144,425
Other equipment, factory and office equipment	464,027	66,552	7,042	16,740	520,881	388,559	55,747	14,563	429,743	91,138	75,468
Payments to suppliers and assets under construction	54,318	38,541	− 39,035	4,944	48,880					48,880	54,318
	2,083,377	**183,482**		**84,936**	**2,181,923**	**1,674,232**	**133,872**	**42,650**	**1,765,454**	**416,469**	**409,145**
III. Investments											
Shares in affiliated companies	1,767,727	431,860		9,027	2,190,560	72,015	579,226	9,027	642,214	1,548,346	1,695,712
Investments	156,852	1		79,553	77,300					77,300	156,852
Other loans	16,292	801		558	16,535	20		3	17	16,518	16,272
	1,940,871	**432,662**		**89,138**	**2,284,395**	**72,035**	**579,226**	**9,030**	**642,231**	**1,642,164**	**1,868,836**
	4,043,789	**625,962**		**174,346**	**4,495,405**	**1,754,430**	**718,800**	**51,952**	**2,421,278**	**2,074,127**	**2,289,359**

MAJOR COMPANIES OF THE CONTINENTAL CORPORATION AT DECEMBER 31, 1991

Company	Corporate interest in %	Shareholders' equity DM 000	Net income/ loss 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	179,062	3,260*
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	2,470	1,512
Göppinger Kaliko GmbH, Eislingen	96.3	36,228	1,002*
Bamberger Kaliko GmbH, Bamberg	96.3	4,420	73*
Techno-Chemie Kessler & Co. GmbH, Karben	100.0	21,253	4,415
Deutsche Semperit GmbH, Munich	100.0	18,893	4,770
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	100.0	8,648	5,576
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	2,369	1,419
Clouth Gummiwerke AG, Cologne	98.3	– 38,214	– 34,105
2. Foreign companies (according to accounting and valuation principles uniform throughout the Corporation)			
Continental Holding France SARL, Sarreguemines/France	100.0	159,422	2,495
SICUP SNC, Sarreguemines/France	100.0	76,291	18,038
Société des Flexibles Anoflex SA, Caluire/France	100.0	31,096	3,226
Semperit Reifen Aktiengesellschaft, Vienna/Austria	95.0	310,864	54,969
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	54,667	– 8,918
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	60,694	6,557
Continental Industrias del Caucho SA, Coslada, Madrid/Spain	100.0	18,601	– 4,554
Continental Mabor Industria de Pneus S.A., Lousado/Portugal	60.0	33,304	– 4,100
Semperit (Ireland) Ltd., Dublin/Ireland	100.0	35,656	– 10,989
Continental Tyre and Rubber Group Ltd., West Drayton/UK	100.0	32,363	4,779
Uniroyal Englebert Tyres Ltd., Newbridge/UK	100.0	297,532	2,005
National Tyre Service Ltd., Stockport/UK	100.0	41,997	1,446
General Tire Inc., Akron, Ohio/USA	100.0	258,815	– 203,039
General Tire Canada Inc., Barrie, Ontario/Canada	100.0	1,876	– 140,245
General Tire & Rubber Company of Morocco, Casablanca/Morocco	53.1	17,530	5,309
General Tire de Mexico SA de C.V., Mexico City/Mexico	99.1	22,891	– 1,610
C.U.P. SNC, Roissy/France	100.0	25,039	3,809
Continental Caoutchouc (Suisse) S.A., Zurich/Switzerland	100.0	14,105	1,014
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	8,967	673
Semperit (Schweiz) AG, Dietikon/Switzerland	100.0	15,740	312
Continental Italia S.p.A., Milan/Italy	100.0	8,793	854
ContiTech AGES S.p.A., Santena/Italy	100.0	92,918	– 8,215
Hycop AB, Motala/Sweden	100.0	3,447	– 856
Continental Coordination Center S.A., Herstal-lez-Liège/Belgium	100.0	313,921	26,147
II. Associated companies			
KG Deutsche Gasrusswerke GmbH & Co., Dortmund	32.1	16,500	1,500
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	22,526	1,526
SAVA-Semperit, Kranj/Slovenia	27.8	87,231	423
Compañia Ecuatoriana del Caucho, Cuenca/Ecuador	35.8	20,363	8,197
Nivis Tyre AB, Göteborg/Sweden	49.0	74,113	6,413

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

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

CONTINENTAL CORPORATION

Tire Group (Continental, Uniroyal, Semperit)

Production and Sales

- Continental Plant Hanover-Stöcken
- Continental Plant Korbach
- Continental Plant Sarreguemines / France
- Continental Mabor S.A., Lousado / Portugal
- Plant Casablanca / Morocco
- 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 / Slovenia □
- Uniroyal Englebert Textilcord S.A., Steinfort / Luxembourg
- Nivis Tyre AB, Göteborg / Sweden □
- KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund □
- Drahtcord Saar GmbH & Co. KG, Merzig / Saar □

Dealer Organizations in

- Germany
- Ireland
- Austria
- Switzerland / Liechtenstein
- United Kingdom
- 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.p.A., Santena / Italy
- Hycop AB, Motala/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 Mexico D. F. / Mexico
- Plant San Luis Potosi / Mexico
- 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
- Continental Tyre and Rubber Group Ltd., West Drayton / United Kingdom
- 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. Gummi Gesellschaft mbH, Vösendorf / Austria
- Deutsche Semperit GmbH, Munich
- Semperit (Sales) Ltd., Dublin / Ireland
- Semperit (Schweiz) AG, Dietikon / Switzerland

□ Interest of 50% or less

At December 31, 1991

CONTINENTAL **CORPORATION**
TEN YEAR SURVEY

		1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Balance sheet											
Fixed assets and investments	DM million	815.7	782.9	764.9	1075.3	1063.6	1647.0	1794.9	1998.5	2853.4	3416.9
Current assets	DM million	1103.0	1104.5	1200.8	1761.9	2029.5	3156.2	3660.0	3407.4	3314.2	3232.4
Balance sheet total	DM million	1918.7	1887.4	1965.7	2837.2	3093.1	4803.2	5454.9	5405.9	6167.6	6649.3
Shareholders' equity	DM million	420.6	442.7	522.2	638.4	808.0	1515.8	1657.9	1725.3	1742.2	1514.7
Long-term debt	DM million	694.3	680.1	692.6	965.2	998.9	1541.6	1644.3	1598.6	1995.6	2533.1
Capital expenditure on property, plant and equipment	DM million	131.9	128.2	149.8	253.9	284.8	300.1	447.7	532.4	689.5	829.3
Equity ratio	%	21.9	23.5	26.6	22.5	26.1	31.6	30.4	31.9	28.2	22.8
Long-term financing of fixed assets, investments and inventories	%	84.2	88.3	91.2	86.3	103.8	118.6	113.6	103.7	89.6	89.0
Total indebtedness	DM million	806.4	695.0	594.0	992.5	741.2	672.7	826.4	929.5	1545.9	2152.9
Self-financing ratio	%	133.0	170.4	143.5	113.1	126.7	150.9	112.3	94.4	68.1	52.1
Liquidity ratio	%	71.1	77.7	82.1	76.4	104.3	134.7	119.9	105.0	77.1	74.6
Statement of income											
Sales	DM million	3248.8	3387.2	3534.0	5003.3	4968.6	5097.6	7905.8	8381.9	8551.0	9376.9
Foreign markets' share	%	37.3	36.4	40.1	49.9	48.3	47.5	64.3	65.0	61.8	62.8
Cost of sales[1]	%						71.1	74.6	74.7	75.9	74.7
Selling expenses[1]	%						14.9	13.1	14.0	14.7	14.8
Administrative expenses[1]	%						7.0	6.4	5.7	5.9	6.5
Cost of materials	DM million	1361.3	1420.0	1569.4	2311.8	1981.9	2027.5	3111.7	3298.8	3530.3	3655.3
Personnel expense	DM million	1283.2	1288.2	1334.8	1693.8	1778.5	1878.4	2532.2	2724.8	3028.5	3236.4
Depreciation	DM million	123.8	135.5	150.8	205.5	229.4	263.8	375.8	367.5	378.0	531.0
Cash flow	DM million	144.2	190.7	204.9	303.5	375.9	464.0	623.4	604.9	510.0	526.1
Value added	DM million	1476.3	1486.3	1519.0	1982.4	2161.8	2267.4	3051.0	3319.0	3455.0	3435.0
Net income/loss	DM million	18.3	40.2	41.2	77.2	114.5	138.8	194.8	227.8	93.4	– 128.2
Employees											
Annual average	000	28.2	27.1	26.3	31.7	31.9	32.3	45.4	47.5	48.8	51.4

[1] As a % of sales

CONTINENTAL AKTIENGESELLSCHAFT
TEN YEAR SURVEY

		1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Balance sheet											
Fixed assets and investments	DM million	701.4	663.7	677.7	750.0	761.7	1358.3	1409.5	1889.3	2289.3	2074.2
Current assets	DM million	513.1	492.2	527.0	631.4	741.0	1115.2	1133.9	770.1	843.2	735.5
Balance sheet total	DM million	1214.5	1155.9	1204.7	1381.4	1502.4	2473.5	2543.4	2659.4	3132.5	2809.7
Shareholders' equity	DM million	418.3	419.3	480.6	499.2	667.1	1567.2	1601.3	1641.1	1620.4	1162.4
Long-term debt	DM million	429.9	415.2	413.7	457.8	402.0	375.3	344.4	367.4	354.9	327.1
Capital expenditure on property, plant and equipment	DM million	66.1	58.9	85.4	102.2	102.6	119.7	138.5	135.7	154.2	183.5
Equity ratio	%	34.4	36.3	39.9	36.1	44.4	63.4	63.0	61.7	51.7	41.4
Long-term financing of fixed assets, investments and inventories	%	88.7	92.7	94.7	90.9	105.5	122.8	116.7	92.8	76.1	62.0
Total indebtedness	DM million	373.6	288.0	233.7	250.5	192.9	+ 139.6	+ 171.0	99.1	604.1	863.8
Self-financing ratio	%	121.1	226.2	102.0	78.9	146.6	31.5	103.5	35.0	26.8	53.2
Liquidity ratio	%	66.6	76.4	81.5	74.7	117.0	192.7	163.6	69.7	40.3	25.8
Statement of income											
Sales	DM million	1866.3	1992.7	2079.3	2312.9	2391.0	2423.1	2813.3	3040.8	3066.4	3271.6
Foreign markets' share	%	28.6	28.2	33.4	34.4	35.4	36.2	36.8	38.1	36.0	36.9
Cost of sales[1]	%						80.4	80.4	81.5	83.3	81.0
Selling expenses[1]	%						7.9	7.1	7.1	7.3	7.4
Administrative expenses[1]	%						7.4	6.5	5.7	5.8	5.7
Cost of materials	DM million	835.3	893.8	998.0	1152.2	1107.2	1088.6	1392.1	1542.2	1579.4	2042.6
Personnel expense	DM million	753.4	766.3	790.0	846.7	895.2	928.6	924.5	960.6	1023.7	632.1
Depreciation	DM million	73.5	78.7	85.5	105.5	111.2	121.8	134.9	129.9	130.7	139.6
Cash flow	DM million	89.5	122.8	120.7	158.1	209.9	263.4	262.4	282.5	224.1	303.0
Value added	DM million	847.7	865.3	886.2	971.4	1071.9	1122.2	1129.8	1182.8	1232.3	367.7
Net income/loss	DM million	3.9	15.1	18.3	37.2	55.0	55.8	80.9	81.2	42.2	– 417.1
Dividend paid	DM million	–	16.2	17.9	29.9	37.5	48.0	69.2	69.6	35.1	–
Employees											
Annual average	000	16.3	15.6	15.4	15.5	15.4	15.3	15.1	15.9	16.1	8.8

[1] As a % of sales

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

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

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

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

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

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

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

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

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

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

Cost of sales method. This method used for preparing the statement of income allocates expenses attributable to sales between the manufacturing, selling, and administrative functions. The total cost method, on the other hand, allocates these expenses for the period as expenditures on materials, personnel, depreciation, etc.

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

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

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

DVFA/SG earnings. Computation of per-share earnings according to 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 agreed on a joint recommendation for determining earnings per share.
The objective of this computing method is to eliminate the effects of extraordinary and aperiodic influences on the earnings of corporations listed on the stock exchange.

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

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

FASB. The Financial Accounting Standards Board of the U.S. Financial Accounting Foundation is the supreme institution in the U.S.A. responsible for establishing accounting and valuation principles. Pronouncements issued by this institution are considered as being virtually mandatory for U.S. reporting purposes. They supplement the statutory accounting and valuation rules 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 assets intended for long-term use within the company, such as land, buildings, machinery, interests in other companies, and goodwill.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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