Annual Report 1995

Continental
Aktiengesellschaft

Report on 1995,
the Company's 124th Fiscal Year

After merging with other rubber processing operations in Germany to form Continental Gummi-Werke AG, the Company had become industry leader by 1930. Pictorial advertising of that period.

Continental Corporation at a Glance

		1991	1992	1993	1994	1995
Sales	DM million	9,376.9	9,689.9	9,369.1	9,876.9	10,252.6
Income/ loss before taxes	DM million	–122.9	155.2	74.1	91.6	194.8
Income/ loss after taxes	DM million	–128.2	133.0	65.1	70.8	155.2
Dividend	DM million	–	–	36.1	37.5	47.0[1]
Cash flow	DM million	526.1	701.4	578.9	625.9	739.7
Debt ratio		4.7	3.8	4.0	3.4	2.7
Capital expenditure on property, plant and equipment	DM million	829.3	709.3	624.1	514.7	591.3
Depreciation[2]	DM million	531.0	502.6	556.9	583.5	552.7
Shareholders' equity	DM million	1,514.7	1,617.1	1,699.0	1,675.5	1,695.6
Equity ratio	in %	22.8	22.9	23.8	24.6	25.3
Employees at year-end[3]		49,304	50,063	50,294	48,583	47,918
Share price (high)	DM	25.2	28.1	27.7	29.8	23.1
Share price (low)	DM	18.0	18.5	19.1	21.1	18.6

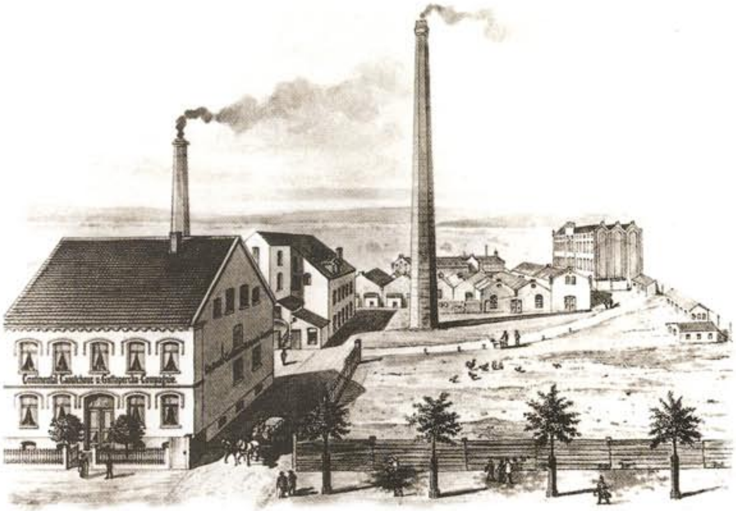
1) subject to the approval of the Annual Shareholders' Meeting on June 12, 1996

2) excluding depreciation on investments

3) excluding trainees


CONTINENTAL
CONTINENTAL BALLON

125 Years of Continental
– An Outlook –



Continental-Caoutchouc- & Gutta-Percha-Compagnie, Vahrenwalder Strasse in Hanover, 1871.

What is essential to Continental AG's future? Maintaining a worldwide presence from a secure base in Germany, its home market, in order to safeguard jobs and to achieve a sustained high level of earnings. And yet global strategies are often costly, and only rewarding in the long term. That's why Continental has opted for a course of improving profit margins quickly while still occupying a growing number of positions on a multinational scale. This calls for the right mixture of production expansion and relocation, the establishment of joint ventures and alliances, as well as off-take agreements and technology transfers.

In 1871, the year Continental-Caoutchouc- & Gutta-Percha-Compagnie was founded, the Company joined an industry that has been marked by virtually unparalleled, dramatic changes – especially in the last 25 years. Continental also played its part in those changes; in 1979, the Company which, until then, had been an all-German organization, ventured its first big step toward internationalization with the purchase of Uniroyal's European activities. Other acquisitions followed in Europe and North America, along with cooperation linkups worldwide, providing the Company's tire and industrial products operations – the latter now known as ContiTech – with a broader base.

Today, Vahrenwalder Strasse in Hanover is still home to the Company's headquarters.

Traditionally strong ties with the automotive industry have been intensified through the Company's progression from a maker of individual products to a supplier of complete systems; with the creation of a separate Automotive Systems Group in 1994, Continental has broken new ground with a view to gearing its future.

Dear Shareholders,

During 1995, we took another big step forward. With a gain of 112.7%, income before taxes was significantly higher than in the previous year. Net income amounts to DM 155.2 million, up 119.2%. Naturally, we cannot yet be satisfied with an after-tax return on sales of 1.5%, but the trend of the past few years points upward, and the prospects for the future, as we view them at present, seem encouraging. The forecast for the current year supports this conclusion. Payment of a dividend of DM 0.50 per share, totaling DM 47.0 million, will require 30.3% of consolidated net income. The remainder will again be used to strengthen shareholders' equity.

With the help of our employees, executives and employee representatives, we have made – and will continue to make – extensive changes in every part of the Corporation throughout the world. 1996, the year in which we celebrate the Company's 125th anniversary, will therefore also require our utmost efforts and a readiness to think and act in new ways.

In recent years, we have adopted plans to restore the profitability of the units of the Corporation that were showing a loss. Continental General Tire has achieved a slight profit. The Commercial Vehicle Tire Division in the U.S.A. is reporting a profit; the Passenger Tire Division has yet to do so. We are continuing to intensify the links between our European and North American activities.

During the current year, the European Commercial Vehicle Tire Group will probably show a positive bottom line for the first time in decades. This result is due in part to major reengineering of manufacturing and distribution, but is based primarily on improvement and expansion of the product range.

Losses in the European passenger tire business with OEMs are a traditional feature of our industry. To isolate these losses and permanently reduce them, we have formed a separate business unit for this activity; here, too, we expect that results will already be improving significantly in 1996.

These developments should produce a further gain in consolidated earnings during the coming years.

As we see it, Continental's greatest income potential lies in the European Passenger Tire Group. In 1995, it was already making a substantially higher contribution to the Corporation's net income. Assigning the management of all the tire brands included in the European Group to independent local teams has proved to be a sound policy. Although the CONTI International unit, which coordinates all our tire activities outside Europe and North America, is still in its infancy, it promises to enhance both our market presence and our earnings. To make sure that profit opportunities are exploited even more fully in the future, I have taken over from my retiring colleague, Wilhelm Schäfer, as head of the Passenger Tire Group for the time being.

Building on the successes of recent years, the ContiTech Group increased its earnings, despite an unfavorable environment. Its internationalization is being intensified; we intend to enlarge the basis outside Germany with new partners and new projects. Jobs in Germany can be safeguarded with new ideas. One example is our "insourcing" project, where we have taken on the responsibility for coupling hoses at VW's Salzgitter plant.

The Automotive Systems Group is successfully opening up new fields of activity that are closely linked to our core businesses in tires and industrial products. The delivery of complete systems to the automotive industry, which is eager to reduce the vertical span of its manufacturing processes, is bringing us into a still closer technical and commercial relationship with our major customers.

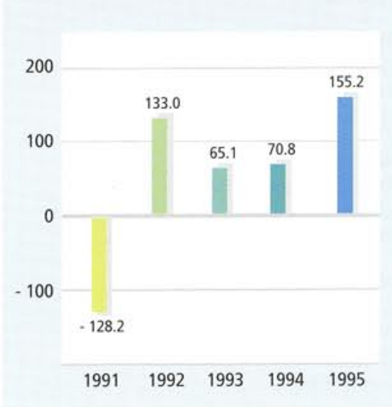
We are grateful to our shareholders for the confidence they have displayed in us. On behalf of the Administration, I cordially invite you to our Annual Meeting of Shareholders in Hanover on June 12, 1996.

Sincerely,

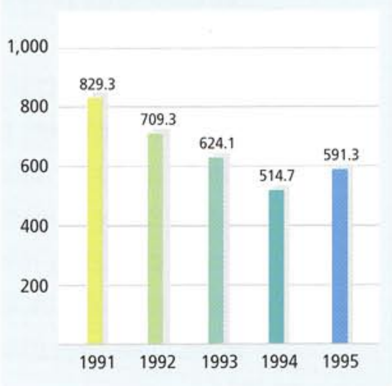
Hubertus von Grünberg

Sales in DM billion

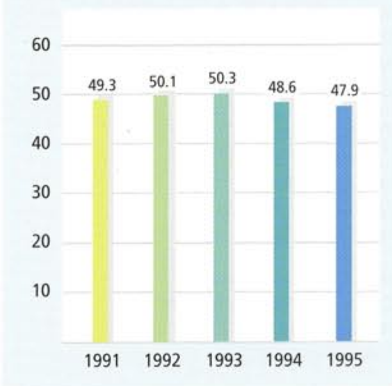
Net income/loss in DM million



Capital expenditure on property, plant and equipment in DM million



Employees at year-end in thousands
excluding trainees



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 Industriegewerkschaft Chemie-Papier-Keramik

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

Heidemarie Aschermann* Deputy Chairman of the Employee Council, Northeim Plant (as of 6/8/1994)

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

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

Friedrich-Karl Flothow* Head of Special Projects (through 6/8/1994)

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

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

Wilfried Hilverkus* Deputy Chairman of the Employee Council, Stöcken Plant

During the past fiscal year, the Supervisory Board has monitored management and regularly informed itself about the business and financial position, the personnel situation, capital investment projects and the special business of the Company. Outside their meetings, Supervisory Board members, and in particular members of the presidium, also gave counsel to the Executive Board. The Chairman of the Supervisory Board communicated regularly with the Chairman of the Executive Board and was informed about all the significant current business transactions. Business and measures requiring the Supervisory Board's approval were approved after being examined and discussed with the Executive Board.

Ulrich Weiss, Chairman of the Supervisory Board

The financial statements and management report for Continental AG as well as the consolidated financial statements and management report for the Corporation as of December 31, 1994 have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, and have been certified without qualification. We have been provided with the financial statements and management reports as well as the auditor's reports. The results of the audit and the examination conducted by the Supervisory Board revealed no grounds for objection. We have approved the financial statements, which are thereby definitively confirmed. We endorse the proposal of the Executive Board regarding the allocation of net income.

Effective June 8, 1994, Mr. Wilhelm P. Winterstein withdrew from the Executive Board in order to retire. We thank him for almost 10 years of effective work on behalf of the Company, most recently as Vice Chairman of the Executive Board responsible for Finance, Controlling and Purchasing. His successor is Dr. Jens P. Howaldt, who has been elected to the Executive Board as the member in charge of Finance, Controlling and Law.

The Supervisory Board accepted Alan L. Ockene's request to withdraw from the Executive Board as of December 31, 1994. Since May 3, 1991, he had been a member of the Executive Board, as well as President and Chief Executive Officer of General Tire Inc., Akron, Ohio. We wish to express our thanks to him for his fine performance during a difficult period.

On March 31, 1995, Mr. Hans Kauth, who had been a member of the Executive Board and Director of Personnel since April 1, 1980, went into retirement. We thank him for his valuable work. His successor as Director of Personnel is Dr. Peter Haverbeck, who, in addition to this position, will also be the Executive Board member in charge of ContiTech.

At the Annual Meeting of Shareholders on June 7, 1995, Dr. h.c. Casimir Ehrnrooth, Chairman of the Supervisory Board of Oy Nokia Ab, Helsinki, was elected to the Supervisory Board, as the successor to the late Dr. Ernst Pieper. Mr. Hans Detlev von Garnier, Director of Deutsche Bank AG, Hanover Branch, had replaced Dr. Pieper on the Supervisory Board prior to the election of Dr. Ehrnrooth.

After serving on the Supervisory Board since September 7, 1979, as one of the members elected by the employees, Mr. Eberhard Schlesies, Manager of the Hanover Administrative Office of the Union for the Chemical-Paper-Ceramics Industries, has retired. His term as a board member ended upon the conclusion of the Annual Meeting of Shareholders on June 7, 1995. We are grateful for his many years of dedicated work and his loyalty to both the Supervisory Board and the Company. His place was taken by his successor in the management of the Hanover Administrative Office of the Union for the Chemical-Paper-Ceramics Industries, Mr. Dirk Sumpf, who was appointed to the Supervisory Board by an order of the Hanover District Court dated May 17, 1995. His term commenced at the end of the Meeting of Shareholders on June 7, 1995.

The Supervisory Board wishes to express its thanks to the Executive Board and all the employees for their hard work and to the shareholders for the confidence they have shown in the Company.

Hanover, April 22, 1996

The Supervisory Board

Ulrich Weiss

Ulrich Weiss, Chairman

Wilfried Hilverkus*
Deputy Chairman of the Employee Council, Stöcken Plant

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

Dieter Kölling*
Member of the Employee Council, Vahrenwald Plant

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

Ernst Pieper
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*
Former Manager of the Hanover Office, Union for the Chemical-Paper-Ceramics Industries (through 6/7/1995)

Rainer Stark*
Head of Corporate Quality and Environment

Dirk Sumpf*
Manager of the Hanover Office, Union for the Chemical-Paper-Ceramics Industries (as of 6/7/1995)

Giuseppe Vita
Chairman of the Managing Board, Schering AG

Bernd W. Voss
Member of the Board of Management, Dresdner Bank AG

*Employee representatives

CONTINENTAL

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Management Report for the Corporation and Continental Aktiengesellschaft

Members of the Executive Board

Hubertus von Grünberg
Chairman
Passenger Tires
(as of 1/18/1996)

Hans Albert Beller
Automotive Systems

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

Jens P. Howaldt
Finance, Controlling and Law

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

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

Wilhelm Schäfer
Passenger Tires/
Tire Marketing and Sales
(through 5/2/1996)

Generalbevollmächtigte

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

The front pages of our customer magazine Echo Continental were strikingly artistic. This one dates from 1930.

Economic Background for 1996

The economies of the industrialized countries continued on an upward course during 1995. In general, no significant change in business conditions is anticipated for the current year. The European automotive industry is still counting on a slight gain in production. As in 1995, new passenger car registrations are not expected to grow at significant rates in the key markets, while production of commercial vehicles will probably be stagnant. In the United States and Japan, forecasts call for the output of passenger cars to rise again by 3 to 4% in the current year.

Our most important markets for passenger tires in Europe and North America will expand at a moderate rate, after remaining virtually stable in 1995. After the vigorous growth of the past two years, 1996 sales in the European markets for commercial vehicle tires are unlikely to exceed the previous year's level. A slight decline should occur in the corresponding market in the United States, which was already showing unmistakable signs of weakness in 1995.

Assets, Financial Position and Earnings

Strong Sales Growth

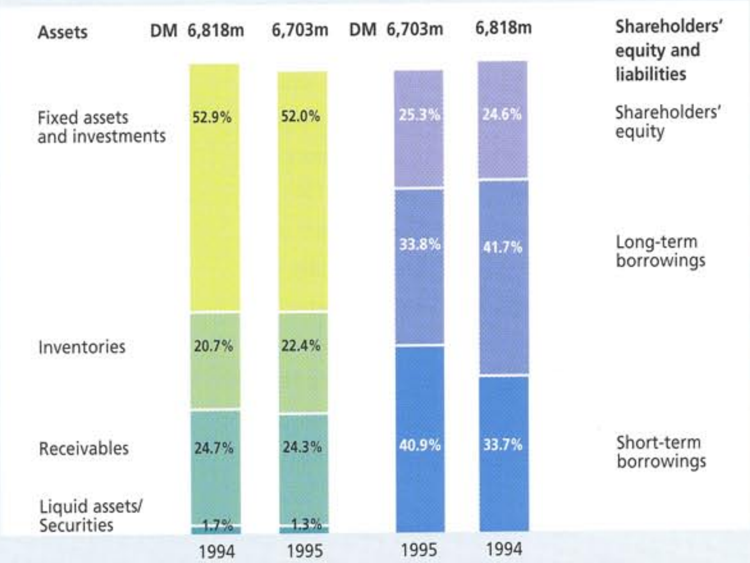
The Continental Corporation had a successful year in 1995. Compared with 1994, sales rose by DM 375.7 million, or 3.8%, to a total of DM 10.3 billion. In the absence of exchange rate fluctuations, the

Operating EBIT (earnings before interest and taxes)

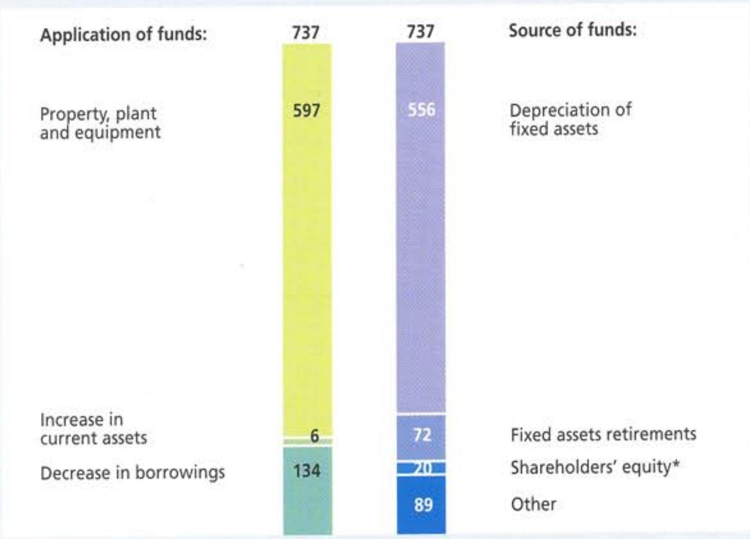
DM million	1995	1994
Passenger Car Tires	251.0	209.6
Commercial Vehicle Tires	4.9	– 29.9
Continental General Tire	55.7	40.3
ContiTech	120.5	113.7
Operating EBIT	**432.1**	**333.7**
Holding costs[1]	– 44.5	– 32.2
Earnings before interest and income taxes	387.6	301.5
Net of interest income and expense	– 192.8	– 209.9
Earnings before taxes	194.8	91.6
Income taxes	– 39.6	– 20.8
Net income for the year	**155.2**	**70.8**

1) Holding costs include the Automotive Systems Group.

Structure of the consolidated balance sheet



Corporate financing in 1995 (in DM million)



* including special reserves

increase would have amounted to about 8%. The scope of consolidation was essentially unchanged.

Sales growth was attributable to good business conditions in Europe, with a mounting demand for tires and industrial products. Europe, without Germany, represents 41% (1994: 40%) of the entire business. The German market showed a sales gain of 7.3% and accounted for 33% of consolidated business, compared with 32% in 1994. The North American market continues to be of decisive strategic importance for our tire operations; in the future, this will apply increasingly to ContiTech as well. Today, almost one fourth of consolidated sales is made in this region.

73% of consolidated sales was generated by tires, and 27% by industrial products.

10% Dividend

Net income amounts to DM 155.2 million, up DM 84.4 million or 119.2% over 1994. The Administration proposes to the Annual Meeting of Shareholders that a dividend of 10% be paid for 1995, equivalent to DM 0.50 per share with a par value of DM 5.00. Consolidated earnings before interest and taxes (EBIT) grew by 28.6% to DM 387.6 million. 1995 represents a major step on the way to the considerably higher profit margin that we regard as satisfactory.

Progress in Every Group

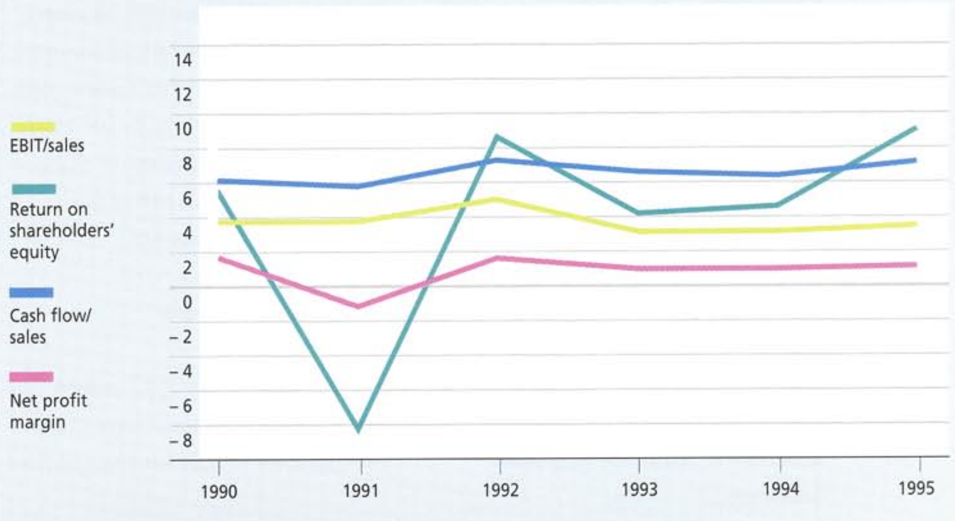
Despite soaring prices for raw materials, all the Groups were able to increase their EBIT. The cost of natural rubber rose by an average of about 50% during the year. Synthetic rubber, carbon black and chemicals were also considerably more expensive. Counteracting the drain on earnings resulting from these trends was our principal challenge for 1995.

The two mainstays of the Corporation's income – passenger tires and ContiTech – reported further improvements in their already substantial earnings. Passenger tires showed the largest gain, helped significantly by excellent business with snow tires. ContiTech also achieved its ambitious goals, though it, too, had to deal with sharp increases in the price of materials and labor. The Commercial Vehicle Tire Group sold large quantities, continued to reduce its losses and, for the first time, reported a profit before interest and taxes. Continental General Tire, our North American Group, made further progress, achieving a modest income after taxes. The Automotive Systems Group continued to perform in line with our expectations.

Capital Spending Levels Off

The Corporation's additions to property, plant and equipment totaled DM 591.3 million during the fiscal year, 14.9% more than in 1994. The capital expenditure ratio advanced from 5.2% to 5.8% of sales, a level which we plan to maintain in the following years as well. Approved capital expenditures amounted to DM 570 million, down 2.9% from the previous year's DM 587 million.

EBIT/sales



Balance Sheet Structure and Financial Position Improve

Total assets, at DM 6,703.4 million, showed only a slight decrease of 1.7%, due primarily to the lower exchange rates for the British pound and the U.S. dollar on the balance sheet date. As in the previous year, 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 was 52.0%, almost the same as in 1994 (52.9%). As had been expected, intangible assets declined, due to the offsetting of goodwill. There was a DM 50.5 million decrease in property, plant and equipment, while investments remained virtually unchanged. A sizable increase in inventories was accompanied by a slight reduction in trade accounts receivable.

Consolidated shareholders' equity, including the equity portion of special reserves, rose by DM 20.1 million to DM 1,695.6 million. The equity ratio has grown from 24.6% in 1994 to 25.3%. Shareholders' equity was reduced by the offsetting of goodwill and the payment of the dividend. Provisions remained almost the same as in the previous year, amounting to 27.3% of total assets. It should be noted in this connection that large accruals were made for restructuring measures in 1995. Indebtedness decreased by DM 141.7 million, or 6.7%, to DM 1,988.7 million. The gearing ratio dropped to 117.3% from 127.1% in 1994, because the increased capital expenditures were financed from the cash flow and acquisition of new companies was kept to a minimum. The capital turnover rate improved from 1.45 to 1.53. The balance sheet structure of the Continental Corporation continues to be strong, as shown by the fact that a high proportion (79.4%) of fixed assets, investments and inventories was again covered by shareholders' equity and long-term borrowings.

Substantial Gain in Income

Overall, the various contrary trends in average exchange rates had a negative effect on sales revenues. The cost of sales increased by 3.7%, in line with the gain in sales, despite the higher price of materials. Administrative and selling expenses were 1.5% lower than in 1994. Since net of interest income and expense was reduced by 8.1%, earnings before taxes doubled, climbing from DM 91.6 million to DM 194.8 million, even though other operating expenses were up over 1994, due to the formation of additional provisions for restructuring.

Changes in Financial Position

Although, due to the rise in inventories and capital expenditures, increased funds were required to finance our operations, the higher cash flow made it possible to reduce indebtedness by DM 141.7 million. A detailed statement of changes in financial position is part of this annual report (see page 42).

Cash flow Swells

Cash flow, at DM 739.7 million, represents a significant improvement over 1994. Its share of sales has changed from 6.3% to 7.2%. The debt ratio dropped from 3.4 to 2.7, as a result of higher net cash flow and a slight reduction in indebtedness.

Per-Share Earnings Increase

Earnings per share are computed in close reliance on the formula of the German Association of Financial Analysts/Schmalenbach-Gesellschaft. Like net income as a whole, they increased significantly, rising by 85.4% from DM 0.82 per share with a par value of DM 5.00 to DM 1.52. Cash flow per share amounted to DM 7.88, compared with DM 6.68 in 1994.

Statement of changes in financial position

	1995 DM million	1994 DM million
Net income for the year	155.2	70.8
Depreciation, amortization and writedowns	556.2	590.7
Other items with no effect on funds	28.3	– 35.6
Cash flow	**739.7**	**625.9**
Financing from operations	– 45.1	– 50.4
Investment activity (funds paid)	– 485.1	– 398.3
Financing activity	– 67.8	– 18.1
Effective change	**141.7**	**159.1**
Indebtedness at January 1	**2,130.4**	**2,289.5**
Indebtedness at December 31	**1,988.7**	**2,130.4**

Derivatives

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

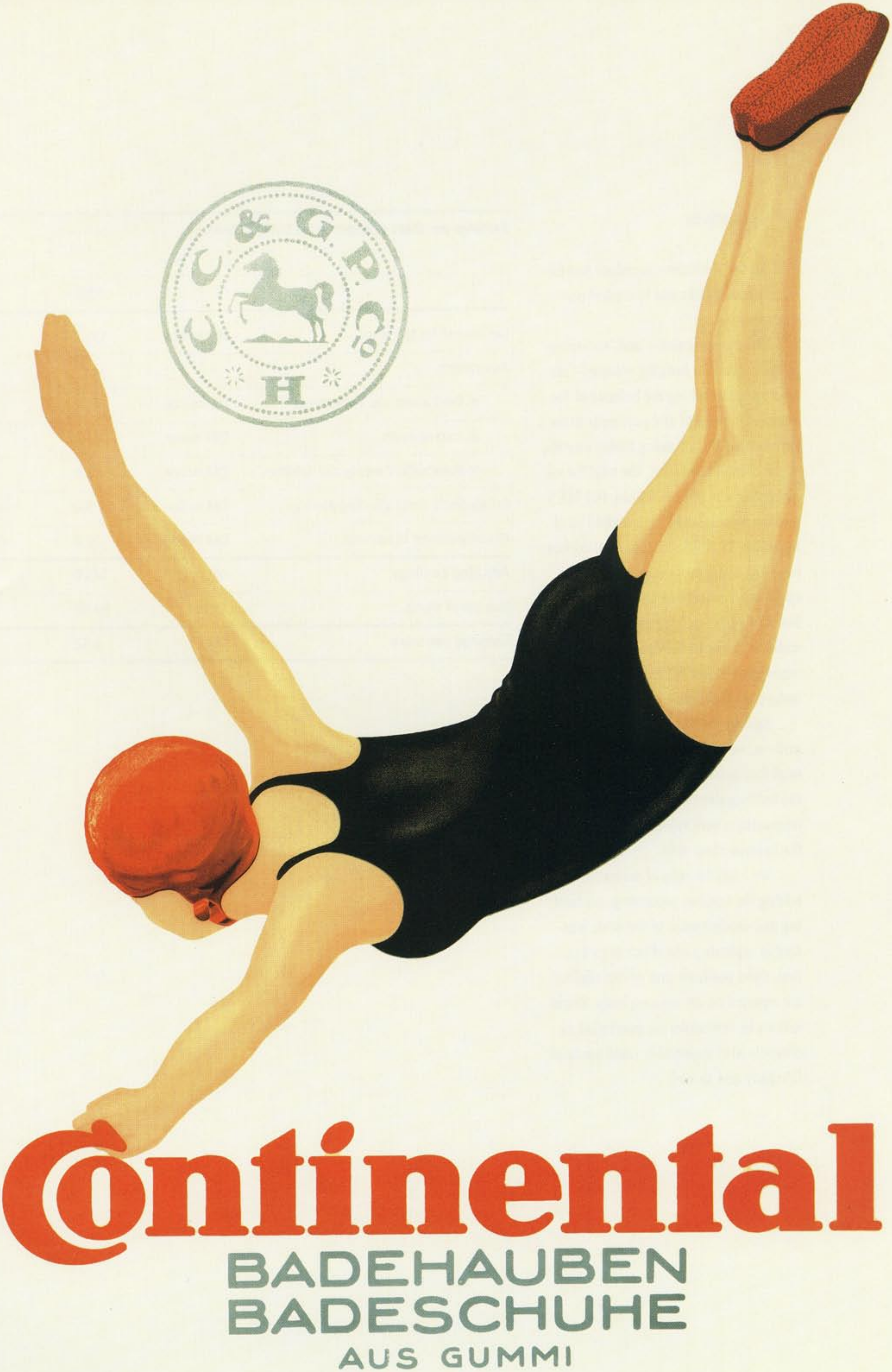
The currency risk – and, accordingly, the maximum hedging volume – are determined by taking the balance of the anticipated receipts and payments in each currency for the following twelve months. At the consolidated level, the total for all currencies was DM 1.4 billion, DM 344.3 million of which had been hedged as of December 31, 1995. This amount consisted of DM 293.3 million in forward exchange transactions and DM 51 million in foreign exchange options. In addition, loans in foreign currency amounting to DM 869.9 million were hedged on that date.

Against indebtedness of DM 1,988.7 million, we had interest swaps with a total face amount of DM 11.1 million on the balance sheet date. The interest-swap transactions were valued individually on the balance sheet date.

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

Earnings per share (adjusted by the DVFA/SG formula)

		1995	1994
Net income for the year	DM million	155.2	70.8
Adjustments			
in fixed assets and investments	DM million	2.2	8.0
in current assets	DM million	11.0	20.3
in shareholders' equity and liabilities	DM million	– 3.8	– 5.6
Extraordinary items affecting earnings	DM million	– 9.0	– 17.0
Minority interest in earnings	DM million	– 12.6	0.3
Adjusted earnings	DM million	**143.0**	**76.8**
Number of shares	Million	93.93	93.71
Earnings per share	DM	**1.52**	**0.82**


C. C. & G. P. Co
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Continental
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BADESCHUHE
AUS GUMMI

The Groups

In 1995, we made good progress toward our goal of making every Group ultimately capable of paying a dividend.

The fact that we accomplished this despite the substantial increases in the cost of such basic input as materials and labor is due to the special efforts that were made to increase sales volumes, enhance our mix with more profitable products and systems, and control costs systematically. The cost-control measures included reducing overhead and shifting parts of our production to low-cost locations. Another decisive factor was our success – for the first time in years – in enforcing significant price increases for tires, in both the original equipment and replacement businesses.

We have already made many changes – in our plants, in purchasing, logistics and distribution, in data processing and development. This is an ongoing process that will have its full effect some years from now. Programs to step up the efficiency of the personnel, administrative and financial departments are also under way.

Owing to internal changes in the scope of consolidation, sales of passenger tires and ContiTech products are not comparable with those for 1994. Without these changes, sales of passenger tires would have risen by 7.4% and those of ContiTech by 5.2%.

The Company's products were largely made up of consumer goods from the day it was founded right through to the fifties. Among them in 1925 were bathing caps and shoes.

Passenger Tire Group

	1995	1994
Sales in DM million	4,079	3,914
EBIT in DM million	251	210
Employees	21,584	23,056
Capital spending on P.P.E. and software in DM million	268	262

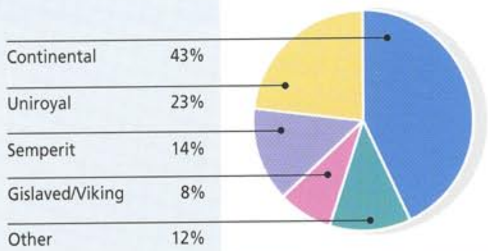
The **Passenger Tire and Dealer Organizations Group** increased its earnings before interest and taxes substantially, by DM 41 million, or 20%, to DM 251 million and reported slight gains in market share.

Sales to the **European automotive industry** showed a healthy increase of 12%, based in part on the success of tires for vehicles with especially high technical requirements. To remedy a loss situation that cannot be tolerated indefinitely, the original equipment business with passenger tires has been transferred to a separate unit that is responsible for its own results. It comprises sales activities relating to OEMs, as well as development work and the plants in Aachen, Korbach, Clairoix and Sarreguemines.

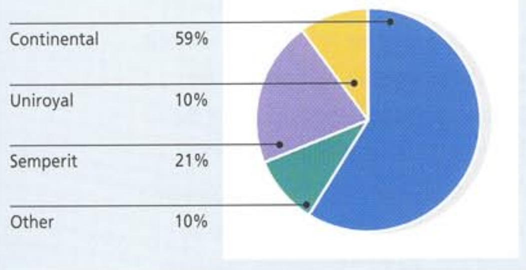
For the **European replacement market**, we introduced a new, market-oriented management concept in 1995, which ensures that our tire brands go to the right customers. The result was a pronounced increase in earnings, even though the gain in total sales volume, at 6%, was smaller than in the original equipment business. This was also due – with variations among the different regions – to systematic enforcement of price increases. A noteworthy event was the twelve victories won by our tire brands, led by Continental, in the snow-tire trials conducted by the trade journals.

The new CONTI International unit has made gratifying strides in its business with the automotive industry and the dealers. In general, the earnings of the dealer organizations belonging to the Passenger Tire Group declined in comparison with 1994, due to heavy losses at two of our chains. Appropriate measures to counter this trend have been initiated, so that break-even can be regained in 1996/97 and the basis for a consistent return on capital and sales can be established.

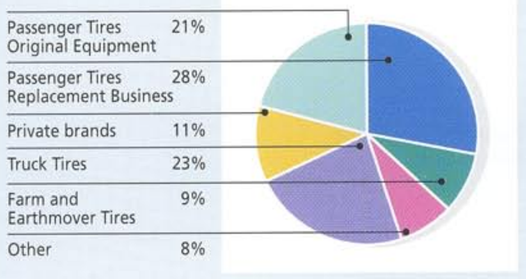
Passenger Tire Group
Sales by brand



Commercial Vehicle Tire Group
Sales by brand



Continental General Tire Group
Sales by product group



Commercial Vehicle Tire Group

	1995	1994
Sales in DM million	1,170	1,076
EBIT in DM million	5	– 30
Employees	4,735	4,641
Capital spending on P.P.E. and software in DM million	66	61

The **Commercial Vehicle Tire Group** has continued to reduce its losses. For the first time, the Group earned a profit before interest and taxes amounting to DM 5 million, after a loss of DM 30 million in 1994. If volumes hold steady, we expect that a positive overall result will be achieved in 1996.

Truck tires sold well, due mainly to exceptionally brisk demand from the **European vehicle industry**, which increased its purchases from the Group by 18%. But volumes also showed an increase of 2% in the more profitable **replacement markets**, which account for a far larger proportion of total unit sales. Overall, our market share expanded. The gain in production had a beneficial effect on costs. The biggest share of truck tire distribution and service activities – about one third of the total – continues to be devoted to Germany, our home market.

In the special segment of industrial tires, we have the broadest product range on the market. Our bias-ply, radial and solid tires can fill virtually any need. We strengthened our leading position in the European market. Both industrial and agricultural tires made a strong positive contribution to the Group's earnings.

Our plants operated at full capacity, while maintaining the sharp reduction in fixed personnel expense that was achieved during the recession. Output was increased by means of weekend shifts. Our commercial vehicle tire factories which, apart from Barum in the Czech Republic, are located at relatively expensive sites, will have to be brought step by step to a higher level of efficiency.

Continental General Tire Group

	1995	1994
Sales in DM million	2,062	2,198
EBIT in DM million	56	40
Employees	6,981	7,131
Capital spending on P.P.E. and software in DM million	120	100

The **Continental General Tire Group** added DM 16 million to the EBIT of DM 40 million earned in 1994, for a total of DM 56 million. In U.S. dollars, the sales growth rate was 6.1%. The Commercial Vehicle Tire Division of Continental General Tire reported a positive operating income for the second year in a row. The Passenger Tire Division, on the other hand, suffered from changes in sales volume structure and higher prices for materials, which could not be offset in full. Both Divisions enlarged their market shares in business with the U.S. **automotive industry**. We have booked an exclusive order for the new Ford Taurus and have been chosen as a supplier for the new Mercedes MPV and the Mercury Sable. BMW, U.S.A., is another one of our customers. In the **replacement business**, we maintained the same position as in 1994. Sales of passenger tires to independent dealers are developing well; we will intensify our efforts in this distribution channel.

Transfer of the central administration from Akron, Ohio, to the plant in Charlotte, North Carolina, is proceeding on schedule. We expect that the consolidation of development, production and marketing will produce advantageous synergies and bring new products more speedily to market. A new three-year collective bargaining agreement has been signed with the employees in Charlotte on competitive terms.

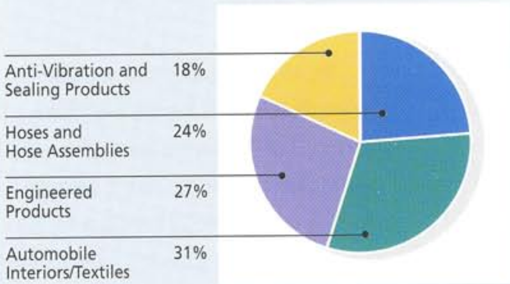
ContiTech Group

	1995	1994
Sales in DM million	2,795	2,480
EBIT in DM million	121	114
Employees	14,396	13,592
Capital spending on P.P.E. and software in DM million	153	111

The **ContiTech Group** increased its earnings before interest and taxes from DM 114 million to DM 121 million. Vigorous growth in sales volumes, without a correspondingly steep rise in overhead, produced good results, despite many negative influences, relating in particular to the cost of materials. Among the 14 business segments, the core activities turned in a highly satisfactory performance, while extrusions, cushioning products and flock yarns are not yet meeting our expectations. Concentration on technologically sophisticated products has led to substantial sales growth in a majority of the companies.

We are continuing to restructure the older plants and are shifting the manufacture of products that are no longer competitive to Central and Southern Europe, where the costs are lower. Jobs were secured when we took over the coupling of hoses for Volkswagen's power steering assemblies, since the increased order volume is now being manufactured by us at VW's Salzgitter plant. A leaner organization and flatter hierarchies, achieved by promoting decentralized responsibility for results, has helped to reduce costs, as has the proliferation of group work and the simplification and standardization of products. Collaboration with German companies and other partners, both European and non-European, is being intensified, and we are negotiating additional cooperative agreements. Now and in the future, ContiTech plans to concentrate its business on products and systems with high value added, attractive market potential and solid profit margins.

ContiTech Group
Sales by operations



Automotive Systems Group

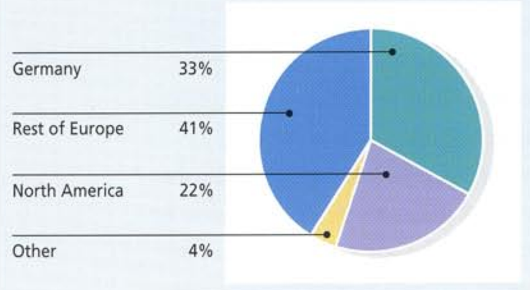
The range of systems and services offered by the **Automotive Systems Group**, which was founded at the beginning of 1994, has met with a positive response from the automobile companies. It includes the assembly of complete wheels; as regards the new Mercedes factory in Lothringen, we are responsible for supplying the whole tire/wheel unit. We signed contracts to develop noise abatement systems for commercial vehicles and received an important large-scale order for a rear-axle leveling device. We are also collaborating closely with the industry on electronic systems for regulating road-holding and vertical dynamics and for monitoring tire pressure. However, it will be some years before these future-oriented investments are reflected in substantial sales and earnings.

Regions

New Opportunities Around the World

We are stepping up our activities in the markets outside Europe and North America. CONTI International, the tire unit responsible for the rest of the world, reported sales of DM 273 million in 1995. Business with Korean auto manufacturers was especially brisk, and the replacement business expanded in the Far East and in Eastern Europe. We signed a strategic cooperation with PT Oroban Perkasa Ltd., Jakarta, an Indonesian manufacturer of passenger tires, to supply the rapidly growing demand in that country. We have fortified our partnerships in India and South Africa and, in particular, with Grupo Carso, in Mexico, which gives us access to over 1,000 dealers in this large market. The ContiTech and Commercial Vehicle Tire Groups are conducting negotiations through Chinese joint ventures to supply our European customers on the spot from local production.

Sales by Region



To strengthen ContiTech's position, we acquired TBA Belting, a company based in Wigan, U.K., that deals in power transmission products.

In the long term, we will only be capable of supplying the global market if we have manufacturing locations throughout the world. Therefore, all the Groups will expand their international partnerships and seize every opportunity for new collaborations.

Securing Our Future

Research and Development

The origin and center of our activities is Germany, the location with the highest productivity, but also with the highest costs. Lowering costs is one answer to this dilemma, the other is to maintain a top position in technology, as a basic requirement for a secure future at precisely this location. For this reason, we have brought together and expanded tire research and development activities from various points within the Corporation. The new Technology Center at the Hanover-Stöcken plant is opening its doors on schedule in April 1996. Engineers and scientists from Aachen and Traiskirchen are being transferred to Hanover, and the enlargement of the Contidrom test site has been successfully completed. We also expanded development facilities for automotive systems at Stöcken. As in the preceding years, we invested about 4% of sales in research and development for tires and industrial products.

As decentralization increases, R&D becomes more and more important as a common technological bond. We pursue sophisticated long-term goals; on the way, we constantly arrive at results that can be put into immediate use. In 1995, we continued our close collaboration with universities and research institutes. Our search for new technologies and materials is focused on further reductions in weight, noise and energy consumption and on new ideas for the integration of the tire-rim assembly with the entire driver-vehicle-road system.

Also at the Hanover production facility, we have introduced a new high-performance building machine for truck tires and a fully automatic single-stage building machine for passenger tires. We will continue to place high priority on the development of our own machines.

We are making further intensive efforts to strengthen the links between our European and North American activities. Both sides still have much to learn from one another, and the readiness to cooperate across the Atlantic is growing at an encouraging pace.

Product and process development at the ContiTech companies is concentrating, first of all, on making products simpler and manufacturing more flexible, as a means of reducing costs, and, second, on developing new materials and product systems, as a means of securing the future.

The specialists at Engineering ContiTech (ECT) in Hanover, a central unit of ContiTech Holding, offer their engineering services to the operating units to exploit synergies in the use of materials and processes and to cover peaks in capacity utilization. This unit also performs the essential task of transferring know-how among the Groups.

We are working to improve the vibration environment in vehicles through the future-oriented Advanced Vibration Control (AVC) Project, using a comprehensive approach that takes into account the interactions between the tires, chassis, engine and auto body.

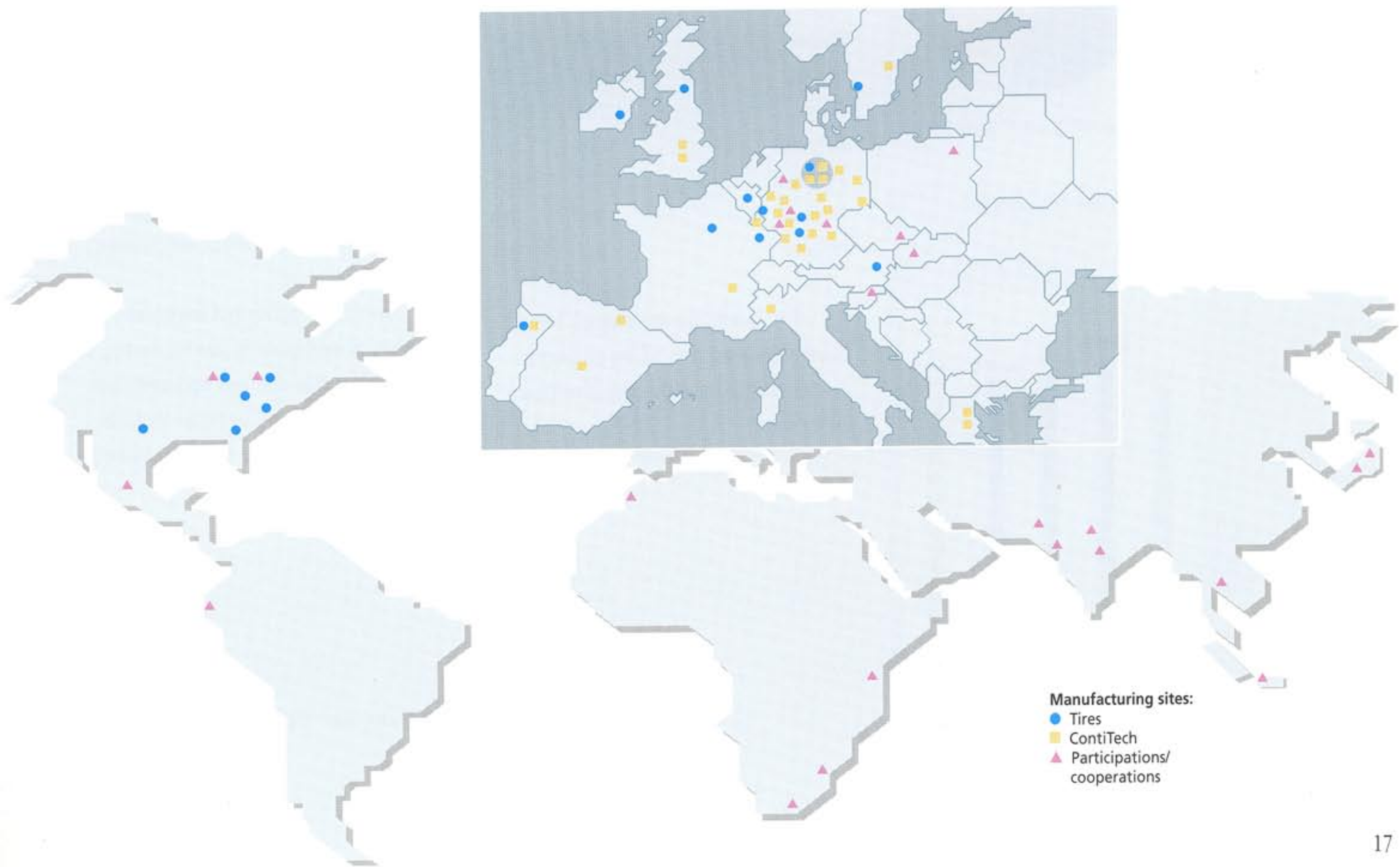
In order to reach our goals, we are tapping all the available resources of the Continental Groups with regard to the development and dimensioning of components, as well as simulation and testing.

Environment and Quality

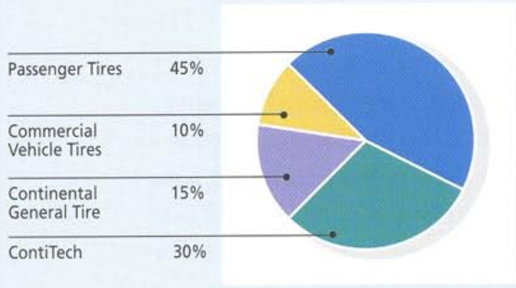
Our proactive environmental policy is designed to prevent or recycle waste of every kind. This involves the replacement and recovery of solvents, as well as reduced consumption of materials, energy and water. As one contribution to saving raw materials and energy resources, we are developing a new line of passenger tires with up to 18% lower weight. REG, our tire disposal company, is making good progress with the disposal of old tires and now leads the German market.

For the internal and external management of crises, instructions concerning the proper mode of action and behavior have been circulated throughout the Company, with related training sessions. The Korbach plant, which manufactures passenger tires and hoses, is the first production site of a large German company to receive certification under the European Eco Audit Regulations.

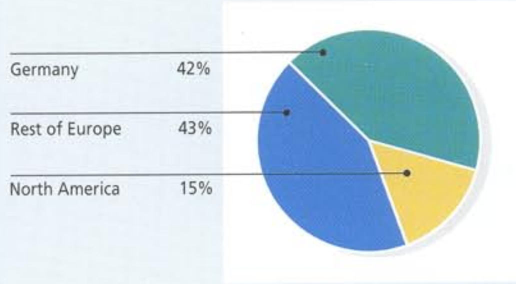
The maintenance and further enhancement of our high level of product quality, with a simultaneous reduction in the cost of quality management, was a primary objective for 1995, and will continue to be one in 1996. Our efficiency is being confirmed by ISO certificates, which have already been obtained by 90% of the tire plants. By the end of 1996, two thirds of the ContiTech factories will be certified, too.



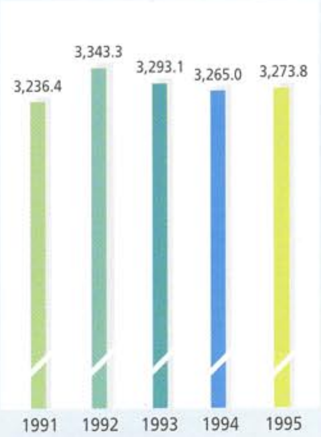
Employees by Continental Group



Employees by Region



Total personnel expense within the Corporation
in DM million



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

Employees

Slight Decrease in the Work Force

The number of employees in the Corporation continued to decline during the fiscal year, but only to a small extent. The work force was reduced by 665 people, from 48,583 to 47,918, mainly because the plant in Morocco is no longer being consolidated. The table below shows the change in the number of employees (not including trainees) in the most important countries:

	1995	1994
Germany	20,163	20,265
North America	6,989	7,131
Czech Republic	3,922	3,832
Great Britain	3,711	3,558
France	3,560	3,554
Austria	2,841	2,887
Italy	1,201	1,011
Belgium	1,026	1,050
Portugal	1,023	1,035
Sweden	890	889
Ireland	814	851

The distribution by regions has hardly changed: 85% of the employees live in Europe, and about half of them in Germany.

We had 376 (1994: 389) trainees in Germany, compared with 562 (1994: 661) worldwide. By far the largest part of the young people who completed their training during the year were given permanent jobs with the Company.

Personnel Expense at the Corporation

The Corporation's personnel expense rose 0.3% to DM 3,273.8 million. This figure includes wages, salaries, social welfare contributions, and expenses for pension plans and other employee benefits. Total personnel expense per employee increased from DM 66,600 to DM 67,688 (1.6%).

More Employee Participation: Greater On-the-Job Safety

Our "Conti 100" employee participation program met with a good response.* A new agreement for the suggestion program has been concluded with the Employee Councils, which will lead to a considerable simplification and acceleration of the process.

On-the-job safety has improved steadily, as evidenced by the 8% decline in the accident rate that was accomplished during 1995, making us better than the average in the German chemical industry.

* *See also under "The Continental Share", page 23*

Facilitation of Corporate Development

The processes of growth and change within the Corporation have been accompanied and accelerated by training and organizational development programs. During 1995, the Change Master Program was oriented exclusively to work in strategic alliances.

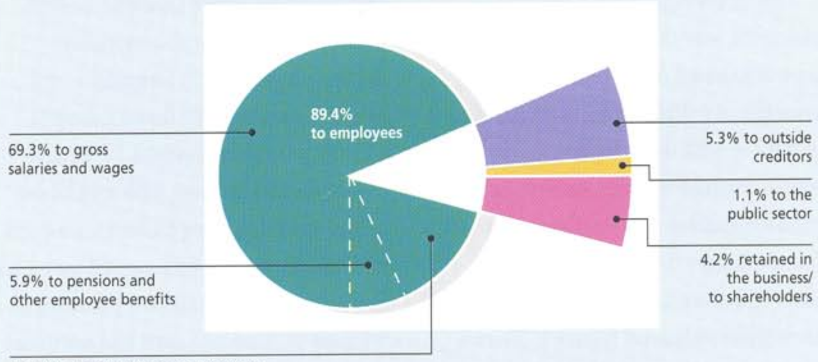
We have made solid progress in the transformation of our training facilities for the German-speaking area into an independent service center, which provides its services to customers within the Company for a consideration. Our larger organizational units provide the training necessary for altered job assignments on an independent basis.

Gain in Value Added

The Corporation's performance increased by DM 441.3 million, or 4.4%. After deducting input from other sources, value added amounts to DM 661.4 million. This amount is DM 94.9 million more than in 1994, an increase of 2.7%.

Value added was distributed as follows: Personnel expense accounted for 89.4%, 5.3% went for interest, and 1.1% for income taxes. There remained a net income of DM 155.2 million (4.2%), DM 108.2 million of which is to be allocated to consolidated reserves in order to increase the Corporation's capital resources, and DM 47.0 million is to be distributed to the shareholders.

Distribution of value added in 1995 (Corporation)
DM 3,661.4 million = 100%



Source of value added (Corporation)

DM million	1995	1994	Change	in %
Sales	10,252.6	9,876.9	375.7	3.8
Other income	262.0	196.4	65.6	33.4
Corporate performance	10,514.6	10,073.3	441.3	4.4
Cost of materials and				
other input from outsiders	– 6,297.0	– 5,916.1	– 380.9	– 6.4
Depreciation (total)	– 556.2	– 590.7	34.5	5.8
Value added	3,661.4	3,566.5	94.9	2.7
Distribution of value added				
Personnel expense	3,273.8	3,265.0	8.8	0.3
Net of interest income and expense	192.8	209.9	– 17.1	– 8.1
Income taxes	39.6	20.8	18.8	90.4
Net income	155.2	70.8	84.4	119.2
Value added	3,661.4	3,566.5	94.9	2.7

Collaboration Brings Positive Results

As in previous years, talks and negotiations with the employee representatives were based on the fundamental principle of collaborating to secure the welfare of both the Company and its personnel. Prompt information and communication enabled us to implement profound changes in organizational structures and procedures without any threat to peaceful industrial relations. We continued our dialogue with employee representatives throughout Europe at Continental's fourth European forum.

Thanks to Our Employees

Our thanks go to our present employees, to all those who retired during the year, to our executives and to the employee representatives for their fine performance. The manifold structural changes have demanded increased flexibility and adaptability from all of us. Our employees have been equal to these challenges.

A Promising Outlook

The upward trend in the industrialized countries should continue in 1996, although the current stagnation in Europe – especially in Germany – will persist throughout the first six months.

We have started off the 1996 fiscal year in a good position, with a balanced mix of manufacturing facilities, products and brands. We will keep capital spending at the former level, take every possible measure to eliminate costs and continue to reduce our indebtedness. We believe that passenger tires will derive particularly strong earnings potential from the reorganization of the logistical process chain and the establishment of a separate unit for the original equipment business. We will give special attention to the rapidly growing markets in the Pacific Basin: Our partnerships in India will be expanded, and further efforts will be devoted to Indonesia and China.

In consultation with the employee representatives, we will continue in 1996 with the reduction of personnel in Europe and the U.S.A. On the other hand, another 40 to 50 engineers will be hired for the newly completed Technology Center in Hanover. Preparations for the transfer of production from Limmer to the Stöcken plant (also in Hanover) will begin in 1996; the process, however, will extend over several years. The facilities to be installed at Stöcken for tires and molded products, as well as for molds and machinery, will produce a lasting improvement in the cost basis. We will continue to give high priority to environmental protection, not only as a corporate obligation, but also as an advantageous factor in our business.

Our cooperation agreement with Michelin has been signed and is awaiting the approval of the cartel authorities. The activities that have been jointly planned for some of our units should result in substantial cost savings for both parties, while safeguarding their future development. We are confident that a positive decision will be announced in the near future.

Our prime concern is to earn a profit that will permit a consistent and reasonable return on invested capital. We will continue to improve the preconditions for profitability during the coming years.

The Continental Share

Higher Dividend

The net income available for distribution enables us to propose to the Annual Meeting of Shareholders a dividend for 1995 of 10%, or DM 0.50 per share with a par value of DM 5.00.

Since the capital stock entitled to the dividend, at DM 469.7 million, has not increased significantly, a total of DM 47 million (1994: DM 37.5 million) will be required for the distribution. The payout thus amounts to 30.3% (1994: 53.0%) of consolidated net income.

The DM 5 Share

On June 15, 1995, the shares of Continental AG became the seventh of the 30 DAX (German Share Index) securities to be converted to a par value of DM 5.00. We thus took advantage of the option afforded by the 2nd Financial Market Promotion Law to reduce our share to the minimum permissible par value. By the end of 1995, a total of 60 companies had lowered the par value of their shares.

Price Trend

After a disappointing year on the stock exchange in 1994, German shares bounced back during 1995.

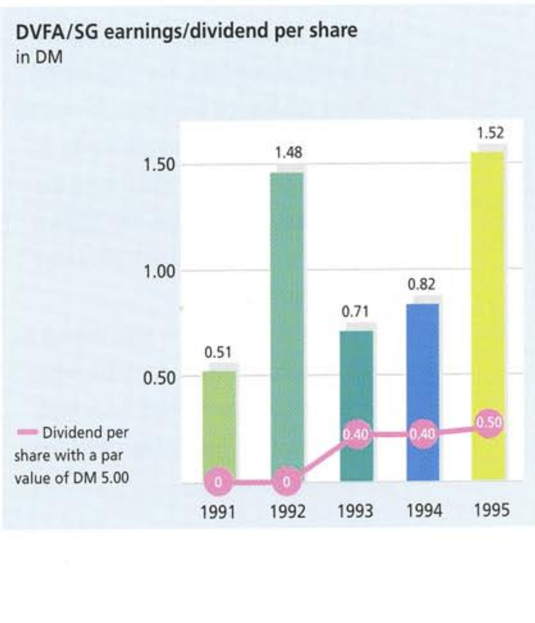
Shareholders benefited from a 7% rise in the DAX. A worldwide decline in interest rates spurred the upward trend. The DAX passed the 2,300 points mark for the first time and closed on December 29, 1995 at 2,253.88.

The Continental share started the year at DM 22.60 on a comparative basis, or DM 226.00 for the former DM 50 share. In the first quarter, it followed the DAX to a low of DM 18.60 on March 24, 1995. Then however, still in line with the DAX curve, it leveled off, moving to its high of DM 23.10 on August 22. From mid-September, the price fluctuated between DM 19.50 and DM 21.50, to close the year at DM 19.85. The resulting decline of 12.2% for 1995 was directly contrary to the gain of 7% in the DAX. At the beginning of 1996, however, the price recovered and shot up to DM 26.73 (+ 34.7%) by March 22, while the DAX lagged behind with an increase of only 10%.

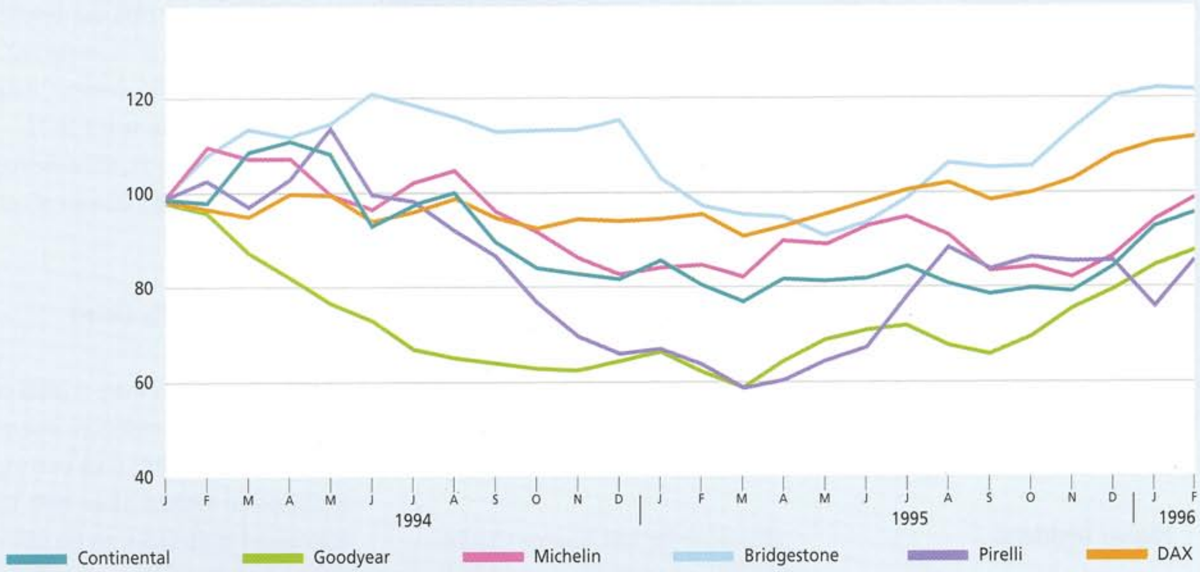
Internationally Listed

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 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).



Share price development since January 1, 1994*
January 1, 1994 = 100%



* average of the month's highest and lowest price

Continental is a member of the EUROLIST System, which established the Federation of European Stock Exchanges (FESE). EUROLIST is designed to help issuers of securities obtain additional listings in other countries and to simplify the permit procedures. The ongoing centralized publication of prices and trading volumes of leading European stocks is an important means of integrating the capital markets in Europe. The FESE is planning to set up a "EUROLIST Index" in the future.

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.

Key figures for the Continental share
(in DM per share with a par value of DM 5.00)*

	1991	1992	1993	1994	1995
Net income/loss	– 1.46	1.51	0.72	0.75	1.65
Dividend	0	0	0.40	0.40	0.50
Dividend with tax credit	0	0	0.57	0.57	0.62
DVFA/SG earnings	0.51	1.48	0.71	0.82	1.52
Cash flow	5.99	7.95	6.41	6.68	7.88
Book value	17.24	18.32	18.82	17.88	18.05
Market price (Dec. 31)	20.70	19.80	27.70	22.60	19.85
Number of shares (in thousands)	87,850	88,260	90,280	93,710	93,930

* *To permit clearer comparison, the new par value of DM 5.00 per share that took effect on June 15, 1995 has also been used as a basis for the previous years' figures.*

Share Liquidity

Total sales of German shares on the German stock exchanges amounted to DM 1,733 billion during the past year, or 7% less than the DM 1,870 billion recorded in 1994. DM 5.2 billion of these sales, or about 0.3% (1994: 0.5%) was attributable to the Continental share. Thus, in 1995, it was again one of the more liquid securities on the German stock market. When we compared sales of our shares on the various domestic and foreign stock exchanges where it is listed, we found that institutional investors still prefer to trade Continental in Frankfurt.

Employee Shares – "Conti 100"

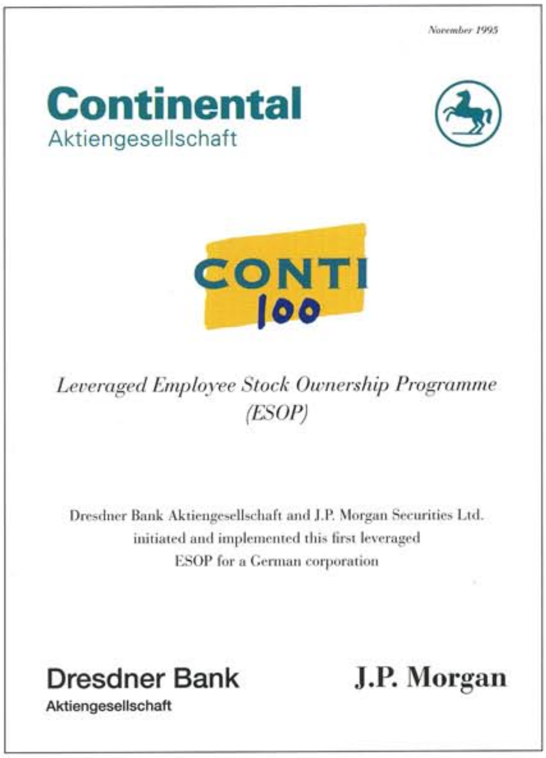
We are the first German company to offer our employees not only the traditional employee shares, but also a new employee participation plan known as "Conti 100." This new concept is especially attractive because:

– The employees can buy more shares – in our case, 100 instead of 40.
– No subsidies are involved; the shares are bought at market price.
– To finance their purchases, the employees receive 80% of the price as an interest-free employer loan.
– The blocking period is reduced from six to two years.
– The price is hedged, to prevent any losses during the blocking period. On the other hand, the employees receive the full benefit of price increases.
– All deposits are centrally managed, so that no costs are incurred by the employees.
– A high yield on the invested capital is ensured, because the shares are fully entitled to the dividend.

"Conti 100" has great advantages for both the employees and the Company itself. Half of the employees who invested chose the traditional employee share; the others chose "Conti 100". Overall, the number of shares subscribed has doubled. We would be delighted if, over the medium and long term, our employees' participation in the Company would rise to 5% or more.

Investor Relations and PR

To ensure that the Corporation is well supplied with capital over the long term, Continental pays 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 conferences, press releases, letters to the shareholders, brochures and annual reports, as well as financial presentations and round-table discussions for analysts and investors. On the occasion of our Road Show in Europe and the U.S.A. during October 1995, we published for the first time our earnings targets for the Corporation and the individual Groups.



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

More Information About the Fiscal Year

Tires

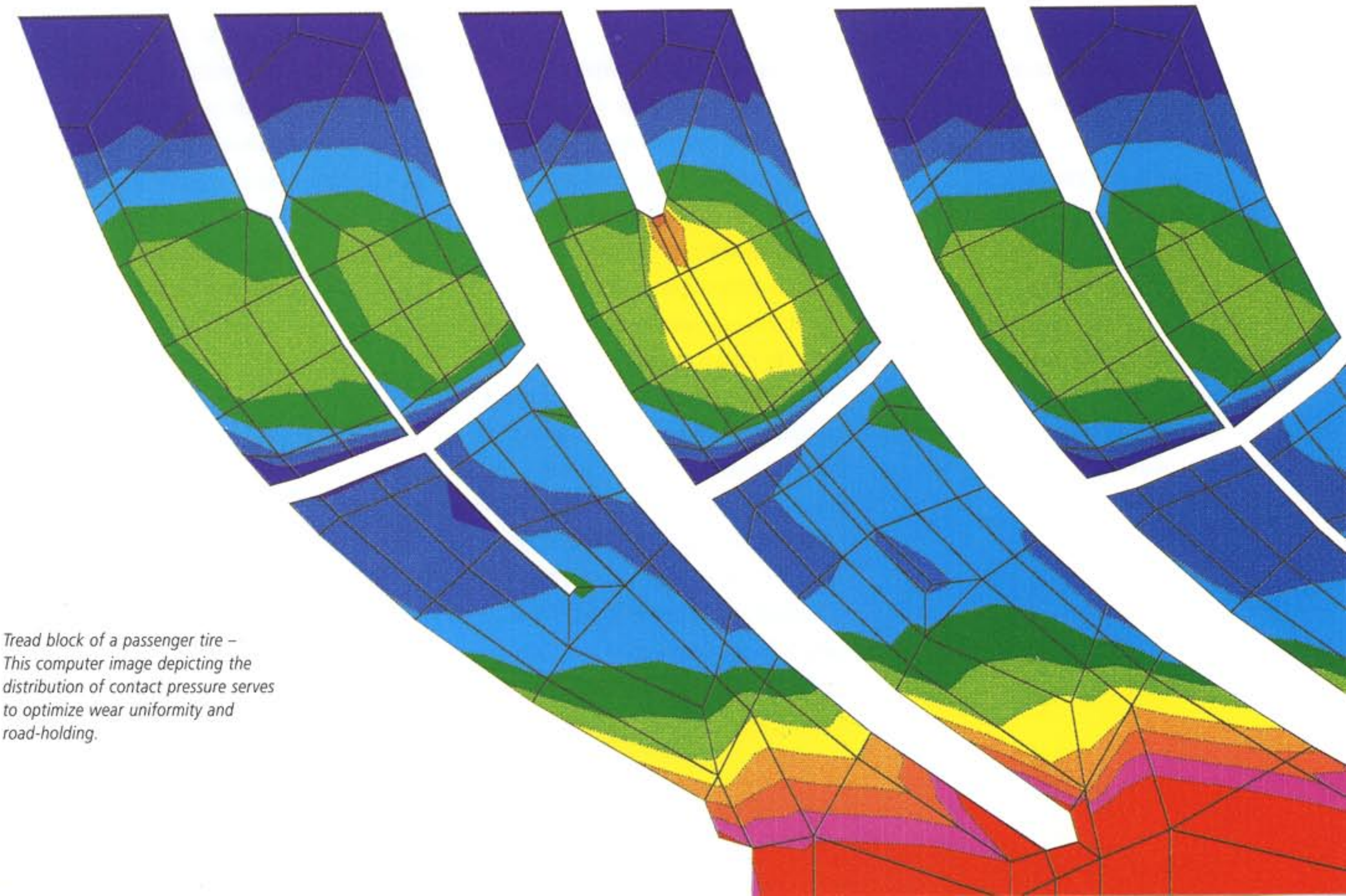
The Tire Group has established a good foundation with a well-balanced product range across all brands.

Passenger Tires and Dealer Organizations

The healthy sales volumes and earnings realized in our passenger tire business reflect the effective implementation of our multi-brand strategy. Continental, our premium brand, was successful, even though demand for low-priced tires increases in periods of economic difficulty. Our brands in other segments of the market, like Uniroyal and Semperit, enabled us to respond appropriately to this trend, using weekend shifts to supply the additional volume.

The ContiEcoContact CP energy-saving tire for the high-speed range achieved a market breakthrough, and a gratifying quantity of orders for this ecological product was received from both dealers and car makers. The new BMWs of the 5 Series were presented to the press with these tires. Recently developed tires with a top speed of 120 mph are being used by Mercedes on one of their new van models.

Like the Continental snow tire, Uniroyal's MS Plus 4 did well in winter tests, and its new Rallye 580 with a directional tread now has a firm position as a rain tire. Semperit's new M 828 snow tire (Direction Grip), which also gained a test victory, was a strong seller for the upper category of vehicles. Semperit



Tread block of a passenger tire – This computer image depicting the distribution of contact pressure serves to optimize wear uniformity and road-holding.

also successfully introduced Top Speed 2 and Direction for ordinary use. The snow tires manufactured by Gislaved and Continental/Viking posted excellent test scores in Scandinavia.

Due to the weather, dealers were able to move out their inventories briskly during the winter of 1995/96, particularly as regards snow tires, so that we can again count on high sales volumes for the coming period. During 1996, we will also be selling a considerably greater number of regular passenger tires in the more profitable high-speed categories and will try to increase the earnings potential of this segment still further. We are continuing our European television advertising campaign for the Continental brand.

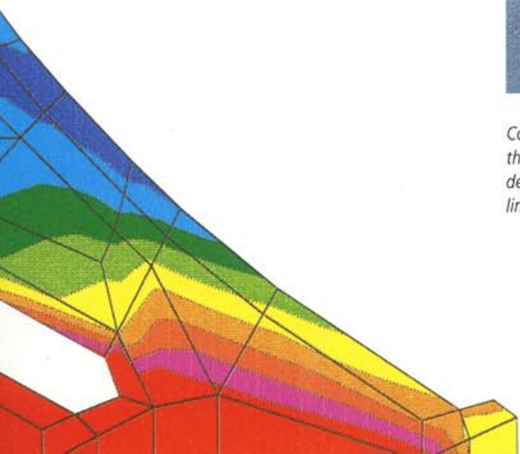
The decline in the business of the Corporation's dealers in Europe is primarily the result of structural difficulties. The fine results of individual operations prove that our program and service concepts are correct. We will concentrate in 1996 on selecting and training young entrepreneurs, especially for the branches that are not yet operating at a profit.

A new concept that will embrace the entire logistical process chain should produce both higher delivery capability and substantial cost savings. We have on hand the first positive results of a pilot project and are working hard to finalize the overall plan.

We are examining our European passenger tire plants to determine their future potential. It appears that the acquisitions carried out over the years have in some cases saddled the Corporation with plants that have less than optimum operating parameters. In 1996, we will decide whether the existing structure of 11 passenger tire factories should continue in its present form. As a result of the restructuring and expansion work that has been done at our plants in Portugal and the Czech Republic, the proportion of passenger tires manufactured at low-cost locations has risen to 23%. When our new projects in Indonesia – and probably also in India – are completed, this figure will gradually rise to 40%. These developments, together with systematic rationalization measures, have led to a further reduction in the processing costs of an average tire, which are now considerably below the value for 1992. The cost of quality assurance in manufacturing was decreased even further in 1995.

ContiSportContact is capable of satisfying the most demanding motorist. This tire delivers top performance in sporty handling, safety and comfort.

The Uniroyal RTT-2's new arrow-pattern tread is highly impressive. It combines greater comfort with added wet-driving safety and is particularly resistant to hydroplaning.



The Corporation's new truck tires offer the customer maximum benfits. Agricultural and industrial tires are essential to being able to operate as a full-spectrum supplier.

Commercial Vehicle Tires

The growth in earnings stemmed from higher volumes, combined with an improved product mix, concentration on lucrative markets, and increases in efficiency.

Our market shares expanded, thanks to a strong gain in sales to European original equipment manufacturers. In the replacement business, we enhanced our position in Southern Europe, where Continental tires sold particularly well as a result of product innovations. To provide a comprehensive response to customer requirements, our sales team is emphasizing throughout Europe the special services that we offer to trucking companies.

The Commercial Vehicle Tire Group has been pressing ahead with the renewal of its product line. Development work on a new tire for use both on and off the road was intensified. The results of expanded trial runs and the final testing of treads for off-road driving make us confident that we will be able to introduce these products on the market during the year. Another important project is the launch of new truck tires from the Eco-Plus line with minimum rolling resistance, which we inaugurated with a successful presentation to the press. The advantages to the customer include fuel savings of 3% to 3.5% and increases of up to 20% in service life. Special interest will focus on the HT 85 Eco-Plus trailer tire. Its asymmetrical tread, which allows for strong transverse stresses, has been tested in the European Truck Race.

The Uniroyal brand, with a tradition of strong performance in the light truck tire segment, introduced the first two members of its new low-noise line for road use: the R 2000 for the front axle and the R 6000 for the rear axle. Semperit, which offers a wide range of heavy truck tires, elicited an increasing response with its Trans-Steel M 470 for the drive axle.

Lively demand resulted in a seven-day week at the Stöcken plant, first with 18 shifts, then, insofar as possible, with 21. At the Herstal plant in Belgium, we are using the weekend shift that already existed; preparations are also being made for the introduction of an expanded work schedule as required. Production of solid industrial tires at the factory in Korbach and pneumatic industrial tires at Stöcken is being expanded and improved. We are negotiating for the manufacture of industrial tires through a joint venture in China and are continuing the transfer of Continental and Semperit standard bicycle tire production to Lion Tyres in Thailand.

CONTI ECO-PLUS is a truck tire with high savings potential. It offers an extremely low rolling resistance, a long service life, and outstanding retreadability.

A new truck tire for the drive axle: The Trans-Steel M 470 from Semperit.

General Tire's products for earthmovers enjoy a high share of the U.S. market and make a strong contribution to earnings.

Continental General Tire

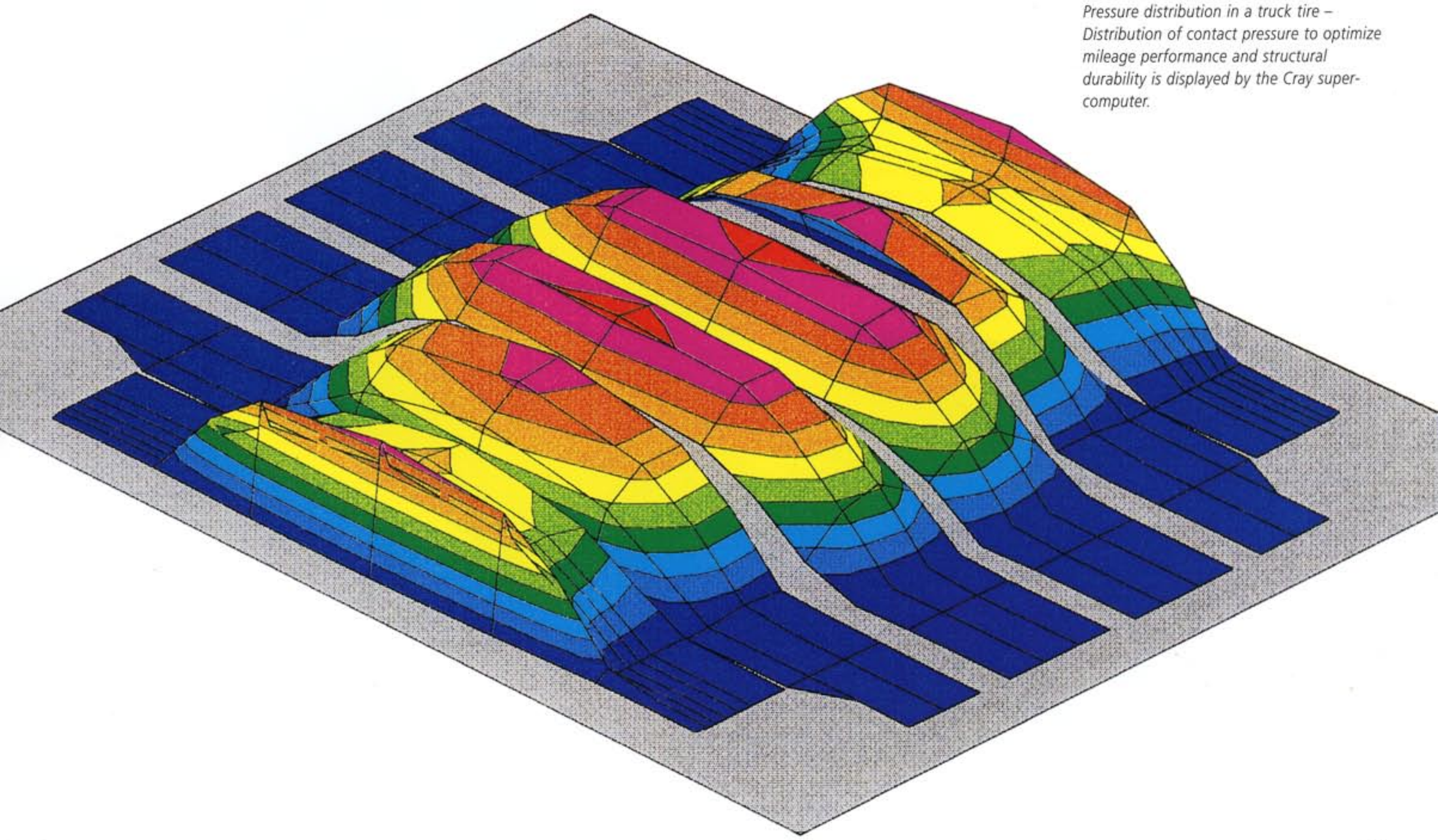
A drastic structural change is taking place in the North American tire markets. Tires of every kind and price, especially passenger tires, are available everywhere at any time. This requires correspondingly radical adjustments in our sales and marketing policy.

We are reducing our dependence on a single large customer, in favor of expanding our dealer base. Here, business with so-called private brands is becoming more and more important. Our position in the original equipment market has improved, especially with regard to heavy truck radials.

Transatlantic cooperation with the two European Tire Groups is a key element in increasing earnings. Our goal is to operate as an integrated global tire concern, avoiding any duplication of functions and projects. The first positive results can be seen in development, distribution and the plants. The Cray J90 supercomputer with 6 processors that has been installed at the new Technology Center in Hanover makes such jobs as tire dimensioning and simulation four times faster. We are establishing uniform methods and tools for the joint use of the data processing systems.

These new systems are being increasingly relied upon for the important task of customer orientation in both the Passenger and Commercial Vehicle Tire Divisions. In 1996, the processing of orders and invoices between us and our customers will already have been greatly simplified and accelerated. The speed with which service can be provided and customer problems solved is more and more frequently the decisive selling argument.

The Commercial Vehicle Tire Division and the plants for starting materials in Aldora and Odessa made positive contributions to the Group's earnings.



Pressure distribution in a truck tire – Distribution of contact pressure to optimize mileage performance and structural durability is displayed by the Cray supercomputer.

CONTITECH

ContiTech is concentrating on technologically sophisticated products. Core activities are being expanded to secure the Group's future earning power.

Industrial Products

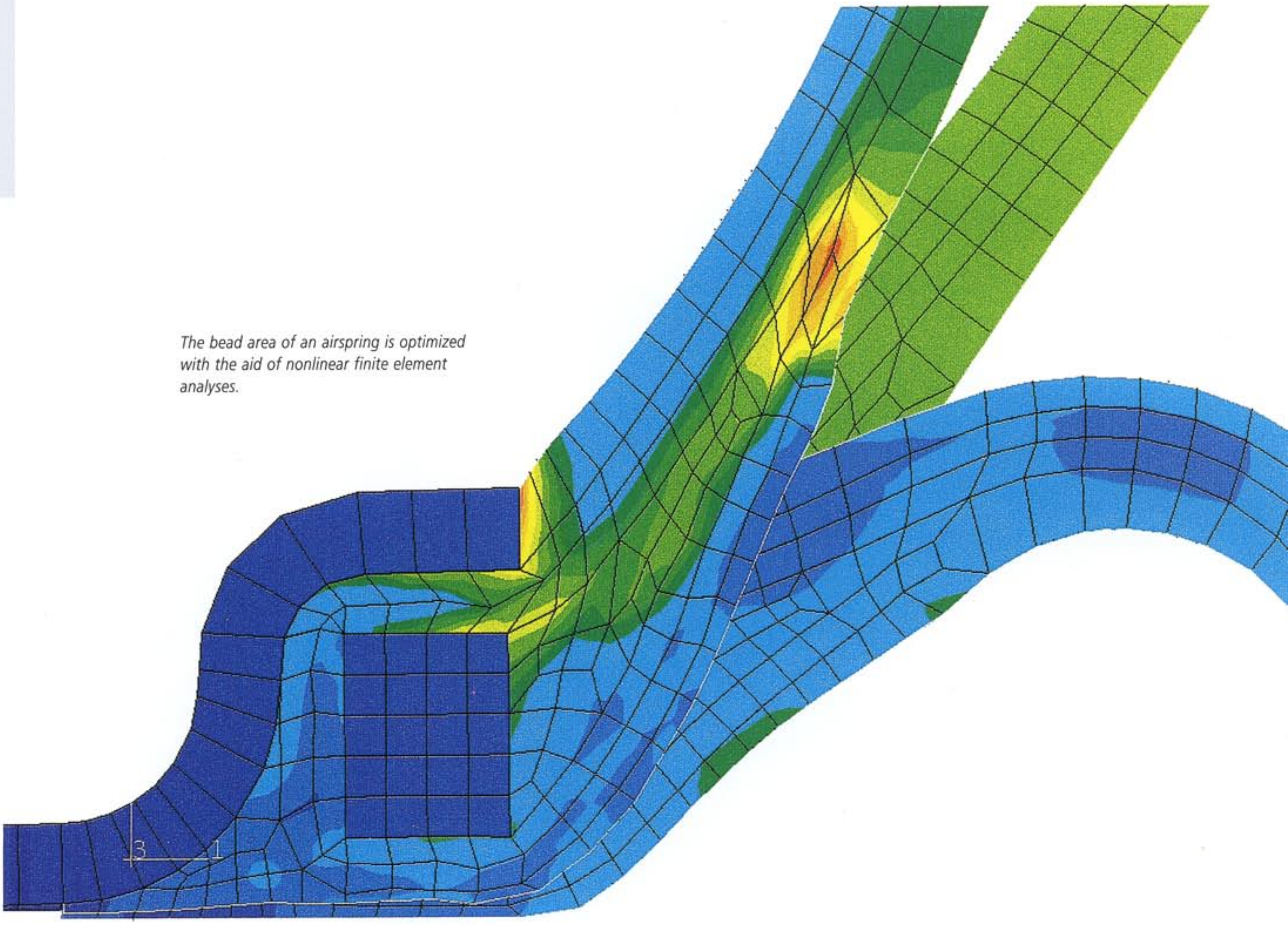
Automobile Interiors/Textiles

Despite pronounced sales growth and successful programs to step up efficiency and cut costs, earnings at **Benecke-Kaliko AG** remained at the previous year's level, due to the higher cost of raw materials. The company continued to expand its strong position as a manufacturer of upholstery fabrics and as the European market leader in PVC-free sheeting for automobile interiors.

Sales of **Bamberger Kaliko GmbH** were higher than in 1994. Its systematic efforts to improve earnings are paying off at an increasing rate.

Hoses and Hose Assemblies

The sales increase posted by **ContiTech Schlauch GmbH** was above the industry average. Business with hoses for power steering and air-conditioning systems grew brisker, as more of this equipment was used in new cars. Earnings were approximately the same as in 1994.



The bead area of an airspring is optimized with the aid of nonlinear finite element analyses.

With PAGUAG, Düsseldorf, we formed PAGUAG Schlauchtechnik GmbH & Co KG, which is performing according to our expectations. A cooperation with a hose manufacturer in the Czech Republic was commenced during the fiscal year.

Sales of **Techno-Chemie Kessler & Co. GmbH** continued to increase. However, the initial capital expenditures in connection with the insourcing project at Volkswagen AG's Salzgitter plant caused a decline in earnings.

In France, **ANOFLEX S.A.** boosted its sales, but persisting pressure on prices and heavy expense for production start-ups led to a decrease in net income. The production capacities of **ANOFLEX Ltd.** in Great Britain were expanded to cover the requirements of a large car maker. High capacity utilization continued at **ANOFLEX Iberica** in Spain, and the company reported substantial gains in sales and earnings.

The large order volume booked by **HYCOP AB**, Sweden, produced a strong increase in sales and market share and a gratifying net income.

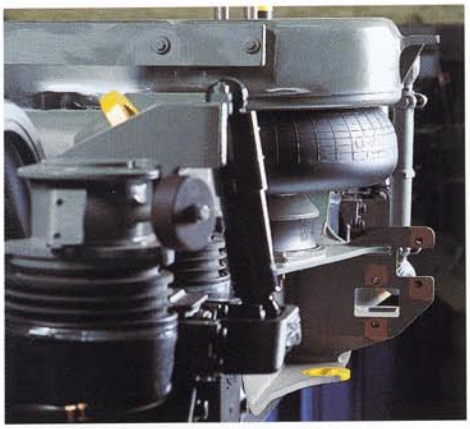
Anti-Vibration and Sealing Products

The restructuring of **ContiTech Formteile GmbH**, which had begun in 1994, led to an improvement in its earnings. Through the company's collaboration with Cooper Tire & Rubber Co., U.S.A., we received our first orders from two major American auto manufacturers.

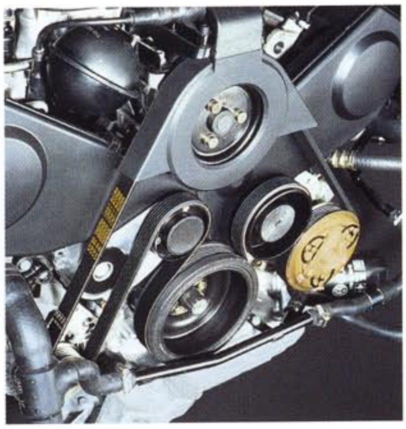
Although its sales decreased, **ContiTech Profile GmbH** managed to reduce its losses. Cost-control measures and structural streamlining have created a more favorable basis for the future.

Our Spanish extrusion manufacturer **ContiTech Elastorsa S.A.** fell short of its sales targets, due to delays in the start-up of new car models. Investments made in anticipation of the planned sales growth also had a negative effect on income.

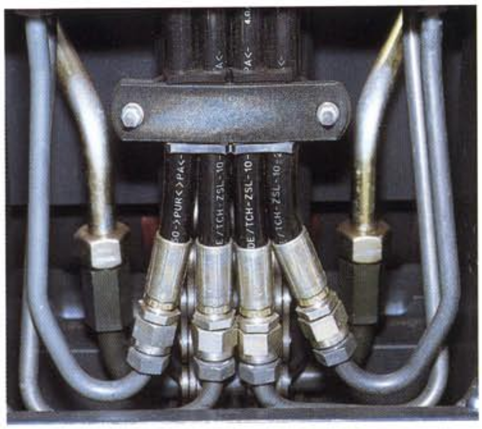
We have a minority interest in **ContiTech Vegum s.r.o.**, a manufacturer of extrusions in the Slovak Republic. The company's sales and earnings grew significantly during the fiscal year.



Suspension systems for modern high-speed trains, e.g. for the ICE 2.2.



Multirib belts for serpentine drives connecting several units in modern vehicles.



Hydraulic hose assemblies at the fork of a lift truck.

The Automotive Systems Group links the two mainstays of the Corporation – tires and industrial products – and is an integral part of our future strategy.

Engineered Products

ContiTech Antriebssysteme GmbH derived its increased sales mainly from its vehicle spares and industrial business. The operations acquired from TBA Belting in Wigan, U.K. – now known as **ContiTech Power Transmission Systems Ltd.** – will supply the industrial and automotive markets with multirib belts and other products.

We formed a joint venture, **ContiTech – INA GmbH & Co. KG**, with INA Wälzlager Schäffler KG to develop power transmission systems for aggregate and control drives used in automobiles.

ContiTech Luftfedersysteme GmbH took advantage of the boom in the commercial vehicle industry to strengthen its position in Europe. Our market leadership was further expanded with a new airspring system for the ICE 2.2 high-speed train.

Increased demand, coupled with new facilities, caused a pronounced improvement in sales and net income at **ContiTech Transportbandsysteme GmbH**. Business also went well for **KA-RI-FIX Transportbandtechnik GmbH.**

ContiTech Elastomer-Beschichtungen GmbH increased its sales and earnings from printing blankets, coated fabrics and ready-made products. A sizable investment in key manufacturing technologies has laid the groundwork for a thorough streamlining of production.

Sales of **Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG** rose slightly, primarily for life-rafts and special equipment. Net income was satisfactory.

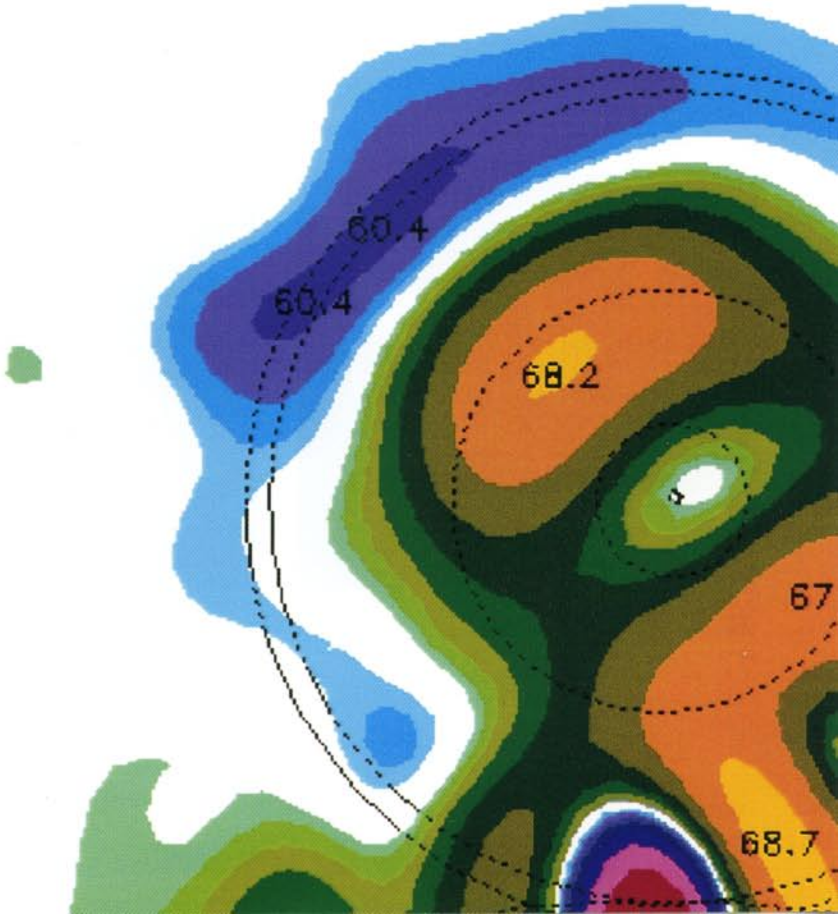
Other Companies

Clouth Gummiwerke AG reported its first gain in sales after a number of difficult years and earned a good operating income, but continued to show a loss because of its high indebtedness.

IMAS S.A. and **SYRMA S.A.** did a successful business in Greece with conveyor belts and steel cables.

In Italy, **ContiTech AGES S.p.A.** increased its sales twice as fast as the local automotive industry and captured further shares of the market. Nevertheless, high start-up costs for new products and a steep rise in the cost of materials caused it to record a loss for the fiscal year.

Uniroyal Englebert Textilcord S.A. in Luxembourg and **Industrial Textil Do Ave S.A.** in Portugal, which produce textile fabrics for the tire industry, operated at high capacity.



Sophisticated techniques enable precise measurement of the sound sources and noise spectrum at the wheel. Acoustic holograms even permit three-dimensional analysis.

Automotive Systems

Production of special sun-shielding materials that are capable of absorbing harmful UV rays, e.g. for high-quality sunshades.

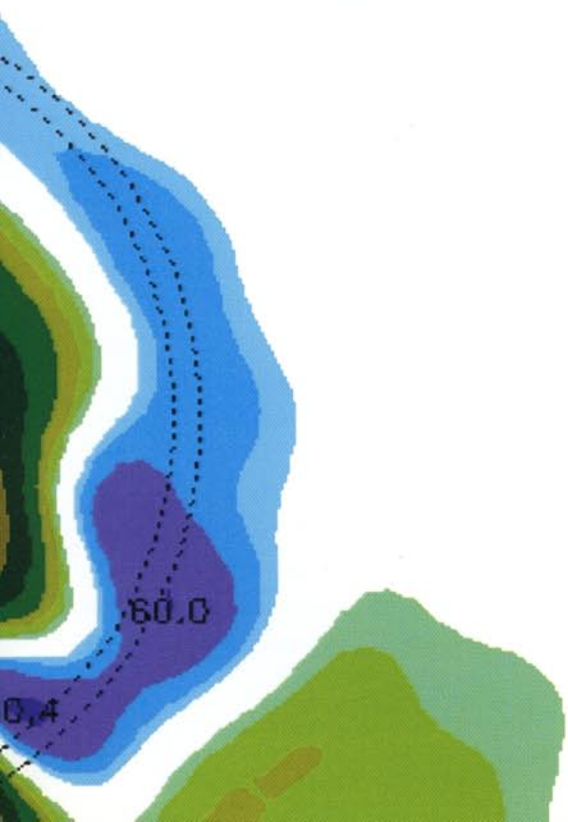
Automotive Acoustics – A Growth Market

Development and production of modules for reducing noise in commercial vehicles is a key area of the Automotive Systems Group's business. Tire/roadway noise – the most disturbing sound source at speeds exceeding 35 mph – is effectively reduced with the aid of wheel arch absorbers and wheel covers. The development objective is to optimize the whole system: Tires and absorbers are matched with one another acoustically. Sophisticated analyses and tests help in the construction of the absorbers. In addition, the modules are designed to cope with the hostilities of their service environment, such as road spray, stone impact, dirt, and snow. Development takes place in close collaboration with two manufacturers of commercial vehicles. Other truck producers have expressed their interest.

Wheel arch absorbers are conceived in close contact with our commercial vehicle tire engineers. First-class laboratory facilities are available. Later, we will supply the complete wheel arches and wheel covers, including the sound absorbers. Deliveries of these modules will in future benefit from the highly efficient logistical processes used in the delivery of complete wheel assemblies, a segment that is being currently expanded.

Wheel acoustics is a business that opens up important strategic perspectives, also for passenger car applications.

Wheel arches and wheel covers with integrated sound absorbers that are specially matched to the tires are a key segment of the Automotive Systems Group's business.



Tire production at the parent firm Hanover-Vahrenwald, 1898

125 Years of Continental – 125 Years of Industrial History

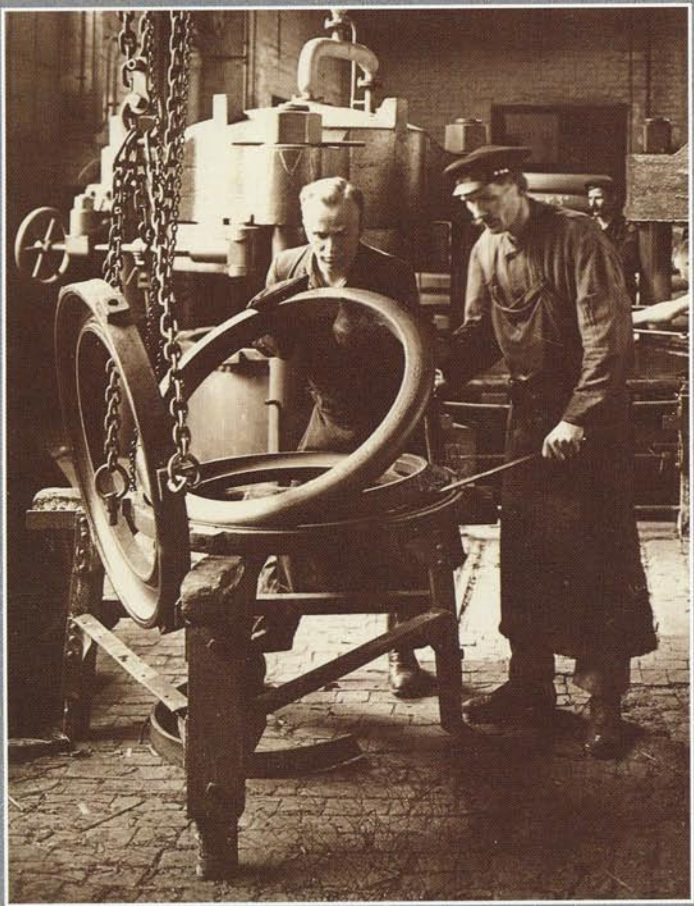
1871-76 ***With dazzling splendor, King Wilhelm of Prussia is proclaimed Kaiser in the Hall of Mirrors at Versailles. It is 1871, the dawn of the Golden Age of German Industry.***

A new spirit is pervading almost every branch of industrial activity. New factories are springing up overnight; competition is becoming keener. A number of little companies collapse under the strain. Among them is the "Neue Hannoversche Gummi-Waarenfabrik," which is obliged to file for bankruptcy. The banker Moritz Magnus buys the plant at auction for 18,500 talers, and on October 8, 1871, his new company "Continental-Caoutchouc- & Gutta-Percha-Compagnie" opens its doors. By 1876, its expanded product line includes rubber balls and mats, roller sheaths, rubberized textiles, balloons and solid tires for coaches and bicycles.

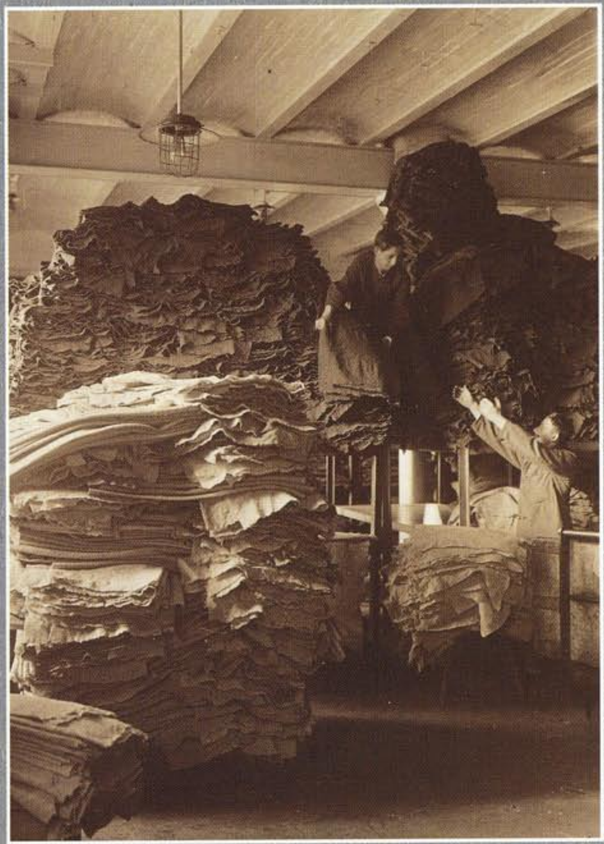
1892-98 ***The free-wheeling bicycle with back pedaling embarks on its global career. After Carl Benz and Gottlieb Daimler present their first motorcar to an amazed worldwide public in the mid-1880s, nothing can check the triumphal progress of the automobile.***

In 1892, Continental becomes the first German manufacturer to sell its own inflatable tires for bicycles. Thus, Continental Pneumatics accompany the bicycle on its successful progress from the very start. In 1898, the Company begins to produce pneumatic tires, though still without tread pattern, for automobiles, and by the turn of the century, it is fully justified in advertising "Continental Pneumatic – the best tire for bicycles and automobiles."

1900-14 ***At the beginning of the new century, science and technology celebrate new triumphs. The first motorized taxis and buses join the traffic in Berlin, and car racing becomes a magnet for the masses.***



*The finished automobile tire after vulcanization, 1921**



Stock of washed and dried crude-rubber sheets, 1921

** taken on the occasion of the Company's 50th anniversary*

Almost before the first racers appear on the tracks, Continental tires are in the forefront of the racing scene. Their first victory, scored in 1901 in the Nice-Salon-Nice race with a 35 HP Mercedes, is the beginning of a proud tradition. Way back then, the people at Continental realized that tires put to the severest tests in racing today would be perfected products for normal use tomorrow.

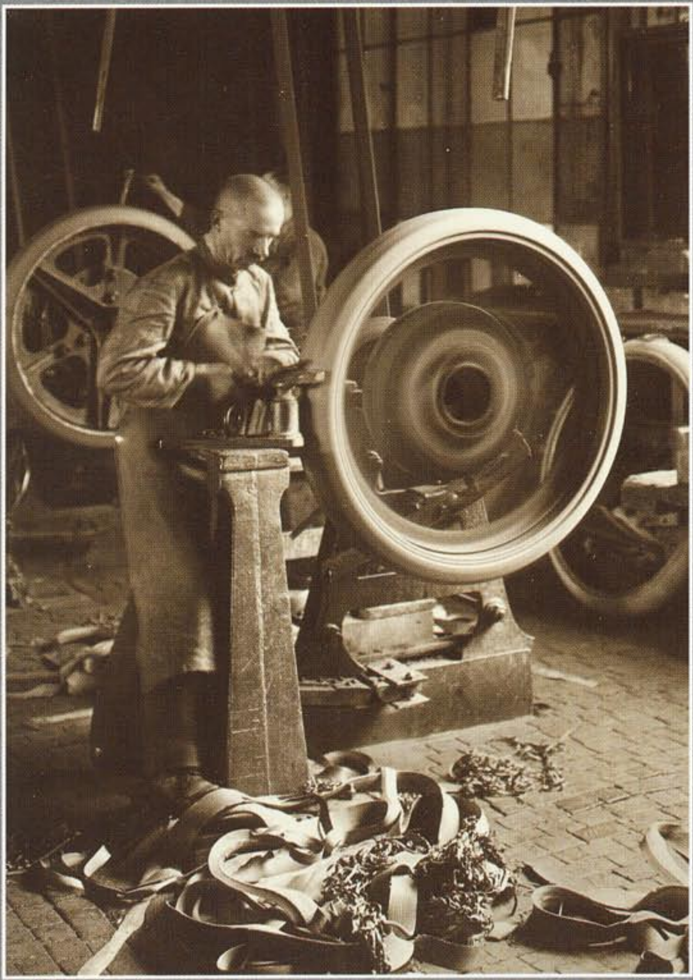
So, in 1904, Continental presents the world's first passenger tire with patterned tread; in 1905, it offers a non-skid tire with steel rivets, which already bears a suspicious resemblance to the subsequent studded tire, and presents the first tire worthy of being called a snow tire, with an "oat-grain" tread consisting of interlocking blocks. Continental engineers caused a sensation in 1908 with the invention of the detachable rim, which greatly facilitates wheel and tire assembly.

The Company's soaring progress is symbolized by the LZ 1 airship, the first Zeppelin, which takes off for its maiden flight in 1900 sheathed with Continental's balloon material. On July 25, 1909, a Frenchman, Louis Blériot, crosses the English Channel in a monoplane he has built himself, covered with tear-proof Continental airplane fabric.

The Company is also well ahead of its time with regard to health care and old-age benefits. The medical benefit fund that had already been established in 1872 is converted into a regular company health insurance fund, and a life insurance plan for employees is introduced. By 1914, Continental has 12,000 employees at its main plant, eight distribution and manufacturing companies in Europe and 53 foreign branches.

The triple crown won by Daimler on Continental tires at the French Grand Prix early in July 1914 is the last bright moment for a long time – and not just for Continental. One month later, the First World War breaks out.

Manufacturing of solid tires, 1921



Finishing of bicycle tubes, 1921

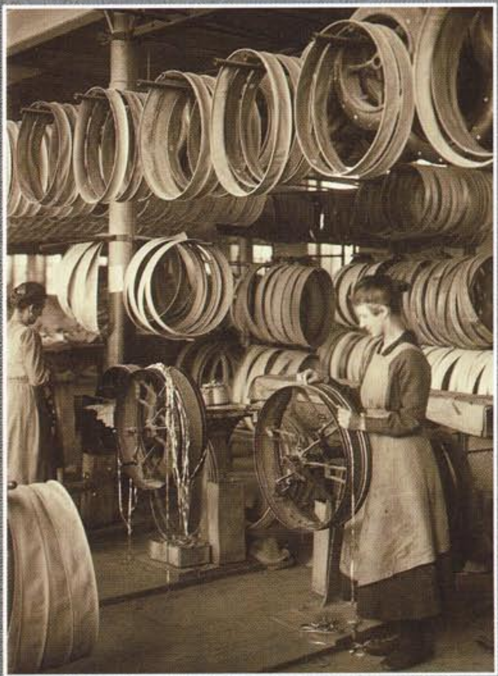
1921 ***All Europe suffers in the wake of the terrible war. But progress continues notwithstanding. The opening of the Berlin AVUS strip marks a new era in German car racing.***

Continental, too, must make a new beginning. A consulting agreement with the U.S. tire company B.F. Goodrich in Akron, Ohio, gives the Hanover-based Company renewed access to the foreign markets and to vital raw material supplies. This early joint venture is a success: Just in time for its 50th anniversary, Continental becomes the first German company to introduce tires with cord, instead of linen fabric, and giant pneumatic tires for commercial vehicles. A little later, the Continental engineers develop a low-pressure tire, also known as a balloon tire.

1929 ***On October 24, the stock market crash in New York unleashes a worldwide economic crisis. The bestseller of the year is All Quiet on the Western Front, an anti-war novel by Erich Maria Remarque, who, starting in 1922, spent five years as a key contributor to our customer magazine Echo Continental.***

At the end of 1928, with a sure instinct for the signs of the times, Continental perceives the trend to concentration in the German rubber industry. In the spring of 1929, it merges with several smaller operations to form Continental Gummi-Werke AG and thereby becomes strong enough, in the teeth of the crisis, to expand its market leadership in Germany. The new company manufactures its first tires for tractors and towing vehicles. Despite the Depression, it breaks new technological ground with conveyor belts up to 500 m long for lignite mining and components, some of them tiny, including springs, spirals and flexible couplings.

Manufacturing of motorcar tires, 1921



Bicycle tire production, 1921

1933-45

The Nazi dictatorship that comes to power in the spring of 1933 governs the country arbitrarily with a strictly controlled economy.

In response to a shortage of foreign currency and raw materials, the first tire made of artificial rubber rolls off the Continental production line in 1936 – another milestone in the industrial history of the 20th century. Caracciola, Stuck and Rosemeyer drive from victory to victory in racing cars built by Mercedes and Auto Union and equipped with Conti tires, until 1939 brings another fearful war and the end of peaceful competition.

Like other German companies, Continental benefits initially from the accelerated pace of the wartime economy. During the following years, new records are constantly being set, particularly due to the need for truck and airplane tires. Toward the end of the war, these results are also achieved through forced labor. In 1938, the Stöcken plant is built on the Mittelland Canal in Hanover.

At the end of this grim chapter in German history, there are mountains of rubble to be removed from the Continental plants. Nevertheless, on "Day X" – June 21, 1948 – the day of currency reform, what had seemed utterly inconceivable three years earlier has been achieved. The Company has been restored to its former status, and it can look forward with confidence to the growing challenges of its newly won future.

1950-60

Faster and faster, higher and higher, further and further, more and more is the motto for this decade. In Germany, the economic miracle is unfolding, Volkswagen is on its way to achieving formerly unheard-of production records ...

... preferably on tires from Continental, which provided the Beetle with its proverbially indefatigable legs. At the height of the

Anti-skid rivets for automobile tires, 1921

Beetle's popularity, the Hanover-Stöcken plant is manufacturing up to 35,000 tires a day.

In 1950, the Continental engineers put a testing stand into operation that can accommodate speeds of up to 375 mph. On the race tracks, this enables the Company to follow up its successes of the 30s with the brilliant series of victories won by the Mercedes "Silver Arrows" on Conti tires.

Continental starts to sell steel cord conveyor belts in 1951, and M+S tires for special winter use in 1952. In 1955, it becomes the first company in Germany to manufacture tubeless tires; the patent had already been applied for by its design engineers during the Second World War. Another great breakthrough of this year is the development of airsprings for trucks and buses, which are capable of providing hitherto undreamt-of driving comfort and convenience.

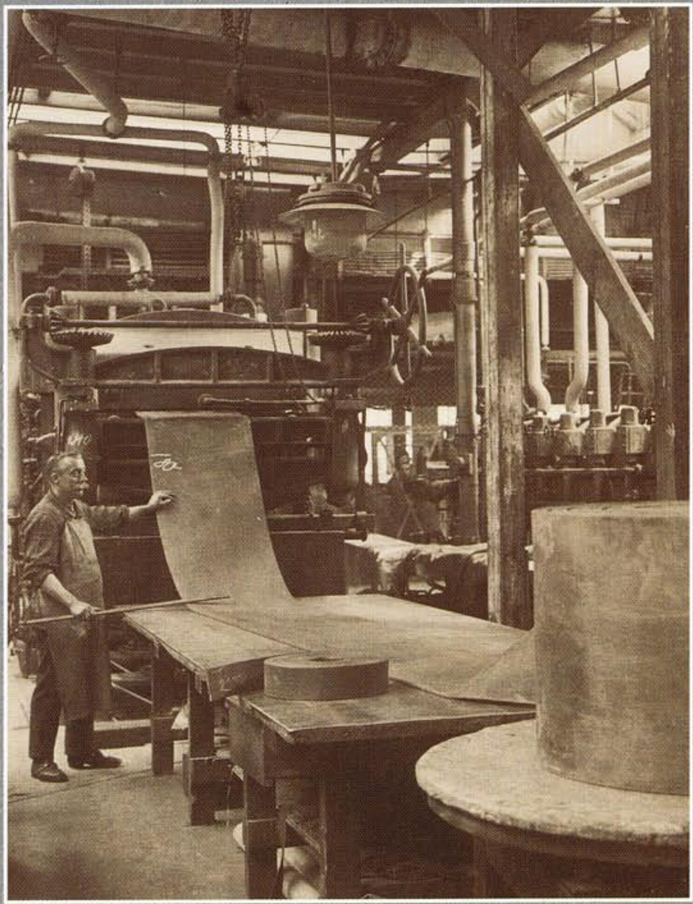
In 1960, Continental, along with other companies, launches the mass production of radial passenger tires; radial truck tires are introduced one year later. A major project is the construction of a tire factory in France at Sarreguemines, representing the Company's first step toward becoming a European concern. In 1962, it acquires an initial interest in Vergölst GmbH, a chain of tire dealers.

1967-72

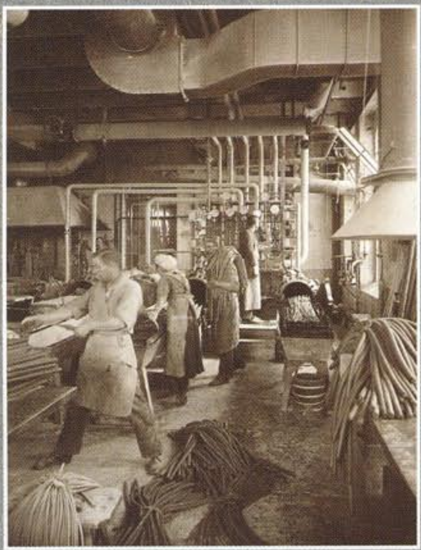
A period of setting off for new worlds: The Soviet probe "Venus 4" reaches Venus, the Apollo 16 astronauts Young and Mattingly go for a drive on the moon in a moon rover – for technical reasons, not equipped with Continental tires ...

Continental, too, seeks new horizons, building a new plant in Northeim for the manufacture of industrial rubber products. The "Contidrom" tire testing facility, opened in Jeversen in 1967, proves to be a revolutionary step in the improvement of tire-testing processes. In 1972, Continental introduces the studless snow tire on the market.

View of a rain-cape sewing room, 1921



Vulcanization of conveyor belts, 1921



Vulcanization of industrial hoses, 1921

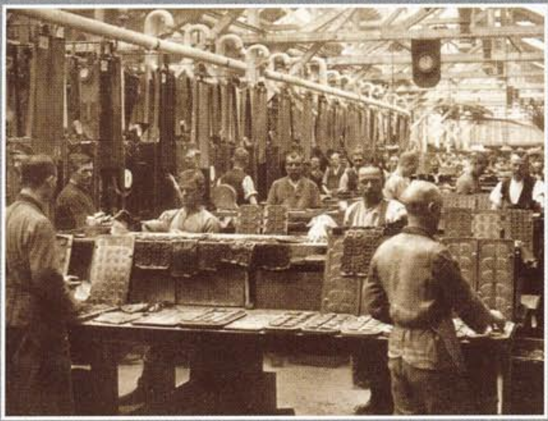
1973 *Owing to the oil crisis, bans are imposed for the first time on Sunday driving.*

Since the beginning of the 70s, Continental and other tire companies have been undergoing a drastic change, brought to the point of crisis by Michelin's development of the steel-belted tire, which is now the tire of choice throughout the world. Soaring demand is necessitating a costly replacement of manufacturing equipment, at the same time that revenues from bias-ply tires are plummeting. When, in addition, the effects of the 1973 oil crisis begin to be felt throughout the economy, Continental finds itself in a dramatic struggle for survival. For all the other German tire manufacturers, this phase ends with the surrender of their independence or their withdrawal from the tire business.

1979-87 *The coup d'état in Iran precipitates the second major energy crisis, forcing the automotive industry and its suppliers to cut back drastically on production.*

Continental does not abandon its principles as a result of the recession, but instead, as it has done so often in times of crisis, expands its position of strength. By acquiring the European activities of the American tire firm Uniroyal Inc. in 1979 and the Austrian company Semperit in 1985, and taking over General Tire Inc. in the U.S.A. in 1987, it gains further control of the market.

At the same time, Continental is setting the pace in the application of modern electronics to the tire industry. The times when engineers required days on end for their computations are gone forever, as is the time-consuming process of drawing by hand, which has now been replaced by sophisticated computer-aided design (CAD) programs. Treads and profiles are worked out on the screen in the same way as formulas for rubber mixtures or new belt designs for the carcass.



View of the rubber-heel molding shop, 1921

Applying felt to tennis balls, 1921

Painting rubber balls, 1921

In 1987, Continental resumes its racing successes by participating in the Truck Grand Prix. Year after year since then, the European championship in both classes of racing trucks has been won with amazing regularity on HS 41-S tires for special vehicles. The public enjoys these events quite as much as Formula 1 races; the experience gained for tire research is immeasurable.

1991-93

After the "cold war": Throughout the world, new technologies in communications, vehicle construction and space travel are spurring the development of new materials.

The Continental Group for industrial products is made independent in 1991, operating thenceforth through 21 autonomous companies under the ContiTech brand. ContiTech is setting new standards in modern automotive construction when it comes to comfort, safety and environmental compatibility.

In the tire sector as well, the Company's base is further expanded at the beginning of the 90s. National Tyre Service Ltd. (NTS), Britain's second largest dealer chain, with over 400 branches, the Swedish manufacturer Nivis Tyre with its Gislaved and Viking brands, Mabor in Portugal and Barum in the Czech Republic have all, one after another, become part of Continental. At the same time, the threat of a takeover by its Italian competitor Pirelli has been successfully averted.

The multibrand strategy pays off, as economic conditions in Europe become increasingly difficult. For every market and every consumer, the Corporation has tires ready and waiting in the right price category. Taking all its brands together, Continental is a match for the market leader in terms of both revenues and output.

Production of rubber gloves, 1921

The history of Continental can be interpreted as a promise: On its way into the new century, this Company that has grown to its current stature from its modest beginnings as a small manufacturer of rubber products in 1871, will master every future situation with the same courageous spirit that it has displayed over the past 125 years.

1994-96

The human race is preparing itself for the third millennium. Programs for optimizing management organization and globalizing markets are features of economic activity throughout the world.

The Continental Corporation is taking a bold step into the future. To intensify its systems business with the vehicle industry, a new Group was created in 1994. Satellite operations are promoting the complete wheel business with full force at the very doors of the automobile manufacturers. In addition, development teams are busily engaged in the design and production of electronically controlled vehicle components. In short, a manufacturer with a rich tradition in tires and industrial rubber products is moving full steam ahead to establish itself as a high-tech concern with a wide range of sophisticated parts for the automotive industry.

The organizational structures of the tire business are undergoing radical changes. The Passenger and Commercial Vehicle Tire Groups are dividing themselves into independent divisions. The savings and flexibility achieved by this means should give Continental the earnings potential it needs for many years ahead. A valuable contribution will also be made by the many joint undertakings to be performed under the cooperation agreement concluded with Michelin in 1995. ContiTech is likewise stepping up its internationalization through new alliances.

The diversity of its activities puts the Corporation in a strong position to meet future challenges. At present, it has more than 50 factories in Germany, Europe and America, as well as numerous subsidiaries and affiliates around the globe. Worldwide, it employs a total of 48,000 people and has annual sales of over DM 10 billion.

Continental Aktiengesellschaft
Consolidated Balance Sheet

Assets	See Note No.	12/31/1995 DM million	12/31/1994 DM million
Fixed assets and investments			
Intangible assets	(1)	503.0	565.1
Property, plant and equipment	(2)	2,876.2	2,926.7
Investments	(3)	105.8	113.5
		3,485.0	**3,605.3**
Current assets			
Inventories	(4)	1,504.1	1,413.6
Receivables and other assets	(5)	1,590.8	1,642.7
Marketable securities		–	7.9
Liquid assets	(6)	89.6	109.5
		3,184.5	**3,173.7**
Prepaid expenses	(7)	**33.9**	**38.5**
		6,703.4	**6,817.5**

Shareholders' equity and liabilities	See Note No.	12/31/1995 DM million	12/31/1994 DM million
Shareholders' equity	(8)		
Subscribed capital		469.7	468.6
Consolidated reserves		966.6	956.4
Minority interests	(9)	200.8	195.7
Net income available for distribution		47.2	37.9
		1,684.3	**1,658.6**
Special reserves	(10)	**11.3**	**16.9**
Provisions	(11)	**1,832.5**	**1,814.6**
Liabilities	(12)	**3,175.3**	**3,327.4**
		6,703.4	**6,817.5**

Continental Aktiengesellschaft
Consolidated Statement of Income

	See Note No.	1995 DM million	1994 DM million
Sales	(13)	**10,252.6**	**9,876.9**
Cost of sales		7,580.7	7,308.3
Gross profit on sales		**2,671.9**	**2,568.6**
Selling expenses	(14)	1,599.6	1,605.2
Administrative expenses	(14)	582.1	610.7
Other operating income	(15)	255.3	183.3
Other operating expenses	(16)	361.1	240.2
Net income from investments and financial activities	(17)	– 189.6	– 204.2
Net income from regular business activities		**194.8**	**91.6**
Taxes on income and profits		39.6	20.8
Net income for the year		**155.2**	**70.8**
Balance brought forward		0.4	0.3
Minority interests in earnings		– 9.1	– 0.3
Transfer to consolidated reserves		– 99.3	– 32.9
Net income available for distribution		**47.2**	**37.9**

Continental Aktiengesellschaft
Consolidated Statement of Changes in Financial Position

	See Note No.	1995 DM million	1994 DM million
Net income for the year		155.2	70.8
Depreciation, amortization and writedowns on fixed assets and investments		556.2	590.7
Other expenses/income with no effect on funds		28.3	– 35.6
Cash flow	(18)	**739.7**	**625.9**
Income from disposals of fixed assets and investments		– 6.7	– 22.3
Change in inventories and receivables		– 45.1	90.4
Change in other debt capital	(18)	6.7	– 118.5
Addition to funds from current business		**694.6**	**575.5**
Revenue from disposals of fixed assets and investments		72.0	69.4
Funds paid for fixed assets and investments		– 631.3	– 574.9
Funds paid for fixed assets and investments due to the addition of new companies		– 5.8	– 4.7
Changes in fixed assets and investments due to foreign exchange differences		80.0	111.9
Funds paid due to investment activity		**– 485.1**	**– 398.3**
Funds received from capital increases		4.3	44.8
Other changes in shareholders' equity		– 34.6	– 26.8
Dividends paid by Continental AG		– 37.5	– 36.1
Funds paid due to financing activity		**– 67.8**	**– 18.1**
Effective change		**141.7**	**159.1**
Indebtedness at January 1		**2,130.4**	**2,289.5**
Indebtedness at December 31	(12)	**1,988.7**	**2,130.4**

Notes to the Consolidated Financial Statements

Preliminary Note

For improved clarity and comprehensibility, we have separated the financial statements of Continental Aktiengesellschaft from those of the Corporation. The financial statements of Continental Aktiengesellschaft will be sent to you upon request. The entire assets, shareholders' equity and liabilities of the U.S. companies have been included in accordance with the local law regarding accounting and valuation principles.

Scope of Consolidation

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

We have consolidated 166 domestic and foreign companies, in addition to the parent company. 6 companies that were merged with other consolidated companies and 5 companies that were sold or liquidated are no longer included. 8 companies were acquired. As a result, the Corporation's total assets have changed only insignificantly.

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

130 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.

36 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. Inventories of the U.S. companies and, in principle, all inventories of natural rubber are valued according to the LIFO method.

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 actual 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., Charlotte, North Carolina, 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 unchanged 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, for 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 are covered on the balance sheet date 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 Consolidated Fixed Assets and Investments

	Acquisition/Manufacturing cost					
	As of 1/1/1995 DM million	Additions DM million	Reclassi- fications DM million	Retirements DM million	Foreign exchange differences DM million	As of 12/31/1995 DM million
I. Intangibles						
Concessions, industrial and similar rights and assets and licenses in such rights and assets	112.0	28.2	5.6	18.0	– 1.0	126.8
Goodwill	780.5	1.0		2.0	0.4	779.9
Payments to suppliers	8.8	0.7	– 5.6	2.5		1.4
	901.3	**29.9**		**22.5**	**– 0.6**	**908.1**
II. Property, plant and equipment						
Land, land rights and buildings including buildings on third party land	1,539.2	31.3	19.5	14.1	– 30.1	1,545.8
Technical equipment and machines	4,584.6	221.3	118.3	111.3	– 93.0	4,719.9
Other equipment, factory and office equipment	1,573.3	124.4	27.5	126.0	– 11.5	1,587.7
Payments to suppliers and assets under construction	190.2	220.1	– 165.3	2.0	– 4.3	238.7
	7,887.3	**597.1**		**253.4**	**– 138.9**	**8,092.1**
III. Investments						
Shares in affiliated companies	13.1	0.2		0.5		12.8
Shares in associated companies	65.6	2.7		6.0	– 1.6	60.7
Investments	3.0	0.7				3.7
Loans to companies in which participations are held		3.1			0.1	3.2
Securities included in investments	26.6	1.0		0.5	0.1	27.2
Other loans	22.9	2.4		5.8	– 1.2	18.3
Other financial assets	1.4			0.2		1.2
	132.6	**10.1**		**13.0**	**– 2.6**	**127.1**
	8,921.2	**637.1**		**288.9**	**– 142.1**	**9,127.3**

* This figure contains DM 55.9 million of goodwill offset with no effect on income.

Depreciation						Net value	
As of 1/1/1995 DM million	Additions DM million	Reclassi-fications DM million	Retirements DM million	Foreign exchange differences DM million	As of 12/31/1995 DM million	As of 12/31/1995 DM million	As of 12/31/1994 DM million
73.4	22.6		12.3	– 0.5	83.2	43.6	38.6
262.8	59.8 *		0.8	0.1	321.9	458.0	517.7
						1.4	8.8
336.2	**82.4**		**13.1**	**– 0.4**	**405.1**	**503.0**	**565.1**
726.6	47.2	1.0	9.0	– 7.6	758.2	787.6	812.6
3,016.4	323.2	1.2	98.6	– 45.7	3,196.5	1,523.4	1,568.2
1,217.6	155.8	– 2.2	102.4	– 7.6	1,261.2	326.5	355.7
						238.7	190.2
4,960.6	**526.2**		**210.0**	**– 60.9**	**5,215.9**	**2,876.2**	**2,926.7**
8.0	0.3				8.3	4.5	5.1
4.1				– 0.7	3.4	57.3	61.5
0.1					0.1	3.6	2.9
	2.4				2.4	0.8	
3.3	0.1				3.4	23.8	23.3
3.1	0.7		0.3	– 0.2	3.3	15.0	19.8
0.5			0.1		0.4	0.8	0.9
19.1	**3.5**		**0.4**	**– 0.9**	**21.3**	**105.8**	**113.5**
5,315.9	**612.1**		**223.5**	**– 62.2**	**5,642.3**	**3,485.0**	**3,605.3**

Assets

(1) Intangible Assets

The additions in the amount of DM 29.9 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.

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

(2) Property, Plant and Equipment

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

The initial consolidation of new companies caused an increase of DM 5.8 million in property, plant and equipment. The other additions are shown in the table below:

DM 000	1995	1994
Passenger Tires	256,934	248,281
Commercial Vehicle Tires	64,017	54,030
Continental General Tire	116,066	97,272
ContiTech	144,932	104,179
Other	9,302	10,920
	591,251	514,682

(3) Investments

A list of the major companies included in the Continental Corporation is presented on page 57 of this report. A complete list of the companies of Continental Corporation and Continental Aktiengesellschaft has been filed with the Hanover District Court.

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 12/31/1995	As of 12/31/1994
Raw materials and supplies	341,268	325,059
Work in process	183,519	191,527
Finished goods and merchandise	978,441	896,502
Advances to suppliers	3,944	2,107
Advances from customers	3,081	1,608
	1,504,091	1,413,587

Inventories include a LIFO reserve in the amount of DM 51.7 million. The substantial increase in finished goods and merchandise is attributable to a build-up of stocks at factory warehouses in Europe. On the other hand, the value of stocks in dealer and distribution warehouses rose only slightly.

(5) Receivables and Other Assets

		Due in		Due in
	As of	more than	As of	more than
DM 000	12/31/1995	1 year	12/31/1994	1 year
Trade accounts receivable	1,252,258	1,907	1,281,061	3,491
Receivables from affiliated companies	21,513	–	17,940	–
Receivables from companies				
in which participations are held	55,091	236	39,130	182
Other assets	261,940	15,419	304,551	18,508
	1,590,802	17,562	1,642,682	22,181

Receivables and other assets decreased by DM 304.8 million (1994: DM 245.8 million) as a result of the Asset Securitization Programs.

(6) Liquid Assets

DM 000	As of 12/31/1995	As of 12/31/1994
Checks	27,495	27,644
Cash on hand, deposits at the Bundesbank		
and in postal checking accounts	5,626	5,637
Cash in banks	56,444	76,182
	89,565	109,463

(7) Prepaid Expenses

DM 000	As of 12/31/1995	As of 12/31/1994
Discount on loans/bonds	2,425	6,630
Miscellaneous	31,487	31,896
	33,912	38,526

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

Shareholders' Equity and Liabilities

(8) Shareholders' Equity

DM 000	As of 12/31/1995	As of 12/31/1994
Subscribed capital		
As of 1/1	468,561	451,390
Change due to employee shares	1,091	568
Change due to the exercise of warrants attached	–	16,603
As of 12/31	469,652	468,561
Consolidated reserves		
As of 1/1	956,497	1,013,917
Premiums from capital increases and the exercise of warrants attached	+ 3,252	+ 27,674
Offsetting of goodwill with no effect on income	– 55,915	– 56,445
Exchange rate effects with no effect on income	– 23,657	– 29,473
Additions from the net income for the year	+ 99,512	+ 32,845
Miscellaneous changes	– 13,033	– 32,021
As of 12/31	966,656	956,497
Consolidated profit	**47,247**	**37,869**
Minority interests	**200,786**	**195,694**
Consolidated equity	**1,684,341**	**1,658,621**

Consolidated reserves include a reserve for retirement benefits amounting to DM 1.3 million (1994: DM 1.5 million). In 1995, a dividend of DM 4.00 per share with a par value of DM 50.00, totaling DM 37.5 million, was paid from Continental Aktiengesellschaft's net income available for distribution. The balance was carried forward.

The economic shareholders' equity, including the tax-free portion of special reserves, totals DM 1,695.6 million (1994: DM 1,675.5 million). The equity ratio amounts to 25.3% (1994: 24.6%). A comparison of the equity ratio when goodwill is offset in full results in an increase by 1.4 percent points to 19.8%. With indebtedness amounting to DM 1,988.7 million, the gearing ratio improved to 117.3%.

(9) Minority Interests

This item shows the interests of outsiders in capital and earnings, which consist mainly of the holdings of the Japanese partners in our joint venture GTY Tire Company, Charlotte, North Carolina, U.S.A., as well as the minority interests in Benecke-Kaliko AG, Hanover, and in Barum Continental spol.sr.o., Otrokovice, Czech Republic.

(10) Special Reserves

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

(11) Provisions

DM 000	As of 12/31/1995	As of 12/31/1994
Provisions for pensions and similar obligations	948,403	948,711
Provisions for taxes	74,991	68,088
Miscellaneous provisions	809,071	797,781
	1,832,465	1,814,580

Provisions for deferred taxes in the individual financial statements exceed the net prepaid taxes arising from consolidation procedures by DM 19.0 million.

Breakdown of Miscellaneous Provisions

DM 000	As of 12/31/1995	As of 12/31/1994
Personnel and social welfare payments	205,523	213,901
Warranties	111,751	123,788
Selling expenses	142,196	139,420
Litigation and environmental risks	79,628	136,136
Severance payments	23,100	43,100
Other provisions	246,873	141,436
	809,071	797,781

Other provisions include provisions for restructuring measures as well as for deferred repairs and other undetermined obligations.

Long-term miscellaneous provisions with an anticipated remaining term of more than 5 years amount to DM 116.9 million (1994: DM 128.9 million).

(12) Liabilities

DM 000	As of 12/31/1995	Due in less than 1 year	Due in more than 5 years	As of 12/31/1994	Due in less than 1 year	Due in more than 5 years
Bonds, convertible	857,932	151,527	90,987	878,545	597	452,356
Bank borrowings*	1,080,356	847,050	24,584	1,194,538	645,574	30,566
Advances from customers	2,333	2,333	–	3,483	3,483	–
Trade accounts payable	678,107	677,844	–	698,569	698,303	–
Liabilities on acceptances and notes payable	5,724	5,724	–	9,000	9,000	–
Payables to affiliated companies	1,972	751	733	13,817	8,267	–
Payables to companies in which participations are held	14,349	14,327	–	6,940	6,919	–
Other liabilities*	534,542	468,747	3,484	522,518	446,162	13,116
Of which tax liabilities	(109,062)			(81,988)		
liabilities relating to social security and similar obligations	(82,426)			(89,662)		
	3,175,315	2,168,303	119,788	3,327,410	1,818,305	496,038

* amount secured by land charges, mortgages and comparable collateral: DM 60.1 million

The items payables to affiliated companies, payables to companies in which participations are held, and other liabilities include indebtedness in the amount of DM 134.2 million (1994: DM 165.7 million). After deducting liquid assets, indebtedness amounts to a total of DM 1,988.7 million (1994: DM 2,130.4 million).

Bond Issues

Issuer	Type	Option for	Amount of issue Millions	Currency	Coupon p.a.	Issue date/ Maturity	Issue price	Subscription price DM
CAG	Convertible debenture	Shares	2	DM	7.00%	1986/July 1996		min. 20.00
CGF	Bonds with double warrants	Shares, 6% bond	150	DM	5.50%	1986/Sept. 1996	150.00%	31.993
CRoA	Bonds with warrants	Shares	190	DM	6.75%	1987/Oct. 1997	134.00%	35.2
CRoA	Bonds with warrants	Shares	75	USD	9.75%	1987/Oct. 1997	130.00%	35.2
CGF	Bonds with warrants	Shares	250	DM	7.50%	1993/July 2000	120.25%	19.9
CGF	Zero coupon bonds	Shares	150	DM	–	1985/July 2000	36.50%	
CAG	Convertible debenture	Shares	1	DM	9.50%	1990/Nov. 2000		min. 25.00
CRoA	Bonds with warrants	Shares	100	CHF	4.75%	1987/Oct. 2002	127.00%	35.2

CAG = Continental Aktiengesellschaft, Hanover, Germany
CGF = Conti-Gummi Finance B.V., Amsterdam, Netherlands
CRoA = Continental Rubber of America Corp., Wilmington, Delaware, U.S.A.

Guarantees and Other Commitments

DM 000	As of 12/31/1995	As of 12/31/1994
Acceptance liability	247,512	230,776
Liabilities on guarantees	32,733	30,616
Liabilities on warranties	11,537	12,844
Liability on shares in cooperatives	81	81

The contingent liabilities on notes result from discounting trade bills.

Other Financial Obligations

Future liabilities relate to rental and leasing agreements covering real estate used for business activities and outsourced computer hardware and software. DM 1,244.5 million is attributable to 1996 and later years. Purchase commitments for property, plant and equipment amount to DM 174.5 million.

Statement of Income

(13) Sales

DM million	1995	1994	Change in %
Analysis by Group			
Passenger tires/dealer organizations	4,079.5	3,913.5	4.2
Commercial vehicle tires	1,170.4	1,075.9	8.8
Continental General Tire	2,061.7	2,197.7	– 6.2
ContiTech	2,794.6	2,479.9	12.7
Other sales	146.4	209.9	– 30.2
	10,252.6	9,876.9	3.8
Analysis by geographical area			
Germany	3,433.3	3,200.1	7.3
Rest of Europe	4,161.5	3,921.1	6.1
North America	2,229.6	2,311.2	– 3.5
Other countries	428.2	444.5	– 3.7

(14) Selling and Administrative Expenses

The administrative expenses of the distribution companies are included in the Corporation's selling expenses.

(15) Other Operating Income

DM 000	1995	1994
Gains on the disposal of fixed assets and investments	18,754	27,974
Credit to income from the release of provisions	35,882	25,849
Credit to income from the reduction of the general bad debt reserve	4,427	2,790
Credit to income from the release of special reserves	5,643	7,956
Gains from exchange rate fluctuations	26,403	18,913
Miscellaneous income	164,199	99,841
	255,308	183,323

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

(16) Other Operating Expenses

DM 000	1995	1994
Losses on the disposal of fixed assets		
and investments	12,060	5,692
Losses on the disposal of current assets		
(except inventories)	35,593	38,837
Allocation to special reserves	–	429
Losses due to exchange rate fluctuations	28,452	19,614
Miscellaneous expenses	232,302	115,215
Miscellaneous taxes	52,680	60,474
	361,087	240,261

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.

(17) Net Income from Investments and Financial Activities

DM 000	1995	1994
Net income from investments		
Income under profit-and-loss transfer agreements	–	401
Income from investments		
from affiliated companies	486	527
from associated companies	1,747	8,286
from other companies	1,164	237
	3,397	9,451

DM 000	1995	1994
Net interest expense		
Income from other securities and loans included		
in investments	3,218	3,629
Other interest and similar income		
from affiliated companies	238	35
from other companies	47,167	53,455
Interest and similar expenses		
paid to affiliated companies	– 852	– 823
paid to other companies	– 239,304	– 262,601
	– 189,533	– 206,305

DM 000	1995	1994
Writedowns on investments		
and marketable securities		
Writedowns on investments	– 3,476	– 7,333
	– 3,476	– 7,333
Net income from investments and financial activities	**– 189,612**	**– 204,187**

The Corporation's net interest expense amounts to 1.8% (1994: 2.1%) of sales.

(18) Statement of Changes in Financial Position

This statement shows changes in the Corporation's financial position due to the inflow and outflow of funds during the course of the fiscal year.

One of the cash flow components is the DVFA earnings adjustments with no effect on funds. Changes in long-term provisions with an anticipated term of more than one year, amounting to DM 77.0 million, are included under the change in other debt capital.

Miscellaneous Data

Personnel Expense

DM 000	1995	1994
Wages and salaries	2,535,724	2,537,950
Social welfare contributions and expenses related		
to pensions and other employee benefits	738,051	727,063
Of which expenses for pensions	81,389	82,914
	3,273,775	3,265,013

	1995	1994
Number of employees (quarterly average)		
Salaried employees	16,563	16,769
Wage earners	31,803	32,256
	48,366	49,025

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 Consolidated Fixed Assets and Investments" on pages 46 and 47.

Remuneration of the Supervisory Board and the Executive Board

Provided that the Annual Meeting of Shareholders on June 12, 1996 approves the proposed dividend, total remuneration of the Supervisory Board will be DM 522,000, of the Executive Board DM 8,117,000 (including remuneration paid by subsidiaries) and of former members of the Executive Board and their surviving dependents DM 4,607,000.

DM 35,438,000 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 47,247,360.57. The Supervisory and Executive Boards recommend that the Annual Meeting of Shareholders approve payment of a dividend of DM 0.50 per share with a par value of DM 5.00, or DM 46,965,240.00. The remainder of DM 282,120.57 is to be carried forward.

Hanover, March 1996

Continental Aktiengesellschaft
The Executive Board

Auditor's Certificate

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 25, 1996

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Reinke
Certified Public	Certified Public
Accountant	Accountant

Major Companies of the Continental Corporation

Company	Corporate interest in %	Shareholders' equity DM 000	Net income/loss 1995 DM 000	Net income/loss 1994 DM 000	Sales 1995 DM 000	Employees 12/31/1995
I. Affiliated companies (according to accounting and valuation principles uniform throughout the Corporation)						
1. Domestic companies						
Bamberger Kaliko GmbH, Bamberg	48.3	4,833	354 *	104 *	56,924	189
Benecke-Kaliko AG, Hanover	48.3	136,493	14,757	15,120	570,708	2,023
Clouth Gummiwerke AG, Cologne	100.0	– 70,848	– 3,387	– 13,629	164,458	634
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	100.0	5,664	2,184	1,947	27,866	142
Deutsche Semperit GmbH, Munich	100.0	15,510	4,084	2,761	189,340	92
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	2,094	450	788	33,700	171
Uniroyal Englebert Reifen GmbH, Aachen	100.0	224,363	1,709 *	3,314 *	242,482	–
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	901	163	1,682	62,193	–
2. Foreign companies						
Barum Continental spol.sr.o., Otrokovice/Czech Republic	76.0	144,634	13,925	10,800	493,654	3,922
Birkenshaw Tyre Co. (Smiley), Glasgow/UK	100.0	4,401	– 147	– 786	39,887	372
Continental Caoutchouc (Suisse) S.A., Zurich/Switzerland	100.0	37,516	11,957	1,237	99,411	90
Continental Däck Norden AB, Göteborg/Sweden	100.0	112,811	21,074	30,980	193,531	615
Continental Holding France SARL, Sarreguemines/France	100.0	94,726	– 5,102	8,420	–	–
Continental Industrias del Caucho SA, Coslada, Madrid/Spain	100.0	24,941	7,192	3,160	156,270	262
Continental Italia S.p.A., Milan/Italy	100.0	3,496	1,362	824	127,100	96
Continental Mabor Indústria de Pneus S.A., Lousado/Portugal	100.0	29,536	4,073	– 16,137	147,196	787
Continental Tyre & Rubber Group Ltd., West Drayton/UK	100.0	41,339	4,375	2,959	314,840	271
ContiTech AGES S.p.A., Santena/Italy	100.0	8,744	– 3,491	5,772	176,078	1,105
C.U.P. SNC, Clairoix/France	100.0	25,929	684	1,280	364,908	290
Continental General Tire (subgroup), Charlotte, North Carolina/USA	100.0	83,391	11,861	– 9,878	2,122,785	6,989
Hycop AB, Motala/Sweden	100.0	15,213	7,034	4,913	57,955	202
National Tyre Service Ltd., Stockport/UK	100.0	18,119	– 13,180	– 4,165	329,156	1,911
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	44,217	– 8,678	– 18,170	605,851	1,026
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	13,298	703	758	52,492	17
Semperit Reifen Aktiengesellschaft, Vienna/Austria	99.8	362,418	18,356	17,474	922,102	2,378
Semperit (Ireland) Ltd., Dublin/Ireland	100.0	70,077	8,834	13,953	160,071	650
SICUP SNC, Sarreguemines/France	100.0	54,066	14,594	– 17,474	478,856	2,089
Société des Flexibles Anoflex SA, Caluire/France	99.9	40,606	4,468	6,678	221,458	1,181
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	17,461	5,917	6,224	111,517	228
Uniroyal Englebert Tyres Ltd., Newbridge/UK	100.0	10,144	2,573	6,618	165,555	889
II. Associated companies						
Compañía Ecuatoriana del Caucho, Cuenca/Ecuador	38.2	23,957	2,026	738	77,002	
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	22,324	1,324	2,056	82,844	
General Tire & Rubber Company of Morocco, Casablanca/Morocco	34.2	28,290	2,022	3,229	75,024	
KG Deutsche Gasrusswerke GmbH & Co., Dortmund	32.1	16,500	1,500	1,500	114,469	
SAVA-Semperit, Kranj/Slovenia	27.8	162,582	16	3,853	250,260	

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

		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Balance sheet											
Fixed assets and investments	DM million	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	3,485.0
Current assets	DM million	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	3,218.4
Balance sheet total	DM million	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	6,703.4
Shareholders' equity	DM million	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	1,695.6
Long-term debt	DM million	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	1,955.4
Capital expenditure on property, plant and equipment	DM million	284.8	300.1	447.7	532.4	689.5	829.3	709.3	624.1	514.7	591.3
Equity ratio	%	26.1	31.6	30.4	31.9	28.2	22.8	22.9	23.8	24.6	25.3
Long-term financing of fixed assets, investments and inventories	%	103.8	118.6	113.6	103.7	89.6	89.0	90.0	86.3	90.1	79.4
Total indebtedness	DM million	741.2	672.7	826.4	929.5	1,545.9	2,152.9	2,416.8	2,289.5	2,130.4	1,988.7
Self-financing ratio	%	126.7	150.9	112.3	94.4	68.1	52.1	133.8	86.4	113.5	122.9
Liquidity ratio	%	104.3	134.7	119.9	105.0	77.1	74.6	76.5	68.3	76.6	61.3
Statement of income											
Sales	DM million	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	10,252.6
Foreign markets' share	%	48.3	47.5	64.3	65.0	61.8	62.8	63.9	65.4	67.6	66.5
Cost of sales[1]	%		71.1	74.6	74.7	75.9	74.7	73.2	74.1	74.0	73.9
Selling expenses[1]	%		14.9	13.1	14.0	14.7	14.8	15.0	16.7	16.3	15.6
Administrative expenses[1]	%		7.0	6.4	5.7	5.9	6.5	6.7	6.2	6.2	5.7
EBIT	DM million	333.6	321.0	421.0	476.7	298.8	334.8	468.3	296.8	301.5	387.6
Personnel expense	DM million	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	3,273.8
Depreciation[2]	DM million	229.4	263.8	375.8	367.5	378.0	531.0	502.6	556.9	583.5	552.7
Cash flow	DM million	375.9	464.0	623.4	604.9	510.0	526.1	701.4	578.9	625.9	739.7
Value added	DM million	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	3,661.4
Net income/loss	DM million	114.5	138.8	194.8	227.8	93.4	– 128.2	133.0	65.1	70.8	155.2
Employees											
Annual average	Thousands	31.2	31.6	44.8	46.9	48.4	50.8	50.4	49.8	49.0	48.4

[1] As a % of sales
[2] Excluding depreciation on investments

Continental Aktiengesellschaft
Ten Year Survey

		1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Balance sheet											
Fixed assets and investments	DM million	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	1,858.8
Current assets	DM million	741.0	1,115.2	1,133.9	770.1	843.2	735.5	872.4	904.9	849.0	1,167.5
Balance sheet total	DM million	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	3,026.3
Shareholders' equity	DM million	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	1,413.0
Long-term debt	DM million	402.0	375.3	344.4	367.4	354.9	327.1	484.4	680.0	698.3	409.4
Capital expenditure on property, plant and equipment	DM million	102.6	119.7	138.5	135.7	154.2	183.5	194.8	179.5	135.4	96.2
Equity ratio	%	44.4	63.4	63.0	61.7	51.7	41.4	38.7	41.7	46.4	46.7
Long-term financing of fixed assets, investments and inventories	%	105.5	122.8	116.7	92.8	76.1	62.0	64.5	79.4	92.6	90.4
Total indebtedness	DM million	192.9	+ 139.6	+ 171.0	99.1	604.1	863.8	1,037.2	659.2	418.1	193.0
Self-financing ratio	%	146.6	31.5	103.5	35.0	26.8	53.2	91.3	79.6	901.0	– 249.1
Liquidity ratio	%	117.0	192.7	163.6	69.7	40.3	25.8	30.1	54.0	76.6	81.0
Statement of income											
Sales	DM million	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	2,721.3
Foreign markets' share	%	35.4	36.2	36.8	38.1	36.0	36.9	37.4	34.6	34.9	32.6
Cost of sales[1]	%		80.4	80.4	81.5	83.3	81.0	82.4	86.7	86.8	83.5
Selling expenses[1]	%		7.9	7.1	7.1	7.3	7.4	7.6	7.9	8.5	8.4
Administrative expenses[1]	%		7.4	6.5	5.7	5.8	5.7	5.8	5.4	4.9	5.5
EBIT	DM million	167.1	159.6	165.7	172.2	152.8	– 302.7	162.5	155.1	112.7	97.3
Cost of materials	DM million	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	1,725.6
Personnel expense	DM million	895.2	928.6	924.5	960.6	1,023.7	632.1	642.4	585.5	572.2	647.0
Depreciation[2]	DM million	111.2	121.8	134.9	129.9	130.7	139.6	167.8	169.9	165.5	96.5
Cash flow	DM million	209.9	263.4	262.4	282.5	224.1	303.0	273.5	211.8	219.0	211.4
Value added	DM million	1,071.9	1,122.2	1,129.8	1,182.8	1,232.3	320.0	804.8	740.1	684.5	744.3
Net income/loss	DM million	55.0	55.8	80.9	81.2	42.2	– 417.1	38.0	71.2	47.3	56.6
Dividend paid	DM million	37.5	48.0	69.2	69.6	35.1	–	–	36.1	37.5	47.0
Employees											
Annual average	Thousands	15.4	15.3	15.1	15.9	16.1	8.8	8.4	7.5	6.7	7.4

[1] As a % of sales
[2] Excluding depreciation on investments

Selected Financial Terms

Associated companies. In these companies, one of the companies belonging to the → Corporation holds an interest and exercises a significant degree of control. However, our consolidated financial statements do not include their balance sheets and income statements, but only the corresponding proportion of their shareholders' equity and earnings.

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 defined in several different ways. We compute it on the basis of the → DVFA/SG earnings formula. Its principal components are net income, depreciation, the positive or negative change in special reserves, the allocation to provisions for pensions, and the balance of significant extraordinary items.

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.

Derivatives. These are securities representing transactions used to control interest and/or currency risks.

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.

Gearing ratio. This ratio, obtained by dividing → indebtedness by shareholders' equity, indicates the relationship between interest-bearing liabilities and total shareholders' equity at risk.

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

Interest swap. An interest swap is the exchange of interest payments between two parties. By this means, for example, variable interest can be exchanged for fixed interest, or vice versa.

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).

Value added. The sum of personnel expense, interest, income taxes and net income.

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