



Leo W. Gerard
International President

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Via Email: Bezirk.hannover@igmetall.de

Dear Mr. Brothers and Sisters:

I am writing to each member of the Supervisory Board of Continental Tire AG to provide you with critical information on Continental Tire North America (CTNA).

We believe that the Management Board of Continental Tire may not be disclosing sufficient information to members of the Supervisory Board and, more importantly, to shareholders about the problems the company is facing in North America. Furthermore, we believe the Management Board has made critical errors that could be disastrous to the Company and its shareholders.

Supply Problems and Strained Relationship with Tire Dealers

Recently, we sent letters to over 1300 tire dealers in the U.S. outlining what we view as serious mistakes by CTNA. These letters are enclosed for your careful review. We strongly encourage you to read them since they contain a fundamental analysis of the problems facing the company in the U.S.

CTNA is failing because it has been unable to establish a sufficient market share in the tire replacement market. Without a change in this situation, the company may never be able to make a profit from passenger and light truck tire sales in the largest tire market in the world.

Some of CTNA's problems in the replacement market include: poor marketing and lack of brand name recognition; research and development that has ignored different consumer tastes and demands in North America; and no retail outlets in comparison to its competitors.

However, the primary cause of CTNA's failure is the almost sole dependence on its largely unprofitable OE (original equipment) sales to produce attendant sales in the more profitable replacement market. While CTNA maintains a 20% market share in the OE market, the company only holds 5% of the replacement market. This business model is in sharp contrast to CTNA's main competitors who have been able to maintain an effective balance between OE fitments and the replacement market.

Even if the CTNA business model of relying almost solely on OE to propel replacement sales was a valid one, CTNA has apparently been unable to supply its dealers with a sufficient supply of tires to replace the OE tires. These problems have been gaining visibility in the industry press (see attached article). In addition, the USW has had direct contact with over 125 dealers in the Southeast U.S., most of whom have substantiated these supply problems.

If CTNA cannot succeed in providing replacement tires for OE tires, how can it ever succeed in building a respectable presence anywhere in the replacement tire market? Given the well-known and strained relationships with tire dealers, this current problem could have long-range and devastating impact on future business.

CTNA's Flawed Sourcing and Labor Strategy

In our opinion, CTNA's efforts to source production from low cost areas are the main cause of the company's supply problems. Management stopped tire production at two of its three wholly-owned plants in the U.S., resulting in an eventual capacity loss of 13 million tires- approximately a third of CTNA's total capacity at facilities servicing the North American market. Clearly, CTNA management did not adequately plan for how it would replace lost production.

The company's new plant in Camacari, Brazil which was to supply the North American market, has been plagued by vendor supply glitches, operational problems and a port strike that delayed supplies needed for tire manufacturing. According to our interviews with plant employees, production levels at the new plant are considerably below projections. Relying on long supply chains involves considerable risk, which has come to fruition in the early experience in Brazil.

It is worth pointing out that the Continental management team has been less than forthcoming to investors about the serious problems at Camacari. In last year's annual report, for instance, Continental's management team reported that, "construction of our new plant in Camacari, Brazil is proceeding according to plan..." Despite serious setbacks and a clear failure to meet production goals, the management team has refused to adjust projections on production capacity.

While CTNA announced major capital expenditures at its remaining U.S. tire plant in Mount Vernon, Illinois, it failed to release how long it will take to increase the overall capacity at the plant. Investors are left in the dark without this precise information.

The USW maintains that the closure of the Mayfield, Kentucky plant and the end of tire production in Charlotte, North Carolina were ideologically driven efforts to escape unionization and to cover up the real reasons for CTNA's problems. While we disagree with the company's data on the operational costs of the Mayfield and Charlotte facilities, there is little doubt that operational costs

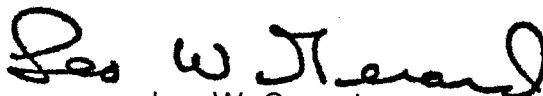
are largely determined by technology and plant improvements which were largely absent in Mayfield and Charlotte. If the \$100 million to be spent on the Mt. Vernon plant and the \$260 million spent on the Brazilian plant were instead used to renovate Charlotte and Mayfield, the resulting supply problems, which are threatening the viability of CTNA today, would have been eliminated.

CTNA's Potential Liability for Labor Law Violations in the U.S.

Finally, we want you to be aware of the potentially disastrous legal liability that the management team's irresponsible and allegedly illegal behavior has created for the company. When management failed to bargain to impasse before implementing its last, best and final offer the company violated U.S. labor law. In response, the National Labor Relations Board has issued a complaint against the company and a trial on these issues is set for November of this year. If found guilty, CTNA would be required to make whole its workforce for wages and benefits lost under the implemented offer- a number amounting to tens of millions of dollars annually.

We hope you will use this information to evaluate the performance CTNA and Continental Tire AG management. We welcome your comments and questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Leo W. Gerard". The signature is fluid and cursive, with the first name "Leo" being particularly prominent.

Leo W. Gerard
International President

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