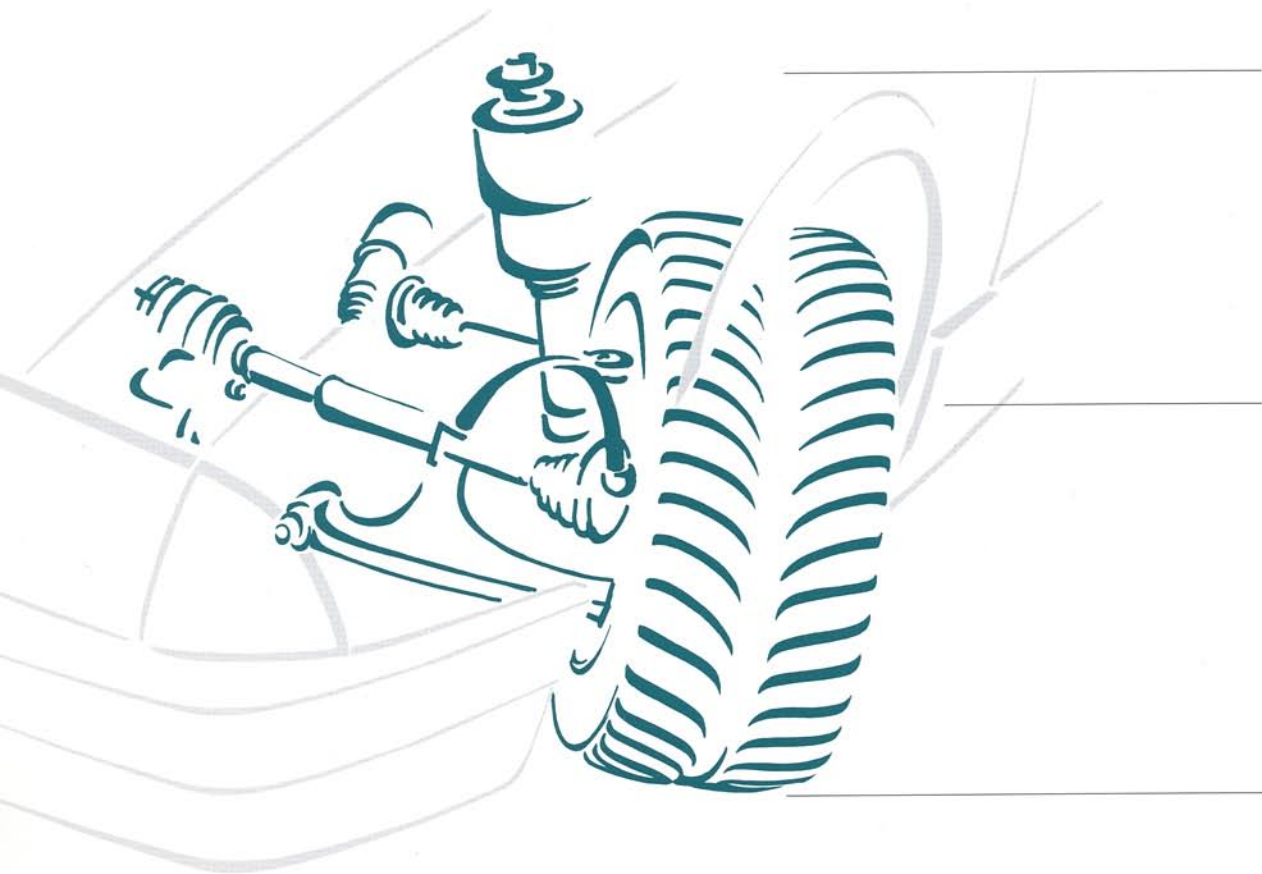

Continental
Aktiengesellschaft



Report on 1994,
the Company's 123rd Fiscal Year

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Continental
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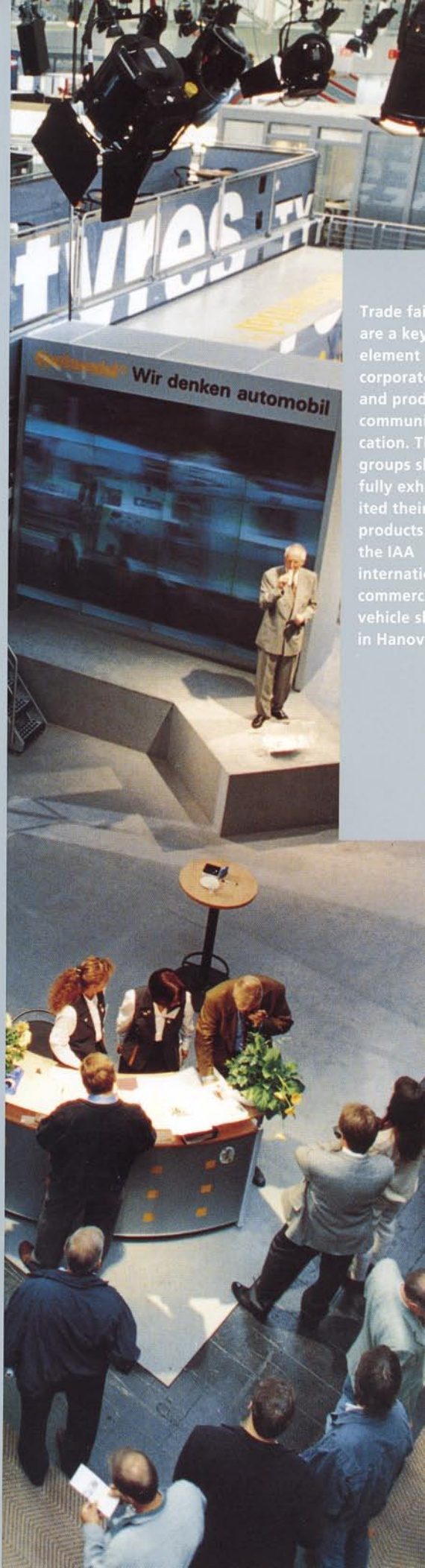
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Trade fairs are a key element of corporate and product communication. The groups successfully exhibited their products at the IAA, an international commercial vehicle show in Hanov

Continental Corporation at a Glance

		1990	1991	1992	1993	1994
Sales	DM million	8,551.0	9,376.9	9,689.9	9,369.1	9,876.9
Income/ loss before taxes	DM million	153.3	-122.9	155.2	74.1	91.6
Income/ loss after taxes	DM million	93.4	-128.2	133.0	65.1	70.8
Dividend paid	DM million	35.1	-	-	36.1	37.5
Cash flow	DM million	510.0	526.1	701.4	578.9	625.9
Debt ratio		3.5	4.7	3.8	4.0	3.4
Capital expenditure on property, plant and equipment	DM million	689.5	829.3	709.3	624.1	514.7
Depreciation ¹⁾	DM million	378.0	531.0	502.6	556.9	583.5
Shareholders' equity	DM million	1,742.2	1,514.7	1,617.1	1,699.0	1,675.5
Equity ratio	in %	28.2	22.8	22.9	23.8	24.6
Employees at year-end ²⁾		50,451	49,304	50,063	50,294	48,583
Share price (high)	DM	345.5	251.5	281.0	277.0	297.5
Share price (low)	DM	189.5	180.0	184.5	190.6	211.0

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.

¹⁾ excluding depreciation on investments

²⁾ excluding trainees





CONTITECH

DENKEN
AUTOMOBIL

Systemanbieter für
Antriebs-, Lenkungs-
Fahrerwerktechnik.

Continental

Wir denken automobil

Continental

Continental

Trade fairs are a key element of corporate and product communication. The groups skillfully exhibited their products at the IAA international commercial vehicle show in Hanover.

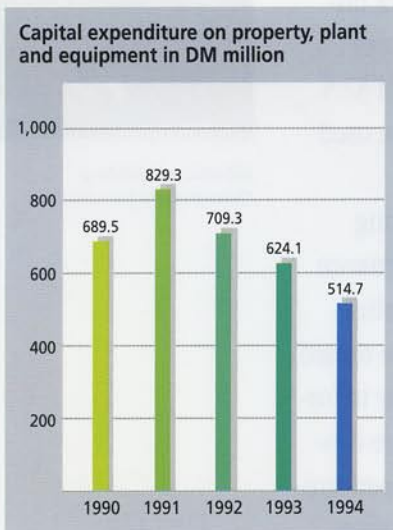
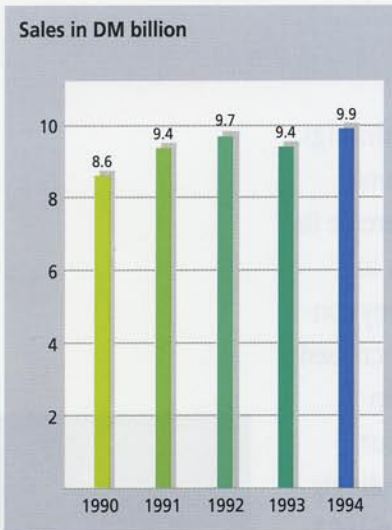
Dear Shareholders,

Our business in 1994 was marked by advances in both sales and earnings. This was the result of internal as well as external factors: On the one hand, we continued to restructure the Corporation in order to increase its efficiency; on the other, we witnessed a lasting economic recovery in Europe and modest growth in Japan. In addition, the U.S. economy continued to develop at a rapid pace. Demand from our customers increased – in some cases vigorously – resulting in a steady improvement in capacity utilization at our plants. Due to fierce price wars in all our markets, the substantial gain in volume did not have a correspondingly strong effect on revenues and earnings. Following the recession in 1993, earnings before taxes grew according to our expectations, with an increase of 23.6%, based in part on the reduction and elimination of unprofitable activities. Net income, at DM 70.8 million, is up 8.8% over 1993. Payment of a dividend of DM 4.00 per share will require DM 37.5 million, or 53.0% of consolidated earnings. The remainder will be used to strengthen shareholders' equity.

The Continental General Tire Group reported operating earnings at break-even level; ContiTech, too, exceeded our performance goals. The good results in the U.S.A. were due largely to a substantial reduction in the losses of the Passenger Tire Division. However, we regard this gratifying achievement merely as an interim stage on the way to further improvements. The Passenger Tire Group, whose activities are concentrated in Europe and which, like ContiTech, is one of our best performers in terms of income, fell short of its goals owing to fierce price wars and to the disappointing results of our dealer organizations. In view of initiated restructuring measures, the Commercial Vehicle Tire Group had hoped to cut its losses substantially, but it was only partially successful due to the general decline of prices in the European markets. We see great sales and earnings potential in the new Automotive Systems Group, which fully lived up to our expectations during its first year of operations.



*Hubertus von Grünberg
Chairman of the Executive Board*



We made further progress during 1994 toward a permanent improvement in our cost structure. For the first time, the Portuguese tire plant in Lousado operated at full capacity, and our factory in the Czech Republic is moving on schedule in the same direction; its restructuring will be completed in 1996/97.

The reorganization at General Tire is also proceeding as planned. In the near future, the headquarters will be transferred from Akron, Ohio, to one of the plants. ContiTech is expanding its manufacturing facilities outside Germany and will from now on be procuring molded parts and extrusions from Slovakia.

Our capital expenditures were again focused on strengthening our technological position. In the U.S.A., we built a new development center for commercial vehicle tires; at Hanover-Stöcken, we continued to consolidate R&D for all our tire brands and completed the construction of a technology center for automotive systems. At the same time, our tire testing center in Hanover is being expanded.

Our multi-brand strategy has proved its worth on the European tire market, in particular during the years of the recession, when importers of cheap products were exerting strong pressure. A new organizational structure, with enhanced tactical and strategic effectiveness, will enable us to serve different market and customer segments from a single source.

We have increased the number of our partners and strategic alliances. ContiTech concluded a cooperation agreement with Cooper Tire & Rubber Co., Findlay, Ohio, and the Automotive Systems Group signed an agreement with Temic TELEFUNKEN microelectronic GmbH, a partner with outstanding high-tech capabilities.

The memorandum of understanding signed with Michelin at the beginning of 1995, which provides for a number of cooperation agreements, will strengthen our competitiveness in the European markets. Each of the partners expects to reduce costs by DM 100 million a year. The cooperation will range from purchasing to the production of

low-price tires by a joint venture. We are receiving the right to unlimited use of the Uniroyal brand name in Europe, which we would otherwise have lost after a few more years. No interlocking participation between Michelin and Continental is planned. The joint venture's task will be to explore further areas of possible collaboration. Our cooperation with Michelin is a decisive step forward in our efforts to safeguard our Company strategically over the long term. Implementation of the agreements is still subject to the approval of the cartel authorities.

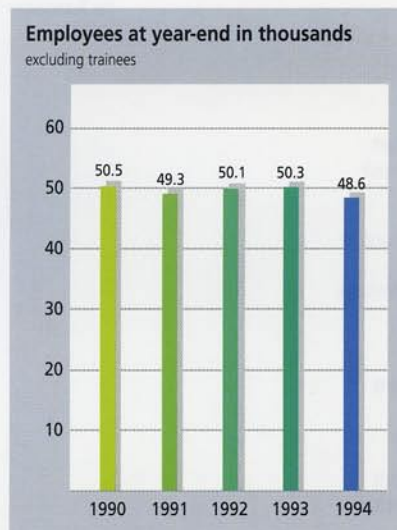
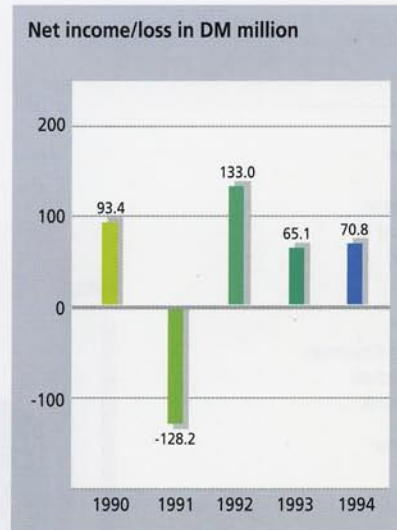
1995 is off to a good start. We will make use of every opportunity to improve Continental's earning power. Although it appears that our endeavors to increase efficiency are taking hold, the explosion of prices for raw materials will certainly have a strong impact on our business.

We thank all our shareholders for the trust they have shown in us, especially during this phase of fundamental change within the Company. I cordially invite you, on behalf of the Administration, to the Annual Meeting of Shareholders on June 7, 1995.

Sincerely,



Hubertus von Grünberg



Report of the Supervisory Board

Members of the Supervisory Board

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

Wolfgang Schultze*
Vice Chairman, Vice Chairman
of the Union for the Chemical-
Paper-Ceramics Industries

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

Heidemarie Aschermann*
Deputy Chariman of the
Employee Council,
Northheim Plant

Adolf Bartels*
District Manager of the
Union for the Chemical-
Paper-Ceramics Industries

Manfred Bodin
Chairman of the Board of
Management,
Norddeutsche Landesbank
Girozentrale

Diethart Breipohl
Member of the Board
of Management,
Allianz AG Holding

Werner Breitschwerdt
Former Chairman of the
Managing Board,
Daimler-Benz AG

Casimir Ehrnrooth
Chairman of the
Supervisory Board,
Oy Nokia Ab, Helsinki
(as of 6/7/1995)

Hans Detlev von Garnier
Director of Deutsche Bank AG,
Hanover Branch
(2/4/1995 to 6/7/1995)

Hans-Olaf Henkel
Chairman of the Supervisory
Board, IBM Deutschland GmbH



Ulrich Weiss,
Chairman of
the Supervisory
Board

During the fiscal year, the Supervisory Board monitored the Company's Administration and received regular reports on its business and financial position, personnel situation and capital investment projects and on specific business transactions. Outside the meetings as well, the members of the

Supervisory Board, and of its steering committee in particular, were available to the Executive Board for consultation. The Chairman of the Supervisory Board was in constant contact with the Chairman of the Executive Board and was informed on an ongoing basis of all the important events in the business. We approved the transactions and procedures that required our consent, after examining them and discussing them with the Executive Board.

Especially noteworthy was the agreement signed with Michelin S.A. for the formation of a joint venture, which, among other things, safeguards

Continental's rights to the Uniroyal brand in Europe.

The financial statements and management report of Continental AG and the financial statements and management report of the Corporation as of December 31, 1995 have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, which has issued an unqualified certificate. The financial statements and management reports, as well as the auditor's reports, were submitted to us. The examinations conducted by the Supervisory Board and the auditor revealed no grounds for objection. We have approved the financial statements of Continental AG, which are thereby definitively confirmed. We endorse the proposal of the Executive Board regarding the allocation of net income.

Effective January 18, 1996, Mr. Wilhelm Schäfer, a member of the Executive Board, transferred the operations of the European Passenger Tire Group to Dr. Hubertus von Grünberg, who will manage the Group until further notice. Until his retirement on May 2, 1996, Mr. Schäfer will perform a consulting role in connection with the transition. We thank him for his 22 years of work for the Company, which made a decisive contribution to the internationalization of the tire activities.

On March 31, 1995, Mr. Hans Kauth, a member of the Executive Board and Director of Personnel since April 1, 1980, withdrew from the Executive Board to enter on a well-deserved retirement. We thank him for his valuable service to the Company. He has been succeeded by Dr. Peter Haverbeck, who assumed the function of Director of Personnel in addition to his previous duties as member of the Executive Board in charge of ContiTech.

During 1994, the Supervisory Board was elected for a new term. All the shareholders' representatives were reelected. Two employee representatives, Dr. Friedrich-Karl Flothow and Mr. Helmut Keufner, retired from the Supervisory Board at the end of the Annual Meeting of Shareholders on June 8, 1994. We wish to express our thanks to them for their unfailing cooperation. Mrs. Heidemarie Aschermann and Dr. Rainer Stark were elected as the new employee representatives. The Supervisory Board's new term started at the end of the Annual Meeting of Shareholders on June 8, 1994. In its constituent session on June 8, 1994, the Supervisory Board reelected Dr. Ulrich Weiss, a member of the Board of Managing Directors of Deutsche Bank AG, as its Chairman.

Dr. Ernst Pieper, former Chairman of the Managing Board, Preussag AG, Hanover, died on February 4, 1995. He had been a member of the Supervisory Board since September 7, 1979. His wealth of experience and vision made an important contribution to the development of our Company. We are deeply grateful for his sincere dedication. He has been succeeded by Mr. Hans Detlev von Garnier, Director of Deutsche Bank AG, Hanover Branch, who was elected at the Annual Meeting of Shareholders as a deputy member of the Supervisory Board.

The Supervisory Board thanks the Executive Board and all the employees for their dedication. Our thanks also go to the shareholders for the trust they have shown in the Company.

Hanover, April 12, 1995

The Supervisory Board



Ulrich Weiss, Chairman

Helmut Keufner*
Chairman of the Employee
Council, Norheim Plant
(through 6/8/1994)

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
Former Chairman of the
Managing Board, Preussag AG
(† 2/4/1995)

Günther Saßmannshausen
Chairman of the Supervisory
Board, Deutsche Bahn AG

Siegfried Schille*
Chairman of the Employee
Council, Limmer Plant

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

Rainer Stark*
Head of Corporate Quality
and Environment
(as of 6/8/1994)

Dieter Ullsperger
Businessman
(through 1/20/1994)

Giuseppe Vita
Chairman of the Managing
Board, Schering AG

Bernd W. Voss
Member of the Board of
Management, Dresdner Bank
AG (as of 1/21/1994)

*Employee representatives



Air spring systems and tires from a single source optimize the handling characteristics of commercial vehicles. As Europe's market leader for air springs, we supply products for the German ICE and French TGV high-speed trains. We also equip the Hong Kong and Seoul subways.

Management Report for the Corporation and Continental Aktiengesellschaft

Assets, Financial Position and Earnings

The Continental Corporation recorded sales of DM 9.9 billion, or DM 0.5 billion more than in 1993. DM 242.0 million of this amount is attributable to the first-time full-year consolidation of the companies Barum Continental spol.sr.o., Otrokovice, Czech Republic, and Benecke-Kaliko AG, Hanover, which were acquired in the previous year. The increase of only 5.4% reflects the lower price levels in important fields of business. Earnings growth was limited by intensified competition and the sharp rise in raw materials prices during 1994. We have therefore stepped up measures to boost efficiency in all our business units.

74% of consolidated sales was generated by tires, and 26% by industrial rubber products.

Higher Earnings

Consolidated earnings before interest and taxes (EBIT) rose by 1.6% to DM 301.5 million. At DM 70.8 million, net income increased by DM 5.7 million, or 8.8%, over the previous year.

The ContiTech Group was able to improve its 1993 EBIT. Due to losses reported by the Corporation's dealer organizations, sales of the Passenger Tire Group fell short of the previous year's level. The Commercial Vehicle Tire Group reduced its losses, although market conditions did not permit as large a decrease as we had expected. Our North American subsidiary Continental General Tire took a step forward and reported operating earnings at break-even level; its EBIT even almost doubled. Due to further provisions for restructuring programs, the company closed the year with a net loss of DM 9.9 million. The Automotive Systems Group which we formed in 1994 is off to a promising start and has recorded its first sizable orders.

Members of the Executive Board

Hubertus von Grünberg
Chairman

Wilhelm P. Winterstein
Vice Chairman
Finance and Controlling
(through 6/8/1994)

Hans Albert Beller
Automotive Systems

Peter Haverbeck
ContiTech
Director of Personnel
(as of 4/1/1995)

Jens P. Howaldt
Finance, Controlling and Law
(as of 6/8/1994)

Hans Kauth
Director of Personnel
(through 3/31/1995)

Alan L. Ockene
General Tire
(through 12/31/1994)

Klaus-D. Röker
Commercial Vehicle Tires/
Environment and
Tire Research

Wilhelm Schäfer
Passenger Tires/
Tire Marketing and Sales

Vice Presidents

Bernd Frangenberg
President
Continental General Tire, Inc.

Klaus Friedland
Corporate Human Resources
(as of 4/1/1995)

Helmut Gieselmann
Chairman of the
Managing Board of
Vergölst GmbH

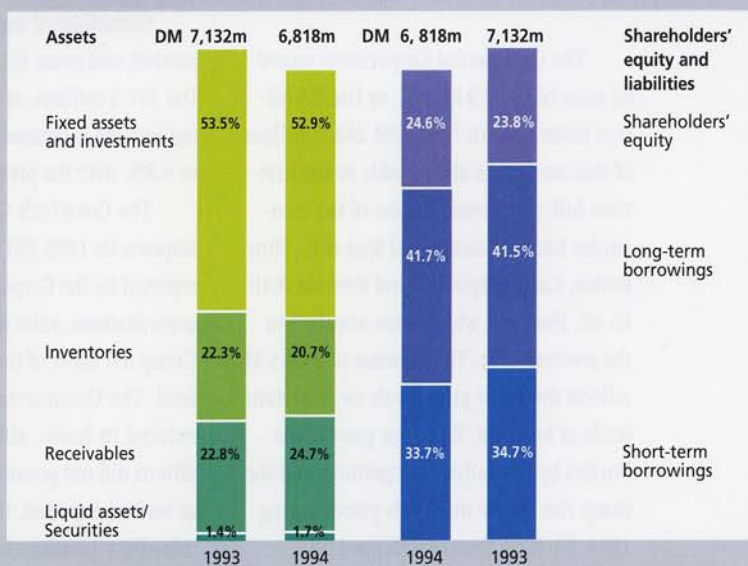
Werner P. Paschke
Corporate Controlling
(as of 6/8/1994)

Rainer Simon
Tire Marketing and Sales
Europe

Operating EBIT		
DM million	1994	1993
Passenger Tires	209.6	252.5
Commercial Vehicle Tires	- 29.9	- 49.3
Continental General Tire	40.3	22.4
ContiTech	113.7	94.1
Operating EBIT	333.7	319.7
Holding costs ¹⁾	- 32.2	- 22.9
Earnings before interest and income taxes	301.5	296.8
Net interest expense	- 209.9	- 222.7
Earnings before taxes	91.6	74.1
Income taxes	- 20.8	- 9.0
Net income for the year	70.8	65.1

1) 1994 holding costs include the Automotive Systems Group for the first time.

Structure of the consolidated balance sheet



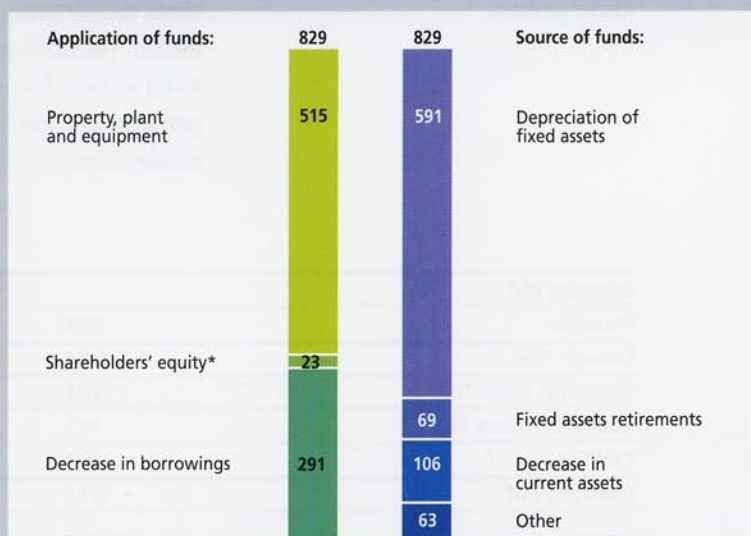
Dividend

Continental Aktiengesellschaft's net income available for distribution amounts to DM 37.9 million. The Administration proposes to the Annual Meeting of Shareholders that a dividend of 8%, or DM 4.00 per share with a par value of DM 50.00, be paid for 1994.

Capital Stock

The capital stock of Continental Aktiengesellschaft rose by DM 17.2 million, due mainly to the exercise of warrants attached to the 1984-1994 bonds. At December 31, 1994, it amounted to DM 468.6 million. The AG still has conditionally authorized capital of DM 186.0 million. The capital of DM 200 million for the issue of new shares authorized by the Annual Meeting of Shareholders held on June 2, 1993 remains unchanged.

Corporate financing in 1994 (in DM million)



* including special reserves

Lower Capital Investments

In 1994, additions to property, plant and equipment amounted to DM 514.7 million (- 17.5%) at the consolidated level. They have thus declined since 1991 in the course of consolidation measures by DM 315 million or 37.9%. However, approved capital expenditures, at DM 587 million, exceeded the previous year's DM 504 million by 16.5%. The Corporation's capital expenditure ratio was 5.2%, compared with 6.7% in 1993.

Balance Sheet Structure and Financial Position

Total assets were down substantially, decreasing by 4.4% to DM 6,817.5 million. Approximately 50% of this amount is attributable to lower exchange rates on the balance sheet date, especially those of the British pound and the U.S. dollar. For the first time, all of Continental General Tire's assets and debts have been valued in accordance with U.S. principles of accounting and valuation, with no significant effect on consolidated net income. The ratio of fixed assets and investments to total assets, at 52.9%, remained close to the previous year's level of 53.5%. Intangible assets declined, as had been expected, due to the offsetting of goodwill. With capital expenditures at DM 514.7 million and depreciation at DM 551.5 million, there was a decided decrease in property, plant and equipment. Investments remained virtually unchanged. Inventories were considerably reduced, while trade accounts receivable rose slightly as a result of strong sales during the last two months of 1994.

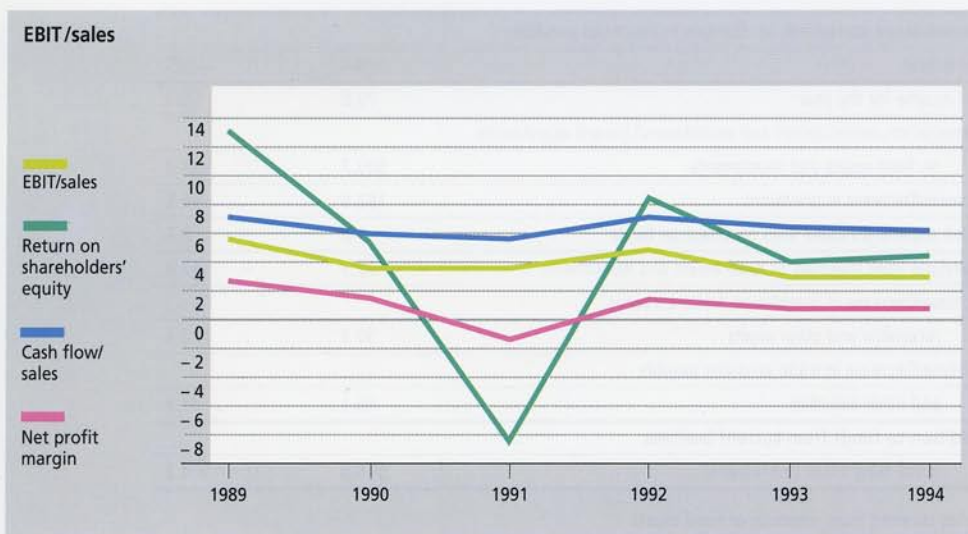
Consolidated shareholders' equity, including the equity portion of special reserves, dropped by DM 23.5 million to DM 1,675.5 million. This decrease stems largely from the negative effect of foreign exchange rate fluctuations. The equity ratio amounts to 24.6% (1993: 23.8%). Provisions were down 9.6% over 1993, to 26.6% of total assets. This takes into

Consolidated statement of changes in financial position		
DM million	1994	1993
Net income for the year	70.8	65.1
Depreciation, amortization and writedowns/Upward adjustments		
on fixed assets and investments	590.7	557.2
Increase/Decrease in provisions	- 192.9	48.5
Other expenses/income with no effect on funds	- 7.3	- 9.8
Gain/Loss from disposals of fixed assets and investments	- 22.3	- 17.4
Increase/Decrease in inventories, trade accounts		
receivable and other assets	90.4	228.8
Increase/Decrease in trade accounts payable		
and other liabilities	46.1	31.8
Addition to funds from current business		
(cash flow from operations)	575.5	904.2
Funds received from disposals of fixed assets		
and investments	69.4	73.6
Funds paid for fixed assets and investments	- 574.9	- 686.4
Funds paid for fixed assets and investments due		
to addition of new companies	- 4.7	- 239.4
Foreign exchange differences in the valuation of		
fixed assets and investments	111.9	- 39.8
Funds received/paid due to investment activity	- 398.3	- 892.0
Funds received from capital increases		
Other changes in shareholders' equity	- 26.8	36.0
Distributions	- 36.1	-
Funds received from bond issues	-	283.1
Funds paid for bond retirement	- 106.1	-
Funds received/paid due to financing activity	- 124.2	398.3
Effective change in net financial position	53.0	410.5
Net financial position at beginning of period	- 1,304.9	- 1,715.4
Net financial position at end of period	- 1,251.9	- 1,304.9
Bonds	- 878.5	- 984.6
Indebtedness	- 2,130.4	- 2,289.5

In line with the general internationalization of financial reporting, we have prepared a statement of changes in financial position, based on the opinions of the Main Auditors' Committee and the Financial Accounting Work Group of the Schmalenbach Company.

account the utilization of a large portion of the reserves for severance payments during the fiscal year. Indebtedness decreased by DM 159.1 million, or 6.9%. The gearing ratio amounts to 127.1%

(1993: 134.8%). A reduction in capital expenditures, restraint in the acquisition of new companies and prudent management of working capital all contributed to this positive development. The capital



turnover rate improved significantly, from 1.31 in 1993 to 1.45. The balance sheet structure of the Continental Corporation continues to be strong, as shown by the fact that a high proportion (90.1%) of fixed assets, investments and inventories was again covered by shareholders' equity and long-term borrowings. For the first time, capital expenditures were financed in full by the cash flow (1993: 92.8%).

Earnings

Overall, the contrary trends in average exchange rates had only a minor effect on sales. With an increase of 5.3%, the cost of sales rose at roughly the same rate as the sales themselves. Administrative and selling expenses were 3.5% higher than in 1993, which is ultimately attributable to the progress achieved in operating procedures. Since net interest expense improved by 5.7%, earnings before taxes grew by 23.6%, from DM 74.1 million to DM 91.6 million, even though other operating expenses, in particular, were higher than in 1993.

Cash Flow

The cash flow increased over the previous year to DM 625.9 million. At 6.3%, its proportion of sales is approximately the same as in 1993 (6.2%). Due to an increase in cash flow and a slight decrease in indebtedness, the debt ratio improved from 4.0 to 3.4 in 1994.

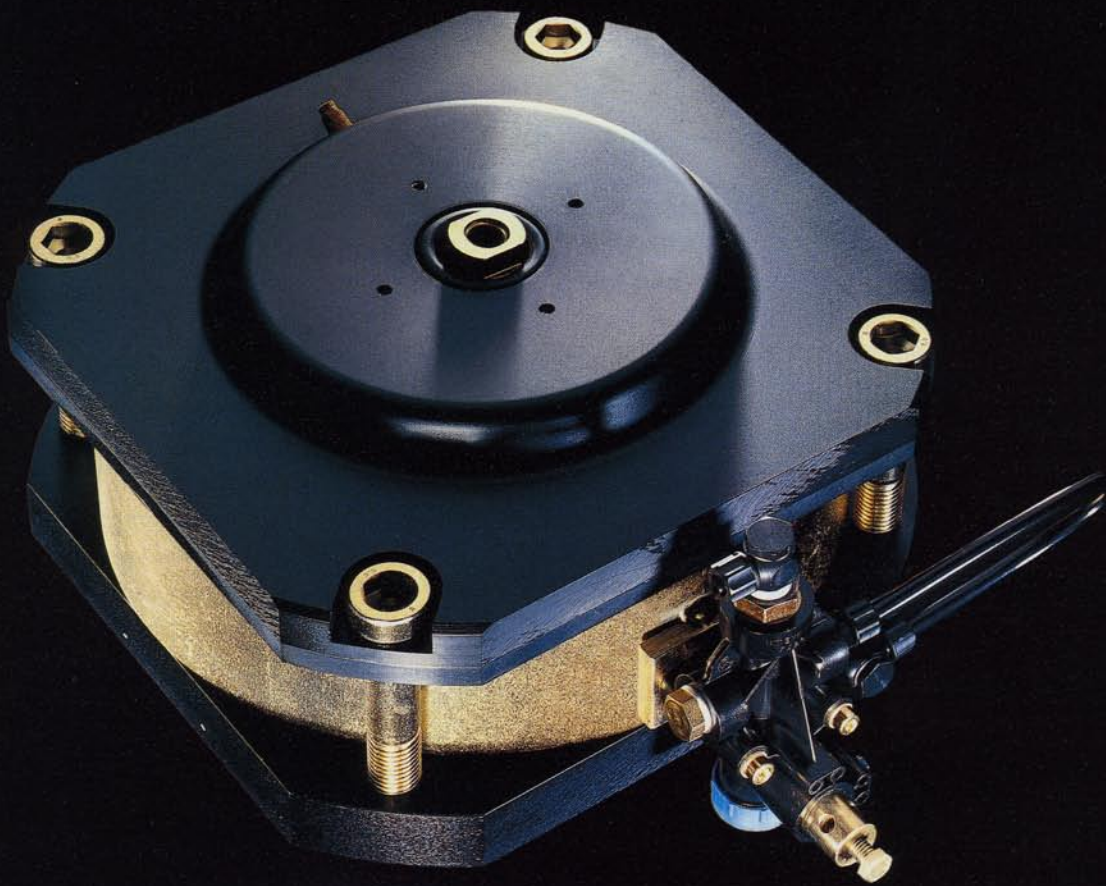
Derivatives

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

The currency risk – and, accordingly, the maximum hedging volume – are determined by taking the balance of the anticipated receipts and payments in each currency for the following twelve months. At the consolidated level, the total for all currencies was DM 1.2 billion, DM 247 million of which had been hedged as of December 31, 1994. This amount was made up of DM 200 million in forward exchange transactions and DM 47 million in foreign exchange options. In addition, loans in foreign currency amounting to DM 376 million were hedged on that date.

Against indebtedness of DM 2,130.4 million, we had interest swaps with a total face amount of DM 1,114 million and forward rate agreements (FRAs) worth DM 100 million. Some of the interest swaps balanced one another or constituted valuation units with specific debts. The remaining interest-swap transactions, totaling DM 493 million, and the forward interest contracts were valued separately at the balance-sheet date.

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



A newcomer to ContiTech Formteile GmbH's range is an airmount with built-in shock absorber, providing ideal support for self-oscillating machinery and equipment.



The Groups

The Passenger Tire and Dealer Organizations Group reported earnings before interest and taxes of DM 209.6 million, or DM 42.9 million less than in 1993. The Group made structural and

Passenger Tire Group

	1994	1993
Sales in millions of DM	3,914	3,892
EBIT in millions of DM	210	253
Employees	23,056	23,889

organizational changes to counteract this negative trend. Sales of passenger tires to the European automotive industry and replacement markets grew by 4.2%.

We completed the enlargement of the plant in Lousado, Portugal, which has now become our most efficient passenger tire factory in Europe. Restructuring of the manufacturing facility in Otrokovice, Czech Republic, is proceeding according to schedule. The expansion of our French manufacturing operations at Sarreguemines will also help to improve our competitiveness. A strike at the Clairoix plant in France – which, to make things worse, was damaged by a flood – caused temporary bottlenecks in delivery. Our first fully-automated single-stage building machine for passenger tires started operation at the Stöcken plant in Hanover. Thanks to our systematic total quality policy, seven of our 13 European plants have already received ISO 9001/9002 certification; by the end of 1995, all our plants will have been awarded this international quality seal.

Despite the mild winter, business with snow tires was better than expected, due to the great number of new products which met with an excellent response from customers and the press. Within the Company we have restructured the “European Marketing and Sales” unit, in order to service the markets more efficiently.

The Corporation’s dealer organizations failed to achieve their sales and earnings targets. Thorough reforms have been initiated, and new concepts for the dealers are being developed to bring them back into the profit zone.

Commercial Vehicle Tire Group

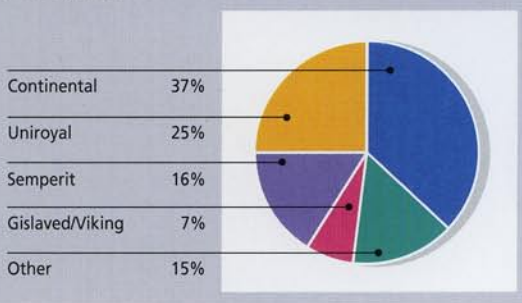
	1994	1993
Sales in millions of DM	1,076	1,017
EBIT in millions of DM	- 30	- 49
Employees	4,641	5,200

The Commercial Vehicle Tire Group reduced its previous year’s losses before interest and taxes by DM 19.4 million to DM 29.9 million. Demand on the European replacement markets continued to be extremely weak until the fall of 1994. In contrast, sales to original equipment manufacturers were brisk right from the start, resulting in double-digit gains in volume for the year as a whole. On the other hand, the starting point was very low because of the recession. In Europe, business with OEMs increased by 21.1%, so that the Group’s total sales were above the previous year’s figure.

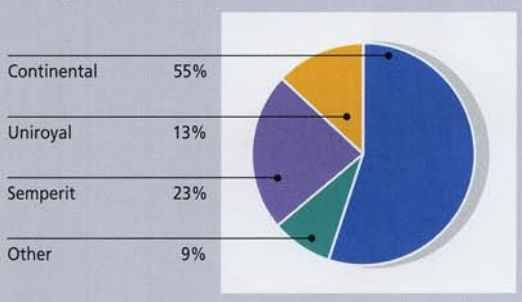
Due to the battle for market shares, prices continued to decline in all our markets. This Group was particularly hard hit, because the price of natural rubber, which is used to a considerably larger extent in the manufacture of commercial vehicle tires, rose sharply. We have adjusted capacity utilization at our plants to the demand; in some cases, we rejected orders that would have definitely resulted in insufficient earnings.

In order to streamline our production programs, we have transferred truck-tire manufacturing operations from Sarreguemines to the Barum plant in the Czech Republic. Further restructuring measures

Passenger Tire Group Sales by brand



Commercial Vehicle Tire Group Sales by brand



involved the continued shift of agricultural tire manufacturing activities to Poland. In order to remain competitive, some of our standard bicycle tires are now being produced in Thailand. By significantly improving their results, the two-wheel, industrial and agricultural tire operations, which for structural purposes have been assigned to the Commercial Vehicle Tire Group, made a major contribution to reducing the losses of the Group as a whole.

We have signed a cooperation agreement with Pirelli Tyre Holding, Amsterdam, in the field of truck tire research. In addition, we are manufacturing truck tires for Pirelli on an offtake basis.

Continental General Tire Group		
	1994	1993
Sales in millions of DM	2,198	2,137
EBIT in millions of DM	40	22
Employees	7,131	7,619

The Continental General Tire Group benefited from the positive economic trend in the U.S.A. Thanks to substantial structural and organizational changes, it was able to increase the previous year's slight profit before interest and taxes from DM 22.4 million to DM 40.3 million. This result was depressed by necessary provisions for restructuring programs.

Sales increased by 2.8%, while the work force was 6% lower. In the OEM business, General recorded sales gains in both passenger and commercial vehicle

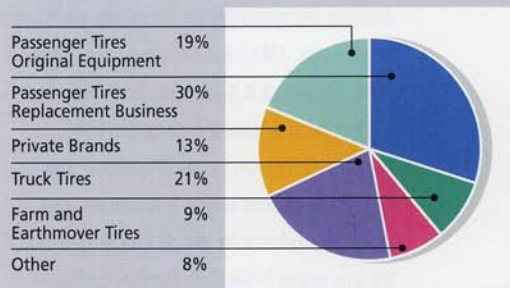
tires. We make significant deliveries to leading U.S. car manufacturers, and in the future will also supply the U.S. plants of European manufacturers. The restructuring and expansion of the dealer base are proceeding on schedule; sales of passenger tires to dealers rose by a gratifying 9%.

The central administration in Akron, Ohio, will be transferred in stages to the Charlotte plant in North Carolina. The change of the company's name to Continental General Tire draws the attention of the public to the closer operational and strategic links between the Passenger and Commercial Vehicle Tire Divisions and the German headquarters. We are taking full advantage of the synergies and earnings potential resulting from this link. In manufacturing and development, the best possible concepts for each application are now being exchanged with even greater speed and efficiency. The plant in Mt. Vernon, Illinois, is setting the standard for efficiency for our European manufacturing facilities as well. In reciprocity, General will use a concept for light tires developed in Europe which cuts costs and conserves resources.

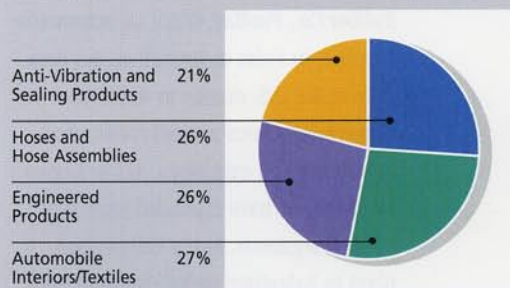
ContiTech Group		
	1994	1993
Sales in millions of DM	2,480	2,123
EBIT in millions of DM	114	94
Employees	13,592	13,426

The ContiTech Group increased its earnings before interest and taxes by DM 19.6 million to DM 113.7 million and reported above-average sales growth. This is attributable, however, to the fact

General Tire Group
Sales by product group



ContiTech Group
Sales by operations



that the former J.H. Benecke AG, Hanover, was consolidated for the entire year. Adjusted for this effect, sales rose by 8.2%. Demand grew, spurred by the economic revival in the European automotive industry, which is ContiTech's largest customer. Despite strong pressure on prices, earnings improved as a result of steady reductions in variable and fixed costs. Higher volumes and shifts in the product mix also had a positive effect.

For competitive reasons, ContiTech, like the other Groups, is shifting its production increasingly to locations with low labor costs. IMAS S.A., Greece, and ContiTech Elastorsa S.A., Spain, both reported higher production volumes. In 1994, ContiTech Vegum, a joint venture, was formed to manufacture extrusions and molded products in the Slovak Republic. We are actively seeking further partners in Central and Eastern Europe. At the beginning of 1995, a cooperation agreement was concluded with Cooper Tire & Rubber Co., Findlay, Ohio, an automotive supplier, in order to strengthen our presence in the U.S. market as well. The cooperation covers anti-vibration products, hoses and extrusions. At our German locations, we have expanded high-tech product segments. At the Volkswagen plant in Salzgitter, we will produce hose assemblies with former VW employees.

The performance of ContiTech AGES, our Italian subsidiary, has continued to improve, so that we expect a positive result for 1995. Due to a decline in business volume, we are intensifying our restructuring efforts at Clouth Gummiwerke AG, Cologne.

Most of ContiTech's other subsidiaries made gratifying progress and increased their earnings.

Automotive Systems Group

The newly formed **Automotive Systems Group** is geared to serve auto makers that wish to buy complete systems rather than just components and modules and would like to involve suppliers at an early stage in the development of new vehicles. This intensification of our systems philosophy should benefit the existing activities of the Tire Groups and ContiTech. We are making use of the Corporation's current technical and logistics infrastructure and are developing the know-how needed to round out our systems line, with the focus on chassis systems for automobile and commercial vehicle manufacturers. A cooperation agreement with Temic TELEFUNKEN microelectronic GmbH is enabling us to develop these systems in partnership with a major electronics company.

We are expanding our complete-wheel operations by adding new preassembly facilities for Ford/VW in Setubal, Portugal, and for VW in Hanover-Stöcken.

Regions

The sales growth achieved by the Continental Corporation was almost entirely attributable to the economic recovery in Europe and the resulting increase in demand for our products. At DM 7.1 billion, consolidated sales in Europe exceeded the previous year's figure by 6.9%. With a 32.4% share in the Corporation's total sales, the German market continues to be of crucial importance. Its sales, however, declined by 1.3%, so it did not contribute to the growth recorded in 1994. Stronger demand by the automotive industry and the tire replacement markets, as well as other industries in Europe, provided a positive stimulus. However, the sharp increase in the value of the German mark against major European currencies posed



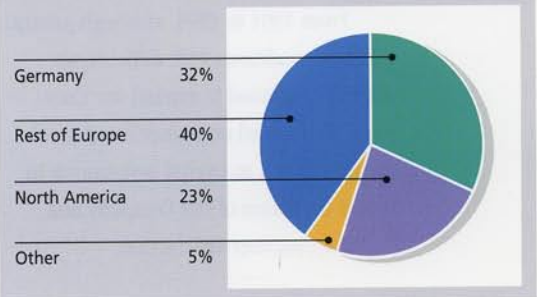
problems for our business in Europe. As a result of intensive market development, sales made excellent progress in the Central and Eastern European markets. We expect further growth in this region.

23.4% of our consolidated sales comes from North America where we want to expand our OEM business. Thanks to the NAFTA (North American Free Trade Area) agreement, our products will have easier access to the Mexican purchasers.

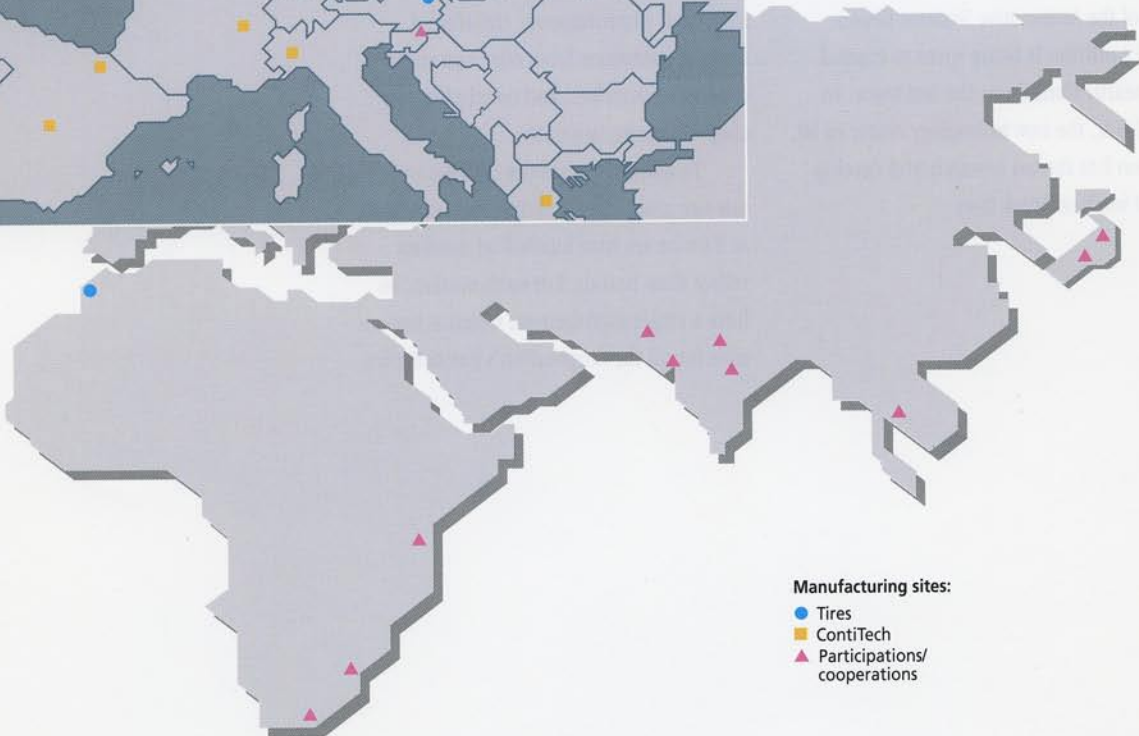
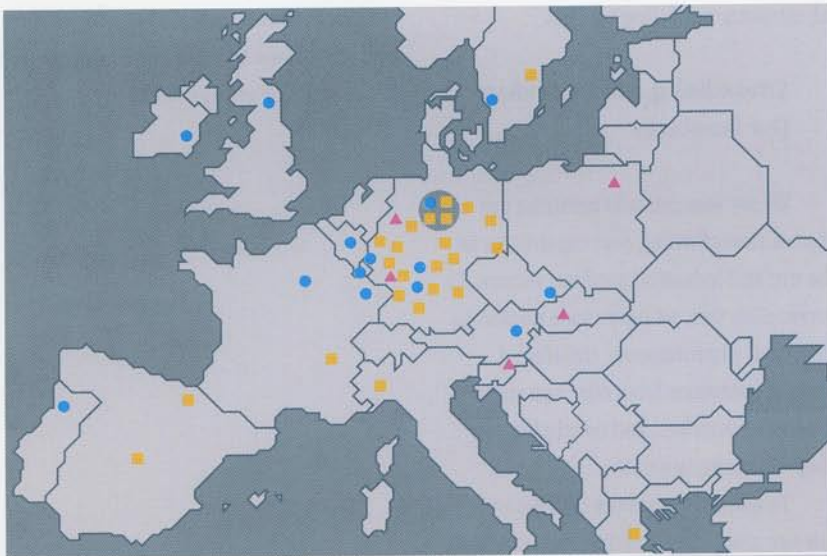
Asia and Africa are becoming increasingly important for our business, although their share of consolidated sales

is still small. With an eye to developing regions such as Southeast Asia, the states of the former Soviet Union, as well as Africa and South America, we have established the Continental International Business Unit which will consolidate all our activities regarding tire marketing and sales and link them strategically to local partnerships with technological and production expertise; we are already working with partners in Mexico, India, South Africa and Japan. This strategy is also reflected in our participations in Morocco, Mozambique, Tanzania, South Africa, Ecuador

Sales by Region



and Pakistan. It is a means of strengthening the Corporation's global presence. Although these ventures concern the replacement business, they should also give customers in the automotive industry a clear idea of our worldwide delivery capabilities. At present, our expanding cooperation network includes ten partners.



Manufacturing sites:
 ● Tires
 ■ ContiTech
 ▲ Participations/cooperations

Securing Our Future

From 1991 to 1994, although general business conditions were difficult, we actively continued to expand our Company. We focused on research and development as well as capital investments to secure the future of our Company and improve customer satisfaction.

Research and Development

We spend about 4% of sales on research and development. In 1994, we laid the foundation for the consolidation of our tire development work, which, for historical reasons, is currently being carried out at a number of different European locations. At the Stöcken plant in Hanover, we are building a DM-100-million technology center, where approximately 1,000 researchers and developers will be working by 1996. Right next door, we have set up a new development center, which now houses 35 engineers and scientists of the Automotive Systems Group. DM 12 million is being spent to expand the nearby Contidrom tire test track. In the U.S.A., the new technology center in Mt. Vernon has started research and development work on truck tires.

Price Increases Unavoidable

Despite all the cost-cutting programs our Company has pursued so vigorously in recent years, increases in prices will be unavoidable in 1995. The strong rise in prices of raw materials, which will have its full negative effect on earnings in 1995, can no longer be offset by means of internal remedies. Some of these increases are extreme — as much as 80% for natural rubber. The changes agreed upon for the current year with OEM manufacturers and the price increases implemented in the European markets in November 1994 no longer cover these costs. Further price adjustments will follow in 1995.

Streamlining and Expanding Our Resources

We are energetically pursuing our goal of strengthening core capabilities in the tire and industrial products sectors. To accomplish this, we have made numerous structural improvements, transferred various operations from our immediate control to outsiders, and concluded new cooperation agreements.

To enhance customer orientation, our tire marketing and distribution efforts in Europe are now focused on markets rather than brands. For each market, we have a single management which is responsible for all the Corporation's tire activities.

In logistics, we have taken the first major step toward reorganizing the procedures used to handle orders. We are already seeing an improvement in product availability and service quality, even though we have streamlined the distribution network and sharply reduced inventories. We have substantially increased production at low-cost locations, where, by the end of 1994, some 20% of our tires for the European market were manufactured. The production-related part of the cost-cutting program resulted in improvements of up to 40% over 1993 in the European plants. At all our facilities, we have expanded the group work system. For our German locations, we have concluded agreements with the unions to make better utilization of our production capacities.

Employees

The table below shows the change in the number of employees (without trainees) at our most important locations:

	1994	1993
Germany	20,265	21,506
North America	7,131	7,619
Czech Republic	3,832	3,656
Great Britain	3,558	3,627
France	3,554	3,592
Austria	2,887	3,104
Belgium	1,050	1,061
Portugal	1,035	1,036
Italy	1,011	857

Further Reduction of the Work Force

Our restructuring and cost-cutting measures resulted in a further decline in the number of employees. The Corporation's work force (without trainees) decreased by 1,711 to 48,583 (1993: 50,294). The Groups must continue their efforts to achieve lean structures and processes, although measurable results have already been achieved.

More than 80% of our employees (40,734) work in Europe; of these people, about 50% (20,265) are located in Germany, where the work force decreased by 1,241.

Drop in Personnel Expense

The Corporation's personnel expense dropped by 0.9% from DM 3,293.1 million to DM 3,265.0 million. This figure includes wages, salaries, social welfare contributions, and expenses for pension plans and other employee benefits. Personnel expense per hour worked rose to DM 41.19 (+ 2.7%). The Corporation's total personnel expense per employee increased from DM 66,031 to DM 66,600 (+ 1.7%).

Employee Shares

Once again, we offered the employees of Continental AG and its European subsidiaries employee shares at a preferential price of DM 122.00 per share with a par value of DM 50.00. More than 3,000 employees, or about 15% of those entitled to subscribe, made use of the opportunity.

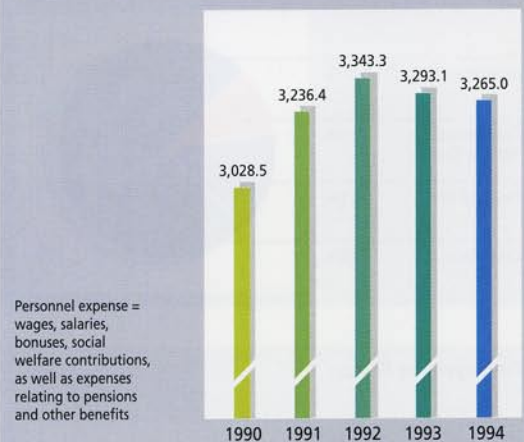
On-the-Job Safety and Suggestions

The incidence of workplace accidents continued to decline, amounting to 10% less than in 1993. Progress was also made with regard to the number of suggestions: Suggestions put into practice rose by 22%, and the resulting savings by 51%.

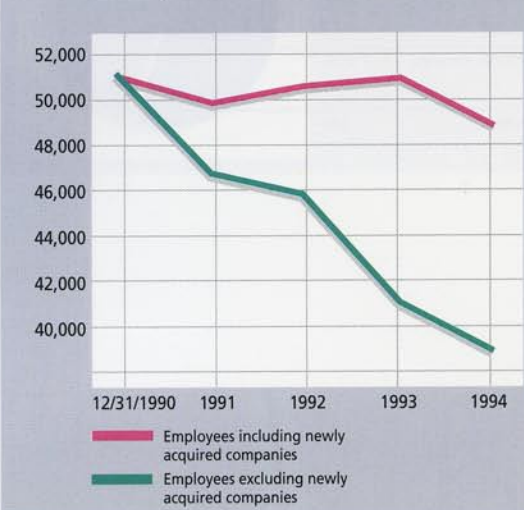
New Compensation Systems

In pilot projects at some of the Corporation's German companies we have started to replace the former system of wages based on piecework by fixed wages with performance targets, in order to support new labor structures, such as group

Total personnel expense within the Corporation in DM million



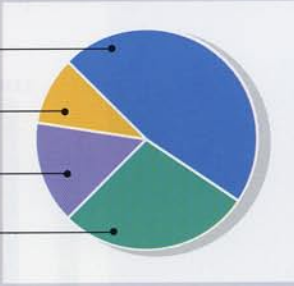
Trend in the Corporation's work force



work, and to simplify administrative processes. A new wage system was also introduced at the Mayfield plant in the U.S.A. It is designed in such a way that the individual employees receive their full compensation only when their group has reached its target.

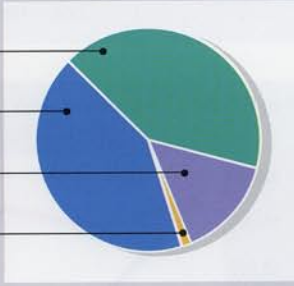
Employees by Group

Passenger Tires	47%
Commercial Vehicle Tires	10%
General Tire	15%
ContiTech	28%



Employees by Region

Germany	41%
Rest of Europe	42%
North America	15%
Other	2%



Training and Continuing Education

We continue to place great emphasis on training and continuing education.

The number of trainees at the Corporation remained almost unchanged at 661. Most of them were hired by us after completing their training.

In 1994, a focal point of our continuing education was the "Change Master Program" which was introduced in several countries to enable decentralized units to handle multifaceted changes independently and efficiently.

Change means that employees must be given the skills necessary to promote entrepreneurial action and flexibility. This applies to both workers and executives. Our programs range from vocational education for manufacturing personnel to business administration courses for executives who were originally trained in technology and natural sciences. For example, in a joint venture with other global companies, we offer executives the opportunity to obtain an MBA degree.

Value Added

The Corporation's performance increased by DM 482.3 million, or 5.0%. After deducting input from other sources, value added amounts to DM 3,566.5 million. This is DM 23.4 million less than in 1993, a decrease of 0.7%.

Value added was distributed as follows: Personnel expense accounted for 91.5%, 5.9% went for interest, and 0.6% for income taxes. There remained a net income of DM 70.8 million (2.0%). DM 32.9 million of this amount is to be allocated to consolidated reserves in order to increase the Corporation's capital resources, and DM 37.5 million is to be distributed to the shareholders.

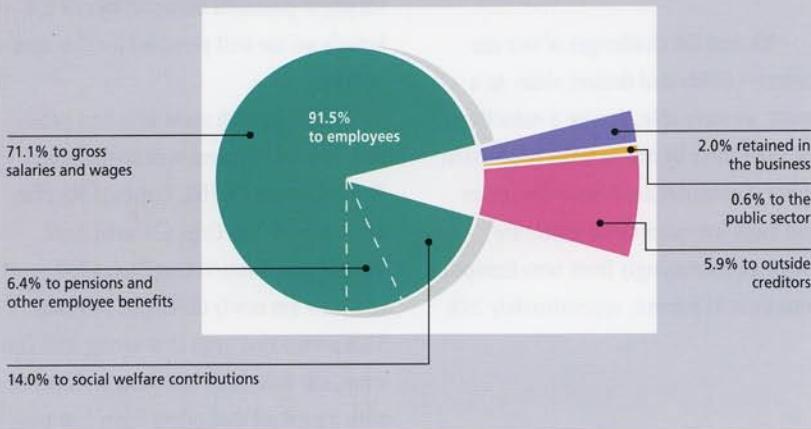
Employee Representatives

Although this was a difficult year, we maintained a good relationship with the employee representatives. Negotiations regarding new remuneration systems, mandatory employee benefit plans and the outsourcing of EDP activities were carried out without any adverse effect on employee relations.

For the third time, we organized a European forum for the employee councils of our European subsidiaries. This event, which is serving as a model for other large German companies, has helped to promote constructive dialogue between the Corporation's management and the European employee representatives.

Distribution of value added in 1994 (Corporation)

DM 3,566.5 million = 100%



Source of value added (Corporation)

DM million	1994	1993	Change	in %
Sales	9,876.9	9,369.1	507.8	5.4
Other income	196.4	221.9	- 25.5	-11.5
Corporate performance	10,073.3	9,591.0	482.3	5.0
Cost of materials and other input				
from outsiders	- 5,916.1	- 5,443.9	- 472.2	- 8.7
Depreciation (total)	- 590.7	- 557.2	- 33.5	- 6.0
Value added	3,566.5	3,589.9	- 23.4	- 0.7

Distribution of value added

	1994	1993	Change	in %
Personnel expense	3,265.0	3,293.1	- 28.1	- 0.9
Interest	209.9	222.7	- 12.8	- 5.8
Income taxes	20.8	9.0	11.8	131.1
Net income	70.8	65.1	5.7	8.8
Value added	3,566.5	3,589.9	- 23.4	- 0.7

Thanks to Our Employees

We express our sincere gratitude to all our employees for their dedication and creativity, especially in view of the steps we

have had to take to ensure the competitiveness of the Company. Our thanks go to the employees, to all those who retired during the course of the year, and to our executives, Employee Councils and employee representatives.

Outlook

In 1995, thanks to the general economic revival and, in particular, the positive trend in the automotive business, we expect our manufacturing and distribution units to operate at full capacity. Any improvement in our annual result will depend ultimately on the extent to which we succeed in implementing the measures we have launched to increase productivity and in passing on to our customers the cost increases we incur. We will continue the structural adjustments which we have initiated, giving priority to lasting changes that will increase our flexibility and improve customer satisfaction. We will accelerate programs to encourage the creativity of our employees and simplify our processes and procedures.

Our strategic alliance with Michelin, which still requires the approval of the cartel authorities, is an enormous challenge for our Company and its employees. While preserving the independence of the two companies, we will intensify their competitiveness by exploiting a great number of synergies, reducing costs and penetrating new market segments. The new alliance is therefore a logical step towards securing Continental's future.

More Information About the Fiscal Year

Continental®

Tires

Our multi-brand strategy proved its worth during the years of the recession when the pressure of imports from low-cost countries outside Europe increased.

Passenger Tires and Dealers – Europe

We met the challenges of our customers – OEMs and dealers alike. As a result, we were able, despite a reduction of the work force by 8%, to boost production by 6%. Customers are demanding more and more low-price tires, which are imported increasingly from non-European countries. At present, approximately 25%

of sales in Europe are attributable to this market segment. Thanks to the great variety of positions occupied by our tire brands we are well prepared for this competition.

Business with snow tires was excellent. Record volumes were sold of Conti WinterContact TS 760, Uniroyal MS Plus 44, Semperit Top Grip, Gislaved Nord Frost II and Conti/Viking Stop 4000, most of which are newly developed products. This proves that even in a winter with little snow, car drivers do not want to dispense with a product that offers them optimum safety on wet and icy roads. New compounding technologies made a vital contribution to the development of these products.



ContiEcoContact CP



Uniroyal rallye 440

One goal of our R&D and our ecologically oriented product policy is to cut down on fuel consumption by significantly reducing rolling resistance. Therefore, as a supplement to our line of EcoContact tires for standard cars, we have introduced EcoContact CP, a new product with exceptionally low rolling resistance, for cars in the higher speed categories. The new product has aroused widespread interest in the automotive industry. In the U.S.A., we scored successes with a new tire designed specifically for minimum rolling resistance and superior ride comfort.

The cost of quality control in manufacturing was reduced by 14% even though stricter tolerances were applied. In a total of 12 quality audits carried out by car makers, our plants achieved the highest rating. We also received a record number of quality awards during 1994. Audi, Ford, Nissan, Opel and VW all selected us as "supplier of the year." Mercedes-Benz and BMW do not give awards of this kind.

In Europe, our home market, we are spurring the expansion of our brands in such key countries as France, Italy, Spain and Great Britain. For the first time, we will use a uniform sales promotion concept for the Continental brand on television. Our idea is to concentrate expenditures on this one brand, in order to make a solid improvement in its recognition over the medium term, without neglecting the other brands.

The weak performance of the Corporation's tire dealer branches in Europe was caused not only by keen price competition, but also by structural problems such as the losses resulting from the retreading business. Certain changes we have made also put pressure on earnings. We plan to expand our product lines and services significantly and to shut down unprofitable facilities.



North of the Arctic Circle, in Ivalo, Finland, is where our tire designers find the ideal test conditions for snow tires. European motor journalists tested the new ContiWinterContact TS 760 and 770 there as well.



Semperit TOP SPEED

Commercial Vehicle Tires

As a result of the boom in the commercial vehicle industry, the European replacement markets also recovered during the last few months of 1994. However, due to intensive competition, the price adjustments so urgently needed by the tire industry could not always be enforced on a permanent basis.

Thanks to the structural measures we initiated in 1993 and completed during 1994, we expect a considerable improvement in earnings for 1995.

We have renewed our commercial vehicle tire line as planned and now offer

a modern line of highly serviceable products which fully satisfies our customers' requirements. More than 50 new tire designs for heavy and light trucks and buses, and industrial, off-road and special vehicles, as well as over 25 new sizes for the two-wheel sector, were introduced on the markets. We gave high priority to the development of Continental and Semperit tires for long-distance traffic. Front- and drive-axle tires with the new HD 45 and M 470 treads were added to the line with the time-tested HS 45 and M 434 designs. Another point of concentration was the development of tires for trucks used both on and off the road. Newly designed treads made of sturdier compounds stand up well under the much higher engine torque and

the extreme demands associated with off-road driving. We also developed an ultra-low-profile trailer tire for both on- and off-road use and new snow tires (H MS 95 and M 430) for the drive axle.

Continental is now offering its customers products with extended service lives. A new generation of low-aspect-ratio tires for light trucks and low loaders has a 20% longer life; the new SC 15 product line for industrial vehicles lasts 30% longer. Radial tires for off-road and special uses, including agricultural tires, have been developed, manufactured and successfully introduced on the market in the new HC 55, HC 65 and AC 90 product lines. These tubeless tires feature reduced weight and considerably greater wear-resistance.

Intensified development work on motorcycle tires has resulted in a wealth of new products. However, we have not reached our goals in the OEM market, which is dominated by Japanese motor-



HD 75

HS 45



cycle manufacturers. Business with new and expanded lines of bicycle tires was excellent. For many years, we have led the market in tires for track and road racing; now we are also developing top products for the popular mountain bike racing sector.

Continental General Tire

Sales of passenger tires to auto makers were up 12%, and business with commercial vehicle tires increased by 9%. The Ford Taurus, the most successful passenger car in this market, continues to be equipped with the Ameri*Tech ST tire from General Tire. We are the exclusive supplier of tires for General Motors' minivans. Our off-road tires posted record sales and increased their market share and earnings.

The progress of this Group is reflected in the multitude of quality awards it has received from the automotive industry and other independent institutions. Industry Week, a trade publication, hailed the

Mt. Vernon plant as one of the ten best factories in the U.S.A. During the last nine years, we carried out 7,000 suggestions for improvement and saved \$30 million in materials and production time. In addition, the Mt. Vernon plant received the coveted "Shingo Prize for Excellence in Manufacturing"¹⁾. The factory in Charlotte will supply the BMW plant in Spartanburg, South Carolina, with Continental tires. 50% of the multi-purpose vehicles produced at the new Mercedes-Benz factory in Tuscaloosa, Alabama, will be equipped



with our tires. In addition, our U.S. subsidiary is supplying General Motors, Ford and Nissan.

Transatlantic cooperation with our Groups in Hanover was effectively launched during 1994. The field testing of commercial vehicle tires, which is very expensive, is being coordinated for the various markets, and the Corporation's European and North American projects will benefit from

1) Dr. Shingo is considered the leading expert in increasing efficiency in manufacturing processes.

the consolidation of resources. All areas, including the administration, continued to reduce their work force.

In the course of reducing the number of hierarchic levels, functions such as distribution and quality management were integrated into the passenger tire and truck tire operations. Sales per employee

'Navigator Pro' – the new mountain bike tire from Continental – is ideal for cross-country biking.



increased by \$20,000 to \$190,000. We introduced new compensation systems based on performance, changed the shift systems and maintenance concepts and transferred functions that are not part of our core business outside the company. Inventories were reduced substantially.

In 1994, General Tire gained sales and market shares with earth mover tires from our plant in Bryan/Ohio.

Industrial Products

ContiTech performed particularly well in 1994. The group's largest company, a combination of Benecke and Kaliko, reported a profit for its first fiscal year after the merger.

Automobile Interiors/Textiles

During its first fiscal year after the merger, Benecke-Kaliko AG, Hanover, reported significant sales gains, due mainly to international business, and a positive bottom line. Thorough exploitation of the synergies resulting from the merger of Benecke and Kaliko compensated in part for the strong price reductions demanded by car makers and the sharp increase in raw materials prices. The company has

a strong market position with sheeting, vinyl coated fabrics and molded headlinings for automobiles, as well as with surface materials for the furniture industry.

As a result of the takeover of J.H. Benecke AG's windowshade and blind materials business, sales and earnings of Bamberger Kaliko GmbH exceeded the previous year's figure, although markets for windowshade and bookbinding materials were either stagnant or shrinking.



Ultramodern surface and upholstery materials from Benecke-Kaliko AG are used in this exquisite designer kitchen.

Due to changes in fashion, which caused a reduction in the use of Rallytex flock yarns in automobiles, the sales of Flockgarn GmbH have not yet recovered from the previous year's declines.

Despite difficult business conditions and a major fire at the Gohfeld plant, ContiTech Formpolster GmbH reached its earnings target. For 1995, we expect a significant increase, thanks to the start-up of the new foam facilities.

Hoses and Hose Assemblies

ContiTech Schlauch GmbH achieved excellent growth rates in exports. The strong pressure that German car makers exerted on prices was only partially offset by the expansion of business with new, environmentally compatible hoses for air-conditioning systems, power steering systems and brake circuits. The Korbach and Northeim plants again received quality awards.

The general industrial recovery had a positive effect on the sales and earnings of Techno-Chemie Kessler & Co GmbH. In order to improve its customer service, the company established a market-oriented profit center organization.

The upswing in the automotive industry led to significant sales increases at Anoflex S.A., France. Higher productivity caused earnings to improve considerably. Strong sales growth enabled the Spanish company to operate at full capacity.

Due to further increases in productivity, Hycop AB, Sweden, achieved marked

gains in sales volume. The introduction of lean production and the concentration on quality, research and development had a positive effect on earnings.

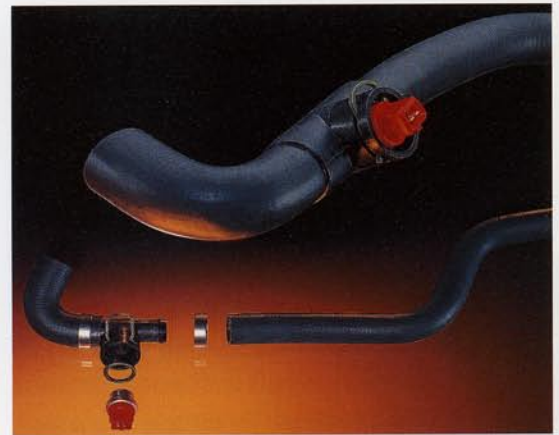
Anti-Vibration and Sealing Products

Extensive restructuring efforts have been made at ContiTech Formteile GmbH, but their full effect will not be felt until 1995. Sales to the automotive industry and its suppliers rose, but earnings decreased, due to declines, sometimes severe, in prices.

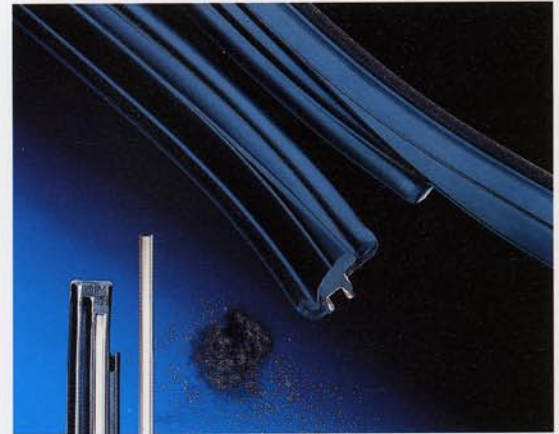
As a supplier of all the major car makers in Europe, ContiTech Profile GmbH was exposed to strong competition and price pressure which, together with the costs of structural streamlining, had an extremely negative effect on earnings. As part of the company's realignment, manufacturing operations in Hanover were consolidated at one location.

We now own the entire capital stock of ContiTech Elastorsa S.A., our Spanish extrusion manufacturer. The company increased its sales by about 40% and operated at a profit.

Due to a delay in its formation, ContiTech Vegum, our joint venture in the Slovak Republic, has yet to meet its sales and earnings targets.



Klimatronic curved radiator hoses with built-in temperature sensor (top photo).



Multi-functional roof weatherstrip with variable cross section for cars.

Incorporating our new suspension systems with air springs and molded products, the 'Eurostar' gives passengers a safe and comfortable ride between Britain and France.



Engineered Products

Welcome gains in volume led to full capacity utilization at ContiTech Antriebs-systeme GmbH. The strong drop in prices in the OEM business was only partially offset by cost-cutting. Newly developed products enabled the company to maintain its leading technical position and to earn a good profit.

ContiTech Luftfedersysteme GmbH participated to the maximum in the revival of the European commercial vehicle and axle industry, and its sales bounced back from the decline recorded in 1993. The reorganization of the company by product and market segments and the regrouping of production activities into manufacturing islands showed their first positive results, and earnings improved.

Only in the second half of 1994 did ContiTech Transportbandsysteme GmbH record good volumes. The changeover in fabric belt production to continuous

manufacturing due to the start-up of the second double-band press had a positive effect on earnings.

In a difficult business environment, KA-RI-FIX Transportband-Technik GmbH performed well, maintaining sales and earnings at the previous year's levels.

The favorable economic trend, new customers and new introductions, including products for environmental protection, helped ContiTech Elastomer-

In its first year of operation, the new Automotive Systems Group has already shown significant growth potential. This business will strengthen core capabilities in the tire and industrial products sectors.



The trend to all-function systems is increasing; Modern drive systems with built-in belt tensioning for low-cost and maintenance-free applications in car engine compartments.

Automotive Systems

Beschichtungen GmbH to achieve strong sales increases and a positive bottom line. Another important step for the company was the start-up of a facility for the separation of residual solutions into recyclable rubber granules and reusable solvents. Our ultralight cold-resistant outfit material developed for the Arctic researcher Peroni received an award for innovation at the "Europlast '94" exposition in France.

Despite a further reduction in its workforce, Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co KG achieved sales at the previous year's level. Volumes of life-rafts and boats were unsatisfactory, but brisk demand for custom-made inflatable special products enabled the company to earn a profit.

After several years of declining sales, Clouth Gummiwerke AG managed to hold its revenues at the same level as in 1993 and significantly improve its earnings from operations. Large payments of severance benefits and high expenditures for restructuring had a negative effect on overall results, so that the company continued to operate at a loss.

IMAS S.A. in Greece is chiefly engaged in manufacturing conveyor belts. It continued to increase its sales, and earned a good profit.

The Italian automotive industry's strong increase in production and bigger shares of deliveries enabled ContiTech AGES S.p.A. to boost its sales. Exports were also good. Higher raw material costs caused by the devaluation of the lira were offset in part by price increases. Earnings improved considerably compared with the previous year.

Strong Growth Potential

This Group focuses on complete systems with strong growth potential. The Group will cooperate with partners in order to offer the automotive industry the best solution to every problem. The product line includes, for example, complete air spring systems, based on ContiTech's air sleeve, for passenger cars and light trucks. The complete system comprises the air supply, sensors, control electronics, integration into the other vehicle functions and, if necessary, the shock absorber. In addition, the Group plans to develop rear-axle level control and semi-active chassis systems.

We are also working on equipment for active and passive sound absorption, including truck wheel-arch liners and anti-noise systems. Research is being done on systems to control driving dynamics and to monitor tire pressure.

We will complement these vehicle systems by supplying assembly and logistics services. A noteworthy example is the preassembly of tires and rims into complete wheels and their just-in-time delivery to the automotive industry. This business segment can be expanded to include pre-assembled chassis modules, such as axles and spring-and-shock absorber units.



The preassembled complete wheels supplied by Continental help the automotive industry to reduce its manufacturing penetration. The Automotive Systems Group recorded its first sizable orders in this business in 1994.

The Continental Share

Dividend Unchanged

The net income available for distribution enables us to propose to the Annual Meeting of Shareholders a dividend for 1994 of DM 4.00 per share with a par value of DM 50.00, the same amount distributed for the previous year.

Since the capital stock entitled to the dividend has increased by DM 17.2 million, or 4%, a total of DM 37.5 million (1993: DM 36.1 million) will be required for the distribution. The payout thus amounts to 53.0% (1993: 55.4%) of consolidated net income.

Price Trend

After a good year in 1993, German shares suffered setbacks during 1994. According to the German share price index (DAX), prices fell by an average of 7.1% in the course of the year. However, while fixed-interest securities fluctuated, the market for equities held steady.

The stock market started 1994 in a climate of general optimism. In May, the DAX stood at 2,271, very close to the record high reached at the end of 1993. During the next few months, however, the negative expectations caused by the strong increase in interest rates took their toll. On December 30, 1994, the DAX closed at 2,106.58.

The Continental share started the year at DM 277.00. Paralleling the trend of the DAX, it decreased temporarily to DM 245.00. After that, however, it firmed up more solidly than the DAX, and on March 10, 1994, at DM 297.50, it reached its high for the year. Again in line with the DAX, the price declined, with slight fluctuations between DM 280.00 and DM 290.00, to DM 230.00 in June 1994. The Continental share followed both the subsequent recovery of the DAX, which lasted until the end of August, and its renewed downturn, but with greater volatility. The year-end quotation was DM 226.00.

International Listings

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

In the City of London, the share price has been quoted since the beginning of

1991 as part of a market-maker system known as SEAQ (Stock Exchange Automatic Quotes). We shall continue to seek listings on stock exchanges outside Germany when this proves to be an economically justifiable method for promoting investment in Continental shares.

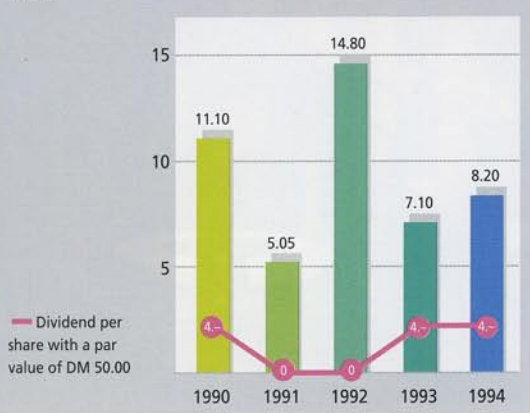
High Share Liquidity

Total sales of German shares on the German stock exchanges amounted to DM 1,870 billion during the past year. DM 9 billion of these sales, or, as in the previous year, about 0.5%, was attributable to the Continental share. Thus, in 1994 it was again one of the most liquid investment securities in the German stock market. When we compared sales of our share on the various domestic and foreign stock exchanges where it is listed, we observed that institutional investors still prefer to trade Continental in Frankfurt.

DVFA/SG Earnings

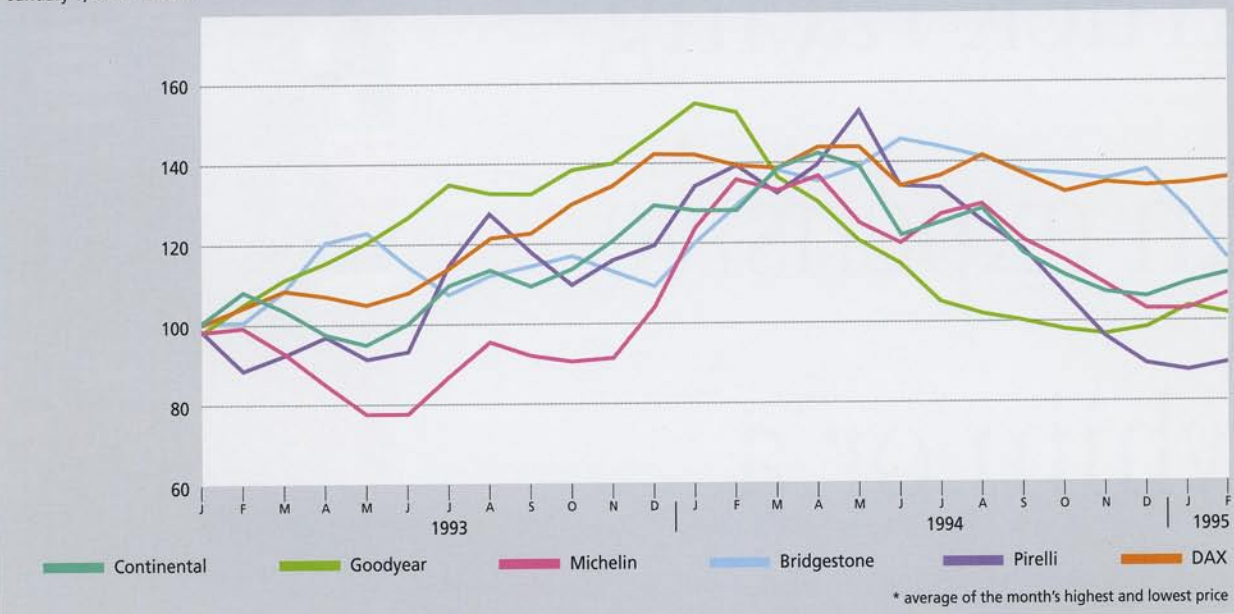
1994 per-share earnings, computed according to the methods of the German Association of Financial Analysts (DVFA/SG), at DM 8.20, were 15.5% above the previous year's figure of DM 7.10. Cash flow per share amounts to DM 66.80 (1993: DM 64.10).

DVFA/SG earnings/dividend per share in DM



Share price development since January 1, 1993*

January 1, 1993 = 100%



Investor Relations and PR

To ensure that the Corporation is well supplied with capital over the long term, Continental has always paid special attention to its shareholders' information requirements. We provide regular up-to-the-minute reporting on company strategies, medium-term corporate planning, capital investment programs and financial highlights, by means of press releases, letters to the shareholders, brochures and annual reports, as well as financial presentations and round-table discussions for analysts and investors.

Our frank, comprehensive information policy is designed to strengthen the relationship of trust we have established with our shareholders, potential investors

Key figures for the Continental share

(in DM per share)

	1990	1991	1992	1993	1994
Net income/loss	10.60	- 14.60	15.10	7.20	7.50
Dividend	4.00	0	0	4.00	4.00
Dividend with tax credit	6.25	0	0	5.71	5.71
DVFA/SG earnings	11.10	5.05	14.80	7.10	8.20
Cash flow	58.05	59.90	79.50	64.10	66.80
Book value	198.40	172.40	183.20	188.20	178.80
Market price (12/31)	207.00	207.00	198.00	277.00	226.00
Number of shares at year-end					
(in thousands)	8,782	8,785	8,826	9,028	9,371

and financial analysts. This, in turn, ensures a correct evaluation of the Continental share and its wide distribution among international investors – to everyone's benefit. We therefore consider the 2nd Financial Markets Promotion Law as a positive development, especially as regards its regulations concerning ad hoc

publicity and its stricter obligations to report certain changes in the voting shares of publicly held corporations.

Truck racing – an expensive whim or a profitable investment?



Its opponents brand it as a wild fracas that's unnecessary, expensive and harmful to the environment. Its friends praise truck racing as a fascinating, world-class sports event with image-enhancing public appeal. This is an institution, they say, that quickens not only the pulses of the fans, but also the pace of technical development for engines, chassis systems and tires – an institution, therefore, that deserves support.



over to racing trucks in 1985. Another enthusiast is Jochen Maass, also an erst-while Formula 1 racer, who joined the sport initially in 1994: "The first time in years that I've had real fun at a motor-sport event!"

Women, too, are showing once again that they're not going to take a back seat to male drivers. Minna Kuoppala, a Finnish driver under contract to Continental, has commanded the respect of the pros right from the start of her truck-racing career. In 1993, she barely missed third place in the top class.

For better environmental protection

Successes are gratifying, but the question remains: Can they be justified from a societal standpoint? The problem of damage to the environment is one that we take very seriously, but on closer inspection it proves to be relatively minor. For example, racing trucks are equipped with highly efficient particulate filters, although

In addition to its positive effect on R&D, its advocates also point to its value for advertising and marketing. Dr. Klaus-D. Röker, Executive Board member in charge of Commercial Vehicle Tires/Environment and Tire Research, lists the benefits as follows: "Truck racing has greatly increased our reputation with our biggest customers and given us major competitive advantages. In terms of communications policy, the dynamic force it has lent to our image is also of decisive importance."

Truck racing – a motor sport with fascination

Truck racing has an undeniable fascination for the public. Long ago the mighty trucks caught up with the flat-as-a-pancake Formula 1 speedsters in popularity, Michael Schumacher notwithstanding. The stars of the truck-racing scene, like Slim Borgudd, Gérard Cuyenet, Fritz Kreutzpointner and, above all, Steve Parrish, the European champion – all of

whom drive on Continental – are as dear to motor-sport fans as the world champion. Even proven Formula 1 drivers are now getting into the act: Slim Borgudd, once a drummer with B.B. King and the pop group ABBA, drove in Formula 1 for ATS and Tyrell until 1982, before switching





this is not required by any law. The ecological stress of truck racing is, on the whole, no greater than that of any other comparable event.

For a few years now, Mercedes-Benz, MAN, SISU and other commercial vehicle manufacturers have been vigorous participants in this sport. They believe that the heavyweight “super race trucks” offer the best means of testing new technologies, materials and safety systems – including electric-pneumatic gears, brake units and drive stabilizers, as well as electronically controlled air spring systems.

Continental made its debut in truck racing at the express desire of its customers. In 1987, we supplied a number of truck teams with 315/70 R 22.5 HS 41 tires right off the shelf. After exhaustive test runs, Mercedes-Benz chose the HS 41 from many competitors as the best mass-produced tire for racing – and asked for more! Since 1990, Continental has been supplying numerous teams of other makes with tires and the corresponding services.

Truck racing helps to develop standard products

Even in the age of computer-aided research and development, there’s no substitute for experience, especially when it comes to tires.

Our commitment to racing could be described as “researching by doing.” The ongoing exchange of experience with the top drivers during the actual races, as well as the examination of the tires after use, gives our racing specialists valuable insights with regard to heat distribution over the carcass or wear resulting from power-slides and hard braking. Here’s how Thomas Wolf, Project Manager for Truck Tire Marketing, defines the results of our racing experience: “A mass-produced special tire for use on demanding short courses, whose unique characteristics have made lap times in truck racing even shorter.” For racing applications, only the tread is stripped down, from its original 14.5 mm to 4 mm. In addition, a different tire pressure is used. Since 1991, almost all the winners have driven on these special HS 41-S tires.

There’s a reason for this: “The low rolling resistance ensures that even under the toughest conditions the tire barely heats up at all – the compound remains stable and does not smear off,” explains Dr. Thorsten Reese, Head of Research and Development for Commercial Vehicle Tires. Even when the “going gets hot,” as in truck racing or fire-fighting operations, the HS 41-S stays cool. “In extreme cases,

heat buildup can actually cause the tire to self-destruct,” Dr. Reese continues, “so, based on our racing experience, we have also increased the structural endurance of the carcass.”

For greater customer satisfaction

Operators of special vehicles are not the only ones who profit from all this. Dr. Reese emphasizes that “the same properties that truck racers have learned to prize in their favorite tires also benefit the kings of the highways.” For the improvements that distinguish the HS 41-S from the HS 41 have been incorporated in the new HS 45 front-axle generation – without the sacrifices that a special tire suffers in terms of service life and load capacity. It’s a classic example of successful technology transfer.



"Of course," says Dr. Reese, "the safety aspect is also crucial." Trucks have a considerably longer braking distance than passenger cars. Formerly, this was due to the relative weakness of the brakes in comparison to the weight of the truck. "Now that an increasing number of trucks are being equipped with disk brakes, the tires play a more important role."

Truck racing is an invaluable means of keeping up contacts with customers. "The truck racing environment is ideal for informal conversations about products and product quality," says Joachim General, Product Manager for Commercial Vehicle Tires, who has wide experience in this area, "and it opens many doors for us in sales talks." Accordingly, Continental entertained 2,400 guests last year at truck racing events.

Joachim General reports that truck racing also contributes to customer bond-

ing in the trade: "Trucking companies expect us to support them in their business, whether this means round-the-clock service, breakdown service or our pan-European ContiEuroService. And if a trucking company tells us that it's interested in truck racing, then we're right there to help them out with professional advice."

Truck racing makes good business sense

We make no entrepreneurial commitment without a cost-benefit analysis. "Sponsoring truck racing is not as expensive as it looks," concludes Eckhard Wilanek, Head of Product Marketing for Trucks. "The investment is considerably smaller than, for example, with Formula 1. The whole thing rests on a sound business basis."

Around the world, 200 million viewers watched truck races on TV in 1994. The broadcast time totaled 14 hours over 42 networks, 12 of them in Europe. "The Continental logo, mounted on front, is always clearly visible in the picture. In addition, over half a million spectators see it at the race tracks," says Thomas Wolf. "The mere appearance of Minna Kuoppala on the TV show Schreinemakers Live is a real sensation for a product like ours."



Conclusion:

1994 was Continental's most successful year to date in truck racing – which bodes well for further successes, both commercial and otherwise. In the European Championship, all three first places in both classes were won on HS 41-S!

Continental Aktiengesellschaft

Consolidated Balance Sheet

Assets	See Note No.	12/31/1994 DM million	12/31/1993 DM million
Fixed assets and investments			
Intangible assets	(1)	565.1	619.6
Property, plant and equipment	(2)	2,926.7	3,081.9
Investments	(3)	113.5	112.0
		3,605.3	3,813.5
Current assets			
Inventories	(4)	1,413.6	1,589.3
Receivables and other assets	(5)	1,642.7	1,585.5
Marketable securities		7.9	10.7
Liquid assets	(6)	109.5	90.8
		3,173.7	3,276.3
Prepaid expenses	(7)	38.5	42.0
		6,817.5	7,131.8
Shareholders' equity and liabilities			
	See Note No.	12/31/1994 DM million	12/31/1993 DM million
Shareholders' equity			
Subscribed capital		468.6	451.4
Consolidated reserves		956.4	1,013.9
Minority interests	(9)	195.7	173.9
Net income available for distribution		37.9	36.5
		1,658.6	1,675.7
Special reserves	(10)	16.9	24.2
Provisions	(11)	1,814.6	2,007.5
Liabilities	(12)	3,327.4	3,424.4
		6,817.5	7,131.8

Continental Aktiengesellschaft

Consolidated Statement of Income

	See note No.	1994 DM million	1993 DM million
Sales	(13)	9,876.9	9,369.1
Cost of sales		7,308.3	6,941.7
Gross profit on sales		2,568.6	2,427.4
Selling expenses	(14)	1,605.2	1,561.4
Administrative expenses	(14)	610.7	579.6
Other operating income	(15)	183.3	208.9
Other operating expenses	(16)	240.2	211.2
Net income from investments and financial activities	(17)	— 204.2	— 210.0
Net income from regular business activities		91.6	74.1
Taxes on income and profits		20.8	9.0
Net income for the year		70.8	65.1
Balance brought forward		0.3	
Minority interests in earnings		— 0.3	+ 12.7
Transfer to consolidated reserves		— 32.9	— 41.3
Net income available for distribution		37.9	36.5

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, which is combined with that for Continental Aktiengesellschaft, is in agreement with the consolidated financial statements.

Hanover, March 27, 1995

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Certified Public
Accountant

Reinke
Certified Public
Accountant

Changes in Consolidated Fixed Assets and Investments

	Acquisition/Manufacturing cost					
	As of 1/1/1994 DM million	Additions DM million	Reclassi- fications DM million	Retirements DM million	Foreign exchange differences DM million	As of 12/31/1994 DM million
I. Intangibles						
Concessions, industrial and similar rights and assets and licenses in such rights and assets	87.5	27.7	4.8	7.0	— 1.0	112.0
Goodwill	787.2	1.9		8.6		780.5
Payments to suppliers	7.5	6.2	— 4.8	0.1		8.8
	882.2	35.8		15.7	— 1.0	901.3
II. Property, plant and equipment						
Land, land rights and buildings including buildings on third party land	1,549.6	37.1	14.9	25.5	— 36.9	1,539.2
Technical equipment and machines	4,494.7	180.6	161.7	119.8*	— 132.6	4,584.6
Other equipment, factory and office equipment	1,535.8	132.3	39.7	119.5	— 15.0	1,573.3
Payments to suppliers and assets under construction	249.1	168.7	— 216.3	5.1	— 6.2	190.2
	7,829.2	518.7		269.9	— 190.7	7,887.3
III. Investments						
Shares in affiliated companies	13.6	0.9		1.4		13.1
Shares in associated companies	55.1	16.2		3.0	— 2.7	65.6
Investments	3.9			0.9		3.0
Securities included in investments	25.5	1.6		0.5		26.6
Other loans	28.4	6.9		11.7	— 0.7	22.9
Other financial assets	1.4	0.3		0.3		1.4
	127.9	25.9		17.8	— 3.4	132.6
	8,839.3	580.4		303.4	— 195.1	8,921.2

* This figure contains the adjustment, in the book value amount of DM 25.4 million, to the valuation of items at Continental General Tire Inc., Akron, Ohio, as determined in accordance with U.S. principles. The adjustment has no effect on earnings.

Depreciation					Net value		
As of		Reclassi-	Foreign exchange		As of	As of	As of
1/1/1994	Additions	fications	Retirements	differences	12/31/1994	12/31/1994	12/31/1993
DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million
57.7	21.3		5.0	— 0.6	73.4	38.6	29.8
204.9	67.2		9.3		262.8	517.7	582.3
						8.8	7.5
262.6	88.5		14.3	— 0.6	336.2	565.1	619.6
691.5	55.8	1.3	12.6	— 9.4	726.6	812.6	858.1
2,893.4	330.2	— 8.6	136.4 *	— 62.2	3,016.4	1,568.2	1,601.3
1,162.4	166.3	7.3	108.1	— 10.3	1,217.6	355.7	373.4
						190.2	249.1
4,747.3	552.3		257.1	— 81.9	4,960.6	2,926.7	3,081.9
8.0					8.0	5.1	5.6
2.1	2.5			— 0.5	4.1	61.5	53.0
0.1					0.1	2.9	3.8
2.3	1.0				3.3	23.3	23.2
2.9	3.6		3.2	— 0.2	3.1	19.8	25.5
0.5					0.5	0.9	0.9
15.9	7.1		3.2	— 0.7	19.1	113.5	112.0
5,025.8	647.9		274.6	— 83.2	5,315.9	3,605.3	3,813.5

Notes to the Consolidated Financial Statements

Scope of Consolidation

In order to make it clearer and more comprehensible, the report on the Corporation is now presented separately from that on the financial statements of Continental Aktiengesellschaft. The latter are available upon request.

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 170 domestic and foreign companies, in addition to the parent company. 3 companies that were merged with other consolidated companies and 5 companies that were sold or liquidated are no longer included. 10 companies were acquired. Due to the sale of 9% of our interest in General Tire & Rubber Company, Casablanca, Morocco, at the end of 1994, this subsidiary is shown under associated companies. The Corporation's remaining share amounts to 42.8%. The 1994 statement of income, however, has been fully consolidated for the entire fiscal year. As a result of this change, the Corporation's total assets decreased by DM 45.3 million (0.7%).

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

Principles of Consolidation

135 subsidiaries, whose financial statements are prepared according to accounting and valuation principles that are uniform throughout the Corporation, are fully consolidated. With the exception of a few small companies, all the financial statements included are prepared as of the date of the Corporation's financial statements. The assets and liabilities of our subsidiaries are entered in the consolidated balance sheet, instead of 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.

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

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

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

Intercompany profits are eliminated when valuing consolidated inventories; intercompany profits relating to fixed assets are not eliminated insofar as 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. Appropriate provisions have been made for foreign exchange losses that have not yet been realized on the balance sheet date; unrealized profits are disregarded.

In the financial statements of foreign companies, the balance sheet items, including net income, are translated at the rate prevailing on the balance sheet date. Differences from the previous year's translations are offset, with no effect on income, against retained earnings.

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

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

Principles of Accounting and Valuation

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

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation. Since 1989, additions have been depreciated by the straight-line method. The useful life

taken as a basis for depreciating the major categories of property, plant and equipment is up to 25 years for additions to buildings, up to 10 years for machinery and equipment, up to 4 years for molds and 4 to 7 years for plant and office equipment. Additions to movable assets made during the first six months of the year are depreciated at the full annual rate, and those made during the last six months at half the annual rate. Minor fixed assets are written off completely in the year of acquisition.

Interests in non-consolidated affiliates and in other companies held as investments are valued at acquisition cost, less any necessary writedowns. Interest-bearing loans granted are shown at face value; loans which bear little or no interest are discounted to their cash value.

Inventories are carried at the lower of acquisition/manufacturing cost or market. Manufacturing cost includes direct costs and a proportional part of indirect material and production overhead, as well as depreciation. Appropriate adjustments are made for declines in value due to reduced usability or prolonged storage. For the first time, we used the LIFO method — for the U.S. companies in particular and for natural rubber throughout the Corporation — resulting in a charge of DM 12.8 million against income.

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

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

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

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

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 obligations of Continental General Tire Inc., Akron, Ohio, for post-retirement medical benefits in the U.S.A., including the provision for the retirees and vested work force, as well as the non-vested employees, and the pension obligations pursuant to the U.S. regulations using an interest rate of 7.5%, are shown in their full amount on the liability side in accordance with FAS 106.

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 may constitute extraordinary expenses. When there are temporary differences between the values of the individual companies' assets and liabilities as determined according to the tax laws and those appearing 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 only insofar as they are expected to result in a future tax expense.

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

Liabilities are stated at the redemption amount.

Changes in Principles of Accounting and Valuation at Continental General Tire Inc.

For the first time, the entire assets, shareholders' equity and liabilities of the U.S. companies have been included according to the local law, as had been the case in the past with provisions for pensions and similar obligations. The change, which was made primarily for the purpose of simplifying the financial statements, also increases their clarity, since in the future there will no longer be differences in results of shareholders' equity items when the local balance sheet is compared with the data in the consolidated financial statements. The change took place as of January 1, 1994. As U.S. valuation is similar to that used so far in the balance sheet for consolidation purposes, implementation of the new principles had no effect on earnings and only resulted in a reduction of consolidated equity amounting to DM 7.8 million. The change has no significant effect on income for 1994, nor, in all probability, for the subsequent years.

Assets

The separate categories of fixed assets and investments that are combined in the balance sheet and the changes in them during the fiscal year are shown on pages 36 and 37. 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.

Fixed Assets and Investments

The additions in the amount of DM 35.8 million consist mainly of acquired software. This item also includes the goodwill acquired for consideration by the consolidated companies. Goodwill of this kind is charged against income.

(1) Intangible Assets

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.

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

(2) Property, Plant and Equipment

The initial consolidation of new companies caused an increase of DM 3.3 million (DM 4.0 million, less accrued depreciation of DM 0.7 million) in property, plant and equipment.

The other additions are shown in the table below:

DM 000	1994	1993
Tires, Europe		
Passenger tires	248,281	304,615
Commercial vehicle tires	54,030	78,082
Continental General Tire	97,272	109,422
ContiTech	104,179	124,946
Other	10,920	7,066
	514,682	624,131

A list of the major companies included in the Continental Corporation is presented on page 49 of this report. A complete list of the companies of Continental Corporation and Continental Aktiengesellschaft has been filed with the Hanover District Court.

(3) Investments

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

DM 000	As of 12/31/1994	As of 12/31/1993
Raw materials and supplies	325,059	307,570
Work in process	191,527	187,407
Finished goods and merchandise	896,502	1,094,722
Advances to suppliers	2,107	2,776
Advances from customers	1,608	3,130
	1,413,587	1,589,345

Inventories include a LIFO reserve in the amount of DM 34.3 million. The substantial decline in finished goods and merchandise is attributable to the heavy reduction of stocks at factory warehouses, while retail and sales depot stocks remained virtually unchanged.

(5) Receivables and Other Assets

	As of	Due in more than	As of	Due in more than
DM 000	12/31/1994	1 year	12/31/1993	1 year
Trade accounts receivable	1,281,061	3,491	1,200,105	3,293
Receivables from affiliated companies	17,940	—	15,491	—
Receivables from companies in which participations are held	39,130	182	26,092	—
Other assets	304,551	18,508	343,779	24,754
	1,642,682	22,181	1,585,467	28,047

Trade accounts receivable decreased by DM 245.8 million (1993: DM 220.0 million) as a result of the Asset Securitization Programs.

(6) Liquid Assets

DM 000	As of 12/31/1994	As of 12/31/1993
Checks	27,644	6,605
Cash on hand, deposits at the Bundesbank and in postal checking accounts	5,637	7,967
Cash in banks	76,182	76,194
	109,463	90,766

(7) Prepaid Expenses

DM 000	As of 12/31/1994	As of 12/31/1993
Discount on loans/bonds	6,630	5,443
Miscellaneous	31,896	36,591
	38,526	42,034

Miscellaneous prepaid expenses consist mainly of unamortized costs of the bonds issued in 1986, 1987 and 1993.

Shareholders' Equity and Liabilities

DM 000	As of 12/31/1994	As of 12/31/1993
Subscribed capital		
As of 1/1	451,390	441,301
Change due to the issue of employee shares	568	689
Change due to the exercise of option rights	16,603	9,400
As of 12/31	468,561	451,390
Consolidated reserves		
As of 1/1	1,013,917	1,002,879
Premiums from capital increases and the exercise of option rights	+ 27,674	+ 69,067
Offsetting of goodwill with no effect on income	- 56,445	- 90,603
Foreign exchange differences with no effect on income	- 29,473	- 1,223
Allocations from net income	+ 32,845	+ 41,228
Other changes	- 32,021	- 7,431
As of 12/31	956,497	1,013,917
Net income available for distribution	37,869	36,504
Minority interests	195,694	173,913
Consolidated shareholders' equity	1,658,621	1,675,724

(8) Shareholders' Equity

The reserve for retirement benefits formerly shown separately under shareholders' equity is included, in the amount of DM 1.5 million (1993: DM 1.8 million), in consolidated reserves. In 1994, a dividend of DM 4.00 per share with a par value of DM 50.00, totaling DM 36.1 million, was paid from Continental Aktiengesellschaft's net income available for distribution. The balance was carried forward.

The Corporation's actual shareholders' equity, including the tax-free portion of special reserves, totals DM 1,675.5 million (1993: DM 1,699.0 million). The equity ratio amounts to 24.6% (1993: 23.8%). A comparison of the equity ratio when goodwill is offset in full results in an increase by 1.4 percent points to 18.4%. With indebtedness of DM 2,130.4 million, the gearing ratio improved, amounting to 127.1%.

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., as well as the minority interests in Benecke-Kaliko AG, Hannover, and in Barum Continental spol.s.r.o., Otrokovice, Czech Republic.

(9) Minority Interests

DM 000	As of 12/31/1994	As of 12/31/1993
Governmental capital investment subsidies	16,927	22,694
Other	-	1,508
	16,927	24,202

(10) Special Reserves

The government capital investment subsidies shown here consist primarily of investment grants for Semperit Reifen AG, Vienna, Austria.

In accordance with the basic decision to use the LIFO method for the valuation of most raw materials, the special reserve for the value adjustment of imported goods, formerly shown under "Other" in special reserves, was reversed and credited to consolidated income.

(11) Provisions

DM 000	12/31/1994	12/31/1993
Provisions for pensions and similar obligations	948,711	1,010,529
Provisions for taxes	68,088	69,633
Miscellaneous provisions	797,781	927,328
	1,814,580	2,007,490

Based on a valuation pursuant to Section 6a, Income Tax Act, using an interest rate of 6%, there is a shortfall of DM 23.6 million in the coverage of pension obligations at two of our retirement benefit organizations. Due to tax non-deductibility, we do not allocate the corresponding provisions. The provisions at five other German companies have been funded only to the maximum amount permitted for tax purposes pursuant to Section 4d, Income Tax Act.

Provisions for deferred taxes in the individual financial statements exceed the net prepaid taxes arising from consolidation procedures by DM 9.7 million.

Miscellaneous provisions include provisions for restructuring measures and related severance payments and, in particular, provisions for warranties, bonuses, personnel and social welfare payments, deferred repairs, service anniversaries and other undetermined obligations.

Long-term miscellaneous provisions amount to DM 128.9 million (1993: DM 155.4 million).

The decrease in miscellaneous provisions is due mainly to utilizations for various purposes. For example, DM 77.2 million of the provisions for severance payments established in the previous years was used for payments in 1994. After transferring DM 29.9 million, the latter still amount to DM 43.1 million.

(12) Liabilities

	Due in			Due in		
	As of 12/31/1994	less than 1 year	more than 5 years	As of 12/31/1993	less than 1 year	more than 5 years
DM 000						
Bonds, convertible	878,545	597	452,356	984,644	70,341	457,077
Bank borrowings	1,194,538	645,574	30,566	1,181,968	669,390	47,823
Advances from customers	3,483	3,483	—	2,176	2,176	—
Trade accounts payable	698,569	698,303	—	642,622	642,330	—
Liabilities on acceptances and notes payable	9,000	9,000	—	18,474	18,474	—
Payables to affiliated companies	13,817	8,267	—	13,603	1,458	—
Payables to companies in which participations are held	6,940	6,919	—	6,424	6,388	—
Other liabilities*	522,518	446,162	13,116	574,489	460,768	7,906
Thereof tax liabilities	(81,988)	—	—	(111,023)	—	—
liabilities relating to social security and similar obligations	(89,662)	—	—	(73,655)	—	—
	3,327,410	1,818,305	496,038	3,424,400	1,871,325	512,806

* amount secured by land charges, mortgages and comparable collateral: DM 2.0 million

The items payable to affiliated companies, payables to companies in which participations are held, and other liabilities include indebtedness in the amount of DM 165.7 million (1993: DM 204.7 million). After deducting liquid assets, indebtedness amounts to a total of DM 2,130.4 million (1993: DM 2,289.5 million).

DM 000	As of 12/31/1994	As of 12/31/1993
Acceptance liability	230,776	236,661
Thereof due to affiliated companies	—	191
Liabilities on guarantees	30,616	35,549
Liabilities on warranties	12,844	31,250
Liability on shares in cooperatives	81	81

Guarantees and Other Commitments

The contingent liabilities on notes result from discounting trade bills.

Future liabilities relate primarily to rental and leasing agreements covering real estate used for business activities. DM 857.3 million is attributable to 1995 and later years. Purchase commitments for property, plant and equipment amount to DM 164.7 million.

Other Financial Obligations

Notes to the Statement of Income

(13) Sales

DM million	1994	1993	Change in %
Analysis by group/division			
Passenger tires/retail	3,913.5	3,891.8	+ 0.6
Commercial vehicle tires	1,075.9	1,017.4	+ 5.7
General Tire	2,197.7	2,137.3	+ 2.8
ContiTech	2,479.9	2,122.8	+ 16.8
Other sales	209.9	199.8	+ 5.1
	9,876.9	9,369.1	+ 5.4
Analysis by region			
Germany	3,200.1	3,241.7	- 1.3
Europe (without Germany)	3,921.1	3,418.6	+ 14.7
North America	2,311.2	2,201.7	+ 5.0
Other countries	444.5	507.1	- 12.3

(14) Selling and Administrative Expenses

In contrast to the previous year, the administrative expenses of the individual distribution companies are included in the Corporation's selling expenses. The comparative figures have been adjusted accordingly. Based on this more meaningful method of reporting, selling expenses increased during the fiscal year by DM 103.4 million.

(15) Other Operating Income

DM 000	1994	1993
Gains on the disposal of fixed assets and investments	27,974	24,420
Credit to income from the release of provisions	25,849	59,764
Credit to income from the reduction of the general bad debt reserve	2,790	9,462
Credit to income from the release of special reserves	7,956	8,581
Foreign exchange gains	18,913	15,311
Miscellaneous income	99,841	91,324
	183,323	208,862

The substantial credits to income in 1993 from the release of provisions included DM 32.0 million released at Continental General Tire, Inc., Akron, Ohio, U.S.A., as a result of a change in this company's policy with regard to certain partial plant shutdowns, the relocation of the technology center and the partial elimination of various environmental risks. 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.

DM 000	1994	1993
Losses on the disposal of fixed assets and investments	5,692	7,069
Losses on declines in the value of current assets (except inventories)	38,837	34,649
Allocation to special reserves	429	1,517
Foreign exchange losses	19,614	31,474
Miscellaneous expenses	115,215	75,175
Miscellaneous taxes	60,474	61,343
	240,261	211,227

(16) Other Operating Expenses

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

DM 000	1994	1993
Net income from investments		
Income under profit-and-loss transfer agreements	401	109
Income from investments		
from affiliated companies	527	477
from associated companies	8,286	8,408
from other companies	237	469
	9,451	9,463

(17) Net Income from Investments and Financial Activities

DM 000	1994	1993
Net interest expense		
Income from other securities and loans included		
in investments	3,629	3,556
Other interest and similar income		
from affiliated companies	35	229
from other companies	53,455	47,361
Interest and similar expenses		
paid to affiliated companies	— 823	— 828
paid to other companies	— 262,601	— 269,415
	— 206,305	— 219,097

DM 000	1994	1993
Writedowns on investments and marketable securities		
Writedowns on investments	— 7,333	— 341
	— 7,333	— 341
Net income from investments and financial activities	— 204,187	— 209,975

The Corporation's net interest expense amounts to 2.1 % (1993: 2.4 %) of sales.

Miscellaneous Data

Personnel Expense

DM 000	1994	1993
Wages and salaries	2,537,950	2,520,465
Social welfare contributions and expenses related to pensions and other employee benefits	727,063	772,625
Of which expenses for pensions	82,914	114,502
	3,265,013	3,293,090
	1994	1993
Number of employees (quarterly average)		
Salaried employees	16,769	16,596
Wage earners	32,256	33,252
	49,025	49,848

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" on page 37.

Remuneration of the Supervisory Board and the Executive Board

Provided that the Annual Meeting of Shareholders on June 7, 1995 approves the proposed dividend, total remuneration of the Supervisory Board will be DM 441,000, of the Executive Board DM 8,613,000 (including remuneration paid by subsidiaries) and of former members of the Executive Board and their surviving dependents DM 3,643,000.

DM 29,901,000 has been set aside for pension commitments to former members of the Executive Board and their surviving dependents.

Proposed Allocation of Net Income

After a transfer by the Administration of DM 10,000,000.00 to retained earnings, pursuant to Section 58, Subsection 2, German Stock Corporation Law, the net income at Continental Aktiengesellschaft available for distribution amounts to DM 37,869,221.00. The Supervisory and Executive Boards recommend that the Annual Meeting of Shareholders approve payment of a dividend of DM 4.00 per share with a par value of DM 50.00, or DM 37,484,896.00. The remainder of DM 384,325.00 is to be carried forward.

Hanover, March 1995

Continental Aktiengesellschaft
The Executive Board

Major Companies of the Continental Corporation

Company	Corporate	Shareholders'	Net income/loss		Sales	Employees
	interest	equity	1994	1993	1994	12/31/1994
	in %	DM 000	DM 000	DM 000	DM 000	
I. Affiliated companies (according to accounting and valuation principles uniform throughout the Corporation)						
1. Domestic companies						
Bamberger Kaliko GmbH, Bamberg	48.3	4,623	104 *	26 *	55,500	179
Benecke-Kaliko AG, Hanover	48.3	121,735	15,120	6,820	547,493	2,134
Clouth Gummiwerke AG, Cologne	100.0	67,461	13,629	12,542	155,322	668
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	100.0	5,384	1,947	1,743	25,946	146
Deutsche Semperit GmbH, Munich	100.0	18,327	2,761	3,894	202,282	108
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	2,303	788	789	29,871	169
Uniroyal Englebert Reifen GmbH, Aachen	100.0	222,654	3,314 *	4,572 *	476,092	1,742
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	737	1,682	959	140,306	—
2. Foreign companies						
Barum Continental spol.sr.o., Otrokovice/Czech Republic	72.2	141,566	10,800	718	373,089	3,832
Birkenshaw Tyre Co. (Smiley), Glasgow/UK	100.0	4,937	786	1,449	43,388	270
Continental Caoutchouc (Suisse) S.A., Zurich/Switzerland	100.0	24,776	1,237	1,326	84,528	92
Continental Coordination Center S.A., Liège/Belgium	100.0	11,259	5,967	26,692	—	13
Continental Däck Norden AB, Göteborg/Sweden	100.0	87,393	30,980	9,888	282,507	49
Continental Holding France SARL, Sarreguemines/France	100.0	160,810	8,420	14,790	—	—
Continental Industrias del Caucho SA, Coslada, Madrid/Spain	100.0	17,835	3,160	14	109,440	272
Continental Italia S.p.A., Milan/Italy	100.0	2,907	824	439	95,357	91
Continental Mabor Indústria de Pneus S.A., Lousado/Portugal	100.0	25,834	16,137	6,741	103,615	790
Continental Tyre & Rubber Group Ltd., West Drayton/UK	100.0	39,452	2,959	4,140	299,494	267
ContiTech AGES S.p.A., Santena/Italy	100.0	12,899	5,772	8,091	162,688	920
C.U.P. SNC, Clairoux/France	100.0	26,253	1,280	2,291	325,680	288
Continental General Tire Canada Inc., Toronto/Canada	100.0	1,259	1,926	2,618	53,777	14
Continental General Tire Inc., Akron, Ohio/USA	100.0	72,629	9,878	35,189	2,281,485	7,117
Hycop AB, Motala/Sweden	100.0	7,898	4,913	1,097	51,144	205
National Tyre Service Ltd., Stockport/UK	100.0	34,226	4,165	906	379,066	1,996
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	52,886	18,170	23,731	489,573	1,037
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	11,954	758	740	40,598	18
Semperit Reifen Aktiengesellschaft, Vienna/Austria	95.0	401,254	17,474	8,502	839,959	2,411
Semperit (Ireland) Ltd., Dublin/Ireland	100.0	64,104	13,953	6,402	159,450	699
SICUP SNC, Sarreguemines/France	100.0	39,099	17,474	24,003	453,947	2,176
Société des Flexibles Anoflex SA, Caluire/France	99.9	39,007	6,678	31	199,413	1,090
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	26,131	6,224	7,336	108,125	231
Uniroyal Englebert Tyres Ltd., Newbridge/UK	100.0	7,609	6,618	5,594	184,010	962
II. Associated companies						
Compania Ecuatoriana del Caucho, Cuenca/Ecuador	35.8	29,099	738	4,254	91,021	
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	23,056	2,056	1,822	117,333	
General Tire & Rubber Company of Morocco, Casablanca/Morocco	42.8	18,657	3,229	2,105	76,021	
KG Deutsche Gasrusswerke GmbH & Co., Dortmund	32.1	16,500	1,500	1,500	113,214	
SAVA-Semperit, Kranj/Slovenia	27.8	161,152	12,309	876	236,268	

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.

* After profit/loss transfer

Continental Corporation

Ten Year Survey

		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Balance sheet											
Fixed assets and investments	DM million	1,075.3	1,063.6	1,647.0	1,794.9	1,998.5	2,853.4	3,416.9	3,554.3	3,813.5	3,605.3
Current assets	DM million	1,761.9	2,029.5	3,156.2	3,660.0	3,407.4	3,314.2	3,232.4	3,503.5	3,318.3	3,212.2
Balance sheet total	DM million	2,837.2	3,093.1	4,803.2	5,454.9	5,405.9	6,167.6	6,649.3	7,057.8	7,131.8	6,817.5
Shareholders' equity	DM million	638.4	808.0	1,515.8	1,657.9	1,725.3	1,742.2	1,514.7	1,617.1	1,699.0	1,675.5
Long-term debt	DM million	965.2	998.9	1,541.6	1,644.3	1,598.6	1,995.6	2,533.1	2,720.3	2,564.5	2,457.8
Capital expenditure on property, plant and equipment	DM million	253.9	284.8	300.1	447.7	532.4	689.5	829.3	709.3	624.1	514.7
Equity ratio	%	22.5	26.1	31.6	30.4	31.9	28.2	22.8	22.9	23.8	24.6
Long-term financing of fixed assets, invest- ments and inventories	%	86.3	103.8	118.6	113.6	103.7	89.6	89.0	90.0	86.3	90.1
Total indebtedness	DM million	992.5	741.2	672.7	826.4	929.5	1,545.9	2,152.9	2,416.8	2,289.5	2,130.4
Self-financing ratio	%	113.1	126.7	150.9	112.3	94.4	68.1	52.1	133.8	86.4	113.5
Liquidity ratio	%	76.4	104.3	134.7	119.9	105.0	77.1	74.6	76.5	68.3	76.6
Statement of income											
Sales	DM million	5,003.3	4,968.6	5,097.6	7,905.8	8,381.9	8,551.0	9,376.9	9,689.9	9,369.1	9,876.9
Foreign markets' share	%	49.9	48.3	47.5	64.3	65.0	61.8	62.8	63.9	65.4	67.6
Cost of sales ¹⁾	%			71.1	74.6	74.7	75.9	74.7	73.2	74.1	74.0
Selling expenses ¹⁾	%			14.9	13.1	14.0	14.7	14.8	15.0	16.7	16.3
Administrative expenses ¹⁾	%			7.0	6.4	5.7	5.9	6.5	6.7	6.2	6.2
EBIT	DM million	254.3	333.6	321.0	421.0	476.7	298.8	334.8	468.3	296.8	301.5
Personnel expense	DM million	1,693.8	1,778.5	1,878.4	2,532.2	2,724.8	3,028.5	3,236.4	3,343.3	3,293.1	3,265.0
Depreciation ²⁾	DM million	205.5	229.4	263.8	375.8	367.5	378.0	531.0	502.6	556.9	583.5
Cash flow	DM million	303.5	375.9	464.0	623.4	604.9	510.0	526.1	701.4	578.9	625.9
Value added	DM million	1,982.4	2,161.8	2,267.4	3,051.0	3,319.0	3,455.0	3,319.8	3,725.2	3,589.9	3,566.5
Net income/loss	DM million	77.2	114.5	138.8	194.8	227.8	93.4	- 128.2	133.0	65.1	70.8
Employees											
Annual average	Thousands	31.1	31.2	31.6	44.8	46.9	48.4	50.8	50.4	49.8	49.0

¹⁾ As a % of sales

²⁾ Excluding depreciation on investments

Continental Aktiengesellschaft

Ten Year Survey

		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Balance sheet											
Fixed assets and investments	DM million	750.0	761.7	1,358.3	1,409.5	1,889.3	2,289.3	2,074.2	2,203.5	2,297.9	2,150.7
Current assets	DM million	631.4	741.0	1,115.2	1,133.9	770.1	843.2	735.5	872.4	904.9	849.0
Balance sheet total	DM million	1,381.4	1,502.4	2,473.5	2,543.4	2,659.4	3,132.5	2,809.7	3,075.9	3,202.8	2,999.7
Shareholders' equity	DM million	499.2	667.1	1,567.2	1,601.3	1,641.1	1,620.4	1,162.4	1,189.9	1,334.4	1,392.3
Long-term debt	DM million	457.8	402.0	375.3	344.4	367.4	354.9	327.1	484.4	680.0	698.3
Capital expenditure on property, plant and equipment	DM million	102.2	102.6	119.7	138.5	135.7	154.2	183.5	194.8	179.5	135.4
Equity ratio	%	36.1	44.4	63.4	63.0	61.7	51.7	41.4	38.7	41.7	46.4
Long-term financing of fixed assets, invest- ments and inventories	%	90.9	105.5	122.8	116.7	92.8	76.1	62.0	64.5	79.4	92.6
Total indebtedness	DM million	250.5	192.9	+ 139.6	+ 171.0	99.1	604.1	863.8	1,037.2	659.2	418.1
Self-financing ratio	%	78.9	146.6	31.5	103.5	35.0	26.8	53.2	91.3	79.6	901.0
Liquidity ratio	%	74.7	117.0	192.7	163.6	69.7	40.3	25.8	30.1	54.0	76.6

Statement of income

Sales	DM million	2,312.9	2,391.0	2,423.1	2,813.3	3,040.8	3,066.4	3,271.6	3,334.4	2,244.1	2,286.2
Foreign markets' share	%	34.4	35.4	36.2	36.8	38.1	36.0	36.9	37.4	34.6	34.9
Cost of sales ¹⁾	%			80.4	80.4	81.5	83.3	81.0	82.4	86.7	86.8
Selling expenses ¹⁾	%			7.9	7.1	7.1	7.3	7.4	7.6	7.9	8.5
Administrative expenses ¹⁾	%			7.4	6.5	5.7	5.8	5.7	5.8	5.4	4.9
EBIT	DM million	115.2	167.1	159.6	165.7	172.3	198.6	290.5	224.5	154.6	112.3
Cost of materials	DM million	1,152.2	1,107.2	1,088.6	1,392.1	1,542.2	1,579.4	2,042.6	2,107.0	1,320.5	1,380.5
Personnel expense	DM million	846.7	895.2	928.6	924.5	960.6	1,023.7	632.1	642.4	585.5	572.2
Depreciation ²⁾	DM million	105.5	111.2	121.8	134.9	129.9	130.7	139.6	167.8	169.9	165.5
Cash flow	DM million	158.1	209.9	263.4	262.4	282.5	224.1	303.0	273.5	211.8	219.0
Value added	DM million	971.4	1,071.9	1,122.2	1,129.8	1,182.8	1,232.3	320.0	804.8	740.1	684.5
Net income/loss	DM million	37.2	55.0	55.8	80.9	81.2	42.2	- 417.1	38.0	71.2	47.3
Dividend paid	DM million	29.9	37.5	48.0	69.2	69.6	35.1	-	-	36.1	37.5

Employees

Annual average	Thousands	15.5	15.4	15.3	15.1	15.9	16.1	8.8	8.4	7.5	6.7
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¹⁾ As a % of sales

²⁾ Excluding depreciation on investments

Selected Financial Terms

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

Cash flow. Cash flow is 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, we use our 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.

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

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

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

are included in the consolidated financial statements. In contrast to individual financial statements, the consolidated financial statements must show a positive deferred tax balance on the asset side, if it is the result of consolidation measures.

DVFA/SG earnings. Computation of earnings per share according to DVFA/SG is based on a joint recommendation of the DVFA (German Association of Financial Analysts and Investment Counselors) and SG (Schmalenbach-Gesellschaft, German Business Administration Company).

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 exchanges.

EBIT. Earnings before interest and taxes. In this annual report, EBIT is understood to be the net income from regular business activities adjusted by the net interest expense.

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

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

Liquidity ratio. The liquidity ratio is the ratio of monetary current assets (current assets minus inventories) to short-term 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.

Net operating income. This is understood to be the net income before net income from investments and financial activities, extraordinary charges and income taxes.

Return on shareholders' equity. The return on shareholders' equity is defined as 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).

Paper produced
from chlorine-free pulp.

The photo of the French 'Eurostar'
was provided by SNCF-CAV.

This Annual Report is also published
in German. A shorter version is available
in German, as well.

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