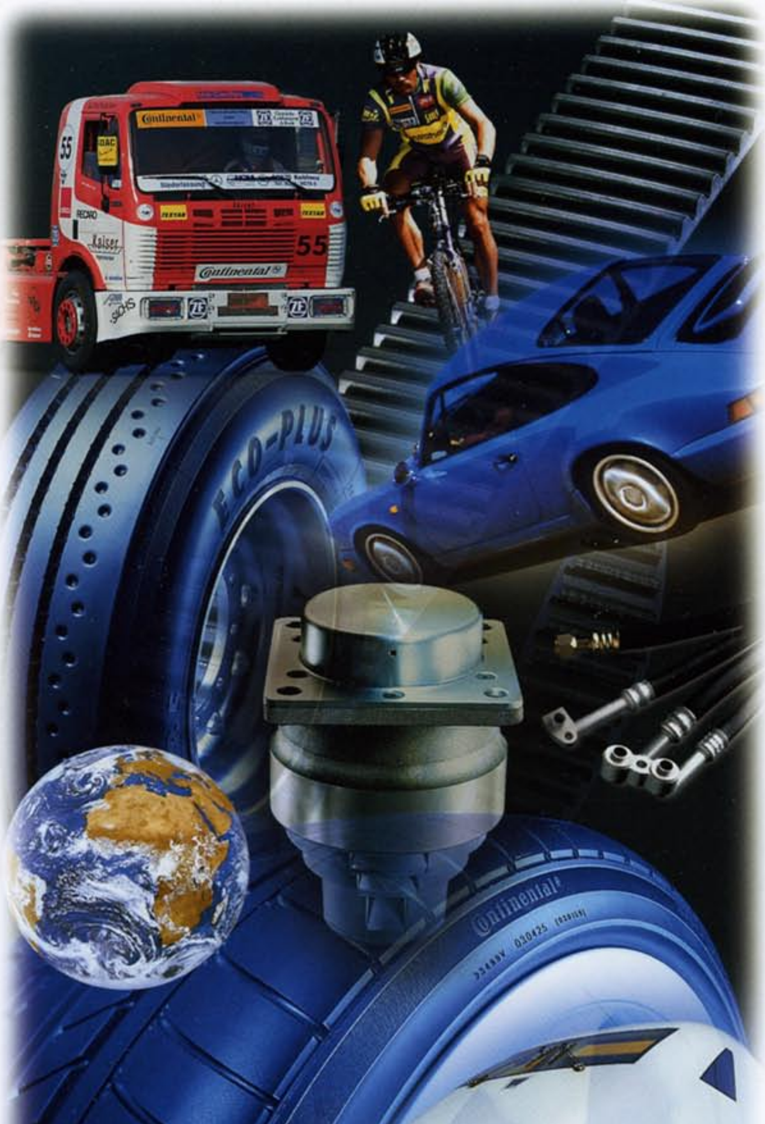
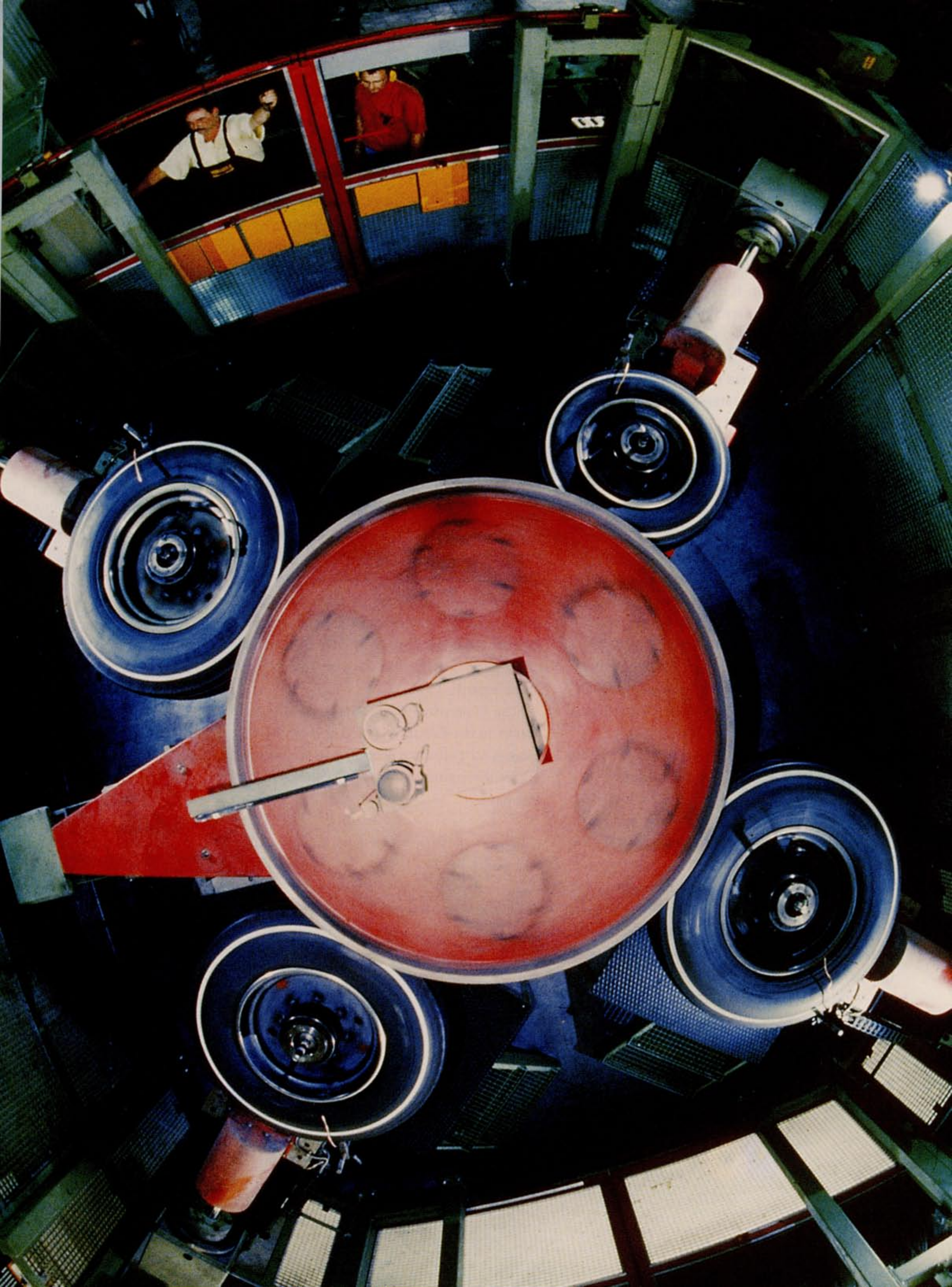
ANNUAL REPORT 1996

CONTINENTAL AKTIENGESELLSCHAFT



Continental



Management Report for the Corporation and Continental Aktiengesellschaft

Economic Background

During 1996, growth rates in our principal markets, Europe and the United States, remained below the previous year's level. In Europe, labor and manufacturing costs are so high in comparison with the rest of the world that any growth in demand is insufficient to reduce the severe unemployment. After two soft years, the Japanese economy recorded a substantial gain, but in Germany, GDP rose by only 1.4%.

The positive trend in the automotive industry continued, with European car manufacturers producing about 2% more vehicles than in 1995. On the other hand, output in the U.S.A. and Japan showed a slight decline.

Demand for commercial vehicles dropped sharply in both Europe and the United States during 1996, and production was reduced accordingly in the course of the year, by 8% in Europe (15% of which in Germany) and 22% in the U.S.A. A modest improvement in the current low level is anticipated in 1997.

The German car market did somewhat better than had been expected, with increases of 6% in new registrations and 7% in exports. Registrations of new commercial vehicles were down from 1995, but this was offset by a strong gain in exports.

Passenger tires made good progress, with a strong assist from the boom in sales of snow tires. The truck tire business suffered generally from a weak market.

Industrial products benefited, in particular, from the brisk production of passenger cars and light commercial vehicles in Europe.

Simultaneous testing of four truck tires on the drum test rig.

Members of the Executive Board

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

Hans Albert Beller
Automotive Systems

Klaus Friedland
Director of Personnel
(as of 4/14/1997)

Peter Haverbeck
ContiTech
Director of Personnel (through 4/14/1997)

Jens P. Howaldt
Finance, Controlling and Law

Stephan Kessel
Commercial Vehicle Tires/
Environment/Conti International
(as of 4/14/1997)

Klaus-D. Röker
Commercial Vehicle Tires/
Environment and Tire Research
(through 4/14/1997)

Wilhelm Schäfer
Passenger Tires
(through 5/2/1996)

Generalbevollmächtigte

Bernd Frangenberg
President & CEO
Continental General Tire, Inc.

Klaus Friedland
Corporate Human Resources
(through 4/14/1997)

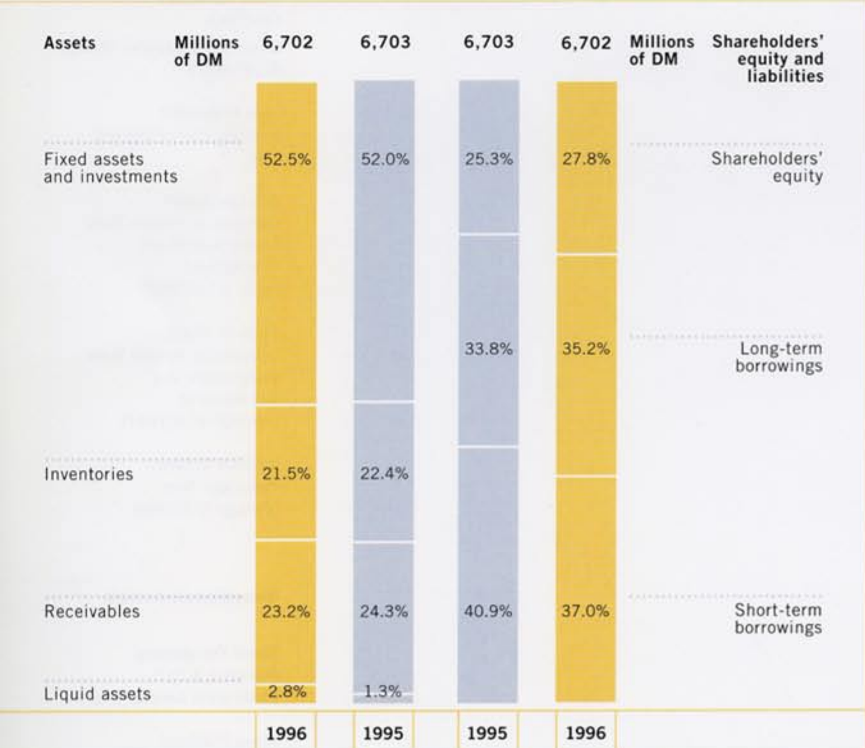
Bernadette Hausmann
Corporate Purchasing and Strategic Tire Technology
(as of 4/14/1997)

Werner P. Paschke
Corporate Controlling

Assets, Financial Position and Earnings

Continental has overcome the challenges of 1996, and, as in the year before, has again succeeded in improving all significant key figures relating to the business. Therefore, the Administration is proposing a higher dividend to the Annual Meeting of Shareholders.

Structure of the consolidated balance sheet



Sales Up Slightly

The Continental Corporation had another successful year in 1996. Sales rose by a modest 1.7%, from DM 10.3 billion in 1995 to DM 10.4 billion in the year under review. There were no significant additions to the scope of consolidation.

This small sales increase reflects a general deterioration in business conditions. The ContiTech and Passenger Tire Groups reported above-average gains; sales of Continental General Tire and the Commercial Vehicle Tire Group were lower than in the previous year.

Sales in Europe, not including Germany, were up 2.1%. In Germany, they increased by 3.0%, but in North America, which accounts for one fifth of the consolidated total, sales declined slightly.

72% of consolidated sales was generated by tires and 28% by industrial products and systems.

Dividend Rises to 12%

Net income amounts to DM 192.5 million, an increase of DM 37.3 million, or 24.0%, over the previous year. The Administration is proposing to the Annual Meeting of Shareholders that an increased dividend of 12% be paid for 1996 (1995: 10%). This is equivalent to DM 0.60 per share with a par value of DM 5.00, compared with DM 0.50 in 1995. Consolidated EBIT (earnings before interest and taxes) rose by 35.2% to DM 524.1 million (1995: DM 387.6 million). In

1996, we made significant headway toward our goal of achieving a permanent net return on sales of at least 2.5% after taxes.

Solid Earnings for Passenger Tires and ContiTech

Massive in-house efforts to lower expenses and boost productivity, together with a slight decline in the cost of materials, more than compensated for the detrimental effects of the downturn in prices for our products. An exceptionally large number of changes were made in 1996. Since it was no longer profitable, the manufacture of 4 million passenger tires was transferred in equal amounts from the factories in Traiskirchen, Austria, and Hanover-Stöcken to locations with lower costs. We are moving portions of the production of the ContiTech plant in Hanover-Limmer, which will be shut down by the end of the decade, to the space that is being made available in Hanover-Stöcken and to ContiTech Vegum Vibration Control in Slovakia. In the U.S.A., we have given up our traditional Akron, Ohio, location and moved the administration and development functions to the plant in Charlotte, North Carolina.

The ContiTech and Passenger Tire Groups increased their contributions to total net income in 1996 as well. Sales of snow tires once more reached record levels. Continental General Tire again operated at a profit, with earnings considerably higher than in the previous year. The Commercial Vehicle Tire Group suffered from inadequate capacity utilization and sustained even higher losses despite the many measures taken to improve operating efficiency. Demand from the automotive industry for truck tires declined drastically in both Germany and Europe as a whole. Contrary to forecasts, 1996 production of trucks and buses dropped sharply in the U.S.A., Europe and Germany. The Automotive Systems Group performed on target and has a number of promising development projects under way.

Operating EBIT (earnings before interest and taxes)

Millions of DM	1996	1995	1994
Passenger Car Tires	334.1	251.0	209.6
Commercial Vehicle Tires	– 23.2	4.9	– 29.9
Continental General Tire	81.5	55.7	40.3
ContiTech	177.2	120.5	113.7
Operating EBIT	**569.6**	**432.1**	**333.7**
Holding costs[1]	– 45.5	– 44.5	– 32.2
Earnings before interest and income taxes[2]	524.1	387.6	301.5
Net of interest income and expense	–195.7	–192.8	– 209.9
Earnings before taxes[2]	328.4	194.8	91.6
Extraordinary expenses	– 80.0	–	–
Income taxes	– 55.9	– 39.6	– 20.8
Net income for the year	**192.5**	**155.2**	**70.8**

1) Holding costs include the Automotive Systems Group.
2) Before extraordinary expenses.

A Stable Capital Investment Policy

The Corporation's additions to property, plant and equipment totaled DM 551.5 million in 1996. This was 6.7% less than in the previous year, but considerably more than in 1994. The capital expenditure ratio decreased from 5.8% to 5.3% of sales, a level that we will try to maintain in the coming years. Approved capital expenditures, at DM 570 million, were the same as in 1995.

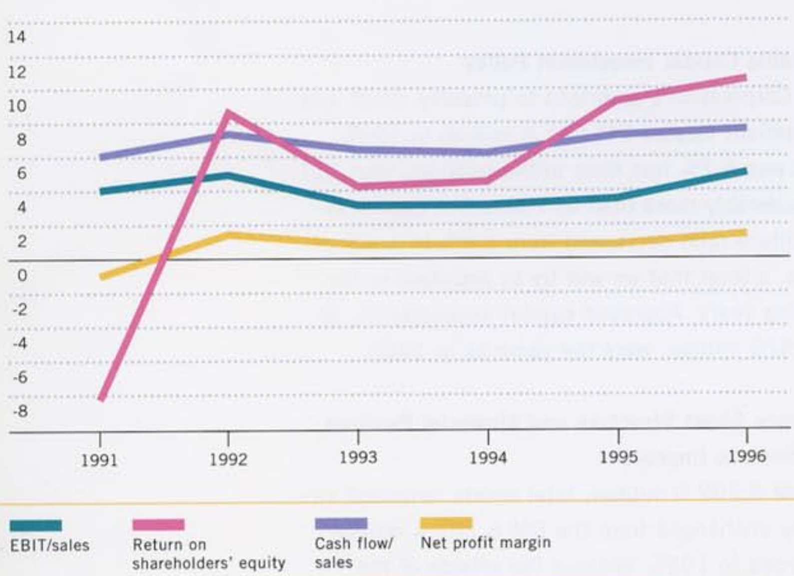
Balance Sheet Structure and Financial Position Continue to Improve

At DM 6,702.0 million, total assets remained virtually unchanged from the DM 6,703.4 million recorded in 1995. Without the effects of the higher exchange rates for various currencies, in particular for the British pound and the U.S. dollar, on the balance sheet date, the figure would

Statement of changes in financial position

Millions of DM	1996	1995	1994
Net income for the year	192.5	155.2	70.8
Depreciation, amortization and writedowns	609.5	556.2	590.7
Other items with no effect on funds	12.6	28.3	– 35.6
Cash flow	**814.6**	**739.7**	**625.9**
Financing from operations	186.3	– 45.1	– 50.4
Investment activity (outflow of funds)	– 655.0	– 485.1	– 398.3
Financial activity	6.0	– 67.8	– 18.1
Effective change	**351.9**	**141.7**	**159.1**
Indebtedness at January 1	**1,988.7**	**2,130.4**	**2,289.5**
Indebtedness at December 31	**1,636.8**	**1,988.7**	**2,130.4**

EBIT/sales



have been reduced by DM 228 million, or 3.4%. The ratio of fixed assets and investments to total assets was 52.5%, almost the same as in 1995 (52.0%). Intangible assets decreased, due to the scheduled amortization of goodwill. The gain in property, plant and equipment was due to the higher exchange rates; the increase in investments, primarily to the joint venture with Michelin. The decline in trade accounts receivable was caused partly by greater sales of receivables in connection with the Asset Backed Securitization Program.

Consolidated shareholders' equity, including the equity portion of special reserves, rose by DM 164.8 million to DM 1,860.4 million. The equity ratio has grown from 25.3% to 27.8%. Shareholders' equity was reduced by the offsetting of goodwill and the payment of the dividend. Provisions were higher than in 1995, rising to 28.7% of total assets. It should be noted in this connection that large amounts of the provisions for restructuring were utilized in 1996. Indebtedness was reduced by DM 351.9 million, or 17.7%, to DM 1,636.8 million. The gearing ratio dropped to 88.0% from 117.3% in 1995; this is the first time in many years that it has been less than 100%. This positive development was accomplished by financing capital expenditures from the cash flow, reducing current assets and keeping the acquisition of new companies to a minimum. The capital turnover rate improved further, rising from 1.53 to 1.56. The balance sheet structure of the Continental Corporation continues to be strong, as illustrated by the fact that a high proportion (85.1%) of fixed assets, investments and inventories was again covered by shareholders' equity and long-term borrowings.

Further Upturn in Earnings

Overall, the trend in average foreign exchange rates for the year had a positive effect on sales revenues. The cost of sales was slightly higher, and there was a modest increase of 1.9% in administrative and selling expenses. Net of interest income and expense deteriorated by DM 2.9 million. Income before taxes and extraordinary expenses rose by 68.6%, from DM 194.8 million to DM 328.4 million. After deducting DM 80 million in extraordinary expenses for the shutdown of the Dublin plant and income taxes, which increased by 41.1%, net income amounts to DM 192.5 million. Earnings thus improved by 24.0% over the previous year and reached 1.8% of sales.

Changes in Financial Position

Despite the sums spent for restructuring, the cash flow from improved earnings and the reduction of inventories and receivables made it possible to reduce indebtedness by DM 351.9 million. A detailed statement of changes in financial position is included in this report (see page 43).

Cash Flow Swells

The cash flow continued to increase, rising to DM 814.6 million, or 7.8% of sales, compared with 7.2% in the previous year. The debt ratio dropped from 2.7 to 2.0, as a result of the higher net cash flow and a significant 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 (DVFA/SG). Like the total net income, they increased significantly, rising by 52.6% from DM 1.52 to DM 2.32 per share with a par value of DM 5.00. Cash flow per share amounts to DM 8.62, compared with DM 7.88 in 1995. Extraordinary items include the cost of shutting down the Dublin plant, in the amount of DM 80 million.

DVFA/SG earnings / Dividend per share in DM

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

		1996	1995	1994
Net income for the year	Millions of DM	192.5	155.2	70.8
Adjustments				
in fixed assets and investments	Millions of DM	8.5	2.2	8.0
in current assets	Millions of DM	– 9.0	11.0	20.3
in shareholders' equity and liabilities	Millions of DM	8.8	– 3.8	– 5.6
Extraordinary items affecting earnings	Millions of DM	44.8	– 9.0	– 17.0
Minority interest in earnings	Millions of DM	– 26.4	– 12.6	0.3
Adjusted earnings	**Millions of DM**	**219.2**	**143.0**	**76.8**
Number of shares	Millions	94.48	93.93	93.71
Earnings per share	**DM**	**2.32**	**1.52**	**0.82**

The Groups

The Groups are continuing to make good progress in a somewhat complicated competitive environment, although the Truck Tire Division did not perform as well as in 1995. The product mix was upgraded with many new tires and industrial products, which were extremely well received by the markets. To achieve higher profits, we systematically continued our programs to increase the efficiency of our operating procedures, concentrating equally on reducing variable costs at the plants and diminishing overhead. We expect to make strong improvements in logistics.

Passenger Tire Group

	1996	1995
Sales in millions of DM	4,228	4,079
EBIT in millions of DM	334	251
Capital spending on P.P.E. and software in millions of DM	265	268
Depreciation in millions of DM	258	237
Total assets in millions of DM	3,155	3,180
Employees	19,866	21,584

Sales of the **Passenger Tire and Dealer Organizations Group** rose by 3.6% over the previous year, from DM 4,079 million to DM 4,228 million. EBIT increased by DM 83 million (33%) to DM 334 million. This result is all the more impressive since 1996 was a year of intense competitive pressure, and surplus capacities in the tire industry led to fierce price wars.

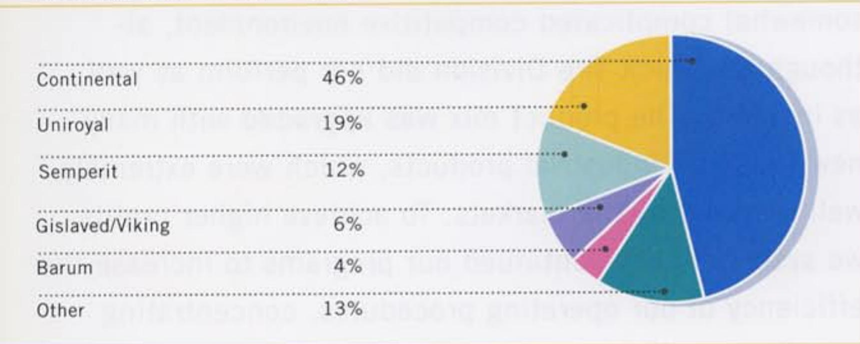
Despite our commitment to increase globalization and expand our manufacturing facilities in cost-competitive countries, our main concern is to achieve healthy sales growth as a means of improving earnings over the long term. Business with the automotive industry again accounted for 25% of total sales. Here, our goal is to become and remain a preferred global partner of the OEM's.

The same volume was sold to the **European automotive industry** as in 1995, because we refrained from making some deals that were insufficiently profitable. The Group found no way to compensate for the reduction in sales to the Japanese car makers, which had been a mainstay for employment at the Traiskirchen plant in recent years. Substantial improvements in productivity led to greatly reduced losses in the original equipment business, indicating that our decision to make it an independent segment had been correct. Our goal is to reach the breakeven point in 1997.

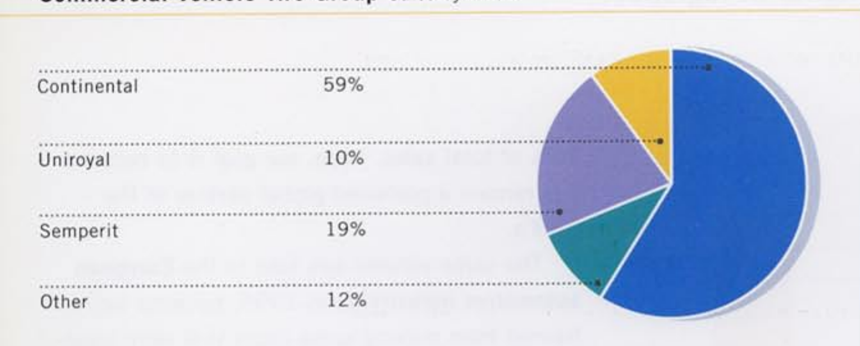
Sales to the **European replacement markets** rose by 6%. Our flagship brand Continental and such regional brands as Barum and Mabor sold exceptionally well. The new business unit established for the promotion of regional brands, such as Gislaved, Viking, Mabor, Sava, and Barum, has proved its worth. The Group's market position was strengthened by the excellent test scores that our regular and snow tires received in the trade journals. Our leadership in the European snow tire market grew more secure. Continental

The finished product leaves the double-band manufacturing unit at our conveyor belt factory. This belt weighs several tons and is designed to handle bulk goods – like coal – on long-distance conveyor systems.

Passenger Tire Group Sales by brand



Commercial Vehicle Tire Group Sales by brand



and Uniroyal achieved gratifying gains in unit sales of regular high-speed tires.

The **dealer organizations** again had a difficult time, with both sales and earnings lower than in the previous year. Although they did a brisk business in snow tires, consumer reluctance, continued aggressive competition and weak spring sales had a negative effect. Comprehensive restructuring programs have been initiated, especially at the two chains operating at a loss: Vergölst in Germany and National Tyre Service (NTS) in Great Britain. The first results will become manifest in 1997.

Commercial Vehicle Tire Group

	1996	1995
Sales in millions of DM	1,073	1,170
EBIT in millions of DM	– 23	5
Capital spending on P.P.E. and software in millions of DM	64	66
Depreciation in millions of DM	65	62
Total assets in millions of DM	899	921
Employees	4,227	4,735

Market conditions were extremely difficult for the **Commercial Vehicle Tire Group**; its sales decreased by 8.3%, from DM 1,170 million to DM 1,073 million. It was therefore unable to reduce its losses, and EBIT, at minus DM 23 million, fell below the previous year's figure by DM 28 million, due mainly to the unsatisfactory results in the truck tire business. Unlike Truck and Agricultural Tires, the Industrial Tire Division – which also belongs to this Group – operated in the black, but earnings were less than in the previous year. Despite high restructuring costs and massive price cutting, Cycle Tires recorded a modest net income.

In the **original equipment business**, we are concentrating on Continental, our leading brand. The development and defense of our market position requires intensive contact with consumers, so that they are already aware of our tires when they order a new truck. Also of strategic importance are our collaborations with the world's top truck manufacturers – and not just in R&D. We are also aiming to form partnerships based on the supply of wheel/tire systems. Unit sales of truck tires were fully impacted by flagging demand from the European vehicle manufacturers.

Nor did the **replacement business** expand during 1996. A subdued economy, shrinking market volumes and stepped-up competition in the transportation industry all put a damper on purchasing.

The distribution of truck tires on the replacement market requires a different orientation from passenger tire sales; in particular, it involves specialization and concentration on a comparatively smaller customer base. We are working on developing and refining service tools that are specially tailored to the needs of individual customers, including our Pan-European EuroService kilometer contracts, tire leasing, and master agreements.

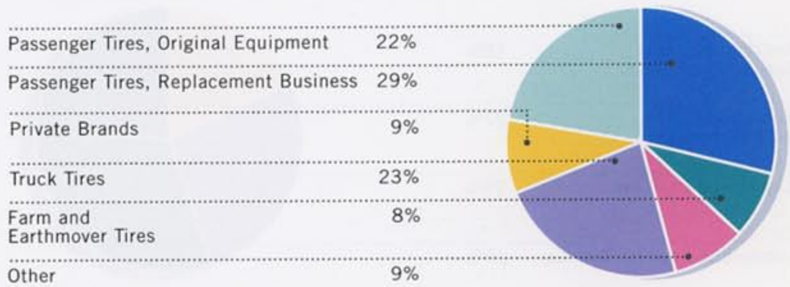
The Group has not yet solved its structural problems. The lots produced at the factories in Germany, Belgium and Austria are too small, and their costs are excessively high when compared to our Barum plant in the Czech Republic. Nevertheless, further substantial gains in efficiency were achieved in 1996.

Continental General Tire Group

	1996	1995
Sales in millions of DM	2,058	2,062
EBIT in millions of DM	82	56
Capital spending on P.P.E. and software in millions of DM	87	120
Depreciation in millions of DM	145	121
Total assets in millions of DM	1,628	1,565
Employees	6,248	6,981

The **Continental General Tire Group** had sales of DM 2,058 million, approximately the same as the DM 2,062 million recorded in 1995. In U.S. dollars, however, sales declined by 4.8%. At DM 82 million, EBIT was up DM 26 million, or 46%. The transition from a turnaround and restructuring management to development and profitable growth has thus been achieved. The gain in earnings results primarily from increased cost-efficiency. The synthetic rubber plant at Odessa in Texas and the Aldora Mills textile cord factory in Barnesville, Georgia made solid contributions to earnings, as did the truck tire business. The Group's close collaboration with the Corporation's European operations on such matters as purchasing, systems and products has developed well.

Continental General Tire Group Sales by product group

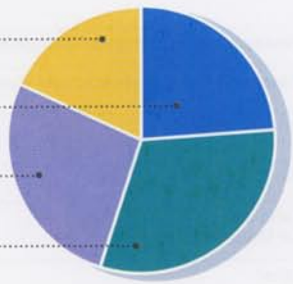


Although the **Passenger Tire Division** continued to reduce its losses, it did not make its planned entry into the profit zone. Sale of original equipment had reached an all-time high in 1995, with a gain of 21%. We were able to maintain this level in 1996 and add 1% in line with the growth of the market. From our U.S. production, we are now supplying not only the major American auto companies, where we are also represented for the first time in top-of-the-range vehicles, but also our German customer BMW, which is already manufacturing in the U.S.A. Starting at the end of 1997, we will also be delivering tires to the new Mercedes-Benz plant in that country. The replacement business continued to suffer from the smaller orders placed by a major customer. In order to obtain a more balanced customer structure, we expanded our relations with new, independent dealers during 1996, achieving a 26% gain in volume.

The **Commercial Vehicle Tire Division**, which had already been operating at a profit in the previous year, continued on an upward trend. Its truck tire plant in Mt. Vernon, Illinois, and the factory in Bryan, Ohio, that makes tires for earthmoving equipment operated at full capacity, due, in part, to successful new products and an above-average increase in business with Mexico. Deliveries to vehicle manufacturers declined, but unit sales of replacement tires rose by 5%, compared with 1995.

Report on 1996,
the Company's 125th Fiscal Year

ContiTech Group Sales by operations



ContiTech Group

	1996	1995
Sales in millions of DM	2,968	2,795
EBIT in millions of DM	177	121
Capital spending on P.P.E. and software in millions of DM	149	153
Depreciation in millions of DM	133	131
Total assets in millions of DM	1,593	1,576
Employees	14,199	14,396

ContiTech, a Group that manufactures industrial products, had sales of DM 2,968 million in 1996, an increase of 6.2% over the previous year's DM 2,795 million. Earnings before interest and taxes were up 46%, advancing from DM 121 million to DM 177 million. In spite of continuing price pressure and higher employment cost, the Group's net income improved significantly, thanks to streamlining efforts and higher volume.

The success of the ContiTech companies is based increasingly on high-tech products and systems. Intensive development work is opening up new applications for elastomer technologies. Still more opportunities exist in such ecologically-related growth segments as anti-vibration and acoustic insulation, and sealing products.

In the wake of globalization, ContiTech, too, must follow its customers in order to qualify as a worldwide sourcing partner and just-in-time supplier. Benecke-Kaliko AG purchased an interest in the U.S. company Sandusky Ltd., concluded a license agreement in India and formed a cooperative manufacturing venture in Thailand. The planned acquisition of Caucho Técnica in Chile will give ContiTech Transportbandsysteme GmbH a foothold in the rapidly growing South American market. The recently formed ContiTech Mexicana will start production of hose assemblies for the Mexican automotive industry in the course of 1997. ContiTech Profile GmbH has signed a technical cooperation agreement with a Chinese extrusions manufacturer that supplies joint ventures of German car makers in China. Four other companies are currently engaged in negotiations in China, East and Southeast Asia and South America.

Automotive Systems Group

1996 was a year full of promise for the **Automotive Systems Group**. The complete wheels business meanwhile assembles 3 million wheel/tire units. Three other preassembly plants started to make shipments. Our partnership with Michelin in this area progressed well; one joint project has already been completed, and another is in preparation.

The airspring systems unit is about to launch its first complete ride-control system for cars on an industrial scale. Assembly work has begun at the Hanover-Stöcken plant.

The electromechanical brake systems unit has received the first development contract awarded by the European automotive industry for a prototype vehicle. In the electromechanical brake (brake-by-wire), which is intended to replace the traditional hydraulic brake system in passenger cars, a sensor on the brake pedal sends the signal to the four wheel brakes via an electronic control system.

Regions

Continental, which started as a German industrial enterprise and now boasts a 125-year tradition, has enlarged its international base exceptionally during recent years. Today, some 60% of its production and 67% of the units sold are effected outside Germany.

The Corporation makes 41% of its sales in European countries other than Germany. Germany is the most important single market, accounting for 34% of total sales. One fifth of our consolidated sales is generated in North America.

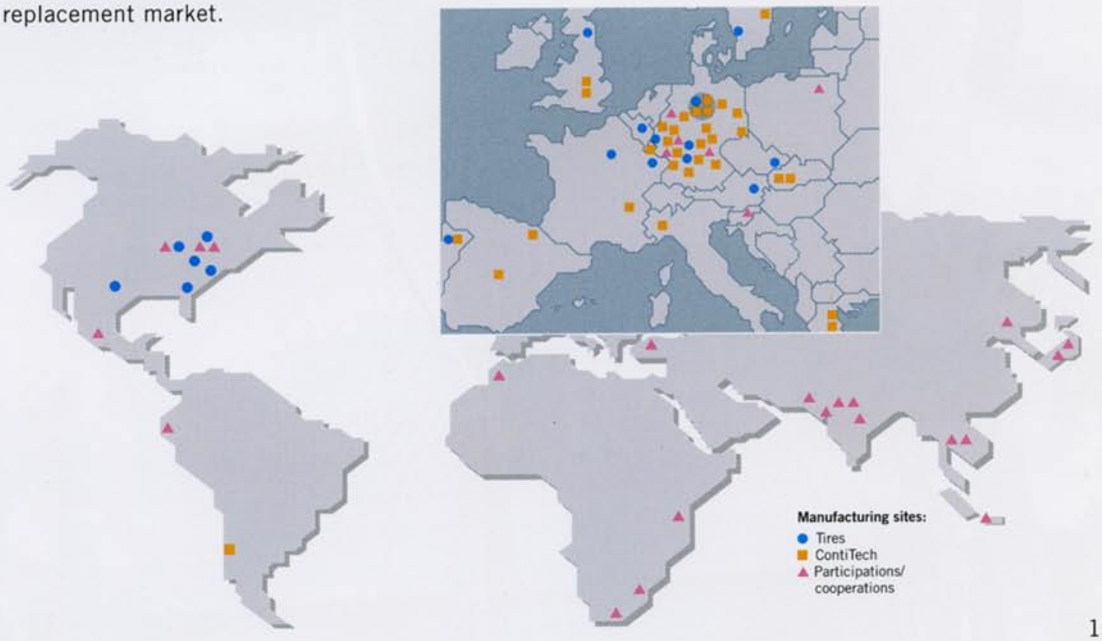
Our European market share for passenger tires is about 20%; of about 47 million such tires, almost 13 million are supplied to OEM's, and the remaining 34 million are sold on the replacement markets. Nearly two thirds of all our tires are distributed through dealers. In the commercial vehicle tire segment, we sold 2.2 million tires for trucks and 1.8 million for other vehicles. Our share of the European replacement market for truck tires reached 13%.

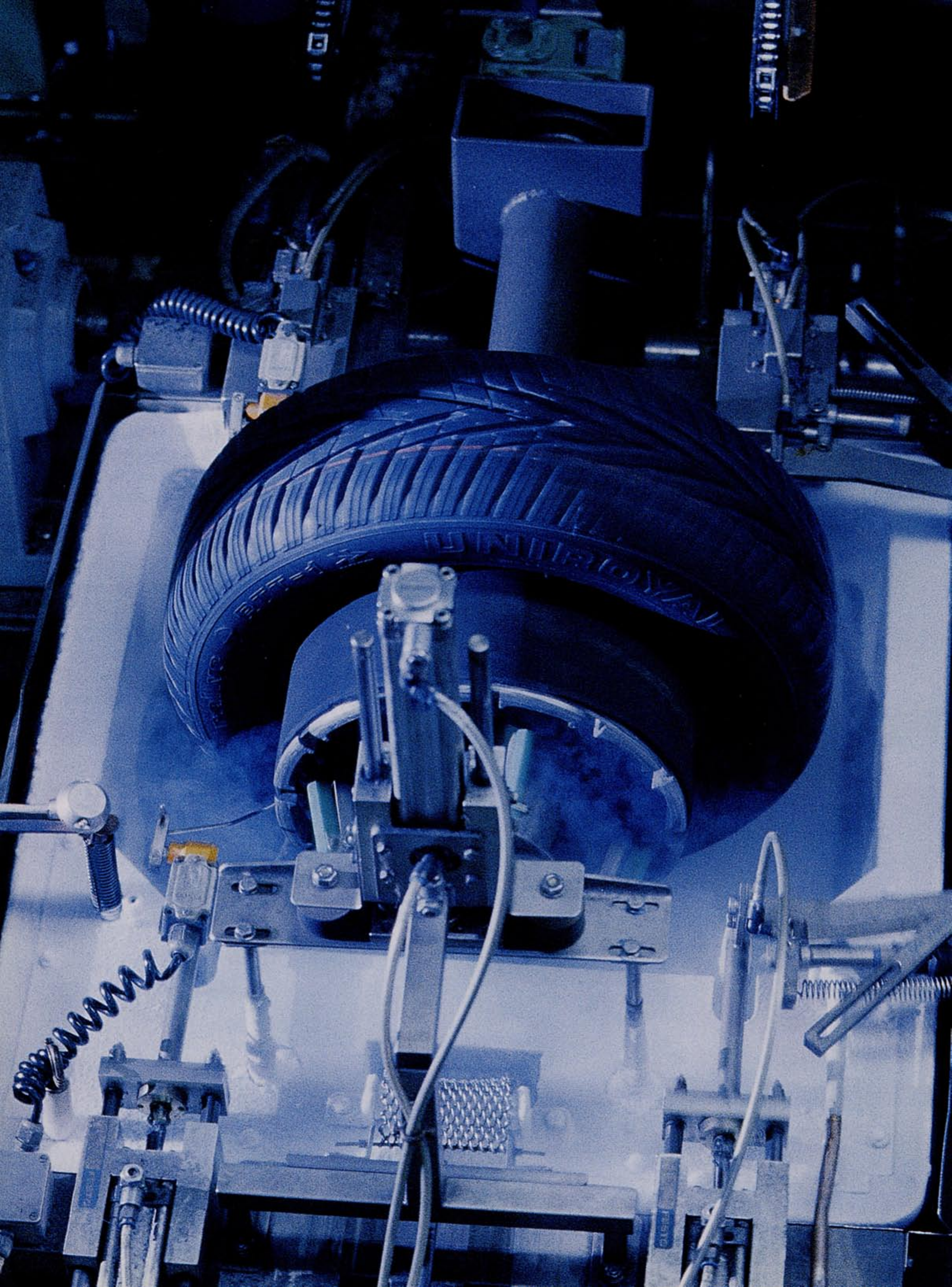
In Germany, we control about one fourth, in total, of the tire market, with an above-average share in snow tires, where the Corporation leads the market in both sales and technology. A total of over 9 million passenger tires and 0.85 million truck tires is sold on the German replacement market.

In North America, we have a market share for passenger and truck tires of just under 8% on average, supplying 23.2 million passenger tires and 1.9 million tires for commercial vehicles in 1996. 8.6 million passenger tires went to the automotive industry, and 14.6 million to the replacement markets.

The other regions of the world are supplied by the CONTI International tire unit, which accounts for 4% of the Corporation's sales. We expect that in the future our network of alliances and cooperations will generate strong growth rates not only in the Far East, but also in South America.

Sales of the ContiTech companies are still very strongly concentrated in Europe. However, they have many activities that give promise of growth over the longer term in the Far East and the Western Hemisphere. With a 54% share in sales, Germany continues to be the most important market.




UNIROYAL

Securing Our Future

Functions having a central bearing on the Corporation's future development now work together across all continents and Group boundaries so as to achieve synergies and use our resources optimally.

Information Technology Penetrates Every Unit
We are relying on the widespread use of information systems throughout the Corporation to reduce costs and increase our competitiveness.

A free flow of data communication in-house and with customers, suppliers and development partners simplifies and accelerates business processes and opens up possibilities for new work structures. The quality of the results obtained is significantly improved. We have already reached a high level of data integration and are adding new systems to permit more intensive use of information everywhere in our business.

Globalizing R&D Activities
The R&D expense for tires and industrial products is included in manufacturing cost. As in the previous year, it amounts to 4% of sales.

Tires
In 1996, European research and development capacities for all the Corporation's brands of passenger and commercial vehicle tires were brought together at the Hanover-Stöcken plant. The R&D center for Automotive Systems has been given a home nearby, so that we can take advantage of the many synergies that exist in the research activities of the Tire and ContiTech Groups. ContiTech's R&D units are therefore closely linked with the tire and automotive systems operations in many important aspects of the overall system formed by vehicles, people and roadways.

The research and development departments in Europe and North America also work closely together. At General Tire's testing grounds in Uvalde, Texas, we have reproduced the equipment used to test the grip of tires on wet road surfaces at our Contidrom test facility in Germany. Modern communications systems enable us to work on new products jointly around the clock, with a substantial reduction in the development cycle.

ContiTech
Our customers are making increasing use of the accumulated know-how from the core capabilities of ContiTech and the Corporation as a whole. This gives us an advantage over our more specialized, but sometimes larger, competitors. This know-how ranges from raw materials, formulas and mixing technologies to the development of acoustic and anti-vibration systems by means of simulation techniques and is closely related to tire development work. Another example is the use of electronic components in "intelligent" elastomer products.

Strategic Assignments in Corporate Purchasing
In 1996, the Continental Corporation spent DM 5.2 billion, or some 50% of sales, on raw materials, merchandise and outside services. For this reason, the Central Purchasing Division must take advantage of every opportunity that emerges from our increasing globalization. The discovery of new sources has the same high priority as the formation of strategic alliances. In order to exploit further possible synergies – and thereby to enhance our competitiveness – we have intensified the global integration of our purchasing operations.

A perfect appearance is a must for top-of-the-range products. Rubber flash, which escapes through the mold, is removed from the tire's surface by dipping it into a nitrogen oxide bath.

Following the steep price hikes for raw materials during the last two years, prices stabilized at a high level in 1996. Between 1993 and 1995, we were faced with an increase of almost 100% in the cost of natural rubber. The price declined to some extent during the fiscal year, but without coming anywhere remotely close to the original level. On the other hand, the price of other starting materials, such as fabrics, rose at the beginning of the year.

Cooperation With Michelin

On August 14, 1996, the European Commission in Brussels disclosed its intention to vote in favor of the cooperation agreement between Michelin and Continental. Thus, the signal was given to start cooperating in the selected areas of retreading, recycling, deliveries of wheel/tire units to the automotive industry, combined purchasing activities for raw materials and semifinished products, and the use of production capacities to manufacture low-priced tires. The planned joint venture company, MC Projects B.V., Amsterdam, Netherlands, in which the two corporations have an equal stake, has since been established.

Logistics: Customers Are Better Supplied, Costs Are Reduced

As a result of the COPERNICUS project that was launched in 1995, we find ourselves in the midst of a radical overhaul of the entire logistic chain.

In 1996, the day-to-day business of production planning, supply control and order processing was transferred from the Central Logistics Department to local units related to markets and plants. An intimate interlinking of the production and sales units within the Corporation was first established in a pilot project for the European snow tire business. With no problem at all, this new logistics concept produced a 24% increase in the volume of snow tires available on the markets.

The main task for 1997 is the remodeling of the entire European distribution network. Many of the numerous branches will be eliminated, in order to concentrate on 14 regional distribution centers, some of them operating on a cross-border scale, which are managed by outside service experts. This will simultaneously reduce inventories dramatically and permanently strengthen the delivery service.

With the new structure, annual logistics costs will decrease by more than DM 70 million.

Quality and Environment

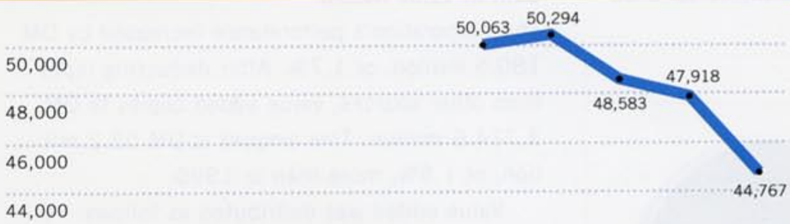
The high quality standard of our products is ensured by means of a transparent, comprehensive quality management system. The impartial confirmation of the system's effectiveness through the issuance of ISO 9001 certificates has been largely completed for all the Groups in Europe. We are now working to obtain certification under the more rigid standards of the automotive industry – including QS 9000, VDA 6.1/3 and EAQF – which apply to all our business units. The first audits are scheduled for 1997. We are the first tire company in the U.S.A. to be awarded the ISO 9001 certificate for every plant. Here, as in Europe, we are moving on to the QS 9000 quality test.

We regard environmental protection as an integral part of our general management procedures. Our responsibility extends over the entire life cycle of our products, from the selection of raw materials, to the manufacture, use and safe disposal of the finished article. We go beyond the statutory norms, continually improving the methods we use to reduce pollution. In 1996, our plants in Korbach, Aachen and Stöcken, as well as the Benecke-Kaliko factory in Hanover, were certified in accordance with EU ecological directives.

Employees

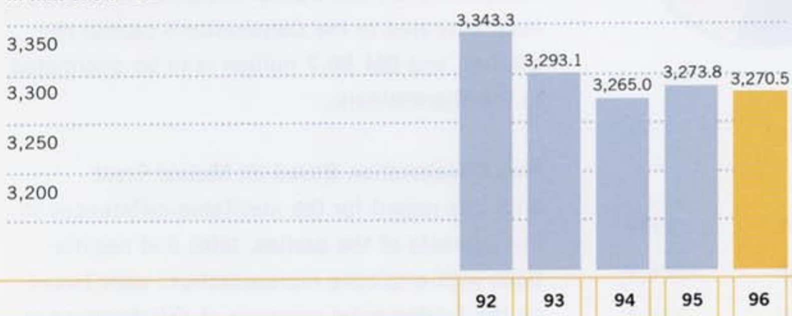
The trend shows that fewer employees are having to produce more and sell more in order to hold out against the fierce pressure of competition. This inevitable development could only be partially abated by high-tech products and a large number of innovations in 1996.

Employees at year-end

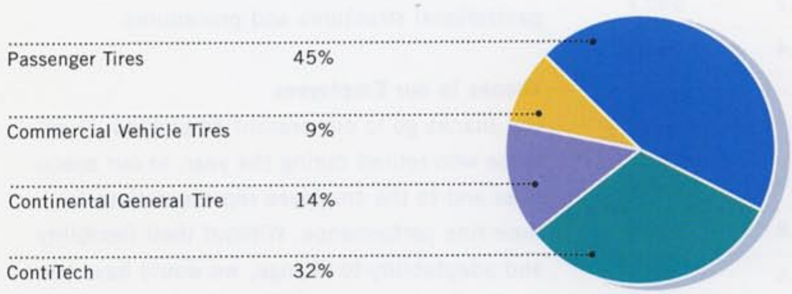


Total personnel expense within the Corporation

in millions of DM



Employees by Group



Decrease in the Work Force

The number of employees in the Corporation continued to decline in 1996, decreasing by 3,151 to 44,767 (1995: 47,918). This was due mainly to the shutdown of the factory in Dublin, Ireland, downsizing at the Traiskirchen plant in Austria and further reductions in the number of employees at almost all our manufacturing facilities and administrative offices. This decrease, which exceeded normal attrition, was accomplished in a socially acceptable manner, by means of local plant agreements and social benefit plans for the employees. The table below shows the change in the Corporation's personnel, not including trainees, in the most important countries:

	1996	1995
Germany	19,274	20,163
North America	6,255	6,989
Czech Republic	3,762	3,922
France	3,560	3,560
Great Britain	3,455	3,711
Austria	2,197	2,841
Italy	1,157	1,201
Portugal	1,100	1,023
Sweden	992	890
Belgium	987	1,026

As in the past, 86% of the Corporation's work force live in Europe, about 50% of them in Germany.

We again had 376 trainees in Germany and 535 (1995: 562) worldwide. The vast majority 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 dropped by 0.1% to DM 3,270.5 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 67,688 to DM 70,422 (+ 4.0%).

Employee Participation

During 1966, our anniversary year, our CONTI 100 employee participation program, introduced in 1995, was transformed into CONTI 100 plus 25. The new program is now firmly established alongside our traditional employee share purchase plan. Employee interest in investment remained at the same level as in the previous year.

For our executives, we have introduced a system of variable remuneration which links their annual income directly to the progress of their business unit and to their personal performance. Starting in 1997, it will be implemented throughout the Corporation.

Gain in Value Added

The Corporation's performance increased by DM 180.5 million, or 1.7%. After deducting input from other sources, value added comes to DM 3,714.6 million. This amount is DM 53.2 million, or 1.5%, more than in 1995.

Value added was distributed as follows: Personnel expense accounted for 88.0%, 5.3% went for interest, and 1.5% for income taxes. There remained a net income for the year of DM 192.5 million (5.2%), DM 135.8 million of which has been allocated to the Corporation's capital resources, and DM 56.7 million is to be distributed to the shareholders.

Fine Collaboration Based on Mutual Trust

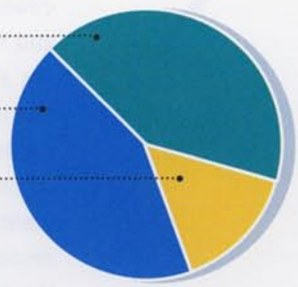
With due regard for the inevitable differences in the interests of the parties, talks and negotiations with employee representatives were based on the fundamental principle of collaborating to secure the welfare of both the Company and its personnel. Information and frank communication are essential in order to handle the profound changes that are constantly occurring in our organizational structures and procedures.

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. Without their flexibility and adaptability to change, we would have been unable to deal successfully with the challenges of the fiscal year.

Employees by region

Germany	43%
Rest of Europe	43%
North America	14%



Source of value added (Corporation)

in millions of DM	1996	1995	1994
Sales	10,430.6	10,252.6	9,876.9
Other income	264.5	262.0	196.4
Corporate performance	**10,695.1**	**10,514.6**	**10,073.3**
Cost of materials and other input from outsiders	– 6,371.0	– 6,297.0	– 5,916.1
Depreciation (total)	– 609.5	– 556.2	– 590.7
Value added	**3,714.6**	**3,661.4**	**3,566.5**

Distribution of value added

Personnel expense	3,270.5	3,273.8	3,265.0
Net of interest income and expense	195.7	192.8	209.9
Income taxes	55.9	39.6	20.8
Net income	192.5	155.2	70.8
Value added	**3,714.6**	**3,661.4**	**3,566.5**

Outlook

The economic upturn in the industrial nations will accelerate further. Especially in the Western countries, however, industrial plants are still not operating at full capacity. As a result, no investments will be made to enlarge them. Nor will there be much latitude for price increases. This also applies to our industry. We feel, on the whole, however, that the economic environment will be better than in 1996.

Solid Prospects for the Future Continue

We expect 1997 to see a slight growth in sales for the Corporation. Volume sales of passenger tires are likely to rise at an above-average rate in Southern Europe and the CEFTA (Central European Free Trade Area) states. The Commercial Vehicle Tire Group anticipates a slight gain in demand from the vehicle industry, with the replacement markets stagnating at the low level of the two previous years. Continental General Tire has planned higher sales figures. Forecasts predict a slight decline in passenger tire business with the U.S. automotive industry, while business with dealers is expected to develop exceptionally well. Volumes of commercial vehicle tires sold in North America will exceed the previous year's level. ContiTech is expecting a continuation of the high demand experienced during the previous year. With only small increases in raw material prices and moderate growth on the whole, the pressure of competition will intensify in all markets. Nevertheless, we expect our earnings from operations to improve.

The process of converting Continental AG into a globally active manufacturer of high-tech products and systems with a satisfactory profit margin will continue in 1997. The restructuring measures in production, sales and administration have not yet been completed. In Europe, we must further increase our manufacturing capacities at low-cost sites and produce higher quantities at existing plants. Programs continue to be based on the standard set by our truck tire plant in Mt. Vernon, Illinois, U.S.A. In all internal measures to enhance productivity and efficiency, we shall proceed cautiously so as to take due account of the interests of our employees as well as those of our shareholders.

We must strengthen both our technological leadership and its financial recognition by the market. M.M.P., our totally new modular manufacturing process, will be introduced for the first time in 1997 in order to increase our competitiveness. This process, which breaks production down into different modular stages, enables us to respond to customer wishes within just days, and offers good conditions for manufacturing at flexible mini-factories in new markets within the scope of our globalization efforts. We expect to gain additional orders and to relieve our existing plants of their low-volume production jobs.

In spite of all the necessary renovations which will have to be charged against our earnings both now and in the future, we are steadfast in our determination to achieve a permanent net return on sales of at least 2.5% after taxes – our vision is 5%. Further internal changes will be indispensable in order to give our customers international service, to ensure the job security of our employees, and to earn an appropriate return of 15% on equity.


SONY

The Continental Share

The international stock exchanges have responded to the positive trend and confident forecasts for the Company's future with a sustained high valuation of the Continental share.

Increased Dividend

Continental AG's net income available for distribution enables us to propose to the Annual Meeting of Shareholders a dividend for 1996 of 12% (1995: 10%), or DM 0.60 (1995: DM 0.50) per share with a par value of DM 5.00. For 1996, there is no more credit based on earlier tax payments because the required potential of burdened taxable shareholders' equity has been used up.

The capital stock entitled to the dividend, at DM 472.4 million, has not increased significantly. A total of DM 56.7 million (1995: DM 47.0 million), or 29.5% (1995: 30.3%) of consolidated net income, will be required for the distribution.

Price Trend

German equities, which had already performed well on the stock market in 1995, made a strong contribution to the boom in 1996. Conditions for German stock trading were favorable: consumer prices rose only slightly, interest rates declined, the U.S. dollar grew stronger against the German Mark, and the prospects for corporate profits and the economy as a whole were encouraging.

The German Share Price Index (DAX) and the MidCap Share Price Index (MDAX) increased by 28% (1995: + 7%) and 15% (1995: + 3%), respectively. For the first time, the DAX exceeded 2,900 points, reaching a record high of 2,909.91 on December 5, 1996. It closed on December 30, 1996 at 2,888.69.

Share price development in 1996 compared with DAX and MDAX

The Continental share, which stood at DM 20.10 on January 2, 1996, started the first quarter with strong gains. From March to the end of May it fluctuated between DM 25.85 and DM 27.20. In the middle of July, in anticipation of the changes in the composition of the DAX, it dropped to DM 23.00. However, it recovered rapidly after that, and on December 5, 1996, at DM 28.40, it reached its high for the year. The year-end quotation was DM 27.70. Thus, with an increase of 37.8%, the Continental share considerably outperformed both the DAX and the MDAX. At the beginning of the current year, the price again rose sharply, reaching DM 36.58 on March 17, 1997.

The acoustic behavior of diverse elastomer products is analyzed in the acoustics center.

Continental Corporation at a Glance

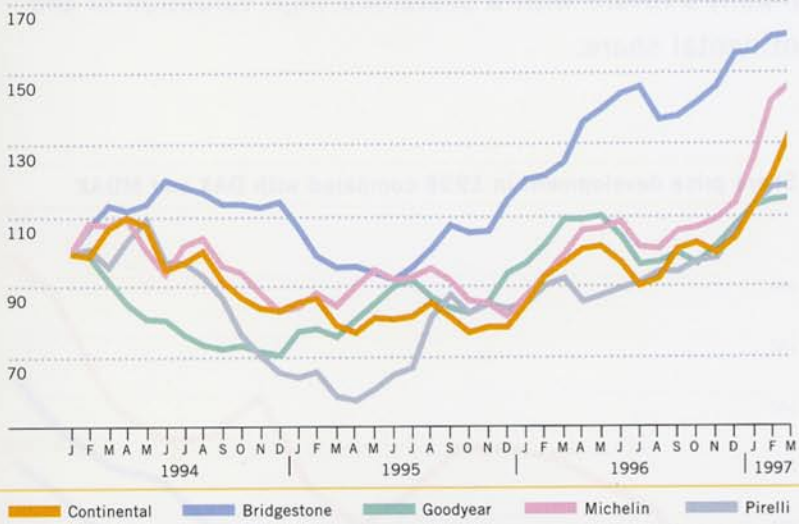
		1992	1993	1994	1995	1996
Sales	Millions of DM	9,689.9	9,369.1	9,876.9	10,252.6	10,430.6
Income before taxes	Millions of DM	155.2	74.1	91.6	194.8	248.4[1]
Income after taxes	Millions of DM	133.0	65.1	70.8	155.2	192.5
Dividend	Millions of DM	–	36.1	37.5	47.0	56.7[2]
Cash flow	Millions of DM	701.4	578.9	625.9	739.7	814.6
Debt ratio		3.8	4.0	3.4	2.7	2.0
Capital expenditure on property, plant and equipment	Millions of DM	709.3	624.1	514.7	591.3	551.5
Depreciation[3]	Millions of DM	502.6	556.9	583.5	552.7	609.2
Shareholders' equity	Millions of DM	1,617.1	1,699.0	1,675.5	1,695.6	1,860.4
Equity ratio	%	22.9	23.8	24.6	25.3	27.8
Employees at year-end[4]		50,063	50,294	48,583	47,918	44,767
Share price (high)	DM	28.1	27.7	29.8	23.1	28.4
Share price (low)	DM	18.5	19.1	21.1	18.6	20.1

1) after extraordinary expenses
2) subject to the approval of the Annual Shareholders' Meeting on June 4, 1997
3) excluding depreciation on investments
4) excluding trainees

Designer fashions made from rubber materials were the eye-catcher at Conti's joint tire and industrial products booth at the International Commercial Vehicle Show in Hanover.

Share price development*

January 1, 1994 = 100%



* average of the month's highest and lowest price in local currency

Key figures for the Continental share

(in DM per share with a par value of DM 5.00)*

	1992	1993	1994	1995	1996
Net income	1.51	0.72	0.75	1.65	2.04
Dividend	0	0.40	0.40	0.50	0.60
Dividend with tax credit	0	0.57	0.57	0.62	0.60
DVFA/SG earnings	1.48	0.71	0.82	1.52	2.32
Cash flow	7.95	6.41	6.68	7.88	8.62
Book value	18.32	18.82	17.88	18.05	19.69
Market price (Dec. 31)	19.80	27.70	22.60	19.85	27.70
Number of shares (in thousands)	88,260	90,280	93,710	93,930	94,482

* 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.

Continental in the MDAX

On July 16, 1996, the Executive Board of Deutsche Börse AG decided to reorganize its two share price indexes, and on September 23, 1996, the Continental share was moved from the DAX to the MDAX. In the late fall, the shifts were completed, and the price became a more accurate reflection of the Company's fundamentals, especially its positive earnings expectations.

Since the Continental share is liquid and heavily traded, it is one of the most popular securities in the MDAX. The index in which a share is included has become much less important, especially for institutional investors; a value-oriented investment strategy is preferred.

Share Liquidity

During 1996, total sales of German shares on the German stock exchanges came to DM 2,313 billion (1995: DM 1,733 billion), an increase of 33%. DM 10.5 billion of these sales (1995: DM 5.2 billion), or about 0.45% (1995: 0.30%), was attributable to the Continental share. It thus continued to be one of the most liquid investment securities in the German stock market.

Analysis of our Shareholder Base

A survey carried out in November 1996 among established investors in Germany, Great Britain, Switzerland and the U.S.A., revealed that more than 37% of our capital stock is held by institutional investors in the following countries:

Great Britain	10.7%
United States	9.5%
Germany and Switzerland	17.3%.

On September 30, 1996, the bulletin of the German Federal Supervisory Commission for Securities Trading gave Norddeutsche Landesbank 16.9%, Deutsche Bank AG 10.25%, Dresdner Bank AG 6.5% and Allianz AG 5.03% of the capital stock.

International Listings
As in 1995, the Continental share is listed on all eight German stock exchanges and on four other floor-trading exchanges in Europe. In the City of London, the share price is quoted as part of a market-maker system known as SEAQ (Stock Exchange Automatic Quotes). It is also traded in the U.S.A. on the OTC market in the form of a sponsored ADR.

We shall continue to seek listings on stock exchanges outside Germany when this is an economically justifiable method for promoting investment in Continental shares.

Employee Shares – CONTI 100 plus 25
In 1995, we were the first German company to offer employees not only the traditional employee shares, but also a new employee participation plan known as CONTI 100. During 1996, our anniversary year, the plan was expanded for our employees to a total of 125 shares.

CONTI 100 plus 25 has great advantages for both the employees and the Company. As in the previous year, about half of the employees who invested chose the traditional employee share; the others chose CONTI 100 plus 25. Overall, 45,000 more shares than in 1995 were subscribed. Over the medium and long term, we hope to see our employees' participation in the Company rise to 5% or more.

Investor Relations and PR
To ensure that the Corporation is well supplied with capital over the long term, we are paying special attention to our shareholders' information requirements. As in the previous years, we regularly provided up-to-the-minute data in press conferences, press releases, letters to the shareholders, brochures and our annual report. In-depth information was supplied with regard to company strategies, medium-term corporate planning, capital investment programs and financial highlights. In addition, there were numerous financial presentations and round-table discussions for analysts and investors. During our June 1996 road show in Europe and the U.S.A., we explained the specific measures we were going to take to achieve the goals we had announced for the Corporation and the individual Groups.

Our frank, comprehensive information policy is designed to consolidate the relationship we have established with our shareholders, potential investors and financial analysts. This, in turn, ensures that our share is properly valued and widely distributed among international investors – to everyone's benefit.

More Information About the Fiscal Year

Tires

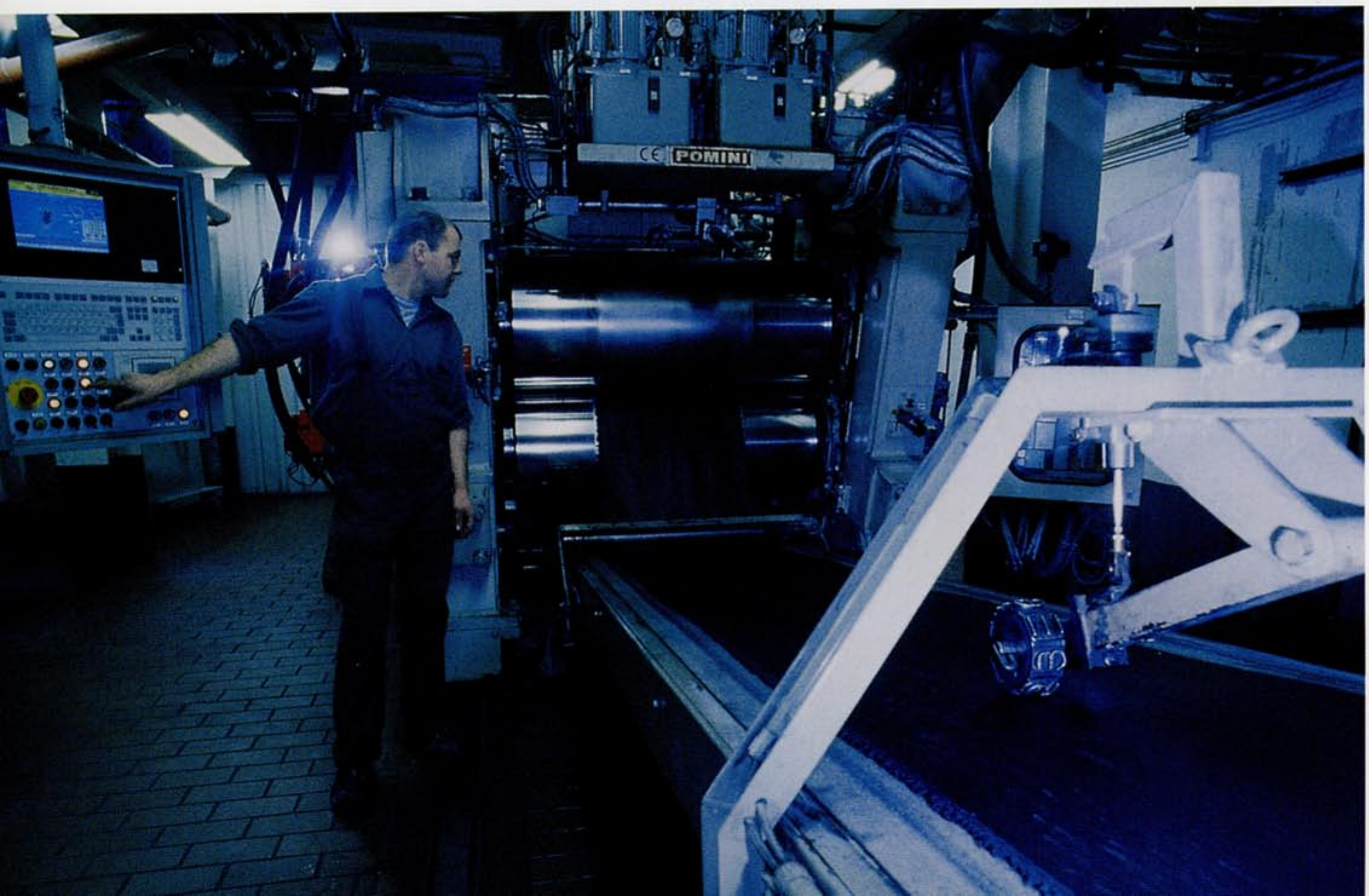
Continental supplies the whole spectrum of tires; research and development departments on both sides of the Atlantic are working jointly on projects designed to give our customers an inexpensive, fast and worldwide service.

Passenger Tires and Dealer Organizations
Solid growth rates in sales and earnings attest to the successful year that the Passenger Tire Group enjoyed in 1996.

Although demand for regular tires was lower than in the previous year, unit sales of Continental, the Corporation's premium brand, increased. It was especially gratifying for us to see this top-of-the-line tire bucking the market trend. There was also a gain in sales volumes of such high-performance tires as ContiSportContact and Uniroyal RTT-2.

In the spring of 1996, we presented the ContiSportContact low-profile tire to European automotive journalists and dealers in Barcelona. This product is extremely popular with customers and can point with pride to approvals from many leading car makers, including Audi, BMW, Mercedes-Benz and Porsche. The sporty Uniroyal RTT-2, which has entered the market as the successor to the spectacular RTT-1, now occupies a good position in the tuning sector.

Due in part to the weather, the market for snow tires grew substantially. With its flagship



SEMPERIT Gislaved

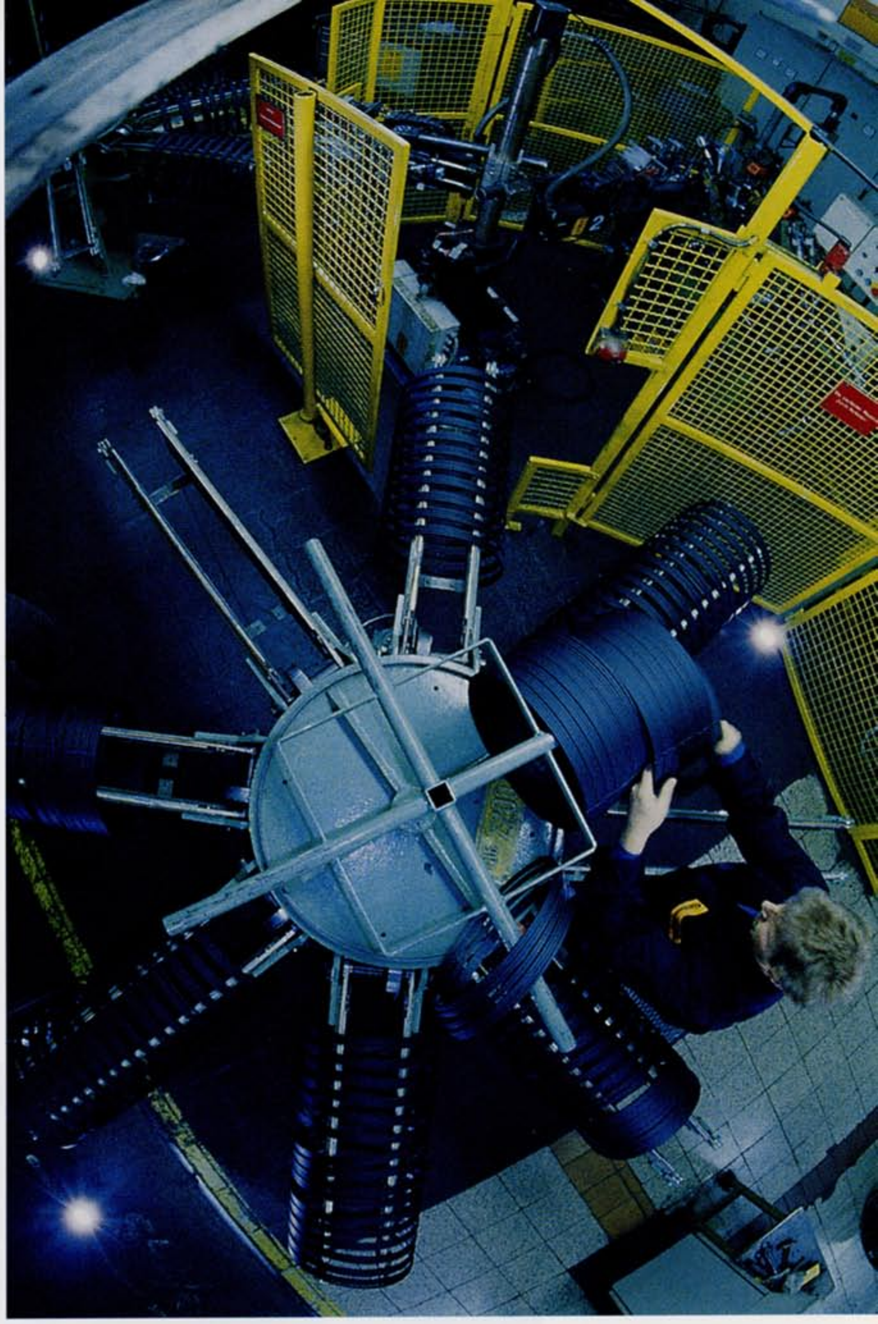
trademark Continental, and such other brands as Uniroyal, Semperit and Gislaved, the Corporation claimed an above-average share of the increase. The growing need of customers for high-performance, low-profile snow tires had at first presented a virtually insoluble problem for our research and development laboratories. However, the increasing performance capability of modern snow tires has been proved, among others, by the ContiWinterContact TS 770. It is even available in the low-profile sizes 225/45 R 17 and 235/45 R 17 in speed category H, that is up to 130 mph. Its success depends in large part on innovative tread mixtures.

For Semperit, we introduced the new TOP GRIP SLG 2 – the "Super Lamellar Gripper" – a winter tire for less powerful passenger cars. It, too, scored a marked success. The ContiViking-Contact offers our customers in Scandinavia a spikeless snow tire developed specifically for them.

The ContiTouringContact, a special tire for the American market, is used on export vehicles for the U.S.A. With its help, Continental is now among the top companies in the J.D. Power Index, a highly respected gauge of customer satisfaction.

Our sales of regular passenger tires in the big European volume markets of Spain, Italy, France and Great Britain are still short of the goals we are striving for. To exploit their potential in the future, we are steadily intensifying our communications, in order to promote familiarity and acceptance among consumers. A significant contribution is being made by the ongoing series of TV advertising spots in connection with the extremely popular European Champions League soccer competition.

A new machine in the tire factory mixes silica compounds which are used especially for snow tires.



Automated manufacturing of wire beads for passenger tires. They guarantee that the tire is seated firmly on the rim.

Uniroyal's 21st traffic survey, based on the topic "Children in Danger," aroused great interest among the media and dealers in Germany and abroad.

A decline in both volume and margins was the main reason for the poor performance of the Corporation's two large dealer chains, Vergölst and National Tyre Service. Extensive restructuring has therefore been set in motion in order to reduce costs and attract new customers. In spite of the generally unfavorable business environment, most of our other dealers succeeded in operating at a profit.

Commercial Vehicle Tires

As a result of the protracted winter, business with commercial vehicle tires got off to a very late start. Trends in the four divisions differed: Although sales of Cycle Tires decreased, this division once again showed a profit. Industrial Tires reported lower sales and earnings, but nevertheless earned a satisfactory net income. Agricultural Tires were unable to report black figures for 1996. Despite all our efforts, Truck Tires recorded considerably lower sales, and earnings failed to improve. Nevertheless, thanks to a large number of new successful products, market share was maintained at the same level.

Over many years of research work and market tests, we have perfected a concept that ensures both the customer and the environment of substantial fuel savings throughout the life of the tire. It is embodied in the CONTI ECO-PLUS product line, including the HS 45 tire model for front axles and tour buses, the HD 77 for drive axles and the HT 85 for trailers. The trailer tires offer not only fuel savings, but considerably better mileage performance as well.

New light 17.5-inch truck tires with low aspect ratios were successfully distributed under the Continental, Uniroyal and Semperit brands. They offer fleet owners a fine opportunity to economize. We have also launched improved tires for low-loaders.

Snow tires are becoming increasingly important for commercial vehicles. With the introduction of the HMD 95, the product line in this segment is now complete for our three main brands. The new tread designs offer better traction in the snow, a more uniform wear pattern and more

Tires are complex structures consisting of up to 34 individual components. Attachment of the sidewall is one stage of the truck tire building process.

mileage. In Scandinavia, we are selling Continental tires with a siped tread pattern for driving on ice and snow.

To achieve a higher standard of safety, we have cooperated with the automotive industry to develop and put into service a test truck that puts maximum stress on tires: It can handle axle loads of up to 13 tons and has a top speed of 95 mph.

One of our key marketing strategies is to take part successfully in the European Truck Championship Race, an event that is always popular with both our customers and the public. Our participation in the International Commercial Vehicle Show in Hanover fully lived up to our expectations. However, we will have to step up our sales efforts significantly in order to reach larger production volumes on the whole.

Meticulous needlework is essential when sewing tubes into performance tires for bicycle racing; gold medals may depend on it.

The carcass of a commercial vehicle tire is automatically joined to the tread/belt package by applying pressure and varying the tire's position.

Continental General Tire

In North America, too, the market was subject to strong fluctuations and intense competitive pressure. Although sales in U.S. dollars were down, new products and distribution channels, combined with cost-reduction programs, enabled us to improve earnings significantly.

Sales of passenger tires to the U.S. automotive industry, a market in which we have an above-average share, were a little higher than in 1995. In the replacement business, where we are still underrepresented, both passenger and delivery-truck tires recorded healthy gains, even though our distribution channels are undergoing a major structural overhaul. We plan to have our dealers increase their sales not only of General and Continental tires, but also of private brands, which are considerably more important in North America than in Europe. During the current year, by adding a strong, supportive marketing program to our "dealer initiative" and solving the structural problems in Mayfield, where our costs are still too high, we will gain market share and bring the Passenger Tire Division into the profit zone as well.

Like its counterpart in Europe, the Commercial Vehicle Tire Division sold smaller volumes of truck tires to U.S. vehicle manufacturers than in 1995, but tires for earth-moving equipment were in greater demand. Thanks to the highly successful introduction of new products, the trend in the replacement business was exactly the reverse, and dealers sold large quantities of radial truck tires. The plants in Mt. Vernon and Bryan therefore operated at full capacity during 1996, and earnings continued to improve.

Transatlantic cooperation between the Corporation's two geographic mainstays was intensified. In mutually coordinated endeavors, teams on both sides of the Atlantic carry out projects ranging from purchasing to product development. The advantages include not only synergies and two-fold potential, but also the encouragement of the American employees to work and make decisions on matters of crucial importance for Continental as a whole.

Industrial Products

An improved product mix, higher rates of equipping the automotive industry with technologically sophisticated products, as well as further streamlining and restructuring programs helped the majority of the companies in the ContiTech Group to outperform their previous year's earnings.

Automobile Interiors/Textiles

Earnings at **Benecke-Kaliko AG** improved in 1996, despite a slight decline in sales. Although good growth rates were achieved in headlinings for automobiles and surface materials for the furniture industry, sales of shoe vinyl, roofing sheet and industrial materials decreased.

Earnings improved as a result of lower raw material prices, streamlining in the factories and reductions in overhead. These positive factors were, however, partially offset by non-recurring costs for severance pay and other expenses connected with the shutdown of the roof materials business and, even more so, by price concessions to the automotive industry and its suppliers.

Bamberger Kaliko GmbH was confronted with difficult business conditions in the market for its bookbinding and windowshade materials, so that sales and earnings could not be maintained at the previous year's level.

Start-up problems following the rebuilding of the burned-down foam factory, cyclical declines in volume and steep price increases for raw materials caused sales to decrease and a loss to be incurred at **ContiTech Formpolster GmbH**. The extensive restructuring program that has recently been launched will produce a significant permanent improvement in the earnings situation.

The cover of a CONTI AIR® printing blanket is coated with special rubber stock.

Hoses and Hose Assemblies
In contrast with previous years, the pronounced gain in sales at **ContiTech Schlauch GmbH** was primarily attributable to business with the German automotive industry, which stepped up its purchases of hoses for power-steering and air-conditioning systems and modular fuel-line assemblies. The company's earnings continued to improve. In its business with brand-name industrial hoses, **PAGUAG Schlauchtechnik GmbH & Co. KG** achieved its earnings goals, despite difficult market conditions.

TechnoChemie Kessler & Co. GmbH reported substantial growth in its sales of hose assemblies. Combined with measures for consolidation – such as the founding in 1994 of the new facility at Volkswagen AG's Salzgitter plant for our insourcing project with that company – this produced a positive trend in earnings.

In France, **ANOFLEX S.A.** increased its sales mainly through intensified penetration of the strategically important market for air-conditioning hose assemblies. Due to persisting pressure on prices and higher input costs, net income was lower than in the previous year. The earnings trend at the British **ANOFLEX Ltd.** was highly satisfactory. With a continuing high level of capacity utilization, **ANOFLEX Ibérica** in Spain again earned a solid profit.

In Sweden, **HYCOP AB** successfully defended its market share and maintained its sales figures, but prices tended to decline as a result of keen competition. Nevertheless, earnings remained close to the good level achieved in the previous year.

Anti-Vibration and Sealing Products
In 1996, sales of **ContiTech Formteile GmbH** were only slightly higher than in the previous year. Noticeable cost reductions offset the negative effects of lower volumes, so that earnings from regular activities continued to improve.

Ongoing programs to reduce costs and streamline structures helped **ContiTech Profile GmbH** to cross the profit threshold after many years in the red and to achieve its sales targets. The company was able to conclude major follow-up contracts and book new orders from the automotive industry.

Our Spanish extrusion manufacturer, **ContiTech ELASTORSA S.A.**, fell short of its sales targets owing to the delayed start-up of production for a new car model, for which it is the exclusive supplier. Another vehicle deal which was expected to produce high revenues had not yet materialized at the end of 1996. These events resulted in heavy charges against income; extraordinary efforts will be required to put the business back on a sound basis in the short term.

Effective January 1, 1997, we exercised the option to convert our minority interest in **ContiTech Vegum s.r.o.**, a Slovakian extrusion manufacturer, into a majority interest of 74.9%. Its business continues to progress well, and suitable production space has been acquired for the anticipated rise in volume.

Engineered Products

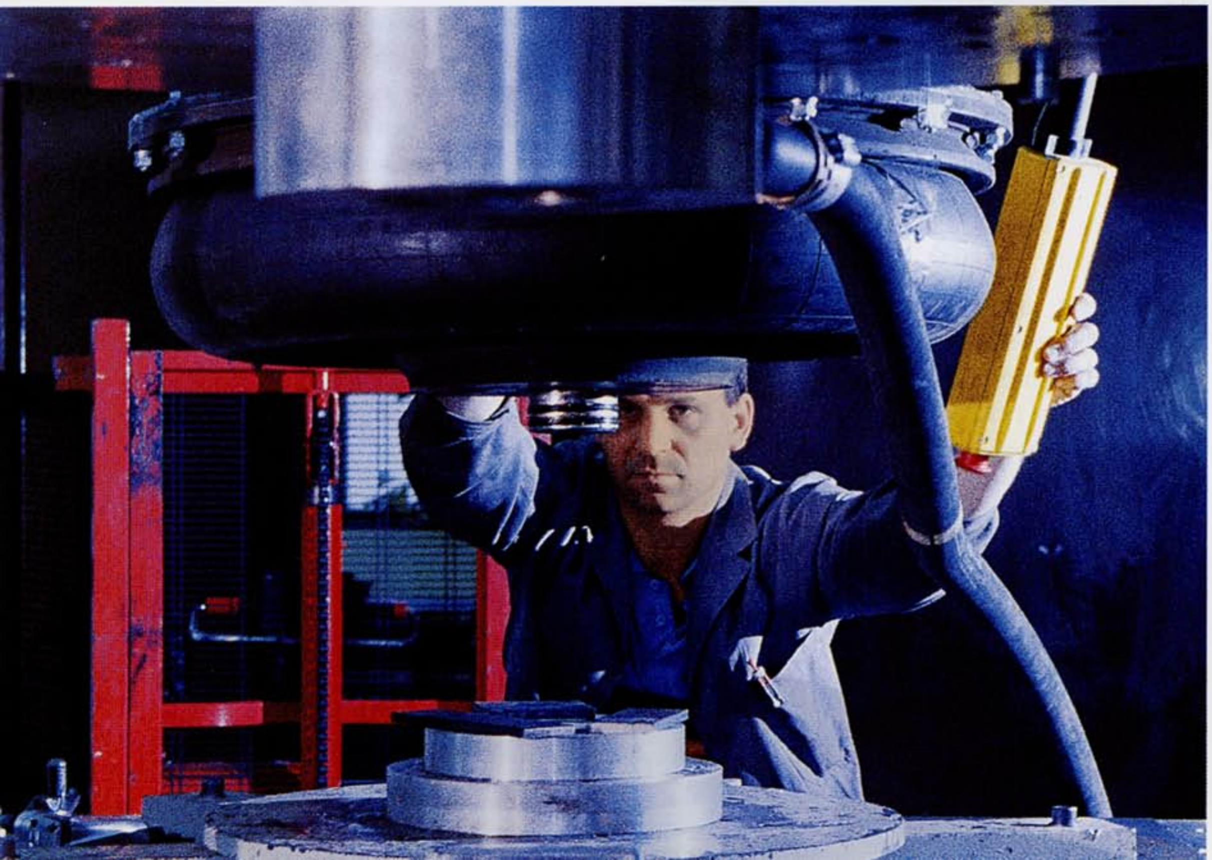
ContiTech Antriebssysteme GmbH achieved a further gain in sales of its products, particularly new high-performance multirib belts and toothed camshaft belts with longer service life for automotive OEM's. Sales of vehicle spares also showed strong growth rates, but the industrial business suffered a cyclical decline. The company earned a healthy net income. The divisionalization that commenced in 1995, in which **ContiTech Power Transmission Systems Ltd.** in Great Britain is fully included, has produced an even higher level of efficiency. Our joint venture, **ContiTech-INA GmbH & Co. KG**, is developing well; it signed a number of interesting contracts for aggregate and control drives with European car makers.

The sales increase at **ContiTech Luftfedersysteme GmbH** was due in particular to its expanding business with manufacturers of commercial vehicles. Almost all the heavy truck models introduced during the fiscal year were equipped with ContiTech airspring systems. The company reported a good net income.

ContiTech Transportbandsysteme GmbH compensated for the weak demand for standard products with increased sales of special products, improved services and cost reductions, thereby maintaining earnings at the previous year's level. The company has used its know-how to develop an "intelligent" conveyor belt system that enables customers to identify, check, monitor and control their belts electronically.

Unfavorable economic conditions, including the persisting decline in demand from the construction industry, prevented the sales of **KA-RI-FIX TransportbandTechnik GmbH** from reaching the budgeted amount. Earnings were unsatisfactory.

The business of **ContiTech Elastomer-Beschichtungen GmbH**, which took over Metzeler's activities in coated fabrics during 1996, varied greatly among the different product and market segments. Substantial sales increases were achieved in printing blankets and industrial products, including new shoe materials for Benecke-Kaliko AG, but demand for diaphragm fabrics dropped sharply. Sales of ready-made products



The demands on airsprings for high-speed trains can only be met by employing varied and sophisticated measuring techniques.


NTITECH
Contine

Modern bobbin machines are used in the production of hydraulic brake hoses.

were on target, thanks to a new technology for big tanks and good business with pressure-compensation diaphragms. Earnings were significantly better than in 1995.

Sales of **Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG** rose by a modest amount in 1996. Increased demand for life-rafts resulted in high capacity utilization, and earnings were gratifying.

Other companies

At **Clouth Gummiwerke AG**, the positive sales trend established in 1995 continued, and the systematic implementation of measures resulted in a good operating income. In spite of its high indebtedness and the related interest expense, the company showed a positive overall result for the first time in several years. We intend during the current year to merge this company into Continental AG, which owns 100% of its capital stock.

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

ContiTech AGES S.p.A. maintained its position in the difficult Italian automotive market. In addition to fostering its relations with Italian auto manufacturers, the company booked orders from major export customers for anti-vibration and sealing products, as well as hoses. Despite persisting pressure on prices and expenses in connection with production start-ups, the operating result was positive.

During the first six months of 1996, **UNIROYAL ENGLEBERT Textilcord S.A.** in Luxembourg and **Industrial Textil Do Ave S.A.** in Portugal, which manufacture textile fabrics for the tire industry, operated at high capacity in accordance with the trend in tire production. In the second half, however, their activities were cut back drastically, and work schedules had to be reduced. The Luxembourg company took streamlining measures to compensate for the lower volumes and prices; the Portuguese operation made up for the weak order inflow from its traditional customers by supplying new ones, particularly in Africa. Both companies maintained their net income at the previous year's level.

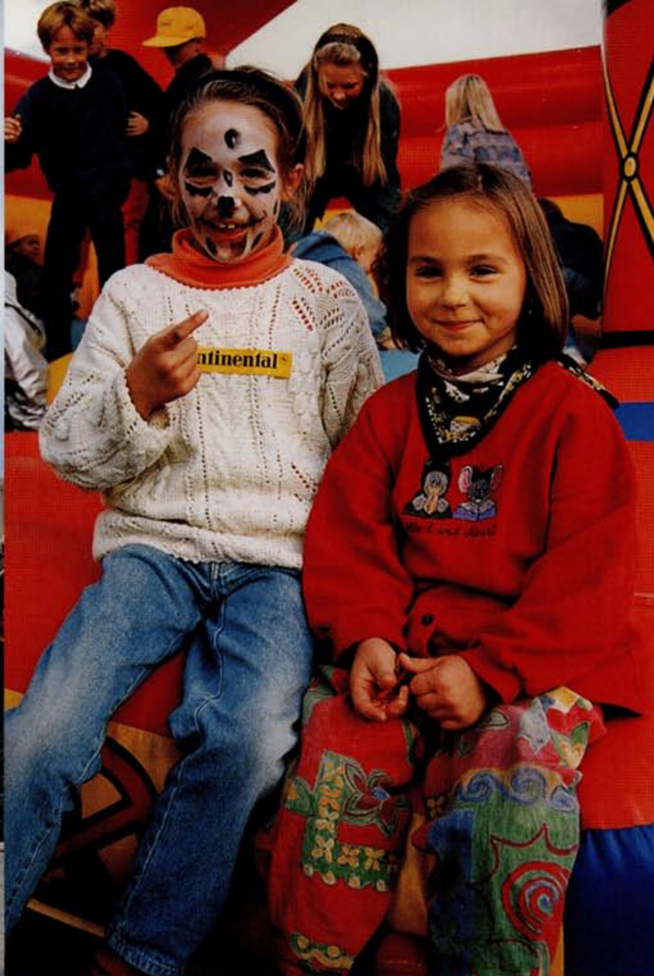
125 Years of Continental: A Big Family Celebration With 23,000 Employees at the Contidrom

Our Contidrom testing facility in the Lüneburg Heath provided the setting as 23,000 employees of the past, present, and maybe of the future too, gathered together with relatives and friends of the Company to celebrate Continental's anniversary. The event took place in mid-September with people coming from many parts of Germany and from other neighboring countries. Some even found it was worth making the long journey from the Czech Republic. Entertainment activities were varied, and included product information, displays of driving skills, and a whole host of attractions for the children.


CONTI


uvex
uvex

An impressive performance of acrobatic feats on motorcycles was put on by members of the Berlin police force. Children's faces beamed as they visited Belly's Circus and the play center. Cabaret artists mingled with the crowds. A multi-media show informed visitors about the 125-year history of the Company. Continental's team of test engineers demonstrated the main disciplines of tire testing and how to cope with hazardous traffic situations. In short, there was something for everyone, and the weather played along as well. Pleasant memories of Conti's biggest family festivity will surely be had by all who attended. We're now looking forward to our 150th birthday.




CONTI
ASTROL

International Principles of Accounting and Valuation

Above and beyond the scope of its consolidated financial statements as prescribed by the German Commercial Code (GCC), Continental has for years made a practice of publishing an increasing amount of voluntary financial information in its annual report. Rather than incur the substantial costs of drawing up for the first time separate financial statements based on International Accounting Standards (IAS) or "dual" financial statements which, insofar as possible, comply both with German accounting requirements and with the IAS, we have prepared this year's statements in accordance with the GCC. Furthermore, it is still unclear whether IAS or U.S. Generally Accepted Accounting Principles (US GAAP) should be the world standard for the consolidated financial statements in the future. It should also be noted that the assets and liabilities of our U.S. companies are already entered on the books in full accordance with the local accounting and valuation principles, since this has no significant effect on shareholders' equity.

Apart from these considerations, an examination of the individual balance sheet items revealed that, to a large extent, the valuations that have hitherto been used for the consolidated financial statements conform to both US GAAP and IAS. There are, however, substantial differences with regard to development expenses, general pension obligations and provisions for expenses.

We computed the consolidated development expenses which are assignable to the individual projects and which are to be capitalized according to IAS, including expenses of the Automotive Systems Group, at about DM 42 million per annum. With an average useful life of 5 years, this would correspond, at least according to IAS, to a value of about DM 105 million.

The provisions for expenses which are ordinarily established in Germany would have to be reversed under IAS. At Continental, this would be true, in particular, of various restructuring provisions amounting to over DM 80 million.

Under international standards, the computation of reserves for pension plans usually takes into account the anticipated future increases in pensions — due to salary increases, etc. Under the statutory method of computation used in Germany, these increases are not precisely calculated and, as a rule, are insufficiently accrued. We have determined the effect of computing our provisions according to IAS: The result would be an increase of about DM 102 million for the Corporation as a whole.

As regards the selection of depreciation methods and useful lives for fixed assets and the calculation of manufacturing costs, there are no significant differences between the accounting principles we use today and IAS.

Continental Aktiengesellschaft
Consolidated Statement of Changes in Financial Position

	See Note No.	1996 Millions of DM	1995 Millions of DM
Net income for the year		192.5	155.2
Depreciation, amortization and writedowns on fixed assets and investments		609.5	556.2
Other expenses/income with no effect on funds	(19)	12.6	28.3
Cash flow		**814.6**	**739.7**
Income from disposals of fixed assets and investments		– 18.2	– 6.7
Change in inventories and receivables		165.1	– 45.1
Change in other debt capital	(19)	39.4	6.7
Addition to funds from current business		**1,000.9**	**694.6**
Revenue from disposals of fixed assets and investments		66.2	72.0
Funds paid for fixed assets and investments		– 598.3	– 631.3
Funds paid for fixed assets and investments due to the addition of new companies		– 4.7	– 5.8
Changes in fixed assets and investments due to foreign exchange differences		– 118.2	80.0
Funds paid due to investment activity		**– 655.0**	**– 485.1**
Funds received from capital increases		13.4	4.3
Other changes in shareholders' equity		39.6	– 34.6
Dividends paid by Continental AG		– 47.0	– 37.5
Funds received/paid due to financing activity		**6.0**	**– 67.8**
Effective change		**351.9**	**141.7**
Indebtedness at January 1		**1,988.7**	**2,130.4**
Indebtedness at December 31		**1,636.8**	**1,988.7**

Continental Aktiengesellschaft
Consolidated Balance Sheet

Assets	See Note No.	12/31/1996 Millions of DM	12/31/1995 Millions of DM
Fixed assets and investments			
Intangible assets	(1)	449.4	503.0
Property, plant and equipment	(2)	2,920.3	2,876.2
Investments	(3)	145.4	105.8
		3,515.1	**3,485.0**
Current assets			
Inventories	(4)	1,443.6	1,504.1
Receivables and other assets	(5)	1,521.5	1,590.8
Liquid assets	(6)	186.2	89.6
		3,151.3	**3,184.5**
Prepaid expenses	(7)	**35.6**	**33.9**
		6,702.0	**6,703.4**

Shareholders' equity and liabilities	See Note No.	12/31/1996 Millions of DM	12/31/1995 Millions of DM
Shareholders' equity	(8)		
Subscribed capital		472.4	469.7
Capital reserves		1,062.0	966.6
Minority interests	(9)	263.1	200.8
Net income available for distribution		57.3	47.2
		1,854.8	**1,684.3**
Special reserves	(10)	**5.6**	**11.3**
Provisions	(11)	**1,926.7**	**1,832.5**
Liabilities	(12)	**2,914.9**	**3,175.3**
		6,702.0	**6,703.4**

Continental Aktiengesellschaft
Consolidated Statement of Income

	See Note No.	1996 Millions of DM	1995 Millions of DM
Sales	(13)	**10,430.6**	**10,252.6**
Cost of sales		7,659.2	7,580.7
Gross profit on sales		**2,771.4**	**2,671.9**
Selling expenses	(14)	1,648.3	1,599.6
Administrative expenses	(14)	574.0	582.1
Other operating income	(15)	258.5	255.3
Other operating expenses	(16)	289.2	361.1
Net income from investments and financial activities	(17)	– 190.0	– 189.6
Net income from regular business activities		**328.4**	**194.8**
Extraordinary expenses	(18)	80.0	–
Taxes on income and profits		55.9	39.6
Net income for the year		**192.5**	**155.2**
Balance brought forward from the previous year		0.3	0.4
Minority interests in earnings		– 36.5	– 9.1
Transfer to retained earnings		– 99.0	– 99.3
Net income available for distribution		**57.3**	**47.2**

Dear Shareholders,

We can look back on a successful year. On the whole, our earnings figures have improved significantly. The Annual Meeting of Shareholders is therefore being recommended to increase the dividend. The gratifying results for 1996 were decisively influenced by the broad spectrum of restructuring measures that we were unavoidably obliged to take. Chief among these were the shutdown of our Irish plant in Dublin, the reduction of manufacturing capacity in Traiskirchen, Austria, the shift of our U.S. headquarters from Akron, Ohio, to Charlotte, North Carolina, the concentration of European tire research and development activities in the Hanover-Stöcken plant, and a reduction of passenger tire capacities at that same facility. Production increased mainly at our two low-cost European locations in the Czech Republic and Portugal. ContiTech, too, is improving its manufacturing structure by a progressive transfer of its activities from the plant in Hanover-Limmer to the nearby factory in Stöcken and to Slovakia. We shall try to find a new, economically viable use for the Limmer location, which will be closed in the year 2000.

In spite of these sizable incursions, 1996 net income showed a pronounced improvement over the previous year. It is our goal, in this period of radical change, to strike a balance between the expenditures necessary to create a structure that will be financially sound over the long term and the increase in profit required to provide a proper return on our risk capital. We wish to make socially acceptable structural improvements that will help to stabilize the entire Corporation. Our Company can be successful only if its employees and employee councils join with management in thinking in terms of the collective future, if its customers are satisfied, and if you, its shareholders, believe in the Company's chances for the intermediate term and therefore continue to invest in the Continental share.

We must thank you, as shareholders, for your understanding. You are aware that we are investing in the Automotive Systems Group, even though this investment will not yield a return for some time. On the other hand, the creation of this new future-oriented activity is already providing technological and commercial assistance for our core businesses: tires and industrial products. In the future, we will be able to ensure the con-

Changes in Consolidated Fixed Assets and Investments	Acquisition/Manufacturing cost					
	As of 1/1/1996 Millions of DM	Additions Millions of DM	Reclassi-fications Millions of DM	Retirements Millions of DM	Foreign exchange differences Millions of DM	As of 12/31/1996 Millions of DM
I. Intangible assets						
Franchises, operating licenses, industrial property and similar rights and assets, and licenses under such rights and assets	126.8	19.4	1.3	9.5	2.0	140.0
Goodwill	779.9	0.8		0.8	– 0.6	779.3
Advances to suppliers	1.4	14.0	– 1.3			14.1
	908.1	**34.2**		**10.3**	**1.4**	**933.4**
II. Property, plant and equipment						
Land, land rights and buildings including buildings on third party land	1,545.8	32.3	34.5	12.3	53.4	1,653.7
Technical equipment and machinery	4,719.9	220.2	135.0	152.6	150.1	5,072.6
Other equipment, factory and office equipment	1,587.7	126.4	32.9	116.9	31.3	1,661.4
Advances to suppliers and assets under construction	238.7	177.4	– 202.4	12.4	6.6	207.9
	8,092.1	**556.3**		**294.2** **	**241.4**	**8,595.6**
III. Investments						
Shares in affiliated companies	12.8	4.8		0.8		16.8
Shares in associated companies	60.7	34.5		0.3	2.0	96.9
Investments	3.7	4.2		0.1		7.8
Loans granted to companies in which participations are held	3.2	0.1			0.1	3.4
Securities held as investments	27.2	0.3		0.3	– 0.2	27.0
Other loans granted	18.3	0.6		6.6	0.3	12.6
Other financial assets	1.2			0.1	0.1	1.2
	127.1	**44.5**		**8.2**	**2.3**	**165.7**
	9,127.3	**635.0**		**312.7**	**245.1**	**9,694.7**

* contains DM 60.8 million of goodwill offset with no effect on income
** contains adjustments, with no effect on income, amounting to DM 38.1 million

		Depreciation				Net value	
As of 1/1/1996 Millions of DM	Additions Millions of DM	Reclassi- fications Millions of DM	Retirements Millions of DM	Foreign exchange differences Millions of DM	As of 12/31/1996 Millions of DM	As of 12/31/1996 Millions of DM	As of 12/31/1995 Millions of DM
83.2	24.3		9.1	1.1	99.5	40.5	43.6
321.9	63.4*		0.6	– 0.2	384.5	394.8	458.0
						14.1	1.4
405.1	**87.7**		**9.7**	**0.9**	**484.0**	**449.4**	**503.0**
758.2	58.4	– 0.1	– 4.3	15.6	836.4	817.3	787.6
3,196.5	366.0	0.4	139.5	86.8	3,510.2	1,562.4	1,523.4
1,261.2	158.3	– 0.3	112.8	22.3	1,328.7	332.7	326.5
						207.9	238.7
5,215.9	**582.7**		**248.0****	**124.7**	**5,675.3**	**2,920.3**	**2,876.2**
8.3	0.1				8.4	8.4	4.5
3.4				1.0	4.4	92.5	57.3
0.1			0.1			7.8	3.6
2.4	0.1				2.5	0.9	0.8
3.4					3.4	23.6	23.8
3.3	0.1		2.4	0.2	1.2	11.4	15.0
0.4					0.4	0.8	0.8
21.3	**0.3**		**2.5**	**1.2**	**20.3**	**145.4**	**105.8**
5,642.3	**670.7**		**260.2**	**126.8**	**6,179.6**	**3,515.1**	**3,485.0**

Preliminary Note

For improved clarity and comprehensibility, we have separated the financial statements of Continental Aktiengesellschaft from those of the Corporation as in the previous year. The financial statements of Continental Aktiengesellschaft will be sent to you upon request.

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. 5 companies that were merged with other consolidated companies and 8 companies that were sold or liquidated are no longer included. 13 companies were newly established or acquired. The Corporation's total assets have not changed significantly as a result.

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

125 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 our 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.

An appropriate adjusting entry for minority interests has been made for interests not belonging to the parent company in fully consolidated companies. When Continental Aktiengesellschaft owns indirectly shares of a consolidated subsidiary through a subsidiary which is not consolidated, these additional shares are offset against the investments of Continental Aktiengesellschaft.

41 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 eliminated, insofar as they are significant.

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

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 Consolidated 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 actuarial computations in accordance with the statutory method.

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

The obligations of Continental General Tire Inc., Charlotte, North Carolina, for post-retirement medical benefits in the U.S.A., including provisions 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 necessary structural improvements and environmental protection 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 on 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, if there are no valuation units available.

Liabilities are stated at the redemption amount.

Assets

(1) Intangible Assets

The additions in the amount of DM 34.2 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 assets, and licenses under such rights and assets, as well as advances to suppliers, relate almost exclusively to computer software supplied from outside sources.

(2) Property, Plant and Equipment

Additions 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 as well as technologically and economically obsolete machinery and facilities.

The initial consolidation of new companies caused an increase of DM 4.3 million in property, plant and equipment (DM 4.7 million less accumulated depreciation of DM 0.4 million).

The other additions are shown in the table below:

Thousands of DM	1996	1995
Passenger Tires	251,199	256,934
Commercial Vehicle Tires	56,180	64,017
Continental General Tire	85,422	116,066
ContiTech	142,726	144,932
Other	15,994	9,302
	551,521	591,251

(3) Investments

A list of the major companies included in the Continental Corporation is presented on page 61 of this report. The complete list of the companies of the Continental Corporation and Continental Aktiengesellschaft has been filed with the Hanover District Court.

The securities held 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 included residential construction loans to employees, financing contributions to utility companies and other loans.

(4)
Inventories

Thousands of DM	As of 12/31/1996	As of 12/31/1995
Raw materials and supplies	313,850	341,268
Work in process	165,125	183,519
Finished goods and merchandise	966,379	978,441
Advances to suppliers	1,306	3,944
Advances from customers	3,075	3,081
	1,443,585	1,504,091

Inventories include a LIFO reserve of DM 31.2 million, down from DM 51.7 million in 1995. The decrease is due mainly to lower prices for materials, which had a particularly strong effect on the value of finished products at Continental General Tire.

(5)
Receivables and Other Assets

Thousands of DM	As of 12/31/1996	Due in more than 1 year	As of 12/31/1995	Due in more than 1 year
Trade accounts receivable	1,004,931	688	1,252,258	1,907
Receivables from affiliated companies	26,262	–	21,513	–
Receivables from companies in which participations are held	77,840	–	55,091	236
Miscellaneous assets	412,430	74,915	261,940	15,419
	1,521,463	75,603	1,590,802	17,562

Sales of receivables increased in connection with the Asset Backed Securitization Program by DM 215.7 million to DM 558.7 million leading to a reduction in trade accounts receivable. At the same time, financing through bill discounting was down DM 95.8 million to DM 151.7 million. On the balance sheet date, the receivables sold totaled DM 578.0 million. They are balanced by collateral amounting to DM 147.7 million, which is included in miscellaneous assets.

(6)
Liquid Assets

Thousands of DM	As of 12/31/1996	As of 12/31/1995
Checks	25,857	27,495
Cash on hand, deposits at the Bundesbank and in postal checking accounts	8,327	5,626
Cash in banks	152,058	56,444
	186,242	89,565

(7)
Prepaid Expenses

Thousands of DM	As of 12/31/1996	As of 12/31/1995
Discount on loans/bonds	2,144	2,425
Miscellaneous	33,513	31,487
	35,657	33,912

Miscellaneous prepaid expenses consist primarily of rental, leasing and interest prepayments and also contain unamortized costs of the bond issued in 1993.

Shareholders' Equity and Liabilities

(8)
Shareholders' Equity

Thousands of DM	As of 12/31/1996	As of 12/31/1995
Subscribed capital		
As of 1/1	469,652	468,561
Change due to employee shares	1,317	1,091
Change due to conversion and exercise of warrants attached	1,442	–
As of 12/31	**472,411**	**469,652**
Consolidated reserves		
As of 1/1	966,656	956,497
Premiums from capital increases, conversions and exercise of warrants attached	+ 10,677	+ 3,252
Offsetting of goodwill with no effect on income	– 60,823	– 55,915
Exchange rate effects with no effect on income	+ 40,481	– 23,657
Additions from the net income for the year	+ 98,916	+ 99,512
Miscellaneous changes	+ 5,997	– 13,033
As of 12/31	**1,061,904**	**966,656**
Consolidated profit	**57,342**	**47,247**
Minority interests	**263,068**	**200,786**
Consolidated equity	**1,854,725**	**1,684,341**

Subscribed capital increased in 1996 by DM 1.3 million due to the issue of employee shares and by a further DM 1.4 million due to the conversion and exercise of warrants attached. After considering DM 50.6 million due to the expiry of conversion and option rights, conditionally authorized capital stands at DM 182.0 million. Authorized capital totals DM 210.4 million (DM 10.4 million of which is for employee shares). Continental AG's capital stock entitled to the dividend amounts to DM 472,411,075.00 and is divided up into 94,482,215 shares with a par value of DM 5.00.

Consolidated reserves include the retained earnings and additional paid-in capital of Continental Aktiengesellschaft totaling DM 915.5 million, as well as a reserve for retirement benefits, which, as in the previous year, amounts to DM 1.3 million.

In 1996, a dividend of DM 0.50 per share with a par value of DM 5.00, totaling DM 47.0 million, was paid from Continental Aktiengesellschaft's net income available for distribution. The balance was carried forward. The consolidated net income available for distribution corresponds to the net income available for distribution of Continental Aktiengesellschaft, which permits a dividend of DM 0.60 per share with a par value of DM 5.00, for a total of DM 56.7 million.

The economic shareholders' equity, including the tax-free portion of special reserves, comes to DM 1,860.4 million, compared with DM 1,695.6 million in the previous year. The equity ratio rose from 25.3% to 27.8%. A comparison of the equity ratio with goodwill offset in full yields an increase of 23.2%, or 3.4 percentage points. With indebtedness amounting to DM 1,636.8 million, the gearing ratio improved to 88.0%.

(9)
Minority Interests

This item shows the interests of outsiders in capital and earnings, which consist mainly of the holdings of the Japanese partner in our joint venture GTY Tire Company, Charlotte, North Carolina, U.S.A., and of the minority shareholders in Benecke-Kaliko AG, Hanover, and in Barum Continental spol.sr.o., Otrokovice, Czech Republic. The sizable increase was due to the initial inclusion of our co-partner's interests in MC Projects B.V. in Amsterdam, Netherlands, the interests of outside shareholders and partners in earnings, and differences in exchange rates.

(10)
Special Reserves

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

(11)
Provisions

Thousands of DM	As of 12/31/1996	As of 12/31/1995
Provisions for pensions and similar obligations	1,028,348	948,403
Provisions for taxes	85,557	74,991
Miscellaneous provisions	812,829	809,071
	1,926,734	1,832,465

Provisions for deferred taxes in the individual financial statements exceed the net prepaid taxes arising from consolidation procedures by DM 21.6 million.

Breakdown of Miscellaneous Provisions

Thousands of DM	As of 12/31/1996	As of 12/31/1995
Personnel and social welfare payments	187,693	205,523
Warranties	98,994	111,751
Selling expenses	170,247	142,196
Litigation and environmental risks	44,162	79,628
Severance payments	129,278	23,100
Other provisions	182,455	246,873
	812,829	809,071

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

Of the miscellaneous provisions, DM 163.5 million (1995: DM 290.9 million) have an anticipated remaining term of more than one year.

(12)
Liabilities

Thousands of DM		Due in			Due in	
	As of	less than	more than	As of	less than	more than
	12/31/1996	1 years	5 years	12/31/1995	1 years	5 years
Bonds*	744,454	276,033	863	857,932	151,527	90,987
Bank borrowings**	938,640	335,875	27,503	1,080,356	847,050	24,584
Advances from customers	1,183	1,183	–	2,333	2,333	–
Trade accounts payable	644,772	644,521	–	678,107	677,844	–
Liabilities on acceptances and notes payable	5,080	5,080	–	5,724	5,724	–
Payables to affiliated companies	2,125	831	562	1,972	751	733
Payables to companies in which participations are held	9,867	9,845	–	14,349	14,327	–
Other liabilities	568,812	496,526	5,950	534,542	468,747	3,484
Of which tax liabilities	(102,607)			(109,062)	–	–
liabilities relating to social security and similar obligations	(78,908)			(82,426)	–	–
	2,914,933	1,769,894	34,878	3,175,315	2,168,303	119,788

* of which convertible: DM 626.1 million (1995: DM 747.3 million)
** amount secured by land charges, mortgages and comparable collateral: DM 11.7 million (1995: 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 134.8 million (1995: DM 134.2 million). Credit liabilities on December 31, 1996, including bills payable, therefore totaled DM 1,823.0 million. After deducting the liquid assets of DM 186.2 million, total indebtedness amounts to DM 1,636,8 million (1995: DM 1,988.7 million).

Bond Issues

Issuer	Type	Option for	Amount of issue in millions	Currency	Coupon p.a.	Issue date/ Maturity	Issue price	Subscription price DM
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/July 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 debentures*	Shares	1	DM	9.50%	1990/Nov. 2000		min. 25.0
CRoA	Bonds with warrants	Shares	100	CHF	4.75%	1987/Oct. 2002	127.00%	35.2
CAG	Convertible debentures*	Shares	1	DM	6.75%	1996/June 2005		min. 20.0

* Stock option plan for senior executives

Financing Commitments From Banks

Company	Type	Amount in millions of DM	Value at 12/31/1996 in millions of DM	Interest	Maturity
CMIP	Commercial paper program	19.9	19.9	variable	May 1997
CAG	Syndicated Euroloan	1,000.0	–	variable	May 2000
CMIP	Long-term project financing	83.5	83.5	variable	Sept. 2001
CH UK	Syndicated Euroloan	183.9	118.2	variable	June 2001
CAG	Long-term bank loan	235.0	235.0	5.40%	Nov. 2001
BC	Long-term project financing	70.0	70.0	variable	Feb. 2003
CAG	Commercial paper program	600.0	–	variable	indefinite
Miscellaneous	Short-term bank lines	1,623.4	412.0	variable	mainly < 1 year
Financing commitments from banks		**3,815.7**			
Due to banks			**938.6**		

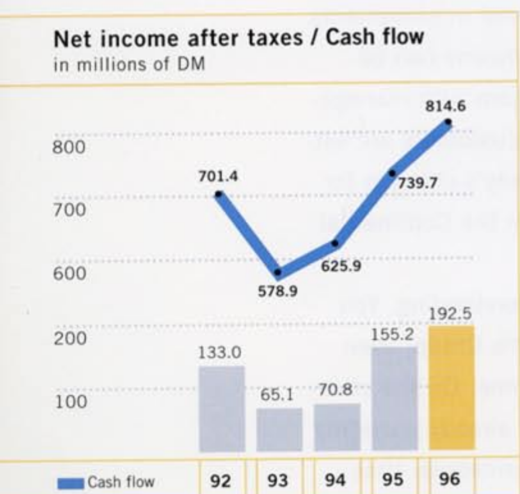
The value of the bonds on December 31, 1996 was DM 744.5 million. There are also programs for the sale of receivables in a total amount of DM 673 million, of which DM 558.7 million had been utilized at year-end.

CAG – Continental Aktiengesellschaft, Hanover, Germany
CGF – Conti-Gummi Finance B.V., Amsterdam, Netherlands
CRoA – Continental Rubber of America Corp., Wilmington, Delaware, U.S.A.
CMIP – Continental Mabor Indústria de Pneus S.A., Lousado, Portugal
BC – Barum Continental spol.sr.o., Otrokovice, Czech Republic
CH UK – Continental UK Group Holdings Ltd., Newbridge, Great Britain

tinuation of industrial production in Germany only through innovations. Products with technological superiority and a high degree of sophistication, as well as leading-edge processes, must be developed there. A good example is our new modular manufacturing process (M.M.P.), which is the first tire production concept to divide the conventional process into several modular stages. Because the downstream stages are decentralized, our ability to respond to the market is greatly increased, the factories do not have to deal with the problems posed by small series, and the amount of our financial resources that is tied up in inventories is reduced significantly. Throughout the world, the automotive industry is asking us for complex modules that reflect the special nature of their cars and for rapid, flexible delivery. This means that we must be that much closer to the manufacturer. M.M.P., which we are introducing in 1997, will enable us to fulfill this requirement more effectively, with a comparatively small outlay of funds.

We attach great importance to the further internationalization of ContiTech's business. In order to follow the Group's customers and expand its position as a reliable development partner, we have also formed collaborations with companies in the U.S.A., India, Thailand and China. We also intend to establish a presence in other rapidly growing markets, including Mexico.

Acquisitions and internal growth have made our Company what it is today. The cover of this report shows clearly how we are returning to our roots. This is symbolized by the traditional CONTINENTAL trademark, which indicates the Corporation's origin. The market, of course, considers it an advantage that we can supply many renowned tire brands from a single source. However, a brand is only perceived as strong if its leadership is visible outside the company as well.



The CONTINENTAL tire brand is now destined to take on that role. In the mid-80's, when – especially within the Company – Continental, Uniroyal, Semperit and other tire brands were competing fiercely with one another, we gave the Corporation its own visual identity with the green CONTINENTAL AKTIENGESELLSCHAFT logo.

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 next 12 months. At the consolidated level, the total for all currencies was DM 1.4 billion. The hedging volume on December 31, 1996 amounted to DM 109.9 million, of which DM 8.0 million were attributable to forward exchange transactions and DM 101.9 million to foreign exchange options. In addition, loans in foreign currency amounting to DM 441.7 million had been hedged at year-end.

The indebtedness of DM 1,636.8 million was not secured by derivatives 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.

Guarantees and Other Commitments

Thousands of DM	As of 12/31/1996	As of 12/31/1995
Contingent liabilities on notes	151,683	247,512
Liabilities on guarantees	38,661	32,733
Liabilities on warranties	19,528	11,537
Liability on shares in cooperatives	81	81

The contingent liabilities on notes are the result of 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 1,334.6 million is attributable to 1997 and later years. Purchase commitments for property, plant and equipment amount to DM 85.9 million.

Statement of Income

(13) Sales

Millions of DM	1996	1995	Change in %
Analysis by Group			
Passenger tires/dealer organizations	4,227.6	4,079.5	+ 3,6
Commercial vehicle tires	1,073.1	1,170.4	− 8.3
Continental General Tire	2,057.7	2,061.7	− 0.2
ContiTech	2,967.7	2,794.6	+ 6.2
Other sales	104.5	146.4	− 28.6
	10,430.6	10,252.6	+ 1.7
Analysis by geographical area			
Germany	3,536.2	3,433.3	+ 3.0
Rest of Europe	4,247.0	4,161.5	+ 2.1
North America	2,174.5	2,229.6	− 2.5
Other countries	472.9	428.2	+ 10.4

(14) Sales and Administrative Expenses

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

(15) Other Operating Income

Thousands of DM	1996	1995
Gains on the disposal of fixed assets and investments	33,517	18,754
Credit to income from the release of provisions	53,040	35,882
Credit to income from the reduction of the general bad debt reserve	3,804	4,427
Credit to income from the release of special reserves	5,643	5,643
Gains from exchange rate fluctuations	25,855	26,403
Miscellaneous income	136,633	164,199
	258,492	255,308

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

(16)
Other Operating Expenses

Thousands of DM	1996	1995
Losses on the disposal of fixed assets		
and investments	15,333	12,060
Losses on the disposal of current assets		
(except inventories)	34,164	35,593
Losses due to exchange rate fluctuations	27,600	28,452
Miscellaneous taxes	58,925	52,680
Miscellaneous expenses	153,206	232,302
	289,228	361,087

Miscellaneous expenses relate mainly to sideline operations and the establishment of necessary provisions, primarily 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

Thousands of DM	1996	1995
Net income from investments		
Income from investments		
from affiliated companies	822	486
from associated companies	2,539	1,747
from other companies	243	1,164
	3,604	3,397

Thousands of DM	1996	1995
Net interest expense		
Income from other securities and loans included		
in investments	2,434	3,218
Other interest and similar income		
from affiliated companies	271	238
from other companies	38,102	47,167
Interest and similar expenses		
paid to affiliated companies	– 1,330	– 852
paid to other companies	– 232,784	– 239,304
	– 193,307	– 189,533

Thousands of DM	1996	1995
Writedowns on investments		
and marketable securities		
Writedowns on investments	– 314	– 3,476
	– 314	– 3,476
Net income from investments and financial activities	– 190,017	– 189,612

The Corporation's net interest expense amounts to 1.9% (1995: 1.8%) of sales.

Extraordinary expenses comprise the cost of closing the tire plant of Semperit (Ireland) Ltd., Dublin, Ireland.

(18)
Extraordinary Expenses

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

(19)
Statement of Changes in Financial Position

One component of the cash flow is the DVFA/SG earnings adjustments, which do not affect funds. The reduction of long-term miscellaneous provisions with an anticipated term of more than one year, amounting to DM 127.4 million, is included under the change in other debt capital.

Miscellaneous Data

Cost of Materials

Thousands of DM	1996	1995
Cost of raw materials and supplies		
and merchandise	3,353,700	3,351,000
Cost of outside services	576,200	697,100
	3,929,900	4,048,100

Personnel Expense

Thousands of DM	1996	1995
Wages and salaries	2,541,378	2,535,724
Social welfare contributions and expenses		
related to pensions and other employee benefits	729,108	738,051
Of which expenses for pensions	82,224	81,389
	3,270,486	3,273,775

Number of Employees (Quarterly Average)

	1996	1995
Salaried employees	15,751	16,563
Wage earners	30,690	31,803
	46,441	48,366

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 page 47.

Remuneration of the Supervisory Board and the Executive Board

Provided that the Annual Meeting of Shareholders on June 4, 1997 approves the proposed dividend, total remuneration of the Supervisory Board will be DM 1,295,000, of the Executive Board (including remuneration paid by subsidiaries), DM 8,366,000, and of former members of the Executive Board and their surviving dependents, DM 4,829,000.

DM 40,315,000 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 of Continental Aktiengesellschaft available for distribution amounts to DM 57,342,316.48. The Supervisory and Executive Boards recommend that the Annual Meeting of Shareholders approve payment of a dividend of DM 0.60 per share with a par value of DM 5.00, or DM 56,689,329.00. The remainder of DM 652,987.48 is to be carried forward.

Hanover, March 17, 1997

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 the requisite 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 17, 1997

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke
Certified Public
Accountant

Schulze
Certified Public
Accountant

Major Companies of the Continental Corporation

Company	Corporate interest %	Shareholders' equity DM 000	Net income/loss 1996 DM 000	Net income/loss 1995 DM 000	Sales 1996 DM 000	Employees 12/31/1996
I. Affiliated companies (according to accounting and valuation principles uniform throughout the Corporation)						
1. Domestic companies						
Bamberger Kaliko GmbH, Bamberg	48.3	5,070	196 *	354 *	53,837	174
Benecke-Kaliko AG, Hanover	48.3	173,210	36,717	14,757	567,099	2,011
Clouth Gummiwerke AG, Cologne	100.0	– 66,883	3,965	– 3,387	173,572	608
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	100.0	5,993	2,504	2,184	28,446	145
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	2,160	566 *	450	32,764	185
Uniroyal Englebert Reifen GmbH, Hanover	100.0	225,120	757 *	1,709 *	32,367	–
2. Foreign companies						
Barum Continental spol.sr.o., Otrokovice, Czech Republic	61.0	172,739	21,010	13,925	535,483	3,762
Continental Caoutchouc (Suisse) S.A., Zurich, Switzerland	100.0	25,813	2,068	11,957	99,950	87
Continental Gislaved Däck, Göteborg, Sweden	100.0	83,075	17,507	21,074	206,924	696
Continental Industrias del Caucho SA, Coslada, Madrid, Spain	100.0	33,900	8,839	7,192	202,630	286
Continental Italia S.p.A., Milan, Italy	100.0	4,759	831	1,362	185,370	94
Continental Mabor Indústria de Pneus S.A., Lousado, Portugal	100.0	56,196	25,618	4,073	196,565	869
Continental Tyre & Rubber Group Ltd., West Drayton, UK	100.0	31,268	3,852	4,375	345,787	240
ContiTech AGES S.p.A., Santena, Italy	100.0	9,331	275	– 3,491	195,062	1,063
C.U.P. SNC, Clairoix, France	100.0	30,171	4,665	684	370,419	264
Continental General Tire (subgroup), Charlotte, North Carolina, USA	100.0	115,915	25,273	11,861	2,111,600	6,242
Continental General Tire Inc., Toronto, Canada	100.0	2,742	2,716	1,221	63,880	13
Hycop AB, Motala, Sweden	100.0	17,183	6,371	7,034	65,324	229
National Tyre Service Ltd., Stockport, UK	100.0	73	– 21,420	– 13,180	318,414	1,689
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège, Belgium	100.0	48,119	3,913	– 8,678	620,390	987
Semperit Reifen Aktiengesellschaft, Vienna, Austria	99.8	229,816	– 75,644	18,356	818,166	1,718
Semperit (Ireland) Ltd., Dublin, Ireland	100.0	– 44,256	– 100,467	8,834	131,567	48
SICUP SNC, Sarreguemines, France	100.0	88,474	33,696	14,594	510,056	2,052
Société des Flexibles Anoflex SA, Caluire, France	99.9	37,378	2,184	4,468	241,517	1,244
Uniroyal Englebert Textilcord S.A., Steinfort, Luxembourg	100.0	17,219	4,665	5,917	98,724	216
Uniroyal Englebert Tyres Ltd., Newbridge, UK	100.0	10,012	19,012	2,573	163,971	861
II. Associated companies						
Compañía Ecuatoriana del Caucho, Cuenca, Ecuador	38.2	23,957 **	–	2,026	77,002 **	
Drahtcord Saar GmbH & Co. KG, Merzig, Saar, Germany	50.0	21,418	418	1,324	103,944	
General Tire & Rubber Company of Morocco, Casablanca, Morocco	34.2	36,754	2,790	2,022	82,163	
KG Deutsche Gasrusswerke GmbH & Co., Dortmund, Germany	32.1	15,000	1,500	1,500	112,208	
SAVA-Semperit, Kranj, Slovenia	27.8	162,582 **	–	16	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
** Figure for the previous fiscal year

Continental Corporation
Ten Year Survey

		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Balance sheet											
Fixed assets and investments	Millions of DM	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	3,515.1
Current assets	Millions of DM	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	3,186.9
Balance sheet total	Millions of DM	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	6,702.0
Shareholders' equity	Millions of DM	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	1,860.4
Long-term debt	Millions of DM	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	2,173.3
Capital expenditure on property, plant and equipment	Millions of DM	300.1	447.7	532.4	689.5	829.3	709.3	624.1	514.7	591.3	551.5
Equity ratio	%	31.6	30.4	31.9	28.2	22.8	22.9	23.8	24.6	25.3	27.8
Long-term financing of fixed assets, investments and inventories	%	118.6	113.6	103.7	89.6	89.0	90.0	86.3	90.1	79.4	85.1
Total indebtedness	Millions of DM	672.7	826.4	929.5	1,545.9	2,152.9	2,416.8	2,289.5	2,130.4	1,988.7	1,636.8
Self-financing ratio	%	150.9	112.3	94.4	68.1	52.1	133.8	86.4	113.5	122.9	132.9
Liquidity ratio	%	134.7	119.9	105.0	77.1	74.6	76.5	68.3	76.6	61.3	68.7
Statement of income											
Sales	Millions of DM	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	10,430.6
Foreign markets' share	%	47.5	64.3	65.0	61.8	62.8	63.9	65.4	67.6	66.5	66.1
Cost of sales[1]	%	71.1	74.6	74.7	75.9	74.7	73.2	74.1	74.0	73.9	73.4
Selling expenses[1]	%	14.9	13.1	14.0	14.7	14.8	15.0	16.7	16.3	15.6	15.8
Administrative expenses[1]	%	7.0	6.4	5.7	5.9	6.5	6.7	6.2	6.2	5.7	5.5
EBIT	Millions of DM	321.0	421.0	476.7	298.8	334.8	468.3	296.8	301.5	387.6	524.1
Personnel expense	Millions of DM	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	3,270.5
Depreciation[2]	Millions of DM	263.8	375.8	367.5	378.0	531.0	502.6	556.9	583.5	552.7	609.2
Cash flow	Millions of DM	464.0	623.4	604.9	510.0	526.1	701.4	578.9	625.9	739.7	814.6
Value added	Millions of DM	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	3,714.6
Net income/loss	Millions of DM	138.8	194.8	227.8	93.4	− 128.2	133.0	65.1	70.8	155.2	192.5
Employees											
Annual average	Thousands	31.6	44.8	46.9	48.4	50.8	50.4	49.8	49.0	48.4	46.4

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

Continental Aktiengesellschaft
Ten Year Survey

		1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Balance sheet											
Fixed assets and investments	Millions of DM	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	1,792.2
Current assets	Millions of DM	1,115.2	1,133.9	770.1	843.2	735.5	872.4	904.9	849.0	1,167.5	1,262.9
Balance sheet total	Millions of DM	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	3,055.1
Shareholders' equity	Millions of DM	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	1,452.4
Long-term debt	Millions of DM	375.3	344.4	367.4	354.9	327.1	484.4	680.0	698.3	409.4	671.4
Capital expenditure on property, plant and equipment	Millions of DM	119.7	138.5	135.7	154.2	183.5	194.8	179.5	135.4	96.2	98.9
Equity ratio	%	63.4	63.0	61.7	51.7	41.4	38.7	41.7	46.4	46.7	47.6
Long-term financing of fixed assets, investments and inventories	%	122.8	116.7	92.8	76.1	62.0	64.5	79.4	92.6	90.4	106.4
Total indebtedness	Millions of DM	+ 139.6	+ 171.0	99.1	604.1	863.8	1,037.2	659.2	418.1	193.0	36.7
Self-financing ratio	%	31.5	103.5	35.0	26.8	53.2	91.3	79.6	901.0	− 249.1	194.9
Liquidity ratio	%	192.7	163.6	69.7	40.3	25.8	30.1	54.0	76.6	81.0	116.0
Statement of income											
Sales	Millions of DM	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	2,636.4
Foreign markets' share	%	36.2	36.8	38.1	36.0	36.9	37.4	34.6	34.9	32.6	37.0
Cost of sales[1]	%	80.4	80.4	81.5	83.3	81.0	82.4	86.7	86.8	83.5	81.0
Selling expenses[1]	%	7.9	7.1	7.1	7.3	7.4	7.6	7.9	8.5	8.4	10.6
Administrative expenses[1]	%	7.4	6.5	5.7	5.8	5.7	5.8	5.4	4.9	5.5	5.8
EBIT	Millions of DM	159.6	165.7	172.2	152.8	− 302.7	162.5	155.1	112.7	97.3	113.3
Cost of materials	Millions of DM	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	1,475.1
Personnel expense	Millions of DM	928.6	924.5	960.6	1,023.7	632.1	642.4	585.5	572.2	647.0	759.3
Depreciation[2]	Millions of DM	121.8	134.9	129.9	130.7	139.6	167.8	169.9	165.5	96.5	101.3
Cash flow	Millions of DM	263.4	262.4	282.5	224.1	303.0	273.5	211.8	219.0	211.4	315.8
Value added	Millions of DM	1,122.2	1,129.8	1,182.8	1,232.3	320.0	804.8	740.1	684.5	744.3	872.6
Net income/loss	Millions of DM	55.8	80.9	81.2	42.2	− 417.1	38.0	71.2	47.3	56.6	67.0
Dividend paid	Millions of DM	48.0	69.2	69.6	35.1	–	–	36.1	37.5	47.0	56.7
Employees											
Annual average	Thousands	15.3	15.1	15.9	16.1	8.8	8.4	7.5	6.7	7.4	8.0

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

Selected Financial Terms

Asset Backed Securitization Program. Under this program, trade receivables from the tire replacement business are pooled for each country and the individual blocks sold to financing companies who obtain refinancing by issuing commercial papers on the U.S. capital market.

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 Assocation 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.

LIFO (Last In First Out). Method of inventory accounting which is based on the most recent purchases being used first.

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.

Significant Dates

1997

Presentation of the Financial Statements	April 22
International Analysts Conference	April 22
Annual Meeting of the Shareholders	June 4
Dividend Payment	June 5
Mid-Year Report	August
International Telephone Conference	August
Nine-Month Report	November
International Telephone Conference	November

1998

First Figures for the Previous Fiscal Year	March
Presentation of the Financial Statements	April 28
International Analysts Conference	April 28
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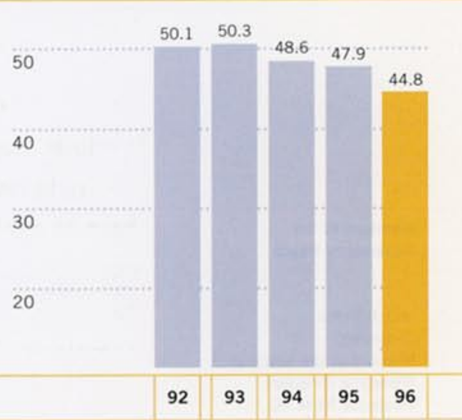
Continental Aktiengesellschaft
Corporate Public Relations
Telefax +49 (0)511 938 10 55
E-mail: prkonzern@conti.de

Capital expenditure on P.P.E. / Depreciation
in millions of DM

Employees (at year-end)
in thousands, excluding trainees



Since that time, the companies and trademarks that have joined the Corporation over the last two decades have been fully integrated, and the brands that were once independent have become parts of a larger whole. We are therefore convinced that the Corporation can at present best be presented to outsiders by means of its flagship CONTINENTAL brand in yellow-orange. The identity established in this manner between the Corporation and its leading brand becomes clear and unmistakable, without depriving our other brands of their own significance.

1996 was the year of Continental's 125th anniversary. To mark the occasion, we invited customers and friends of the Company, as well as 23,000 employees and their relatives, to join us for celebrations at our Contidrom testing facility. More about those events is given in our special report on page 38.

The Executive Board thanks all our employees for their performance and dedication; thanks are also due to our customers and suppliers for their fruitful cooperation. Last but not least, we thank our shareholders for the confidence they have placed in us. On behalf of the Administration, I cordially invite you to our Annual Meeting of Shareholders in Hanover on June 4, 1997.

Sincerely,

Hubertus von Grünberg

Continental Aktiengesellschaft
P.O. Box 169
30001 Hanover
Germany
Telephone +49 (0)511 938-01
Telefax +49 (0)511 938 27 66
Telex 92170

Company address:
Vahrenwalder Strasse 9
30165 Hanover
Germany

Continental on Internet:
http://www.conti.de

Report of the Supervisory Board

Members of the Supervisory Board

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

Adolf Bartels*
Deputy Chairman, (as of 5/1/1996),
District Manager of the Union for the Chemical-Paper-Ceramics Industries

Wolfgang Schultze*
Deputy Chairman,
Deputy Chairman of the Union for the Chemical-Paper-Ceramics Industries
(through 4/30/1996)

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

Heidemarie Aschermann*
Deputy Chairperson of the Employee Council,
Northeim Plant

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

Diethart Breipohl
Member of the Board of Management,
Allianz AG

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

Casimir Ehrnrooth
Vice Chairman of the Board,
UPM-Kymmene Corporation,
Helsinki

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

Ulrich Weiss, Chairman of the Supervisory Board

During fiscal 1996, the Supervisory Board kept itself informed about the Company's business at its scheduled meetings, in separate conferences and through oral and written reports. Members of the Supervisory Board were available to the Executive Board on a regular basis for consultation outside the meetings. The Chairman of the Supervisory Board was kept constantly up to date by the Chairman of the Executive Board about all important business events. Procedures and transactions that required our consent were approved after being examined and discussed with the Executive Board.

Consultation focused on regular discussion of the earnings situation of the individual Groups, changes in plant structures in Europe, and measures designed to solve the unsatisfactory sales and earnings situation of the dealer organizations.

The financial statements as of December 31, 1996, which were prepared by the Executive Board, and the management report of Continental AG, which is combined with that of the Corporation, have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, which had been chosen as auditor by the Annual Meeting of Shareholders. The auditor, who has certified these documents without qualification, was present during the consultations regarding the financial statements of Continental AG and of the Corporation; he reported on the auditing procedures and was available to the Supervisory Board for further information.

Based on its own examinations of the financial statements of Continental AG, the management report and the proposal for the allocation of net income, the Supervisory Board has endorsed the result of the audit. It has approved the financial statements, which are thereby definitively confirmed. It endorses the Executive Board's proposal regarding the allocation of net income.

The Supervisory Board has taken note of and approved the financial statements of the Corporation as of December 31, 1996 and the management report of the Corporation, which have also been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, and have been certified without qualification.

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

After more than 20 years in various executive positions at the Company, Dr. Klaus-Dieter Röker's employment has been terminated and his seat on the Executive Board withdrawn by agreement with effect from April 14, 1997. The Supervisory Board thanks Dr. Röker for his many years of dedicated effort for the Company and wishes him every success in his future activities.

At its meeting of April 14, 1997, the Supervisory Board elected Dr. Stephan Kessel to the Company's Executive Board, as Head of Commercial Vehicle Tires/Environment/Conti International. Dr. Kessel has been with the Company since 1985 and most recently headed the Passenger Tire Group's original equipment business. The Supervisory Board also elected Mr. Klaus Friedland to the Company's Executive Board on April 14, 1997. Mr. Friedland has taken over the Director of Personnel function performed so far by Dr. Haverbeck in addition to his responsibility for the ContiTech Group.

Effective April 30, 1996, Dr. Wolfgang Schultze, Deputy Chairman of the Union for the Chemical-Paper-Ceramics Industries, who had been a member of the Supervisory Board since 1979, resigned as its Deputy Chairman. We thank him for his many years of dedicated and valuable work on this Board and wish him good luck and success in his future endeavors. At its meeting of April 22, 1996, the Supervisory Board elected Mr. Adolf Bartels, District Manager of the Union for the Chemical-Paper-Ceramics Industries, as Deputy Chairman of the Supervisory Board effective May 1, 1996. Dr. Schultze's place on the Supervisory Board has been filled by Mr. Hartmut Löschner, Deputy Chairman of the Union for the Chemical-Paper-Ceramics Industries, who was appointed, effective immediately, by an order of the Hanover District Court dated June 7, 1996.

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 14, 1997

The Supervisory Board

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

Hartmut Löschner*
Deputy Chairman of the Union for the Chemical-Paper-Ceramics Industries (as of 6/7/1996)

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

Günther Saßmannshausen
Chairman of the Supervisory Board, Deutsche Bahn AG

Siegfried Schille*
Chairman of the Employee Council, Limmer Plant

Rainer Stark*
Head of Corporate Quality and Environment

Dirk Sumpf*
Manager of the Hanover Office, Union for the Chemical-Paper-Ceramics Industries

Giuseppe Vita
Chairman of the Managing Board, Schering AG

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

*Employee representatives