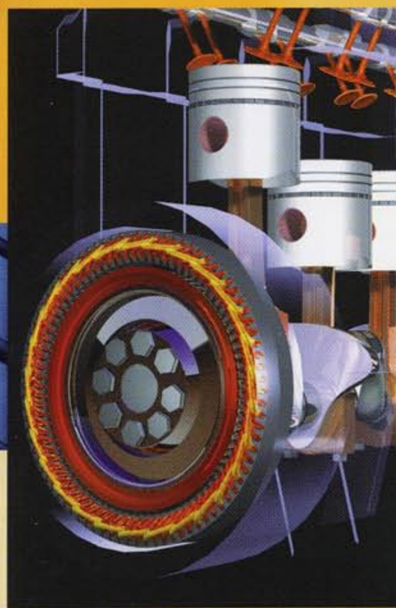
Annual Report 1997



The conversion of Continental AG into a globally active manufacturer of advanced products and systems with high profitability has brought us to a new level of excellence. Leadership in cost efficiency and technology is the prerequisite for the Company's continued healthy growth.

Continental

German industry's innovation award 1997.

Report on 1997, the Company's 126th Fiscal Year

Continental Corporation at a Glance

Amounts in Millions of DM	1993	1994	1995	1996	1997
Sales	9,369.1	9,876.9	10,252.6	10,430.6	11,186.1
Income before taxes	74.1	91.6	194.8	248.4 [1]	458.8
Income after taxes	65.1	70.8	155.2	192.5	321.8
Dividend	36.1	37.5	47.0	56.7	80.2 [2]
Cash flow	578.9	625.9	739.7	814.6	960.1
Debt ratio	4.0	3.4	2.7	2.0	0.6
Capital expenditure on property, plant and equipment	624.1	514.7	591.3	551.5	552.8
Depreciation[3]	556.9	583.5	552.7	609.2	600.1
Shareholders' equity	1,699.0	1,675.5	1,695.6	1,860.4	2,702.7
Equity ratio in %	23.8	24.6	25.3	27.8	35.3
Employees at year-end[4]	50,294	48,583	47,918	44,767	44,797
Share price (high) in DM	27.7	29.8	23.1	28.4	50.9
Share price (low) in DM	19.1	21.1	18.6	20.1	27.8

1) after extraordinary expenses
2) subject to the approval of the Annual Shareholders' Meeting on June 5, 1998
3) excluding depreciation on investments
4) excluding trainees

Maximum demands on advanced technology: Continental tires for high-performance sports cars.

Continental: What do we stand for?

The assurance of long-term economic success, independence and jobs is our primary goal. For this we need forceful innovation, leadership in cost control, products and services, and an uncompromising orientation toward our customers. Internal growth is more important than acquisitions. Our employees are highly trained, dedicated to quality and aware of themselves as elements in a corporation with an increasingly global field of activity. Pay based on performance and new forms of participation in our share capital are promoting loyalty and responsible entrepreneurship among our personnel. This is also the foundation for us to earn an appropriate profit margin over the long term, one which must meet international standards for the return on risk capital. Our Company regards the maintenance and encouragement of a healthy environment as an integral part of its responsibilities.

Receiving the "German Industry Innovation Award" has been a source of inspiration for us. The development of high-tech systems from our core activities – tires and industrial products – is a vital part of our corporate strategy.

Dear Shareholders and Friends of Continental,

By the time you receive this report, the first quarter of 1998 will already be a thing of the past. We are off to a fine start. Sales and earnings figures are once again considerably higher than in the previous year.

And now let's turn to 1997, which was particularly successful. With a net income of DM 321.8 million, we exceeded our goal of boosting after-tax earnings to at least 2.5% of sales. The incisive measures taken in previous years to maintain and increase our competitiveness are having a more and more positive effect. Experience has shown that restructuring is easier to carry out when a company is prospering. We therefore intensified the conversion process. By this time, almost every unit of the Corporation is contributing to our earnings. We are confident that we can produce a turnaround in the Commercial Vehicle Tire Group this year, and at the dealer companies next year. Thanks for the successes accomplished in 1997 go to our employees, employee representatives and executives.

Our objective is to achieve profit-oriented growth. Low costs are not in themselves sufficient to ensure a company's future. A capacity for innovations and the resources to implement them are equally important. The innovation award that we received for ISAD (Integrated Starter Alternator Damper) will not be an excuse for us to rest on our laurels. In 2001, we expect to begin series production of this product, and another innovation is already yielding concrete results: During 1998, the first significant numbers of tires will be produced by M.M.P., our Modular Manufacturing Process. M.M.P. enables us to establish a foothold in new markets, such as Brazil, without major capital expenditures.

The product mix is constantly improving. Products with a higher technological content, as well as complex systems solutions, are our answer to the debate about Germany as a manufacturing site. It continues to be a good, but expensive, location, which can meet its costs only by creating technical specialties. We are working on innovations for every element of the automotive chassis. We are not interested in mere refinements of existing products, but in obtaining, either on our own or with partners, access to still unoccupied fields of technology. Since speed is crucial in this endeavor, our partners for developing new systems to the point where they can be industrialized must be chosen with great care.

Our network of national and international collaborations has become more finely meshed, extending from world-class companies to small-scale development specialists. We have joined with Siemens and Brembo in a project for the refinement and industrialization of the brake-by-wire electromechanical braking system. With Gründl & Hoffmann, a specialist in electronics in which Continental has a participation, we are working closely on the realization of ISAD. ContiTech is continuing on its course of internationalization beyond the boundaries of Europe. Benecke-Kaliko has signed a cooperation agreement with Vynide, a South African firm, for the production of vehicle interiors. A Japanese company has been added to our cooperative venture with the U.S. concern Sandusky. In Chile, we have taken over a conveyor belt company. A new partner for agricultural tires has been found in Yugoslavia.

The divestment in 1997 of two plants for starting materials in Luxembourg and the U.S.A., as well as our flock-yarn activities, is a clear expression of our determination to dispose of assets that are not essential to our business. We invest the available funds in core activities in which we see greater profit potential.

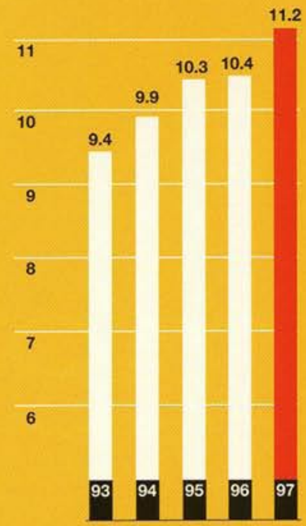
Our balance sheet ratios have improved substantially, with a further dramatic reduction of indebtedness. Shareholders and analysts are optimistic about our future. This was expressed in an above-average gain in share price. Outstanding options were exercised accordingly, which brought us additional liquidity of a good DM 600 million in the form of equity funds. We thank our shareholders for their confidence and support in this specific phase of our transition to a high-tech company.

If the Annual Meeting of Shareholders on June 5, 1998 – to which we cordially invite you on behalf of the Administration – approves our recommendation, 1997 will be the third consecutive year in which our dividend has increased.

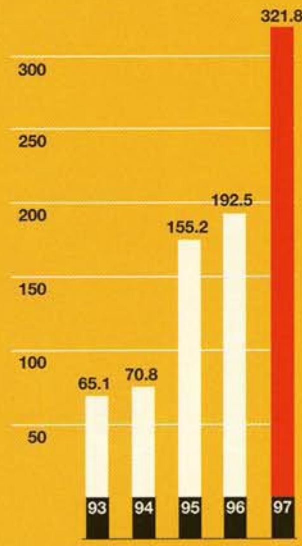
Sincerely,

Hubertus von Grünberg

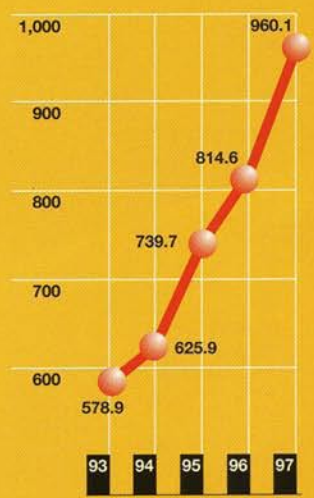
Sales (consolidated)
in billions of DM



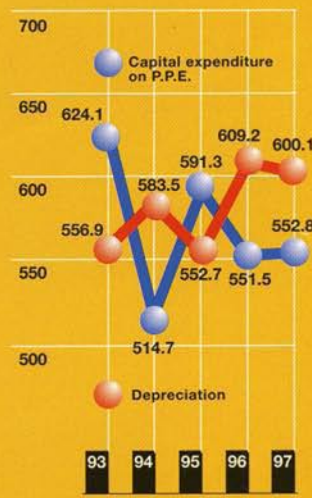
Net income after taxes
in millions of DM



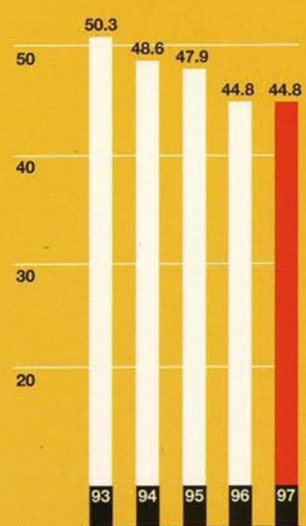
Cash flow
in millions of DM



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



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



The tire is still our main product...

Hans Albert Beller Bernd Frangenberg Jens P. Howaldt Hubertus von Grünberg Peter Haverbeck Klaus Friedland Stephan Kessel

...but:

Continental must expand its systems capability in tires; ContiTech must extend its activities to embrace the entire automotive chassis. But I must warn against any strategy of high-tech diversification that causes us to neglect our core business.

Hubertus von Grünberg

We are proceeding systematically from rubber products to electronics, in order to achieve complete systems for vehicles. I regard our Automotive Systems Group as the logical union of tires and systems engineering.

Hans Albert Beller

It is essential for Continental General Tire to intensify the transatlantic link – both technologically and commercially – with its European parent company.

Bernd Frangenberg

Our conversion to a globally active high-tech company is proceeding apace. The employees are eager to participate in shaping it.

Klaus Friedland

For ContiTech, central issues are the concentration on technologically sophisticated products and systems with high value added, an attractive market potential and a good profit margin with simultaneous expansion of our international business.

Peter Haverbeck

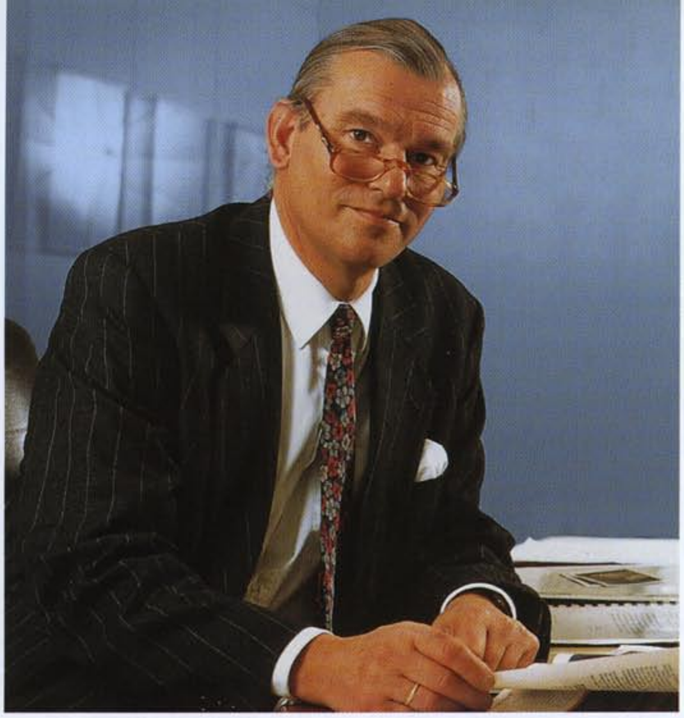
After years of restructuring and the development of new business segments, Continental is perfectly equipped – also financially – for a new phase of profitable growth.

Jens P. Howaldt

For us, cooperation with tire dealers, the transportation industry and the truck manufacturers is of crucial importance. The goal is to offer our customers something special in products and services.

Stephan Kessel

Manfred Wennemer



Report of the Supervisory Board

In order to ensure the Corporation's future from the standpoint of personnel as well, the Supervisory Board has made further appointments to the Executive Board: Following the election of Klaus Friedland and Dr. Stephan Kessel, two more executives from our own ranks, Bernd Frangenberg and Manfred Wennemer, have joined this body.

During the 1997 fiscal year, the Supervisory Board monitored the Company's business at its scheduled meetings, at meetings of the executive committee, in separate conferences, and on the basis of written and oral reports. Outside the meetings as well, the members of the Supervisory Board were regularly available to the Executive Board for consultation. The Chairman of the Supervisory Board was informed on an ongoing basis by the Chairman of the Executive Board of all the important events in the business. We approved the transactions and procedures that required our consent, after examining them and discussing them with the Executive Board.

The discussions focused on the strategic orientation of the Company, periodic examination of the earnings situation of all its Groups, and the measures to improve the performance of the dealer organizations and the Commercial Vehicle Tire Group.

The financial statements prepared by the Executive Board for the 1997 fiscal year and the management report of Continental AG, which is combined with the management report of the Corporation, have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, which was chosen as auditor by the Shareholders' Meeting and has issued an unqualified certificate. The auditor was present at the discussion of the annual financial statements of Continental AG and the consolidated financial statements, reported on the performance of the audit and was available to the Supervisory Board for supplementary 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 consolidated financial statements as of December 31, 1997 and the management report of the Corporation, which were likewise audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, and approved without qualification, were also examined and approved by the Supervisory Board.

At its meeting of April 14, 1997, the Supervisory Board elected Dr. Stephan Kessel to the Company's Executive Board, giving him the responsibility for the Commercial Vehicle Tire Group, Quality and Environment, International. His predecessor, Dr. Klaus-Dieter Röker, after serving the Company for over 20 years in a number of key positions, retired by agreement on

April 14, 1997. On the same day, Klaus Friedland was elected to the Executive Board to assume the duties of Director of Personnel formerly performed by Dr. Peter Haverbeck in addition to his responsibility for ContiTech.

Bernd Frangenberg, who joined the Corporation back in 1981 and has been President and Chief Executive Officer of Continental General Tire, Inc., in Charlotte, N.C., since 1995, was elected to the Executive Board, effective January 1, 1998, at the meeting of the Supervisory Board on December 10, 1997. In addition, Manfred Wennemer, who has been Chairman of the Executive Board of Benecke-Kaliko AG, Hanover, since 1994, was elected, as of May 1, 1998, as successor to Dr. Haverbeck, who is retiring on April 30, 1998, after 20 years on the Executive Board. As the executive of Continental AG responsible for ContiTech, Dr. Haverbeck made an extraordinary contribution to our Company's success. The Supervisory Board expresses its thanks to him for his many years of outstanding entrepreneurship, together with its best wishes for the future.

On February 14, 1997, Baron Albert Englebert, who had been a member of this Board for many years, died at the age of 80. Baron Englebert, whose family founded Englebert S.A., acquired in 1957 from U.S. Rubber, subsequently Uniroyal, Inc. in the U.S.A., was active for many decades as an executive at Englebert's successor companies in Europe. He also made the arrangements for the sale of Uniroyal's European activities to Continental AG.

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

Hanover, April 6, 1998

The Supervisory Board

Ulrich Weiss

Ulrich Weiss, Chairman

Organs of the Company

Members of the Supervisory Board

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

Adolf Bartels*
Deputy Chairman,
Former District Manager of the Union for the Chemical-Paper-Ceramics Industries

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

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
Chairman of the Board of Directors, Nokia Group,
Espoo, Finland

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

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*
Member of the Executive Board of the Union for the Mining, Chemical, Energy Industries

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

Günther Saßmannshausen
Member of the Supervisory Board, Preussag AG

Siegfried Schille*
Chairman of the Employee Council, Limmer Plant

Rainer Stark*
Head of Corporate Quality and Environment

Dirk Sumpf*
Hanover District Manager
Union for the Mining, Chemical, Energy Industries

Giuseppe Vita
Chairman of the Managing Board, Schering AG

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

*Employee representatives

Members of the Executive Board

Hubertus von Grünberg
Chairman
Passenger Tires

Hans Albert Beller
Continental Automotive Systems

Bernd Frangenberg
Continental General Tire, Inc.
(as of 1/1/1998)

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

Peter Haverbeck
ContiTech
(through 4/30/1998)
Director of Personnel
(through 4/14/1997)

Jens P. Howaldt
Finance, Controlling and Law

Stephan Kessel
Commercial Vehicle Tires, Quality and Environment, International
(as of 4/14/1997)

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

Manfred Wennemer
ContiTech
(as of 5/1/1998)

Generalbevollmächtigte

Bernd Frangenberg
President & CEO
Continental General Tire, Inc.
(through 12/31/1997)

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

Werner P. Paschke
Corporate Controlling

More comfort in new high-speed trains: ContiTech airsprings are installed not only in Germany's new ICE 2 but also in the French TGV.

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.

Dividend Raised to 14%

A further pronounced increase in earnings makes it possible to recommend to the Annual Meeting of Shareholders for 1997 a dividend of 14%, up from 12% in the previous year. This is equivalent to DM 0.70 (1996: DM 0.60) per share with a par value of DM 5.00.

At DM 572.5 million, the capital stock entitled to the dividend is 21.2% higher than in the previous year, so that DM 80.2 million (1996: DM 56.7 million) will be required for the distribution. As a result, the payout will amount to 24.9 % of consolidated net income, compared with 29.5% in the previous year.

Outstanding Share Price Performance

After two gratifying years in 1995 and 1996, the Continental share did exceptionally well on the market in 1997. The German stock index (DAX) reached its high of 4,439 points on July 31. Under the pressure of the financial crisis in the Far East, it plunged to 3,567 on October 28. By the end of the year, investors had regained their confidence, encouraged by rumors of mergers, particularly in the banking sector. At the end of 1997, the DAX had climbed back to 4,250. Twelve months earlier, it had been at 2,889; the gain of 47.1% was the largest in the 10-year history of the index. Measured by the MidCap Share Index (MDAX), prices rose by 24.3% in 1997, as against 15.0% the previous year.

Starting off with a quotation of DM 27.70 on December 30, 1996, the Continental share at first made strong advances, reaching its high for the year, DM 50.90, on August 12, 1997. After that, the share was inevitably affected by the general market trend, fluctuating between DM 48.00 and DM 44.00 until late in October, peaking at DM 48.10 on October 6. However, it then dropped to DM 38.10 on October 28. This was followed by a recovery, and the share regained sufficient impetus to touch its upper boundary of DM 48.00 on December 4. It closed the trading year at DM 40.50. The overall gain of 46% paralleled the trend in the DAX and considerably outpaced the MDAX.

At the beginning of 1998, the share price lay within the range between DM 40.00 and DM 43.00; on March 13, 1998 it amounted to DM 47.45.

Share price development compared with DAX and MDAX

Share price development* December 29, 1995 = 100%

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

More Conti Shares

The exercise of various options led to the addition of 20 million new shares, bringing the total number entitled to the dividend for 1997 to 114.5 million, each with a par value of DM 5.00.

High Share Liquidity

In 1997, sales of German shares on all the German stock exchanges rose to DM 3,410 billion, from DM 2,313 billion in the previous year, for a vigorous 47% increase. The Continental share recorded sales of DM 17.8 billion for the same period (1996: DM 10.5 billion), or about 0.52% (1996: 0.45%) of the total. Accordingly, in the year under review, it was again one of the more liquid shares on the German stock market.

Continental is represented in two new European indexes, Dow Jones STOXX and Dow Jones EURO STOXX, which weight it, respectively, at 1.76% and 2.18% within the automotive industry.

Shareholder Analysis:
25% English-Speaking Investors

A survey conducted in mid-December of 1997 in the U.S.A., Great Britain, Switzerland and Germany revealed that 41.5% of the capital stock is owned by institutional investors in these countries, as follows:

Great Britain:	18.0%	(1996: 10.7%)
North America:	7.4%	(1996: 9.5%)
Germany and Switzerland:	16.1%	(1996: 17.3%) .

The placement of the Continental shares previously held by the Lower Saxony investors' group accounted in February 1998 for a further increase of over 10% in the free float, which now exceeds 80%.

Internationally Listed

The Continental share is listed on all eight German stock exchanges and on four European floor-trading exchanges.

In London, the share price is quoted as part of the SEAQ (Stock Exchange Automatic Quotes) market-maker system. It is also traded under a sponsored ADR program in the OTC market in the United States.

Insofar as it makes economic sense to recruit additional foreign shareholders for our Company, we will obtain access to further foreign exchanges.

Key figures for the Continental share

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

	1993	1994	1995	1996	1997
Net income	0.72	0.75	1.65	2.04	2.81
Dividend	0.40	0.40	0.50	0.60	0.70
Dividend with tax credit	0.57	0.57	0.62	0.60	0.70
DVFA/SG earnings	0.71	0.82	1.52	2.32	2.64
Cash flow	6.41	6.68	7.88	8.62	8.38
Balance-sheet value	18.82	17.88	18.05	19.69	23.60
Stock market price at 12/31	27.70	22.60	19.85	27.70	40.50
Number of shares (in thousands)	90,280	93,710	93,930	94,482	114,505

* For purposes of comparison, the conversion to a par value of DM 5.00, which took place on June 15, 1995, has also been used as a basis for the years prior to that date.

Investor Relations and PR

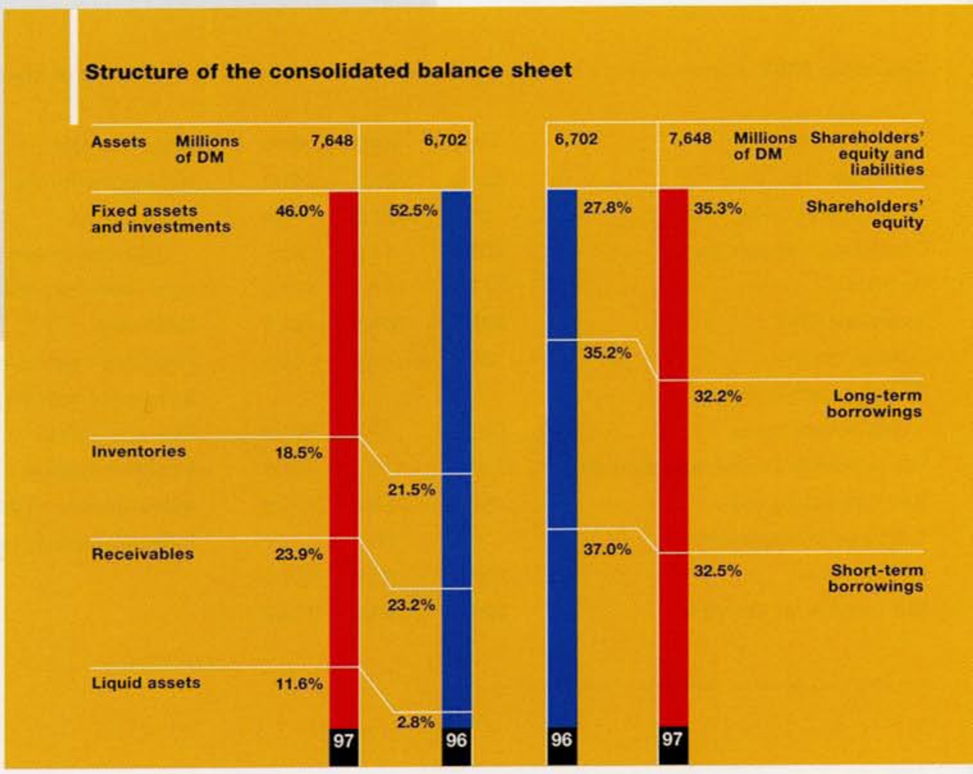
To ensure the future capital requirements of the Corporation, we devote special attention to providing information for shareholders, potential investors and financial analysts. This took place even more intensively than in previous years, with both regular and ad hoc announcements in press conferences, press releases, letters to the shareholders, annual reports, financial notices and brochures. We gave detailed information about the Company's strategy, objectives, long-term planning, capital investment programs and economic data. In addition, we offered numerous financial presentations and held conferences with analysts and investors. In June 1997, during our "road show" in Germany, England, Switzerland and the U.S.A., we explained how we intend to achieve the published goals of the Corporation and of the individual Groups. We have already achieved most of them ahead of schedule during 1997, so that we now want to communicate our new goals to the general public. More compact financial presentations were launched in Paris and Stockholm, and investor conferences were conducted in Singapore, Hong Kong and other financial centers.

Investor relations that are frank, oriented to the capital markets and internationally competitive are becoming an increasingly important factor in Continental's success. For this reason, the Company is one of the founding members of Deutscher Investor Relations Kreis e.V. (DIRK). Since mid-1997, our annual report, in both German and English, can also be accessed on the Internet.

High-tech in the car: Dr. Ullrich Masberg (left) and Klaus-Peter Zeyen developed the ISAD system.

High mileage and low fuel consumption: Commerical vehicle tires like ECO-Plus feature many economic benefits.

For several years, Continental has been enjoying an upward trend, which continued in 1997. Earnings in all the Groups improved, as reflected in the increase of 67.2% in net income, compared with 1996.



Strong Sales Growth

Consolidated sales increased by 7.2% in 1997, rising to DM 11.2 billion from DM 10.4 billion in 1996. As of January 1, 1997, the scope of consolidation was expanded to include ContiTech Vegum, ContiTech Vegum Vibration Control, Slovakia, and Caucho Técnica, Chile. The synthetic rubber plant in Odessa, Texas, U.S.A., Uniroyal Englebert Textilcord, Luxembourg, and Flockgarn GmbH, Mönchengladbach, are no longer included. 72% of consolidated sales was attributable to tires and 28% to industrial products and systems.

Sharp Rise in Consolidated Earnings

Consolidated net income amounts to DM 321.8 million, which is equivalent to DM 129.3 million or 67.2% more than in the previous year. With 2.9%, we have thus more than reached our goal of a return on sales of at least 2.5% after taxes. The Administration therefore recommends to the 1997 Annual Meeting of Shareholders the payment of a dividend increased from 12% to 14%.

Consolidated earnings before interest and taxes (EBIT) rose by 19.6% to DM 626.6 million, compared with DM 524.1 million in 1996.

Earnings before interest and taxes varied from Group to Group. While Passenger Tires and Continental General Tire showed larger gains, ContiTech remained at a high level. The Commercial Vehicle Tire Group has not yet made any significant progress, but this is due to the additional cost-control and restructuring measures at two of the truck tire plants. The remarkable overall improvement in Passenger Tires must not blind us to the fact that the dealer organizations unit was able to reduce its losses only slightly. For the first time since it became part of Continental, our American Group, Continental General Tire, made a substantial contribution to consolidated net income, increasing its EBIT by 58%. The fact that the proceeds from the sale of the Odessa plant are included by no means diminishes the Group's great advance, particularly

The holding company's costs as well as those of the Continental Automotive Systems Group developed as we had planned. The cash flow from operations and the contributions to equity capital received in the fall of 1997 led to a decrease in interest expense. This trend will be intensified in 1998, due to the marked reduction in indebtedness. Expenses for restructuring remained at a level comparable with that of the previous year, even when taking into account the extraordinary expenses of DM 80.0 million incurred in 1996 for the Dublin plant closure.

Operating EBIT (earnings before interest and taxes)

Millions of DM	1997	1996	1995
Passenger Car Tires	404.2	334.1	251.0
Commercial Vehicle Tires	– 21.3	– 23.2	4.9
Continental General Tire	128.5	81.5	55.7
ContiTech	177.5	177.2	120.5
Operating EBIT	**688.9**	**569.6**	**432.1**
Holding costs[1]	– 62.3	– 45.5	– 44.5
Earnings before interest and income taxes	626.6	524.1	387.6
Net of interest income and expense	– 167.8	– 195.7	– 192.8
Earnings before taxes	458.8	328.4	194.8
Extraordinary expenses	–	– 80.0	–
Income taxes	– 137.0	– 55.9	– 39.6
Net income for the year	**321.8**	**192.5**	**155.2**

1) Holding costs include the Continental Automotive Systems Group.

Statement of changes in financial position

Millions of DM	1997	1996	1995
Net income for the year	321.8	192.5	155.2
Depreciation, amortization and writedowns	601.6	609.5	556.2
Other items with no effect on funds	36.7	12.6	28.3
Cash flow	**960.1**	**814.6**	**739.7**
Financing from operations	252.1	186.3	– 45.1
Investment activities (outflow of funds)	– 717.4	– 655.0	– 485.1
Financial activity	587.5	6.0	– 67.8
Effective change	**1,082.3**	**351.9**	**141.7**
Indebtedness at January 1	**1,636.8**	**1,988.7**	**2,130.4**
Indebtedness at December 31	**554.5**	**1,636.8**	**1,988.7**

in the Passenger Tire Division. ContiTech improved its earnings situation on a comparative basis. Despite the combined effect of the loss of the contribution from Uniroyal Englebert Textilcord S.A., Steinfort, Luxembourg, the restructuring of the Hanover-Limmer plant, the initial development costs of the ISAD project, and provisions made for risks, the Group's high level of earnings was maintained.

Capital Stock Substantially Increased

The uniform warrants attached to the 6¾% DM 1987/1997 bonds with warrants, the 9¾% U.S. dollar 1987/1997 bonds with warrants and the 4¾% CHF 1987/2002 bonds with warrants of Continental Rubber of America Corp., Wilmington, Delaware, matured on October 6, 1997. Since the share price at that time was DM 48.10, 13.95 million of the 13.98 million warrants issued had been exercised on the maturity date, at a price of DM 35.20. As a result, Continental AG received equity funds of DM 491.0 million.

Of the 12 million warrants issued in connection with the 7.5% DM 1993/2000 bearer bonds of Conti-Gummi-Finance B.V., Amsterdam, Netherlands, warrants for 5.3 million shares at a price of DM 19.90 were exercised before maturity on December 17, 1997, resulting in a further inflow of DM 105.5 million in equity funds to the Company.

At year-end, the capital stock of Continental AG amounted to DM 572.5 million, up from DM 472.4 million in 1996. The total number of shares entitled to the dividend for the 1997 fiscal year rose accordingly by 21.2% to 114.5 million (1996: 94.5 million).

Notice of Change in Shareholdings

After the exercise of the warrants and the consequent increase in the capital stock, Deutsche Bank AG informed us that the interests held by it on October 8, 1997 no longer reached the threshold value of 10% pursuant to Section 21 of the German Securities Trading Law, and now amounted to 8.8%. Similarly, we were informed by Allianz AG that as of October 8, 1997, its share in the voting stock of our Company had fallen below the threshold value of 5% and came to 4.4%.

The investors in the 6% Norddeutsche Landesbank bonds convertible into shares of Continental AG announced that they were exercising their conversion rights. NORD/LB therefore informed us that, as of December 17, 1997, their share of our capital stock had dropped below 5% and now amounted to 3.99%. On February 11, 1998, the investors from Lower Saxony under the leadership of NORD/LB sold to domestic and foreign investors a total of 11,847,600 shares (including shares held by that bank) with a par value of DM 5.00, equivalent to 10.4% of our subscribed share capital.

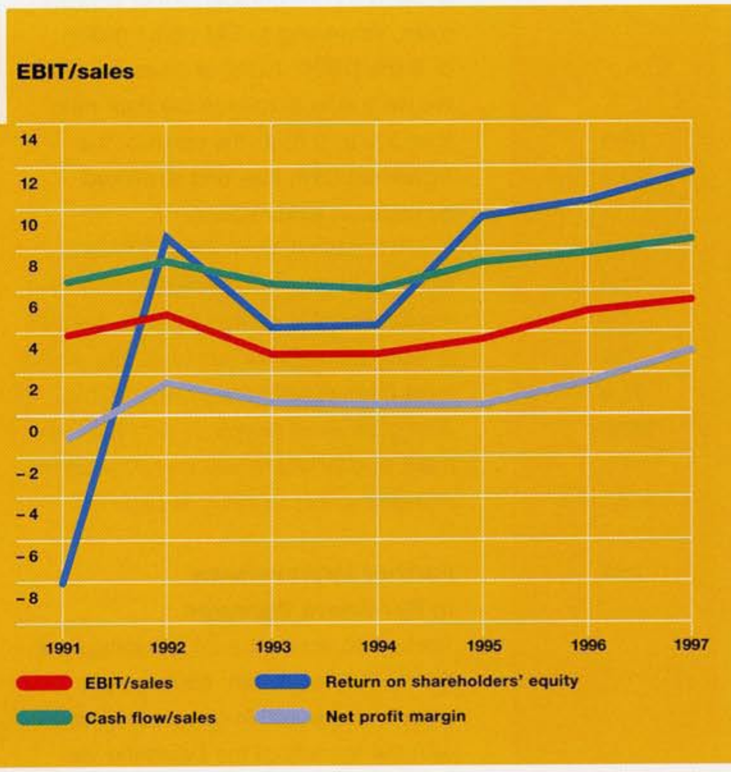
Absorption of Clouth

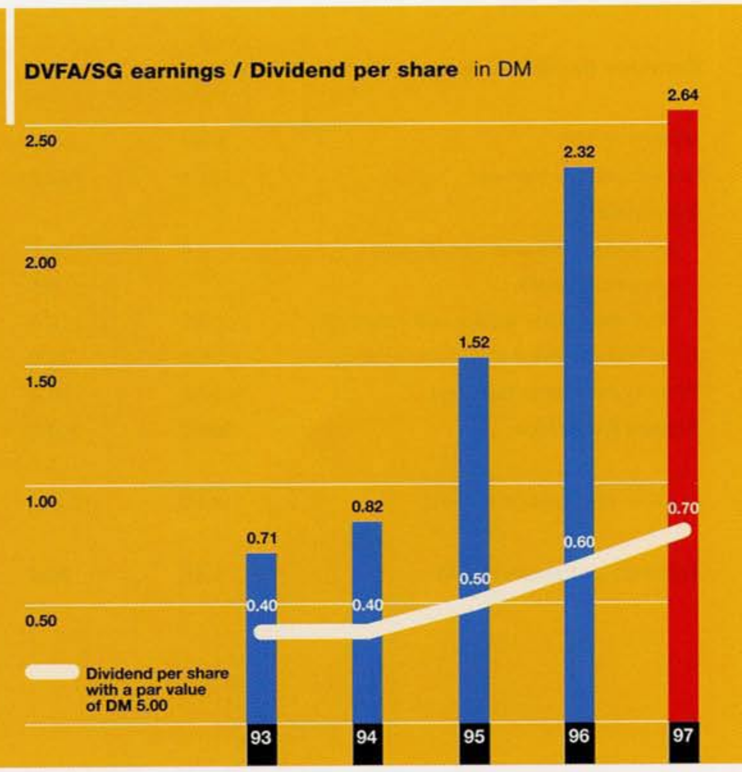
The absorption, retroactive to January 1, 1997, of Clouth Gummiwerke AG, Cologne, by Continental AG was entered on August 4, 1997 in the Hanover Commercial Register. Clouth demerged ISAD Electronic Systems GmbH & Co. KG in Cologne, which has taken over the production and marketing of the ISAD project. Clouth's other key fields of activity have been integrated with those of the ContiTech companies.

The loss carryforwards for tax purposes that had been accumulated by Clouth in the years up to 1996 will be used by Continental AG. The loss of DM 75.0 million that was entered on the commercial balance sheet did not affect consolidated earnings, since, in the process of consolidation, Clouth's losses had already been reflected in the Corporation's net income for the previous years.

Higher Capital Investments

Capital spending in 1997 was focused on enlarging European production capacities for passenger tires, improving the efficiency of the truck tire plants, and expanding the successful operations of ContiTech. The plants in Western Europe (excluding Portugal) received





62% of total investments. 18% went to the Czech Republic, Slovakia, Portugal and Hungary, and 16% to our subsidiary Continental General Tire in the U.S.A.

The Corporation's additions to property, plant and equipment totaled DM 552.8 million in 1997 and thus reached the previous year's level. The capital investment ratio was 4.9%. Capital expenditures approved amounted to DM 705 million, compared with DM 570 million in 1996.

Rock-Solid Balance Sheet Structure and Financial Position

Total assets increased by a vigorous 14.1%, rising to DM 7,647.9 million from DM 6,702.0 million in the previous year. This was due to a gain of DM 280 million, or 4.2%, from favorable exchange rates, and to the inflow of liquid funds from the exercise of warrants. On December 31, 1997, the liquid funds available to the Corporation totaled DM 888.6 million, or DM 702.4 million more than a year earlier. There was hardly any change in fixed assets and investments compared with 1996, so that the ratio of this item to total assets dropped from 52.5% to 46.0%. Intangible assets were reduced as planned, due to the offsetting of goodwill. Without the contrary foreign exchange effect of DM 115 million, property, plant and equipment would have decreased by DM 69.6 million.

Consolidated shareholders' equity rose by DM 842.3 million, or 45.3%, to DM 2,702.7 million. Accordingly, the equity ratio has climbed to 35.3%, from 27.8% in the previous year. If the equity ratio had been compared after goodwill has been offset in full, it would have risen by 9 percentage points to 32%. This reflects not only the good net income, but also the exercise of the warrants, which added a total of DM 596.5 million to shareholders' equity. Provisions were higher than in the previous year; they amount to 28.8% of total assets. The gain of DM 270.7 million in provisions includes a foreign exchange effect of DM 90 million. Indebtedness decreased by DM 1,082.3 million, or 66.1%, to DM 554.5 million.

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

Millions of DM	1997	1996	1995
Net income for the year	321.8	192.5	155.2
Adjustments			
in fixed assets and investments	7.4	8.5	2.2
in current assets	–	– 9.0	11.0
in shareholders' equity and liabilities	13.5	8.8	– 3.8
Extraordinary items affecting earnings	– 15.8	44.8	– 9.0
Minority interest in earnings	– 24.2	– 26.4	– 12.6
Adjusted earnings	**302.7**	**219.2**	**143.0**
Number of shares in millions	114.50	94.48	93.93
Earnings per share in DM	**2.64**	**2.32**	**1.52**

The gearing ratio has therefore dropped from 88.0% in 1996 to 20.5%, the lowest figure in more than 20 years. Due to the sharp increase in total assets, the capital turnover rate declined from 1.56 to 1.46; if the liquid funds had been disregarded, it would have risen from 1.60 to 1.65. The improved balance sheet structure of the Continental Corporation is evidenced by the substantial gain in the proportion of fixed assets, investments and inventories financed by shareholders' equity and long-term borrowings, which has leaped from 85.1% to 104.6%.

Changes in Financial Position

Compared with 1996, the cash flow showed a considerable further improvement, increasing to DM 960.1 million or 8.6% (1996: 7.8%) of sales. In 1997, we were able to reduce the debt ratio from 2.0 to 0.6, as the result of the higher net cash flow and a marked decrease in indebtedness.

The cash flow, together with financing from business operations, exceeded the funds spent on investments, so that a heavy reduction of indebtedness would have been possible even without the strong inflow of capital. A detailed statement of changes in financial position is included in this report (see page 42).

Further Improvement in Per-Share Earnings

Taking into account a 21.2% increase in the number of shares, earnings per share – computed in close correlation with the formula of the Deutsche Vereinigung der Finanzanalysten/Schmalenbach-Gesellschaft (DVFA/SG) – improved significantly, corresponding to the gain in total earnings. For each share with a par value of DM 5.00, it amounted to DM 2.64, or 13.8% more than the previous year's DM 2.32. Cash flow per share was DM 8.38 (1996: DM 8.62). Computed on the basis of the average number of shares outstanding during the year – in accordance with the U.S. standard FAS 128 – earnings per share increased by 32.3% over 1996, to DM 3.07.

In a favorable economic environment, the competitive position of the European automotive industry improved during 1997, and it achieved significant growth rates. We benefited from the upturn in our replacement markets as well. The Eastern European countries gained in importance. Demand in North America was on the rise. However, worldwide competition in the tire industry intensified further.

Passenger Tire Group

	1997	1996
Sales in millions of DM	4,355	4,228
EBIT in millions of DM	404	334
Capital spending on P.P.E. and software in millions of DM	232	265
Depreciation in millions of DM	237	258
Total assets in millions of DM	3,085	3,155
Employees	17,784	19,866

With sales of DM 4,355 million, up from DM 4,228 million in 1996, the **Passenger Tire Group,** including Dealer Organizations, recorded a gain of 3% over the previous year; disregarding the change in the scope of consolidation (Barum in particular), growth would have amounted to 6%. Earnings before interest and taxes rose by DM 70 million, or 21%, to DM 404 million. The Group profited from its excellent products, positive test results and higher volumes.

Business with the European **automotive industry** showed good progress. Based on a sales growth rate of 10%, earnings improved as well. After many years, we ceased to lose money on sales of passenger tires to OEMs. We are trying to achieve the same close technical and commercial relationship with car makers worldwide that we have traditionally maintained in development projects with German manufacturers.

Sales on the **replacement markets** in Europe also increased briskly, with an increase of 4%. We did exceptionally well with winter tires and with environmental and high-tech summer tires. The **dealer companies** have not yet been fully reorganized. Due to the high exchange rate of the British pound, sales amounted to DM 1,471 million (1996: DM 1,303 million), and losses to DM 39 million, as against DM 42 million in 1996. These figures also include provisions for restructuring. Further structural alterations and higher sales based on an enhanced line of services will bring the unit to the breakeven point in 1999.

Commercial Vehicle Tire Group

	1997	1996
Sales in millions of DM	1,311	1,073
EBIT in millions of DM	– 21	– 23
Capital spending on P.P.E. and software in millions of DM	64	64
Depreciation in millions of DM	68	65
Total assets in millions of DM	1,040	899
Employees	5,417	4,227

The **Commercial Vehicle Tire Group** was again obliged to report a loss. Sales revenues increased by DM 238 million, or 22.2%, to DM 1,311 million in 1997, due in part to higher volumes, but primarily as a result of a change in the scope of consolidation (Barum); disregarding changes to the scope of consolidation, the growth in sales was 6.6%. Earnings before interest and taxes were minus DM 21 million, compared with minus DM 23 million in 1996.

In Europe, the Group achieved sales growth rates of 4% in **original equipment** and 22% (8% without Barum) in **replacements**. Sales of industrial tires rose by a gratifying 28% (4% without Barum), cycle tires by 10% and agricultural tires by 126%, with this growth being almost completely attributable to the Barum effect.

The results of our industrial and two-wheel tire units improved. Agricultural tires and heavy truck tires still showed losses as the result of charges for restructuring. However, the Commercial Vehicle Tire Group as a whole is expected to move into the black during 1998. The emphasis during 1997 was on cost-control and structural measures at the truck tire plants at Herstal in Belgium and Hanover-Stöcken in Germany. Through plant agreements with the employees and their representatives, cost savings of about DM 65 million were realized, some of which also benefited the Passenger Tire Group. In 1996, the Austrian plant in Traiskirchen, which is also located in a high-cost country, had already made substantial investments to reduce costs.

Continental General Tire Group

	1997	1996
Sales in millions of DM	2,358	2,058
EBIT in millions of DM	129	82
Capital spending on P.P.E. and software in millions of DM	95	87
Depreciation in millions of DM	149	145
Total assets in millions of DM	1,759	1,628
Employees	6,060	6,248

The **Continental General Tire Group** increased its sales by 14.6%, from DM 2,058 million to DM 2,358 million. In U.S. dollars, this was equivalent to a slight reduction of 0.6%; without the sale of the plant in Odessa, Texas, sales in U.S. dollars would have increased by 0.7%. Earnings before interest and taxes rose by DM 47 million, or 58%, to DM 129 million. Both the Passenger Tire and Commercial Vehicle Tire Divisions contributed to this positive trend. The **original equipment business** was particularly good for commercial vehicle tires, with sales up 17%; the growth rate for passenger tires was 4%. In the **replacement business**, there was a gain of 2% in passenger tires, while commercial vehicle tires remained at the previous year's level. Now that a solid earnings base has been established, we plan to steadily improve our position in the market. Through Continental General Tire we are offering our products to European manufacturers with plants in the United States. Launching the operation from Europe and the U.S.A., we plan to gain a foothold in South America as well.

ContiTech Group

	1997	1996
Sales in millions of DM	3,094	2,968
EBIT in millions of DM	178	177
Capital spending on P.P.E. and software in millions of DM	197	149
Depreciation in millions of DM	143	133
Total assets in millions of DM	1,712	1,593
Employees	15,257	14,199

Sales of the **ContiTech Group** rose by 4.2%, from DM 2,968 million to DM 3,094 million. Adjusted for changes in the scope of consolidation – the inclusion of ContiTech Vegum, ContiTech Vegum Vibration Control, and Caucho Técnica and the divestment of Uniroyal Englebert Textilcord and Flockgarn – the increase amounts to 6.8%. Business with the **automotive industry** developed fast, with a growth rate of 4%. The Group's earnings from operations rose by DM 51 million. Owing to restructuring of the plants and expense in connection with forging ahead with the development of ISAD, they were depressed by increased charges amounting to DM 24 million. Moreover, additional extraordinary asset retirements and provisions for risks totaling DM 26 million caused earnings before interest and taxes to remain close to the previous year's level at DM 178 million. Based on its earnings situation, which has been improving for some years now, ContiTech is expanding its activities through capital-saving investments, cooperation and licensing agreements and the construction of small-scale factories. Following the absorption of Clouth Gummiwerke AG by Continental AG, the molded products and conveyor belt units have been integrated into the corresponding ContiTech companies, which promises to generate valuable synergies. ISAD activities have been transferred to a new, legally independent company, ISAD Electronic Systems GmbH & Co. KG, Cologne. As of January 1, 1998, the Continental Automotive Systems Group is taking over responsibility for the industrialization of ISAD. Like the Hanover tire plant, ContiTech's extrusion factory in Hanover-Vahrenwald has succeeded in reducing costs by means of a plant agreement, thus helping to safeguard the existence of this location.

Continental Automotive Systems Group

The **Continental Automotive Systems Group** expanded its business with complete wheel assemblies to 4.3 million units, compared with 3 million in 1996. New facilities were added in Rastatt and Ulm, Germany. Assembly work is expected to commence in Brazil in 1998. The profits from this business are being used to finance future-oriented projects, including the development of systems for brakes, acoustics, running on punctured tires and chassis management. These new projects will be contributing to sales from the year 2000 on.

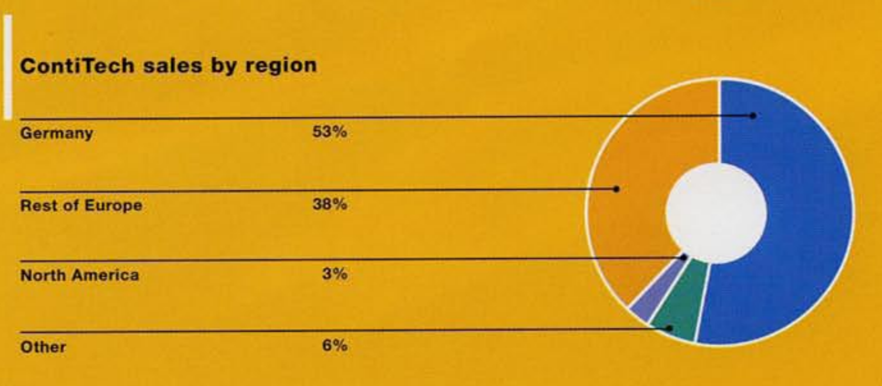
Management Report
Regions

We are still only sparsely represented in the Near and Far East, Africa and South America, but we are following our customers into these markets at an increasing rate. China is an example for industrial tires, and South America for the other tire units and for industrial products.

further growth, but is still under-represented in the U.S.A. and Canada.

In 1997, the Continental Corporation sold 73.1 million passenger tires and 4.3 million truck tires worldwide, for a market share of almost 8%. 68% of our passenger-tire sales volume was attributable to Europe; for truck tires the figure was 54%. 18% of our passenger tires and 13% of the truck tires went to the European automotive industry; the shares in the U.S.A. were 12% and 5% respectively.

The replacement markets in Europe and the U.S.A. took 47% and 20% respectively of our passenger tires; the corresponding figures for truck tires were 38% and 41%.



Europe continues to be the most important market for both tires and ContiTech, accounting for 68% and 91% of sales, respectively. Within Europe, for both historical and economic reasons, Germany with a 33% share of consolidated sales, lies at the heart of our business. In North America, thanks to Continental General Tire, the Tire Groups are represented considerably more strongly than ContiTech. More than one fourth of the Continental Corporation's tire sales is made in the U.S.A. ContiTech is using cooperations and joint ventures for

We control an above-average share of the market in Germany, Switzerland, Austria, the Benelux countries, the Czech Republic and Scandinavia. This is closely related to our acquisition policy over the past two decades. Market share in Great Britain is satisfactory, while in the U.S.A., France, Italy and Spain we still have potential for substantial growth despite the positive trends.

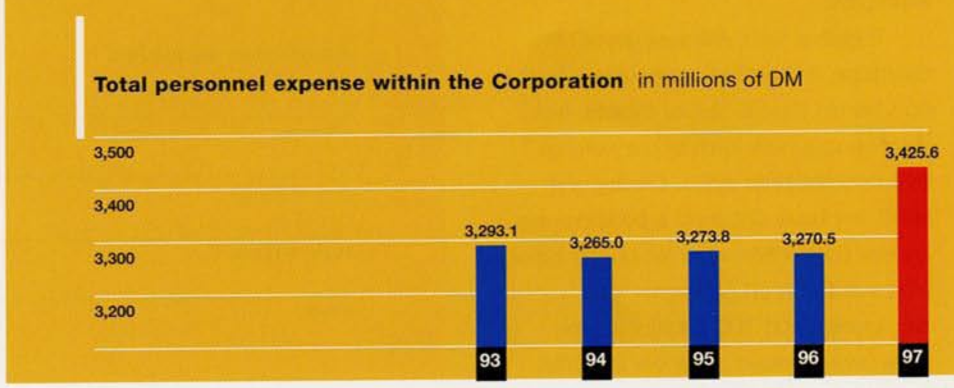
One of the many successful ContiTech companies: Deutsche Schlauchbootfabrik (DSB).

Employees

In 1997, our employees again made a vital contribution to the growth of the Corporation. They not only helped to increase efficiency in all our units, but also to develop and manufacture new, technologically unique products.

	1997	1996
Germany	19,125	19,274
North America	6,071	6,255
Czech Republic	3,803	3,762
France	3,545	3,560
Great Britain	3,518	3,455
Austria	1,936	2,197
Italy	1,163	1,157
Sweden	1,110	992
Portugal	1,061	1,100
Belgium	804	987

The Corporation's personnel expense rose by 4.7% to DM 3,425.6 million. This figure includes wages, salaries, social welfare contributions, and expenses for pension plans and



Stabilization of the Work Force

The number of employees in the Corporation increased by 30 to 44,797 as per December 31, 1997, compared with 44,767 in the prior year.

The table shows the change in the number of employees (not including trainees) in countries with large manufacturing plants:

other employee benefits. Personnel expense per employee increased from DM 70,422 to DM 76,432 (+ 8.5%), with the main portion of that increase being attributable to foreign exchange rate fluctuations.

Trainees and Training Programs

In Germany, we spend about 1.5% of personnel expense – about DM 20 million – for vocational training and continuing education. The number of trainees in that country was 400, compared with 582 (1996: 535) worldwide. The training center at the Hanover-Stöcken plant was converted and enlarged at a cost of DM 3.1 million.

Our offer of a combination of study and vocational training, in both the commercial and technical areas, prepares people for challenging careers. It has met with an excellent response from the trainees and the various business units as well. Equally successful has been a new international integration program for university graduates with degrees in the natural sciences or engineering. To start with, they are put through a ten-month training course that they plan and implement themselves. The core of the program is six months of basic training, which covers almost every aspect of the Company, from shift work in a factory to participation in sales.

Managing Change

Constant, rapid change in structures and processes present Management with new challenges. Here are some examples:

Together with Volkswagen AG in Salzgitter, a ContiTech subsidiary, Techno-Chemie Kessler & Co. GmbH, has developed a new form of partnership that benefits both sides. On the one hand, we have obtained a considerably greater production volume; on the other, we have taken on 65 former VW employees, and 100 additional jobs have been created. Now we manufacture at VW's plant in Salzgitter and feed the output directly into their production. We regard this strategic cooperation as a model for further joint projects, not only with VW, but also with other car makers in Central and South America.

Another example, from the ContiTech companies, is the formation of so-called product-market segments. Small teams, in which all the core functions of a business are represented, work on specific tasks for their customers. By this means entrepreneurial thinking and action is stimulated.

A third example can be found at Continental General Tire, which has begun a restructuring project for the purpose of improving the process sequence from receipt of the order to delivery of the product. Here, too, small multifunctional teams are formed, which concentrate primarily on customers with high growth potential.

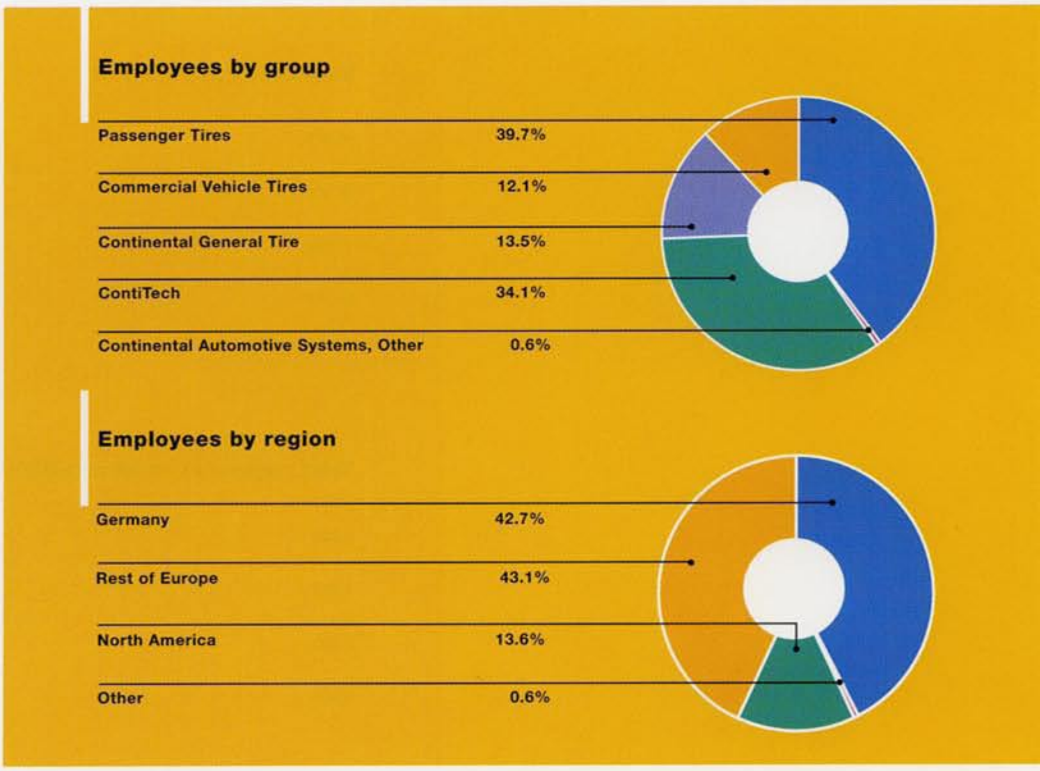
We help our managers to perform their assignments by offering specific management tools and development programs. A tool that has proved particularly useful is the "balanced scorecard," which helps to make the corporate goals clear and measurable for each individual employee. Another is the "change master program," in which the participants learn, in a team with external support, to guide difficult processes of change in their units faster and more reliably.

Our junior management training program gives young executives a chance to solve international and interdisciplinary problems in the context of concrete corporate projects, thereby developing their managerial skills.

Answers to New Challenges

We are making it a rule to increase the variable component in the overall remuneration of our executives. In 1997, an appropriate model was introduced for senior managers; now executives of the second rank are being linked more closely to the earnings performance of their units, through a new variable compensation system.

Use of the Internet is becoming increasingly important in the hiring of new employees. The web is very popular with young executives who are technically oriented and highly qualified. And the Intranet, our in-house information network, will open up new possibilities for personnel development which we are testing step by step.



Outsourcing of Service Units

Like the operating sectors, service units within the Corporation are being urged to increase their contribution to Continental's success. This is being accomplished through a performance-oriented customer-supplier relationship, rather than an apportionment of costs. We have therefore transferred the education and training department to a company formed by former members of our training staff, which they now manage. The company receives a contract for a long-term collaboration with us, but is free to work for outside clients.

Almost 20% of Our Employees Are Shareholders

In 1995, we were the first German company to offer our employees not only the traditional employee shares, which are bought at half the market price and must be held for six years, but also a new investment program known as "CONTI 100." It is distinguished by a guaranteed price over the life of the program, which lasts for only two years. The design of the program also permits more shares to be offered.

On November 27, 1997, the blocking period for the first "CONTI 100" program expired. 1,543 employees had participated in 1995, purchasing their shares at a price of DM 19.90. Most of the employees preferred to keep their shares, when they could have made a solid profit by selling them on expiry of the blocking period at the current price of DM 44.00.

In 1997, approximately one out of five of the employees entitled to subscribe purchased shares from both programs. This is equivalent to about 3,700 persons and 119,465 shares. We welcome this trend and shall maintain our goal of increasing employee ownership of our Company to 5% over the medium and long term. At present it is just short of 1%.

Source of value added (Corporation)

Millions of DM	1997	1996	1995
Sales	11,186.1	10,430.6	10,252.6
Other income	229.2	264.5	262.0
Corporate performance	**11,415.3**	**10,695.1**	**10,514.6**
Cost of materials and other input from outsiders	– 6,761.5	– 6,371.0	– 6,297.0
Depreciation (total)	– 601.6	– 609.5	– 556.2
Value added	**4,052.2**	**3,714.6**	**3,661.4**

Distribution of value added

Millions of DM	1997	1996	1995
Personnel expense	3,425.6	3,270.5	3,273.8
Net of interest income and expense	167.8	195.7	192.8
Income taxes	137.0	55.9	39.6
Net income	321.8	192.5	155.2
Value added	**4,052.2**	**3,714.6**	**3,661.4**

Higher Value Added

The Corporation's performance increased by DM 720.2 million, or 6.7%. After deducting input from other sources, value added amounts to DM 4,052.2 million. This amount is DM 337.6 million more than in 1996, corresponding to an increase of 9.1%.

Value added was distributed as follows: Personnel expense accounted for 84.5%, 4.1% went for interest, and 3.4% for income taxes. A net income of DM 321.8 million (7.9%) remained, of which DM 241.6 million has been allocated to shareholders' equity and DM 80.2 million is to be distributed as a dividend.

Important: Internal Communication

Internal communication throughout the Corporation, as well as in the individual business units, has high priority for us. Our tools range from publications, company newspapers and videos through management information to employee events and presentations. As always at the beginning of a year, top managers from every one of our locations attended the Senior Executive Convention. The topics for 1997 were globalization and the conquest of new markets.

Thanks

As the process of change continues, constructive collaboration with our employee representatives again proved successful. Ample opportunity was afforded at all levels for employee information and communication between the employee representatives and representatives of the Corporation. This applies as much to direct exchange of opinion at the local units as to intensive communication on the European level, such as takes place at our European Forum. Our thanks go to our present employees, to all those who retired during the year, and to our executives and employee representatives, who made the common effort required to keep our Company on its successful course during 1997.

Employing the latest technology, uniting all the potential within the Corporation, achieving maximum quality and protecting the environment must be among the objectives of a company that means to achieve a satisfactory profit and above-average growth.

Heavy Investments in Information Technology

Global communications and online availability of technical and economic data have become a central factor for the success of our business. The provision of general information services and access to applications on the Continental Intranet were expanded accordingly during the year under review, and their use was intensified, especially in research, product development, logistics and sales.

Further progress was made in integrating our companies into corporate-wide standardized data systems; the inclusion of Barum Continental, ContiTech and Continental General Tire is particularly noteworthy. Another important step was the transfer of the information technology of the ContiTech companies to ultra-modern SAP systems. At the same time, preparations are being made for the introduction of the Euro and conversion to the year 2000.

Just under 1,000 researchers and developers work at our technology center in Hanover-Stöcken.

We regard electronic commerce, which consists essentially of communication with our customers, as a strategic tool for capturing market share. In 1997, we concentrated on expanding electronic contacts with dealers.

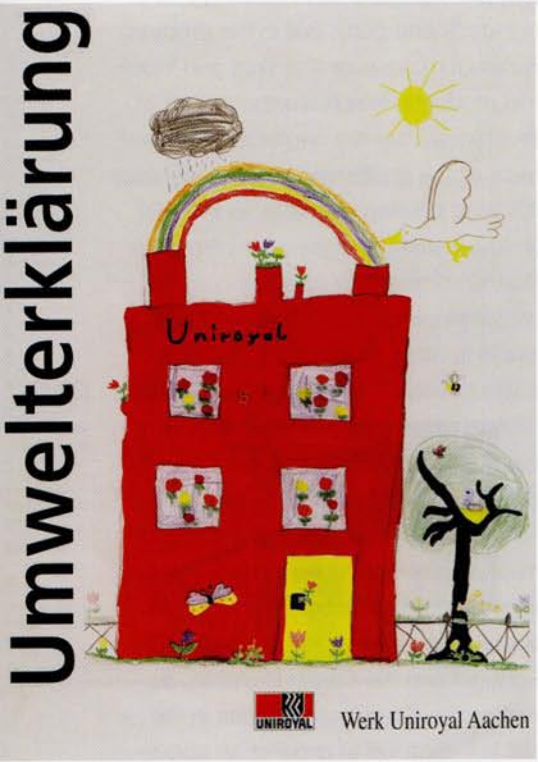
The Heart of the Matter: Process and Product Development

Wherever solutions to problems concerning the entire system linking vehicles, people and the highway are involved, all our scientists and engineers around the world work together. Expenditure in research and development, which is included in the manufacturing costs, rose to more than 4% of sales, reflecting the ongoing development projects of Continental Automotive Systems.

Tires

As pressure on costs mounts throughout the world and the standards for tires become increasingly demanding, manufacturing processes must be made simpler and more efficient. A milestone in this regard is the fully automatic ESA (single-stage building machine). For us, the ESA is the technological basis for tire manufacturing. From it, together with Krupp AG, we have developed a new, largely automatic, single-stage machine, the C+K/EST. A high standard of quality, low manufacturing costs and a comparatively small investment characterize this giant step toward the standardization of tire production. A good example of differentiation in the manufacturing process is M.M.P. Unlike C+K/EST, which is designed for standard tires, M.M.P permits flexible economical production of small series and a quick reaction to changing requirements.

The introduction of silica technology, which opened up a new world in rubber chemistry, has enabled us to make marked improvements in the characteristics of our tires. One result has been a substantial reduction in both fuel consumption and vehicle stopping distance, although improvements in these two parameters were formerly thought to be mutually exclusive. Our R&D department is working on tires with runflat features, which, when combined with warning systems, dramatically increase the safety and mobility of motorists. In the near future, we will join with the automotive industry to introduce a new tire-pressure warning system, which will make tires an increasingly integral part of the vehicle.



ContiTech

In accordance with the organization of the ContiTech Group, products and product-specific processes are ordinarily developed within the relevant field of activity. At the same time, research and development that concerns the entire Group, involving materials, basic processes and simulation technology, is conducted centrally by ContiTech Engineering, with assistance from the other units. Techno-Chemie Kessler & Co. GmbH has opened a new R&D center, which is also engaged in constructing tools and prototypes. It is working for our factories in Berlin, Karben and Salzgitter and for the newly formed ContiTech Mexicana S.A., and will shortly begin to service a new location in Brazil as well.

Environmental Protection and Quality Are Indispensable

In its Corporate Basics, Continental gives a high priority to ecological and economic goals. As an internationally active company, we desire not only to fulfill the requirements imposed by law, but also to set our own more ambitious objectives. All the more so, because scrupulous respect for the environment is also in the interest of our customers and constitutes a strong selling point.

Our success is attested by the environmental prize that Volkswagen AG awarded in 1997 to six of its 2,000 suppliers. Continental received the prize for the Korbach plant in North Hesse with its tire unit and ContiTech Schlauch GmbH. This plant has already been acknowledged as the premier location of the rubber industry in Europe, when it fulfilled the requirements of the EC Eco-Audit Regulations of 1993. Pursuant to these regulations concerning the voluntary participation of commercial companies in ecological audits conducted by experts, such as the Rhineland Technical Inspection Agency, detailed environmental reports are published every year.

Since then, other production locations have met the European Union's requirements for environmental protection, including the Hanover-Stöcken tire plant, with Continental Automotive Systems and Radsystem GmbH, the tire plant in Aachen and the Hanover plant of ContiTech's subsidiary Benecke-Kaliko AG. But outside the EU as well, Continental is striving to fully comply with strict environmental guidelines. Our subsidiary Barum Continental, a tire manufacturer in the Czech Republic, has passed no less than two environmental audits at its plant in Otrokovice. The first was conducted pursuant to ISO 14001; in the second, it became the first factory outside the EU to meet the EC Eco-Audit standards. The ISO 14001 certificate, a written confirmation of efforts for a better environment, was also granted in 1997 to our Belgian plant for commercial vehicle tires in Herstal. Other audits are on the point of completion.

Quality is also an invariable component of the tests made by customers from the automotive industry, in order to choose the best one from a multitude of would-be suppliers. In previous years, we had already received a series of quality citations from Audi, Ford, General Motors, Nissan and Volkswagen. Other manufacturers, including Daimler-Benz, BMW and Porsche, do not award prizes of this kind. But with these companies, too, Continental is a valued supplier. In 1997, for the tenth time in a row, Continental General Tire's Mt. Vernon, Illinois, plant was honored by Nissan as its top supplier. This Group also received the Ford Full-Service Supplier Award for its tires. The Q1 Award, which since 1988 has been Ford's highest recognition of quality, went in 1997 to Palmela in Portugal, where we assemble complete wheels for a nearby Ford/VW factory, and to ContiTech Antriebssysteme GmbH in Hanover-Vahrenwald.

Management Report
Outlook

Tires will continue to be the Corporation's key source of sales. In the future, however, we will employ new high-tech electronic systems to strengthen our position in both tires and industrial products.

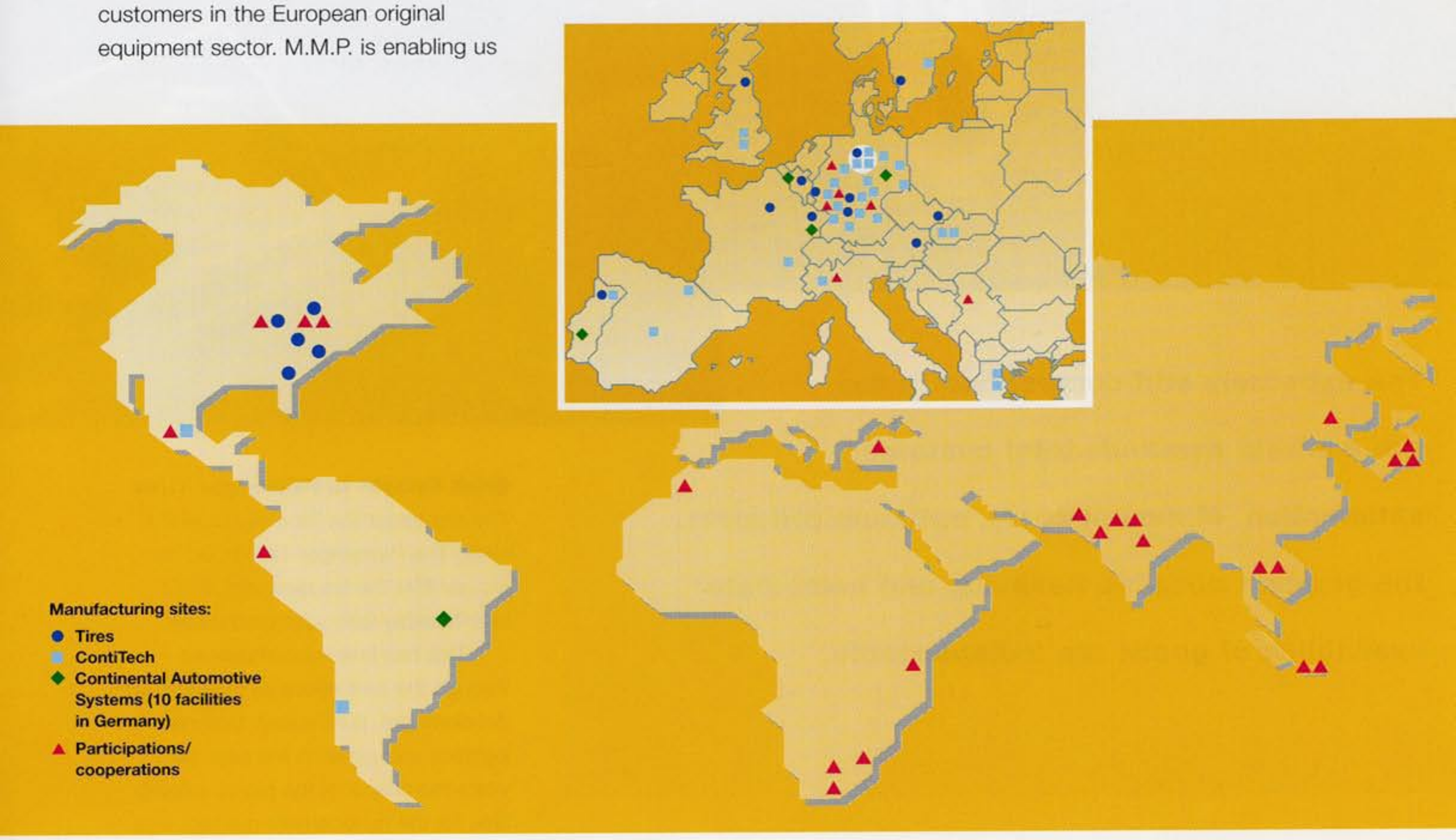
Our Goal: Higher Earnings with Profitable, Dynamic Growth

We expect sales growth rates in the immediate future to be higher than in the past few years. According to our budgeting, the after-tax profit margin should also rise considerably above the average for that period. At the turn of the new millennium, Continental Automotive Systems will start to make an active contribution to our earnings. Our two mainstays, tires and industrial products, will supply the financial and technological foundation for the dynamic development of this Group. As a result, the consciousness of the Corporation and its employees is being reoriented toward high technology. Our customers, too, are regarding us increasingly as a high-tech company. But in the process, we must make sure that tires and industrial products, which are the source of profit today, are not neglected. Fulfillment of the challenge to develop unique systems solutions will also, in the final analysis, safeguard the core jobs in our German plants. The courage to approach problems of unusual technical sophistication is often, in itself, a token of the ability to solve them. However, we will venture only into those high-tech fields that promise a reasonable return on our investment.

In recent years, we have done much to restructure our factories and relocate our production. In the future, our European tire production plants in Portugal and the Czech Republic, as well as the ContiTech factories in Slovakia, will continue to grow at an above-average rate. Our key plants in Central Europe will be permanently fortified by improvements in operating efficiency. There is, of course, no guarantee for existing production locations, but, also in the light of anticipated high sales volumes, we are not contemplating any drastic personnel measures in 1998.

If the Corporation is to continue its vigorous development in the next century, it must cultivate a global presence. Our major customers in the European and North American automotive industry require service in all the markets where they are establishing themselves. This is equally true for tires and for ContiTech. At present, our Company is not yet represented on all the important markets. We are working to expand our production and distribution base systematically, among other things in order to prevent us from losing business in our established markets and with traditional customers in the European original equipment sector. M.M.P. is enabling us to achieve globalization more economically. In a few years, we expect to be producing several million more passenger tires with this innovative process, which will also be of great interest for truck tires in the future.

We shall continue to expand our network of partnerships and alliances. Our current investments in manufacturing and sales companies in Africa, Central America and Asia are being integrated into a global concept.



Important Events After the End of the Fiscal Year

Effective January 2, 1998, Continental AG acquired another 24% of the shares of Barum Continental spol.sr.o., Otrokovice, Czech Republic, from Česká gumárenská společnost a.s., Prague, Czech Republic.

As of the same date, Semperit Reifen AG, Vienna, Austria, sold its interest in the plant unit SAVA Semperit, Kranj, Slovenia, to Sava Kranj industria gumijevih, kemicnih in usnjenih izdelkov p.o., Kranj, Slovenia thus concluding, by mutual consent, a relationship that had existed for many years.

To Sum Up ...

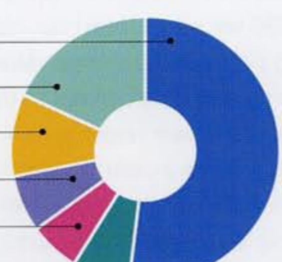
Our goal is a 15% return on equity capital. In 1998 we will maintain our capital spending policy and our expenditures for research and development at the high level of the year under review. Authorized capital investments in 1997 were 24% higher than in 1996. We want to offer our employees job security. We will continue to produce in Germany, for the country has no future as an exclusively service based society. The special opportunities offered by our German location and the people who work there must be fully utilized. Strategic moves toward globalization also support jobs in our home market.

Passenger Tires

The extremely stiff competition in the tire markets demands total customer satisfaction. Minimum costs, optimum products, the greatest possible flexibility and immediate availability of goods are indispensable.

Passenger Tire Group Sales by brands

Continental	52%
Uniroyal	18%
Semperit	10%
Gislaved/Viking	7%
Barum	6%
Other	7%

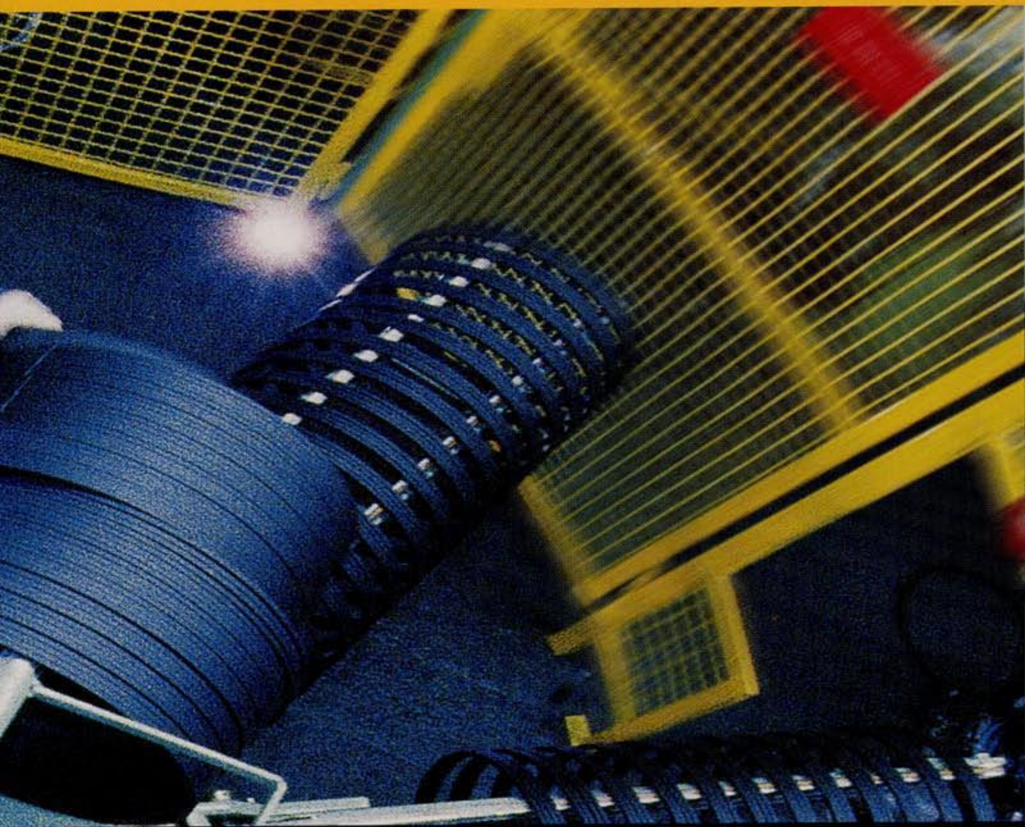


Brisk Growth in Passenger Tires

The results for the fiscal year make it clear: The Passenger Tire Group has proved that the tire business is not incompatible with solid profitability.

This has been accomplished through the joint efforts of research and development, purchasing, factories, logistics and sales. In the past two years the output of the plants making tires for the replacement markets was more than 25% higher, with the same level of fixed costs.

In Europe, unit sales grew more in the replacement business than in the original equipment sector in 1997. Nevertheless, we were able to expand our leading position as a supplier for top-of-the-line vehicles. In the European replacement markets, we grew at an above-average rate, especially in the high-performance segment: winter tires and summer tires for automobiles in the upper speed categories. While standard tires showed a gain of 4% in 1997, sales of tires for speeds above 118 mph increased by 12%. All the Corporation's



Modern passenger tires are products made with meticulous care and requiring utmost precision for each component. Bead wire produced using automated processes guarantees a firm seat on the rim. Sensors built into future tire treads will be capable of indicating the interaction between the tires and other vehicle components.

brands benefited from this change in the mix. Particularly noteworthy were the increases in Continental and Barum summer tires; the private brands also recorded high growth rates.

Sales increases for winter tires were exceptionally strong in the year under review. Although a record volume of 9 million units had been achieved in 1996, we succeeded in realizing a further gain of 18%. Continental, our leading brand, played a major role in this positive development. However, all the Corporation's traditionally strong winter tire brands – Uniroyal, Semperit and Gislaved – were in great demand.

The range of our products is steadily increasing. For the first time, we developed a snow tire especially for the Japanese market: the IceContact. The European trade journalists were informed at various events about the current ContiWinterContact TS 770 and its successor, the TS 790. A new asymmetric tread pattern with an innovative siping system and a silica compound constitute the basis for future outstanding performance by our flagship product.

The leading-edge technology and sporty low-profile design of the ContiSportContact have won it approvals for two Porsche models: the 911 and the Boxster. There was strong demand for the ContiEcoContact, a fuel-saving summer tire that comes in two ranges, for vehicles with more and less powerful engines. The Uniroyal rallye 580 has established a firm position for itself, with 6 million sold in two-and-a-half years. The ADAC has given it top marks for behavior on both wet and dry roads and for comfort. We have intensified dealer advertising for the Uniroyal rain tires.

The magazine *auto motor und sport* has classed the Semperit Direction M 800 as "recommended."

Transatlantic cooperation with Continental General Tire has been expanded in every field. In the U.S.A., J.D. Power, the renowned pollster, found that Continental tires provided "the greatest customer satisfaction." To increase and strengthen recognition of the Continental brand, we continued our television campaign during the UEFA Champions League soccer competition. The 22nd Uniroyal traffic survey, "Road Traffic Supervision," received good coverage in all the important national and international media, and was popular with dealers as well.

For our dealer companies, we are developing a Pan-European dealer and franchise concept. While preserving the identity of the various national organizations, we are planning to introduce a joint presentation of our distribution activities under the name of "pneus expert".

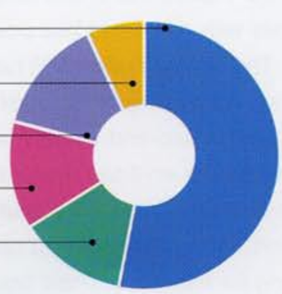
Turnaround Imminent in Commercial Vehicle Tires

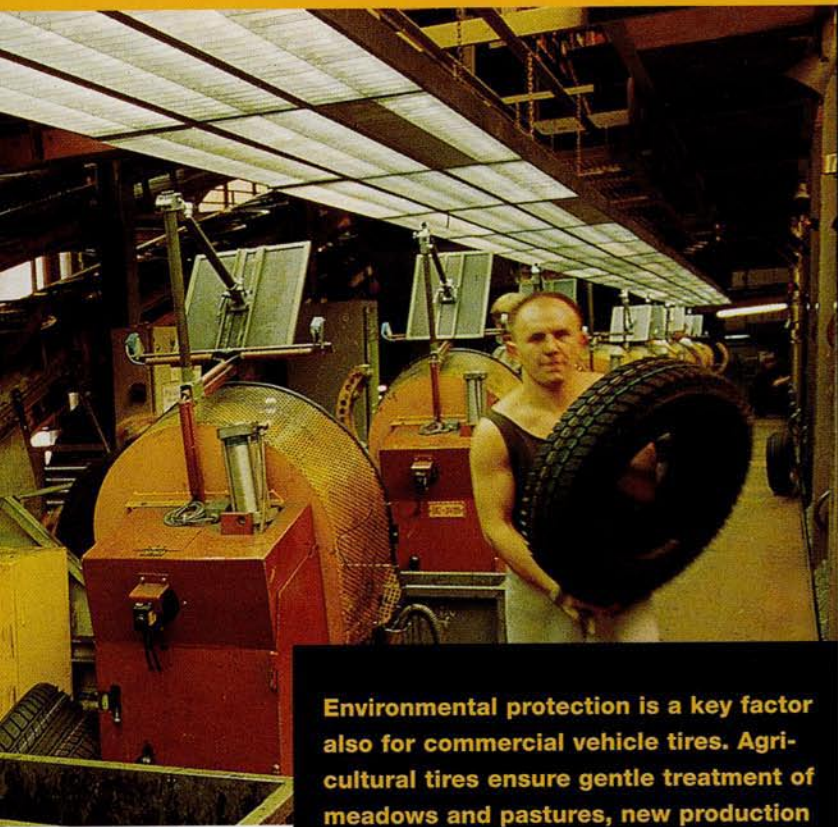
Pressure on prices showed no sign of relaxation during the fiscal year. Higher volume, a better mix and rationalization were therefore indispensable objectives for 1997 – and they were achieved. Based on successful restructuring and reduction of manufacturing costs, we are planning on an above-average increase in output for 1998; large volumes have been budgeted, in particular, for our plant in the Czech Republic.

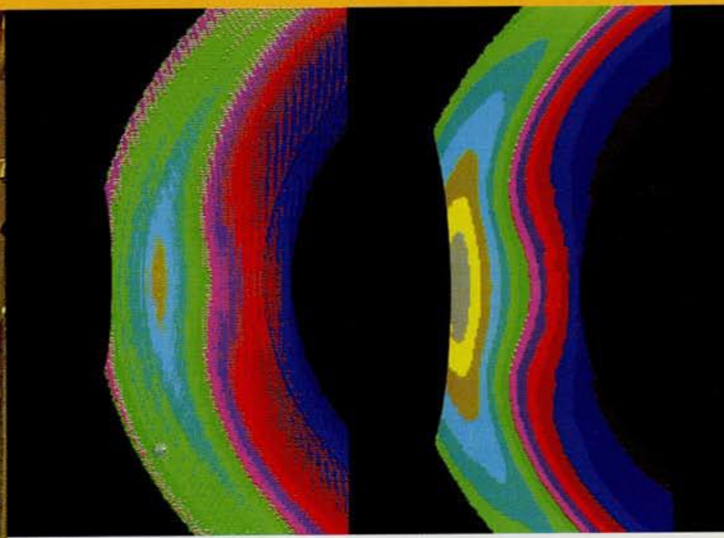
After a poor year in 1996, a pronounced rise in European truck tire sales enabled us to boost revenues by DM 35 million. Overall, a turnaround was achieved in which lost market shares were recovered. We improved our position in such high-volume markets as Germany, France, the Benelux countries and Great Britain.

Commercial Vehicle Tire Group Sales by brand

Continental	53%
Uniroyal	7%
Semperit	14%
Barum	13%
Other	13%







Environmental protection is a key factor also for commercial vehicle tires. Agricultural tires ensure gentle treatment of meadows and pastures, new production techniques are more eco-friendly, and latest analysis methods help to further reduce the rolling resistance and thus fuel consumption as well.

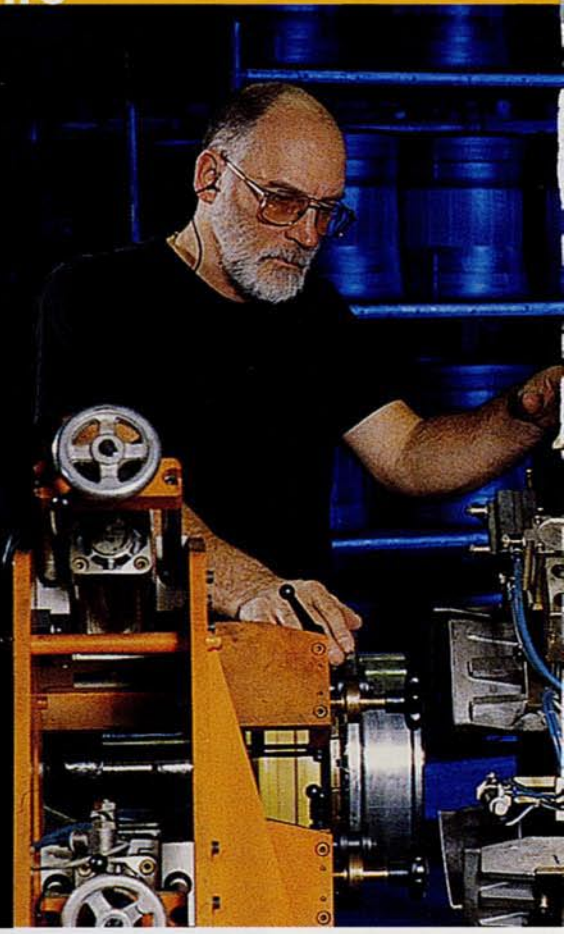
The Continental ECO-Plus truck tire for long-distance transport is being chosen by more and more hauling companies, resulting in excellent sales growth rates. Due to a substantial reduction of rolling resistance on every axle, this tire offers fuel savings of between 2.8% and 3.7%. This product line responds to our customers' demands for lower operating costs on long hauls. Its ecological advantages include a decrease in emissions and the consumption of raw material resources, ecological disposal with guaranteed acceptance of the worn-out carcass, and the possibility of retreading for a "second life." We have initiated a renovation and expansion of the entire line for road-to-construction-site and off-the-road vehicles, in order to provide modern, high-performance products that will satisfy the needs of our customers. The introduction of new private brands and new Semperit and Uniroyal tires has strengthened our position in marketing. Private brands are an important factor in keeping the Corporation's plants operating at high capacity.

As a key marketing strategy, we again participated in the European Truck Race, helping our customers to win numerous championships. 200,000 people attended the race at the Nürburgring alone. Technically outstanding products that fully comply with user requirements and the intensification of individual customer servicing are the basis for successful market development in the future.

A new agricultural tire, the Conti-Contract AC 65, was presented to consumers and the trade journals. This all-around tire with a low aspect ratio, for speeds up to 40 mph, is distinguished by its forceful ground grip and gentle treatment of meadows and pastures, together with great comfort on the road. We expect to derive fresh impetus from our partnership with the Yugoslavian manufacturer Rumaguma, which will be increasingly involved in producing agricultural tires for us. Since 1997, we have also been including the Barum brand in that local manufacturing program. New industrial tires were also introduced. The business of this unit has been growing at a highly satisfactory rate, with gratifying success in exports to China and the U.S.A.

In spite of the difficult situation in the bicycle industry, our two-wheel tire business unit passed the turnaround point and operated at a profit. Of the more than 50 bicycle tire manufacturers who used to be active in Germany, we are the only one still producing in that country, where we concentrate on top-of-the-line products for sports and leisure-time activities. In recent years, more medals have been won in championships and the Olympic Games on Continental tires than on those of all other manufacturers combined. Starting in 1998, the Deutsche Telekom professional bicycle team, with Tour de France winner Jan Ullrich, will use Continental tires because of their high quality.

Continental General Tire



Recognized quality has made Continental General Tire an original equipment supplier to major car makers in and outside the U.S.A. Air-sprung vehicle suspensions for cars have been refined by Continental Automotive Systems. They are being used in the Audi A6.

Continental General Tire Restored to Health

Our Group in North America has developed well. The measures taken in the past with regard to costs, structures and products have paid off. Giving up the location in Akron, Ohio, has proved to be a wise decision. In 1997, we improved the Group's competitiveness by restructuring the important passenger and light truck tire plant in Mayfield, Kentucky. The big truck tire factory in Mt. Vernon, Illinois, with an annual capacity of 2 million units, continues to be the Corporation's most efficient manufacturing facility in the truck tire sector. Our joint venture with two Japanese partners, Toyo and Yokohama, buys 0.7 million tires from its output. Demand for heavy truck tires occasionally exceeded the production capacity of this plant.

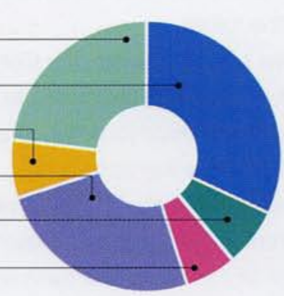
Our policy of divesting assets that are not part of our core business extends to the U.S.A. as well. Following the sale of the plant in Odessa, Texas, a long-term contract has been concluded to ensure a supply of synthetic rubber for our U.S. plants.

Our tires have become still more popular with the American automotive industry and with European manufacturers producing in the United States, like BMW and Daimler-Benz. Business expanded both on the open market and with selected distributors.

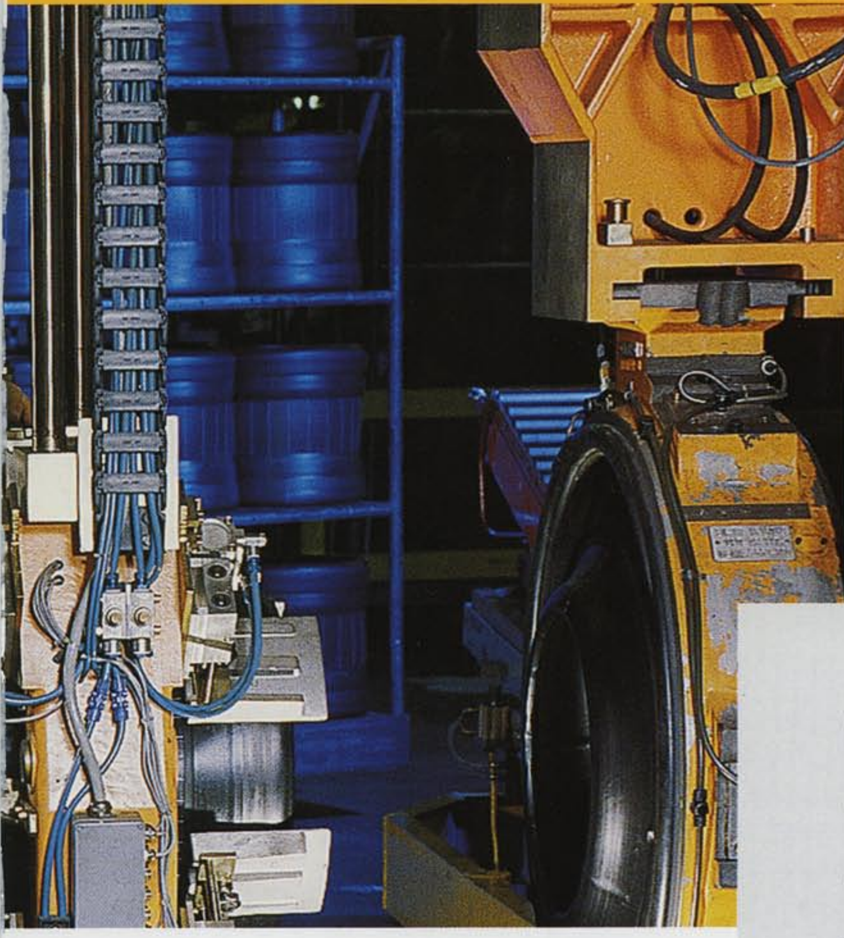
Sales volume for passenger tires was up 1% over 1996, based on almost 21 million units sold. Demand for light truck tires was stronger where close to 3 million units were sold, for an increase of 17%. With a sales volume of over 2 million units, the Commercial Vehicle Tire Division, which manufactures heavy

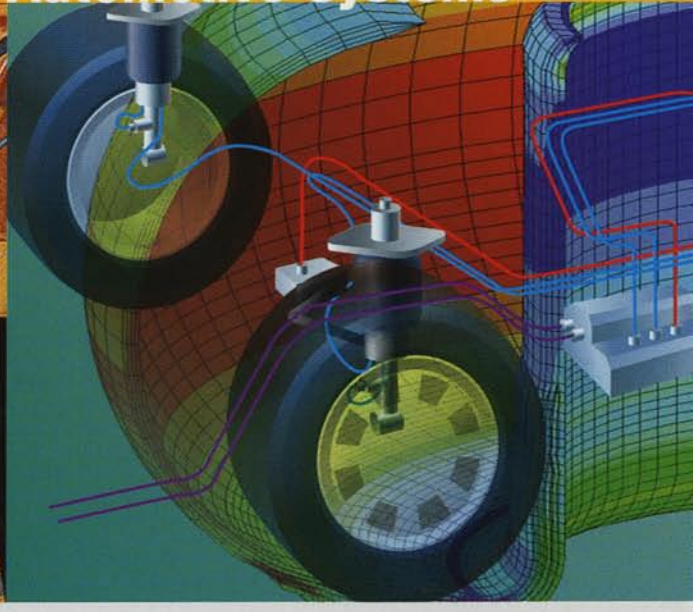
Continental General Tire Group Sales by product group

Passenger Tires, Original Equipment	23%
Passenger Tires, Replacement Business	32%
Private Brands	7%
Truck Tires	25%
Farm and Earthmover Tires	7%
Other	6%



Automotive Systems





We have found a promising outlet for our technological capabilities in Tires and Industrial Products. Supported by these two Groups, Continental Automotive Systems is breaking new ground in technology.

truck tires, industrial tires and tires for construction-site vehicles, achieved a gain of 6%.

After the turnaround of this important Group, resulting from its successful reorganization, Continental General Tire has made intensive investments in marketing and communications, in order to produce a significant gain in sales. The aim is to make the Continental and General brands more familiar to consumers and to position them in higher price categories. We have agreed upon a program under which General will offer its customers the best service available on the market.

The Continental Automotive Systems Group, founded in 1994, continued to make good progress during the fiscal year. New, highly qualified employees have been found to develop this interesting, future-oriented business. By year-end, some 100 people were working in Hanover, where the Corporation is concentrating its resources for high-tech systems applications.

The worldwide automotive industry requires us to provide complex solutions, which simultaneously influence concepts for the vehicles themselves. During the fiscal year, we commenced the production of a rear-suspension self leveling system for the new Audi A6.

Series of tests in the acoustics lab help all units of the Corporation to investigate the behavior of individual components within the vehicle system as a whole. Hoses and hose assemblies serve to transmit power and convey various substances. Their extremely low permeation rates protect the environment.

The system is very highly rated. A preassembly plant has been constructed in Hanover-Stöcken, which means that new jobs are being created at our Hanover location. Development of an own compressor is currently being pursued in order to safeguard the business and to lessen dependence on others.

The demand for greater vehicle comfort is closely linked to the reduction of the noise produced by tires on the road. We have therefore started a new program to bridge the gap between the objective reduction of noise and the subjective experience of noise by the vehicle passengers. By suitable adjustments to the chassis, the vibrations can be minimized. The development of systems to control noise and vibrations has been concentrated at our acoustics center at the Hanover-Stöcken plant.

We are working on methods to manufacture and supply complete wheels for the Micro Compact Car (MCC).

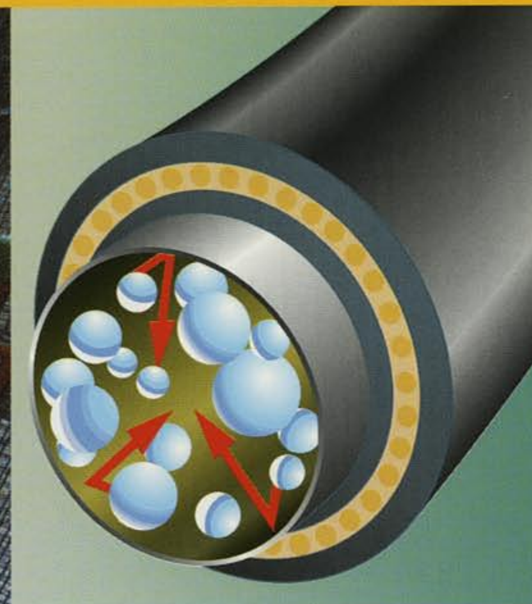
Our customers have responded positively to prototypes for an electromechanical braking system, and a partnership with vehicle manufacturers has been formed to develop it. To refine the technology, we signed a cooperation agreement with the automotive engineering division of Siemens AG in Regensburg and an Italian brake manufacturer, Brembo S.p.A. in Curno.

The development of a system to monitor tire pressure has made good progress.

We are taking a pioneering approach with the ISAD (Integrated Starter Alternator Damper) system conceived by ContiTech. Several development contracts that have been received from the automotive industry show that we are on the right track. We are looking for partners to industrialize this product.

We informed our auto industry customers locally in the U.S.A., via large-scale presentations, about the Corporation's projects for the future. The response enables us to gain a foothold in North America. Therefore we have set up an office close to Detroit which can be later expanded into a development center.

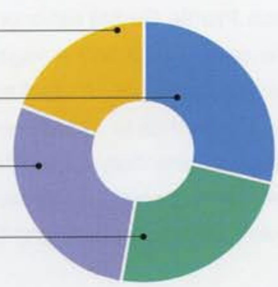
System solutions will be successful only if they provide the car makers not only with efficient technology, but with a cost advantage as well. Cost and weight are the decisive factors. As a development partner of our customers, we are dedicated to encouraging a systems orientation. In this way, we hope to make some contribution to the future design of the automobile.



Of the ContiTech Group's 14 business units, 12 reported a sales increase. Dwindling selling prices and rising personnel and administrative expense were more than outweighed by streamlining, moderate reductions in the cost of raw materials, and changes in the product mix.

ContiTech Group Sales by operations

Anti-Vibration and Sealing Products	**19%**
Hoses and Hose Assemblies	**29%**
Engineered Products	**28%**
Vehicle Interiors/Textiles	**24%**

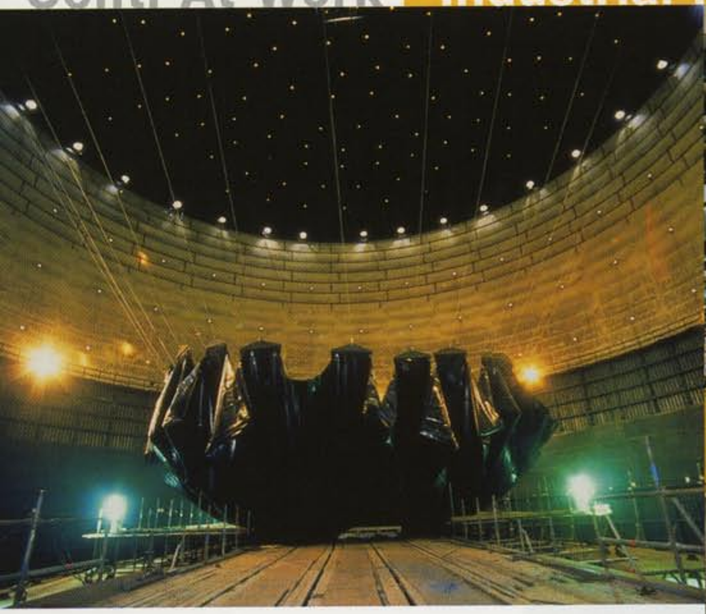


Good Progress for Vehicle Interiors and Textiles

Sales of **Benecke-Kaliko AG** in 1997 were slightly higher than in the previous year. A new generation of products produced significant sales growth and a positive effect on operating income in its business with vehicle trim sheeting. There was also a modest gain in furniture coverings and shoe materials. Sales in the industrial materials and headlining business decreased, due to the sale of the roof sheeting unit in 1996 and the discontinuance of a headliner model. The molded products division scored its first successes with a roof adjustment and damping system and with pillar trim panels.

Bamberger Kaliko GmbH suffered setbacks in its domestic business with sunshade products, due to the slump in the construction industry, and was therefore unable to reach the prior year's level of sales and earnings. We expect a positive impetus from the new line of flat sealings, which has received the TechTextile Innovation Prize.

As the result of a slight gain in sales and a successfully completed restructuring program, **ContiTech Formpolster GmbH** achieved its scheduled earnings goal.



Success in the Major Field of Activity: Hoses and Hose Assemblies
Thanks to good business in assemblies and products for filling station pumps, brakes and power steering systems, sales increased at **ContiTech Schlauch GmbH**. In many product lines, the company operated close to capacity. 40 employees were added to the staff. In Wackersdorf, we established a new production facility for assemblies, in order to maximize cooperation with our customer BMW. In 1997, the company recorded a satisfactory profit, which, however, fell short of the previous year. **PAGUAG Schlauchtechnik GmbH & Co. KG** showed a positive trend in earnings.

The sales of **Techno-Chemie Kessler & Co. GmbH** increased substantially, particularly in the automotive hose assemblies segment. Earnings continued to improve. In 1998, the company is starting up production of air-conditioning hoses, a strategically important market segment. Further projects in Mexico and Brazil have been launched or are on the drawing board.

ANOFLEX SNC in France raised both its sales and its net income. **ANOFLEX Ltd.** in Great Britain and **ANOFLEX Ibérica** in Spain continue to show positive development.

HYCOP AB in Sweden reported a gratifying sales increase and again operated at a solid profit.

Anti-Vibration and Sealing Products Gain Through Innovations
ContiTech Formteile GmbH was on target with its sales and earned a considerably higher net operating income. We have continued to trim the product spectrum and shift production to **ContiTech Vegum Vibration Control s.r.o.** in Slovakia. The integration of the molded products activities of Clouth Gummiwerke AG has been largely completed. ContiTech AGES was able to strengthen its good position in molded products.

The extrusions business unit is currently in a phase of consolidation. **ContiTech Profile GmbH** experienced a decline in sales, which had a negative effect on 1997 earnings. A plant agreement has enabled us to reduce personnel expense substantially for the next few years. An order from a German commercial vehicle manufacturer and the selection of the company as the development supplier for a passenger car model in the upper middle range provide a solid base for business development in the short term.

Sales increased at our Spanish extrusion manufacturer **ContiTech-ELASTORSA S.A.**, but earnings continued to be severely affected by a number of extraordinary charges. Business at **ContiTech Vegum s.r.o.**, Slovakia, is developing well.

The extrusions unit of **ContiTech AGES S.p.A.**, Italy, also showed a marked improvement in its business, although earnings are not yet satisfactory.

ContiTech also supplies innovative solutions for industrial applications. Diaphragms made of coated fabrics are used for sealing ultra-large gas holders. The ContiTronic system, developed and manufactured in Northeim, comprises conveyor belts with implanted transponders for the communication of data.

Healthy Trend in Engineered Products

The upward trend in sales and earnings continued at **ContiTech Antriebssysteme GmbH**. The company reported strong growth in vehicle replacement parts sold on the open market. In Great Britain, **ContiTech Power Transmission Systems Ltd.**, is making its production still leaner and installing additional manufacturing cells. Our joint venture **ContiTech-INA GmbH & Co. KG** showed further gratifying development. The marketing of power transmission systems projects was extended beyond Europe to America and Asia.

ContiTech Luftfedersysteme GmbH took advantage of the positive trend among the commercial vehicle companies to achieve a strong gain in sales and a good profit.

ContiTech AKTAS, our Turkish joint venture, also did good business and earned a satisfactory net income.

In order to emphasize our systems orientation and to offer complete technological solutions for car body suspensions, the railroad activities of ContiTech Formteile GmbH have been merged into ContiTech Luftfedersysteme GmbH.

Consolidation of the conveyor belting activities of Clouth and ContiTech in **ContiTech Transportbandsysteme GmbH** will result in still greater efficiency and proximity to the market. The innovative ContiTronic electronic system for the identification, control and monitoring of belt conveyors, which has become increasingly popular with our customers, was used for the first time in connection with the pilot operation of an ore mine. Earnings were somewhat lower than in 1996.

Our two Greek companies, **IMAS S.A.** and **SYRMA S.A.**, and **Caucho Técnica** in Chile performed according to our expectations.

Although operating in a difficult environment, **KA-RI-FIX Transportband-Technik GmbH** increased its sales and broke even.

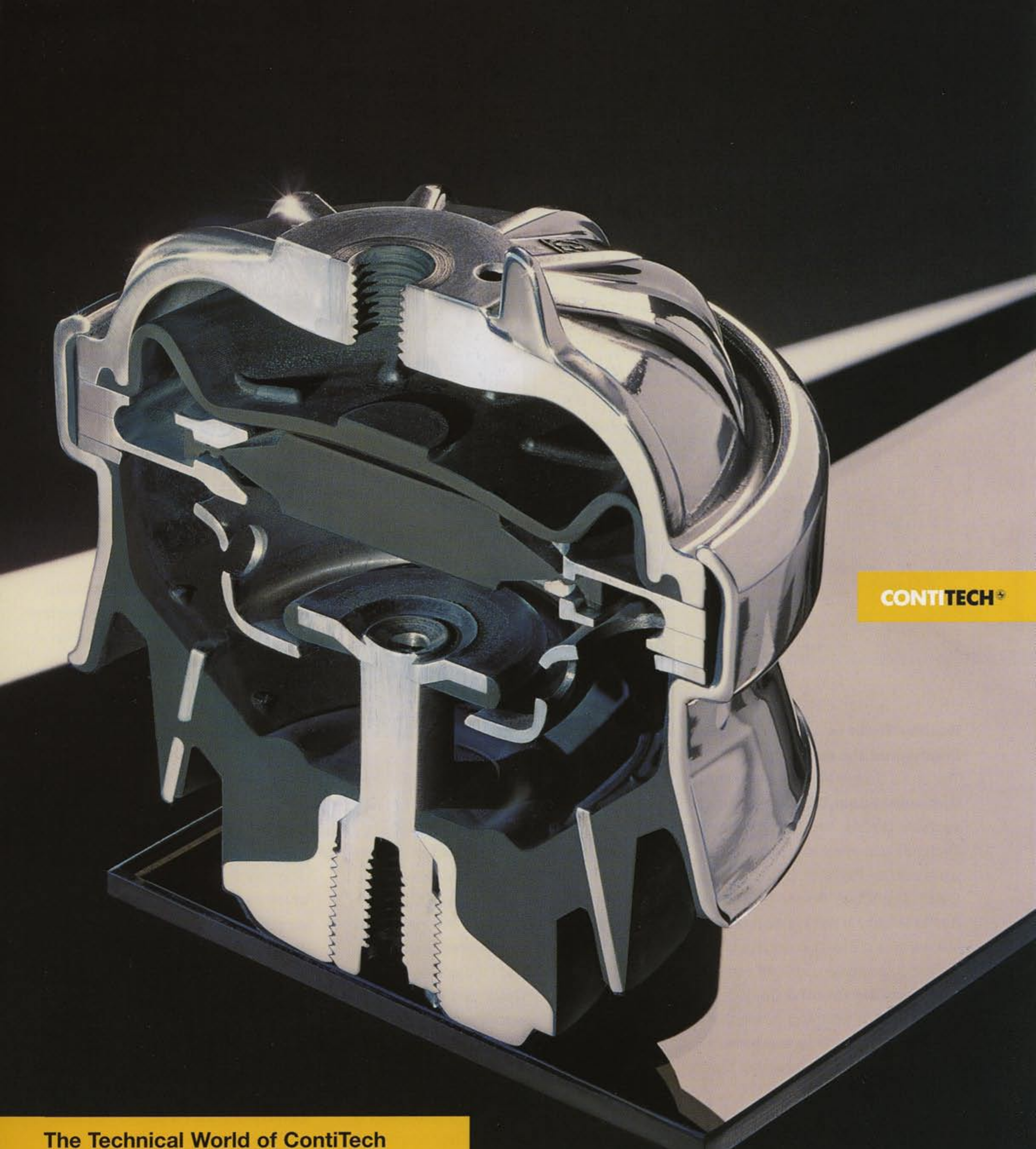
ContiTech Elastomer-Beschichtungen GmbH continued on its successful course, with a pronounced gain in sales and an above-average improvement in earnings. The gratifying rise in sales of printing blankets is based on good product quality, an increase in international business and approvals for use as original equipment by German printing press manufacturers. Although business with fabrics was slightly below the previous year's level, sales of flat diaphragms for fuel injection systems, for which the company is virtually the sole supplier to the European automotive industry, were exceptionally good.

Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG increased its sales in 1997 and earned a gratifying profit.

Other Companies

ContiTech AGES S.p.A. in Italy expanded its business in every product segment. The partnership with Fiat, its main customer, was supplemented by the booking of further export orders. Although prices remained under pressure, net income improved.

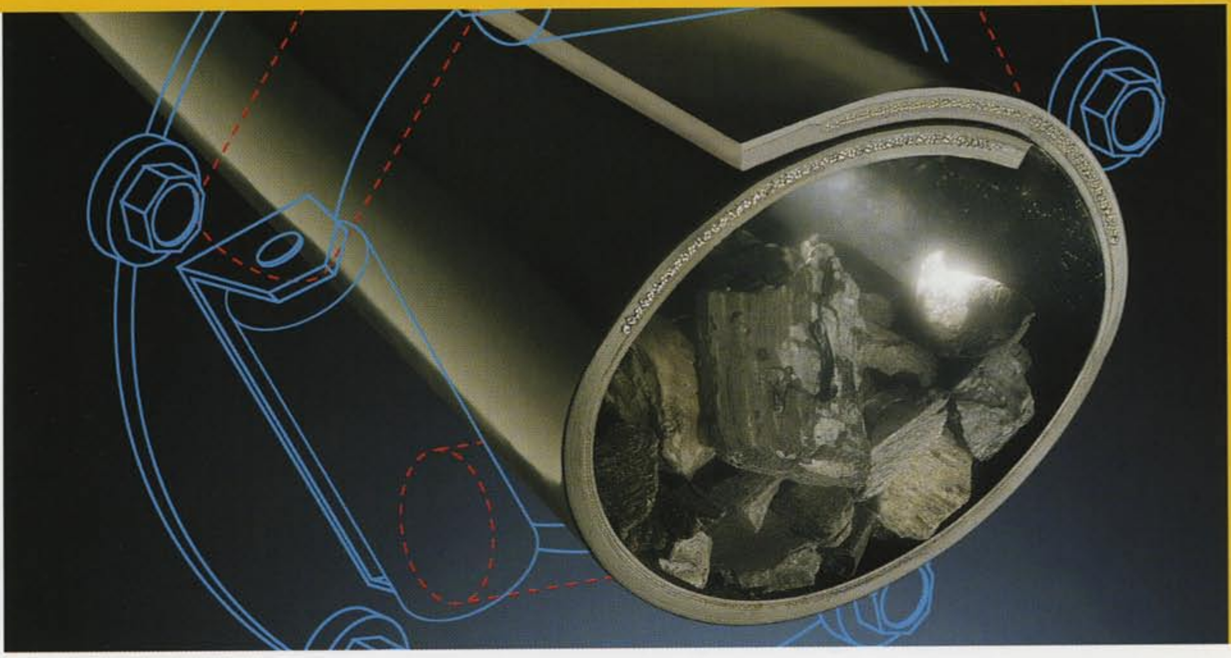
Indústria Têxtil do Ave S.A. manufactures textile cord in Portugal for the tire industry. Its earnings continued to increase.



The Technical World of ContiTech

Phase out standard articles subject to heavy price pressure; concentrate on profitable, innovative system solutions. This corporate policy has enabled ContiTech to develop successfully into a specialist in rubber and plastics technologies.

With about 15,000 employees and production facilities in 11 European countries, the operating companies controlled by ContiTech-Holding account for a third of the total sales of the Continental Corporation and an above-average share of its earnings.



Hydrosprings improve passenger comfort in the vehicle.

Flexible bellows protect the vehicle propeller shafts.

Tube conveyors enclose the materials being transported.

Success Based on Decentralization

The basis for ContiTech's success is a decentralized, income-oriented structure, together with strategic planning that is focused on leading-edge innovations and can be economically implemented. One of its guiding principles states that "The faster the results of research and development can be given concrete shape, the higher our income will be." Despite the fact that ContiTech has more than 1,200 industrial and utility patents worldwide, competition technology-wise is extremely intense. So there is an unrelenting pressure toward further innovation, to which the Group is successfully responding with its core capabilities in anti-vibration and sealing technology, vehicle interiors, hoses and industrial systems. Growing internationalization, collaboration with powerful

Composite materials made up of rubber, plastic and metal are used in hoses for demanding applications.

Power transmission systems are capable of performing a wide variety of tasks in the motor vehicle and in industrial uses.

Elastomer extrusions are multi-functional sealing systems for the motor vehicle body.

Various sheetings permit creative surface finishes in the automotive and furniture industries.

CONTITECH

partners, joint developments with major customers and the full exploitation of potential synergies within the Continental Corporation will continue in the future to secure ContiTech a place at the top in its various markets.

Development of Complete Belt Systems

One example of successful cooperation in a high-tech field is ContiTech-INA, which was formed during 1995 in Herzogenaurach. Its mission was to develop complete belt drive systems, which would eliminate successive deliveries of parts to the automotive industry. Orders have already been received from vehicle manufacturers. This innovation reduces costs by as much as 30%, damps noise and significantly increases useful life.

Innovation Award for ISAD

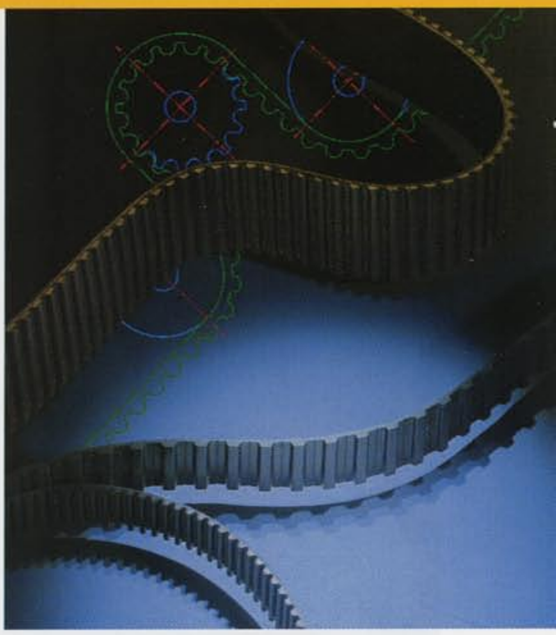
An equally great technical leap forward is the computer-controlled Integrated Starter Alternator Damper system – ISAD for short – developed by ContiTech. Hiding behind this mouthful of words is a small miracle under the hood of the car. In most vehicles today, two electrical machines are used, one to start the engine and one to generate current, each designed according to its specific purpose. The ISAD system unites these functions in a single electrical-electronic machine. The result is a saving on fuel, marked reduction of pollutant emissions, significant decrease in weight and less noise. Not only that, but also – and it's a strong selling point – remarkable cost advantages. Citroën and BMW were the first car makers to present the ISAD system at this year's Geneva Motor Show.

New Engine Bearings

Another example of ContiTech's close collaboration with the automotive industry is an order for the complete development of an engine bearing system for a new car model. As with many other projects, the starting point was simulation on the computer. Here, once again, the vast research and development resources available in the Continental Corporation proved invaluable. Partners in this project from within the Company are the Automotive Systems Group and the Acoustics Center. The joint use of R&D resources – for example, in FEM (Finite Element Method) computations – as well as of the Cray computer and of the Contidrom testing center keep development costs to a minimum, which greatly increases ContiTech's attractiveness for both partners and customers.

Successful Collaboration with Universities

High technology long ago entered the field of hoses and hose assemblies, where ContiTech is Europe's No. 1 development partner and supplier. The automotive industry's requirements with regard to environmental compatibility, including the greatest possible reduction of CFC emissions in coolant hoses for air-conditioners and lengthy exposure to high temperatures, have now been met. Here, as in many other ContiTech



units, a successful collaboration with the universities is taking place. New challenges for hoses and hose assemblies, which ContiTech is now addressing, are temperatures up to 200°C and pressures up to 180 bar.

More Comfort with Airsprings

The Group is intensifying its efforts to find complete solutions for airspring systems to be used in trucks and buses. Work is currently being done on a system with an integrated height sensor and the corresponding damping units. ContiTech airsprings are providing greater comfort in the latest high-speed trains, including the ICE 2 and the French TGV. Air suspension systems for passenger cars are also making good progress. For example, Conti's electronic ride control system is an option for the new Audi A6.

Intelligent Conveyor Belt Systems

The automotive industry is not alone among the Group's partners and customers in urging it on to top technological performance. In intelligent conveyor belt systems, ContiTech is the market leader in Europe and No. 4 worldwide. A complete system developed by ContiTech Transportbandsysteme GmbH, designed as an identification system

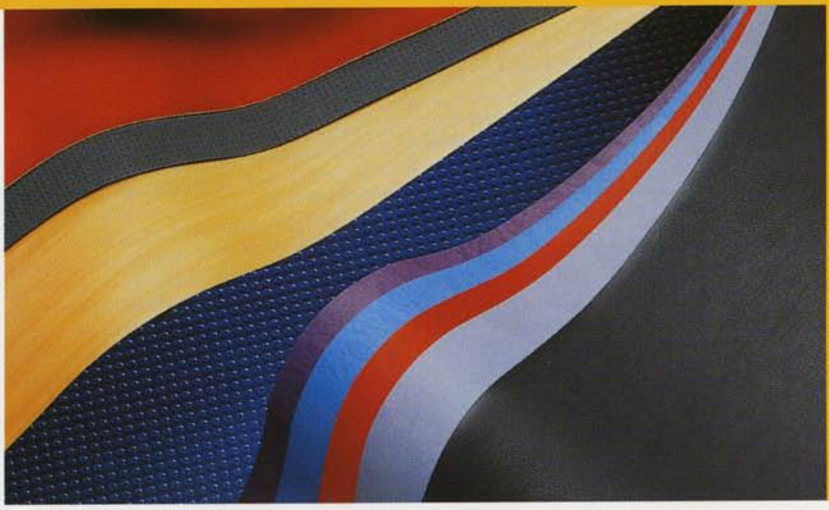
with electronic data carriers, identifies, controls and monitors conveyor belts, belt joins and conveyor-related equipment. The ContiTronic system comprises conveyor belts with implanted transponders, which are vulcanized-in microchips, as well as transmitters and receivers – either stationary or portable – with antennas, plus control and evaluation software. These high-tech efforts were most recently rewarded with an order for a large-scale project consisting of a 15-mile conveyor system with a rise of 400 meters.

A Dirigible as a Cargo-Lifter

A spectacular project has put one of the smallest ContiTech units, Elastomer-Beschichtungen GmbH in Northeim, into the limelight. This company has developed coated fabrics for the enclosing structure and elevators of prototypes for a dirigible. If the prototype is approved by the Aviation Commission, a so-called cargo-lifter will be constructed, a dirigible measuring 240 x 60 meters with a range of 6,250 miles, that will be used to transport heavy equipment weighing up to 160 tons. The production target is 44, each of which would require 140,000 square meters of Continental fabric. The prospects look good, for Cargo-Lifter AG has recently ordered the materials for the prototypes from ContiTech. Construction of the first cargo-lifter is scheduled to begin in 1999.

Twofold Environmental Protection

An innovation that is of relatively modest importance at present, but which, in view of the potential worldwide demand, could become the basis of a highly satisfactory business is an oil residue absorption mat made of recycled rubber. It can be used to bind permanently the oil, lubricants and fuel that leak onto the areas where rolling stock is stored. As with other high-tech products, environmental protection was a major consideration in designing the project. In this case, the environment benefits twice over: The ground is protected from oil, and scrap rubber can be reused. This product was suggested by a customer; patents have since been secured for it. After protracted testing, these absorption mats are being used by Deutsche Bahn AG in locomotive storage areas. Interest has also been expressed in Austria, Switzerland and the Netherlands. ContiTech also has well-founded expectations from the markets in Great Britain, Australia and the U.S.A.



These examples illustrate the strong development capability of the ContiTech Group. The shift in the product mix toward high-quality systems solutions and the growing proportion of high-tech products will ensure that ContiTech continues in the future to make a strong contribution to the Corporation's earnings.

Continental Aktiengesellschaft
Consolidated Statement of Changes in Financial Position

	1997 Millions of DM	1996 Millions of DM
Net income for the year	321.8	192.5
Depreciation, amortization and writedowns on fixed assets and investments	601.6	609.5
Other expenses/income with no effect on funds	36.7	12.6
Cash flow	**960.1**	**814.6**
Income from disposals of fixed assets and investments	– 7.4	– 18.2
Change in inventories and receivables	– 181.9	165.1
Change in other debt capital	441.4	39.4
Addition to funds from current business	**1,212.2**	**1,000.9**
Revenue from disposals of fixed assets and investments	99.1	66.2
Funds paid for fixed assets and investments	– 611.4	– 598.3
Purchase of new companies	– 60.9	–
Funds paid for fixed assets and investments due to the addition of new companies	– 29.2	– 4.7
Changes in fixed assets and investments due to foreign exchange differences	– 115.0	– 118.2
Funds paid due to investment activity	**– 717.4**	**– 655.0**
Funds received from capital increases	618.2	13.4
Other changes in shareholders' equity	26.0	39.6
Dividends paid by Continental AG	– 56.7	– 47.0
Funds received/paid due to financing activity	**587.5**	**6.0**
Effective change	**1,082.3**	**351.9**
Of which due to foreign exchange differences	– 69.0	– 80.0
Indebtedness at January 1	**1,636.8**	**1,988.7**
Indebtedness at December 31	**554.5**	**1,636.8**

Notes to the Statement of Changes in Financial Position

Cash Flow

The cash flow is computed from the net income, depreciation, the change in provisions for pensions after adjustments for foreign exchange differences, as well as the balance of significant extraordinary items. The change in long-term provisions, which has not been included, came to DM 146.5 million.

Addition to Funds From Current Business

Owing to the new scope of consolidation, inventories and receivables were reduced from – DM 219.3 million to – DM 181.9 million.

The change in other debt capital contains the change in the amount of provisions (excluding provisions for pensions) as well as the liabilities not being of a credit nature. The change in the scope of consolidation caused a reduction of DM 9.5 million.

Funds Paid Due to Investment Activity

Disposals of fixed assets and investments contain DM 46.0 million from the final consolidation of companies.

DM 603.4 million were spent by the Corporation on the purchase of property, plant and equipment, and intangible assets. Another DM 60.9 million went on the acquisition of further shares in a company that was already fully consolidated previously. The addition of assets from new companies resulted primarily from the initial consolidation of Caucho Técnica S.A., Santiago, Chile, ContiTech Vegum Vibration Control s.r.o., Dolné Vestenice, Slovakia, and ContiTech Vegum s.r.o., Dolné Vestenice, Slovakia.

The foreign exchange differences in the fixed assets and investments are due to the different rates prevailing on the dates of the opening and closing balances as well as the calculation of changes during the year at average rates.

Funds Received Due to Financing Activity

Continental Aktiengesellschaft received DM 618.2 million as a result of conversions and the exercise of warrants attached as well as the issue of employee shares. The other changes in shareholders' equity consist mainly of the offsetting of goodwill with no effect on income and the foreign exchange differences in shareholders' equity. Having deducted last year's dividend payment, the remaining amount from financing activity comes to DM 587.5 million.

Indebtedness

The decline in indebtedness of DM 1,082.3 million includes the sale of companies and company operations as well as the initial consolidation of new companies in the amount of DM 63.5 million.

Continental Aktiengesellschaft
Consolidated Balance Sheet

Assets	See Note No.	12/31/1997 Millions of DM	12/31/1996 Millions of DM
Fixed assets and investments			
Intangible assets	(1)	408.8	449.4
Property, plant and equipment	(2)	2,965.7	2,920.3
Investments	(3)	141.6	145.4
		3,516.1	**3,515.1**
Current assets			
Inventories	(4)	1,418.4	1,443.6
Receivables and other assets	(5)	1,773.4	1,521.5
Liquid assets	(6)	888.6	186.2
		4,080.4	**3,151.3**
Prepaid expenses	(7)	**51.4**	**35.6**
		7,647.9	**6,702.0**

Shareholders' equity and liabilities	See Note No.	12/31/1997 Millions of DM	12/31/1996 Millions of DM
Shareholders' equity	(8)		
Subscribed capital		572.5	472.4
Capital reserves		1,756.8	1,062.0
Minority interests	(9)	292.4	263.1
Net income available for distribution		81.0	57.3
		2,702.7	**1,854.8**
Special reserves	(10)	**–**	**5.6**
Provisions	(11)	**2,197.4**	**1,926.7**
Liabilities	(12)	**2,747.8**	**2,914.9**
		7,647.9	**6,702.0**

Continental Aktiengesellschaft
Consolidated Statement of Income

	See Note No.	1997 Millions of DM	1996 Millions of DM
Sales	(13)	**11,186.1**	**10,430.6**
Cost of sales		8,040.6	7,659.2
Gross profit on sales		**3,145.5**	**2,771.4**
Selling expenses	(14)	1,791.3	1,648.3
Administrative expenses	(14)	591.9	574.0
Other operating income	(15)	219.4	258.5
Other operating expenses	(16)	363.4	289.2
Net income from investments and financial activities	(17)	– 159.5	– 190.0
Net income from regular business activities		**458.8**	**328.4**
Extraordinary expenses		–	80.0
Taxes on income and profits	(18)	137.0	55.9
Net income for the year		**321.8**	**192.5**
Balance brought forward from the previous year		0.7	0.3
Minority interests in earnings	(19)	– 44.5	– 36.5
Transfer to retained earnings		– 197.0	– 99.0
Net income available for distribution		**81.0**	**57.3**

Notes to the Consolidated Financial Statements

Changes in Consolidated Fixed Assets and Investments	Acquisition/Manufacturing cost					
	As of 1/1/1997	Additions	Reclassifications	Retirements	Foreign exchange differences	**As of 12/31/1997**
	Millions of DM	Millions of DM	Millions of DM	Millions of DM	Millions of DM	Millions of DM
I. Intangible assets						
Franchises, operating licenses, industrial property and similar rights and assets, and licenses under such rights and assets	140.0	29.5	12.2	10.5	1.9	173.1
Goodwill	779.3	4.0		16.3	0.7	767.7
Advances to suppliers	14.1	17.2	– 12.2	0.1		19.0
	933.4	**50.7**		**26.9**	**2.6**	**959.8**
II. Property, plant and equipment						
Land, land rights and buildings including buildings on third party land	1,653.7	38.1	18.8	52.0	56.3	1,714.9
Technical equipment and machinery	5,072.6	193.4	131.5	237.5	194.5	5,354.5
Other equipment, factory and office equipment	1,661.4	123.0	26.2	161.6	26.8	1,675.8
Advances to suppliers and assets under construction	207.9	231.4	– 176.5	9.5	2.2	255.5
	8,595.6	**585.9**		**460.6 ****	**279.8**	**9,000.7**
III. Investments						
Shares in affiliated companies	16.8	4.6		4.9		16.5
Shares in associated companies	96.9	3.7		6.0	3.7	98.3
Investments	7.8	0.1				7.9
Loans granted to companies in which participations are held	3.4	0.4		0.1	0.1	3.8
Securities held as investments	27.0	0.5		1.0	0.1	26.6
Other loans granted	12.6	0.5		3.7	0.3	9.7
Other financial assets	1.2	0.3		0.1	0.1	1.5
	165.7	**10.1**		**15.8**	**4.3**	**164.3**
	9,694.7	**646.7**		**503.3**	**286.7**	**10,124.8**

* Contains DM 61.3 million of goodwill offset with no effect on income.
** Contains adjustments, with no effect on income, amounting to DM 20.4 million.

Depreciation					Net value	
As of 1/1/1997 Millions of DM	Additions Millions of DM	Retirements Millions of DM	Foreign exchange differences Millions of DM	**As of 12/31/1997** Millions of DM	**As of 12/31/1997** Millions of DM	As of 12/31/1996 Millions of DM
99.5	28.0	9.8	0.7	118.4	54.7	40.5
384.5	63.8 *	16.1	0.4	432.6	335.1	394.8
					19.0	14.1
484.0	**91.8**	**25.9**	**1.1**	**551.0**	**408.8**	**449.4**
836.4	76.8	36.9	20.6	896.9	818.0	817.3
3,510.2	336.8	192.1	128.4	3,783.3	1,571.2	1,562.4
1,328.7	158.5	153.6	19.7	1,353.3	322.5	332.7
	1.6		– 0.1	1.5	254.0	207.9
5,675.3	**573.7**	**382.6 ****	**168.6**	**6,035.0**	**2,965.7**	**2,920.3**
8.4	0.8	0.3		8.9	7.6	8.4
4.4	0.2	0.4	1.9	6.1	92.2	92.5
	0.1			0.1	7.8	7.8
2.5	0.4	0.1		2.8	1.0	0.9
3.4				3.4	23.2	23.6
1.2		0.3	0.1	1.0	8.7	11.4
0.4				0.4	1.1	0.8
20.3	**1.5**	**1.1**	**2.0**	**22.7**	**141.6**	**145.4**
6,179.6	**667.0**	**409.6**	**171.7**	**6,608.7**	**3,516.1**	**3,515.1**

Notes to the Consolidated Financial Statements

Preliminary Note

For improved clarity and comprehensibility, we have separated the financial statements of Continental Aktiengesellschaft from those of the Corporation as in previous years. 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 165 domestic and foreign companies, in addition to the parent company. 4 companies that were merged with other consolidated companies and 8 companies that were sold or liquidated are no longer included. 11 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 net worth, financial position and results of the Corporation are not consolidated.

Principles of Consolidation

130 subsidiaries, whose financial statements are prepared according to accounting and valuation principles that are uniform throughout the Corporation, are fully consolidated. With the exception of a few small companies, all the financial statements included are prepared as of the date of the Corporation's financial statements. The assets and liabilities of our subsidiaries are entered in the consolidated balance sheet, instead of the book value of our investment. 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. 35 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.

Foreign Currency Translation

We translate receivables and liabilities in foreign currency at the rate prevailing on the date they are entered on the books for the first time, or, if they have been hedged, at the forward rates. Appropriate provisions have been made for foreign exchange losses that have not yet been realized on the balance sheet date; unrealized profits are disregarded.

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

The amounts resulting from changes in fixed assets and investments during the year, translated at average rates, and those relating to foreign exchange rate fluctuations from one balance sheet date to the next, are shown in a separate column of the table on "Changes in 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 installments 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. The depreciations are valued 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. Low-value 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 insofar as the current acquisition cost is not lower than the cost price.

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.

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 50.7 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 29.2 million in property, plant and equipment (DM 33.2 million less accumulated depreciation of DM 4.0 million).

The other additions are shown in the table below:

Thousands of DM	1997	1996
Passenger Tires	204,394	251,199
Commercial Vehicle Tires	60,551	56,180
Continental General Tire	91,459	85,422
ContiTech	185,726	142,726
Other	10,684	15,994
	552,814	**551,521**

(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 12/31/1997	As of 12/31/1996
Raw materials and supplies	313,001	313,850
Work in process	174,151	165,125
Finished goods and merchandise	930,900	966,379
Advances to suppliers	1,621	1,306
Advances from customers	1,239	3,075
	1,418,434	**1,443,585**

Inventories include a LIFO reserve of DM 15.9 million, down from DM 31.2 million in 1996. 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 as well as of raw materials for the remainder of the Corporation.

(5) Receivables and Other Assets

Thousands of DM	As of 12/31/1997	Due in more than 1 year	As of 12/31/1996	Due in more than 1 year
Trade accounts receivable	1,096,291	1,174	1,004,931	688
Receivables from affiliated companies	7,938	–	26,262	–
Receivables from companies in which participations are held	67,551	–	77,840	–
Miscellaneous assets	601,655	115,444	412,430	74,915
	1,773,435	**116,618**	**1,521,463**	**75,603**

The gain of DM 91.4 million or 9.1% in trade accounts receivable was due to increased sales from the growth in the snow tire business and to exchange rate effects. At the same time, financing through bill discounting was up DM 20.3 million to DM 172.0 million. Our sales of receivables increased from DM 674.4 million to DM 772.3 million. The collateral included in miscellaneous assets amounts to DM 190.1 million (1996: DM 147.7 million).

The increase in miscellaneous assets is due primarily to the claim for the transfer of further shares in Barum Continental spol.sr.o, Otrokovice, Czech Republic, to higher collateral from the program for the sale of receivables, and to foreign exchange effects.

(6) Liquid Assets

Thousands of DM	As of 12/31/1997	As of 12/31/1996
Checks	33,619	25,857
Cash on hand and deposits at the Bundesbank	4,293	5,216
Cash in banks	850,659	155,169
	888,571	**186,242**

(7) Prepaid Expenses

Thousands of DM	As of 12/31/1997	As of 12/31/1996
Discount on loans/bonds	1,777	2,144
Miscellaneous	49,632	33,513
	51,409	**35,657**

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

Shareholders' Equity and Liabilities

(8) Shareholders' Equity

Thousands of DM		1997		1996
Subscribed capital				
As of 1/1		472,411		469,652
Change due to employee shares		597		1,317
Change due to conversions and exercise of warrants attached		99,516		1,442
As of 12/31		**572,524**		**472,411**
Consolidated reserves				
As of 1/1		1,061,904		966,656
Premiums from capital increases, conversions and exercise of warrants attached	+	518,105	+	10,677
Offsetting of goodwill with no effect on income	–	61,312	–	60,823
Exchange rate effects with no effect on income	+	37,222	+	40,481
Additions from the net income for the year	+	196,963	+	98,916
Miscellaneous changes	+	3,968	+	5,997
As of 12/31		**1,756,850**		**1,061,904**
Consolidated profit		**80,954**		**57,342**
Minority interests		**292,383**		**263,068**
Consolidated equity		**2,702,711**		**1,854,725**

Subscribed capital increased in 1997 by DM 0.6 million due to the issue of employee shares and by a further DM 99.5 million due to the conversion and exercise of warrants attached.

As a result of the resolution of the Annual Shareholders' Meeting on July 2, 1993, the Company has authorized capital of DM 200 million available for the issue of new shares on or before July 1, 1998.

After the Annual Shareholders' Meeting on June 4, 1997, the Company had authorized capital in the original amount of DM 10.0 million for the issue of employee shares. This authorized capital has been reduced to DM 9.4 million following the issue of employee shares in the nominal amount of DM 0.6 million.

The capital stock of Continental Aktiengesellschaft entitled to the dividend amounts to DM 572,523,650.00 and is divided up into 114,504,730 shares with a par value of DM 5.00.

Conditionally authorized capital was increased, with the approval of the Annual Shareholders' Meeting on June 4, 1997, by DM 50 million for the issue of conversion rights or warrants under convertible bonds and bonds with warrants.

Consolidated reserves include the retained earnings and additional paid-in capital of Continental Aktiengesellschaft totaling DM 1,443.6 million, as well as a reserve for retirement benefits which amounts to DM 1.2 million (1996: DM 1.3 million).

In 1997, a dividend of DM 0.60 per share with a par value of DM 5.00, totaling DM 56.7 million, was paid for fiscal 1996 from Continental Aktiengesellschaft's net income available for distribution. The balance was carried forward. The consolidated profit corresponds to the net income available for distribution of Continental Aktiengesellschaft, which permits a dividend of DM 0.70 per share with a par value of DM 5.00, for a total of DM 80.2 million.

(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 increase was due to the interests of outside shareholders and partners in earnings, and differences in exchange rates.

(10) Special Reserves

The government capital investment subsidies shown here in the previous year consisted of investment grants for Semperit Reifen AG, Vienna, Austria.

(11) Provisions

Thousands of DM	As of 12/31/1997	As of 12/31/1996
Provisions for pensions and similar obligations	1,110,590	1,028,348
Provisions for taxes	126,337	85,557
Miscellaneous provisions	960,477	812,829
	2,197,404	**1,926,734**

DM 59 million of the increase in provisions for pensions were attributable to foreign exchange effects.

Provisions for deferred taxes in the individual financial statements exceed the net prepaid taxes arising from consolidation procedures by DM 13.2 million.

Breakdown of Miscellaneous Provisions

Thousands of DM	As of 12/31/1997	As of 12/31/1996
Personnel and social welfare payments	244,380	187,693
Selling expenses	269,422	170,247
Warranties	92,466	98,994
Severance payments	84,840	129,278
Litigation and environmental risks	31,118	44,162
Other provisions	238,251	182,455
	960,477	**812,829**

DM 31 million of the gain in miscellaneous provisions was due to foreign exchange effects.

The increase in provisions for personnel and social welfare payments resulted primarily from the higher claims for early retirement, part-time work by older employees, and vacation. Provisions for selling expenses increased mainly as a result of the provision for the reorganization of the tire distribution network. Other provisions include provisions for restructuring measures, as well as for deferred repairs and other undetermined obligations.

Of the miscellaneous provisions, DM 257.9 million (1996: DM 163.5 million) have an anticipated remaining term of more than one year.

(12) Liabilities

Thousands of DM	As of 12/31/1997	Due in less than 1 year	Due in more than 5 years	As of 12/31/1996	Due in less than 1 year	Due in more than 5 years
Bonds*	491,404	191	729	744,454	276,033	863
Bank borrowings**	839,917	293,339	8,690	938,640	335,875	27,503
Advances from customers	2,113	2,113	–	1,183	1,183	–
Trade accounts payable	766,387	765,140	–	644,772	644,521	–
Liabilities on acceptances and notes payable	3,995	3,995	–	5,080	5,080	–
Payables to affiliated companies	296	296	–	2,125	831	562
Payables to companies in which participations are held	26,806	26,785	–	9,867	9,845	–
Other liabilities	616,896	578,063	4,860	568,812	496,526	5,950
Of which tax liabilities	(113,342)			(102,607)		
liabilities relating to social security and similar obligations	(89,512)			(78,908)		
	2,747,814	**1,669,922**	**14,279**	**2,914,933**	**1,769,894**	**34,878**

* Of which convertible: DM 140.6 million (1996: DM 626.1 million).

** Amount secured by land charges, mortgages and comparable collateral: DM 33.4 million (1996: DM 11.7 million).

The item other liabilities includes indebtedness in the amount of DM 107.8 million (1996: DM 134.8 million). Credit liabilities on December 31, 1997, including bills payable, therefore totaled DM 1,443.1 million. After deducting the liquid assets of DM 888.6 million, total indebtedness amounts to DM 554,5 million (1996: DM 1,636.8 million).

Bond Issues

Issuer	Type	Option for	Amount of issue in millions	Currency	Coupon p.a.	Issue date/ Maturity	Issue price	Subscription price DM
CGF	Bonds with warrants	Shares	250	DM	7.50 %	1993/July 2000	120.25 %	19.90
CGF	Zero coupon bonds	–	150	DM	–	1985/July 2000	36.50 %	
CAG	Convertible debentures*	Shares	1	DM	9.50 %	1990/Nov. 2000		min. 25.00
CRoA	Bonds**	–	100	CHF	4.75 %	1987/Oct. 2002	127.00 %	
CAG	Convertible debentures*	Shares	1	DM	6.75 %	1996/June 2005		min. 20.00

* Stock option plan for senior executives.

** The issue price of 127 % contains option rights from the stock warrants expiring on October 6, 1997.

Under the CGF bonds with warrants, 0.7 million of the 1.2 million warrants issued have not yet been exercised.

Financing Commitments From Banks

Company	Type	Amount in millions of DM	Value at 12/31/1997 in millions of DM	Interest	Maturity
CAG	Syndicated Euroloan	1,000.0	–	variable	May 2000
CMIP	Long-term project financing	36.4	36.4	variable	Sept. 2001
CUK	Syndicated Euroloan	208.7	181.9	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	1,671.4	316.6	variable	mainly < 1 year
Financing commitments from banks		**3,821.5**			
Due to banks			**839.9**		

The value of the bonds on December 31, 1997 was DM 491.4 million. The financing commitments contain programs for the sale of receivables totaling DM 710.9 million, of which DM 555.6 million had been utilized at year-end. Other receivables in the amount of DM 53.7 million were sold in addition.

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
CUK = Continental UK Group Holdings Ltd., Newbridge, Great Britain

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 1.6 billion. The hedging volume on December 31, 1997 amounted to DM 141.0 million, of which DM 34.4 million were attributable to forward exchange transactions and DM 106.6 million to foreign exchange options. In addition, loans amounting to DM 636.0 million had been hedged at year-end.

Open interest-hedging transactions consisted of interest swaps for a nominal amount of DM 60 million and futures contracts for a nominal amount of DM 25 million.

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 12/31/1997	As of 12/31/1996
Contingent liabilities on notes	172,008	151,683
Liabilities on guarantees	40,071	38,661
Liabilities on warranties	6,731	19,528
Liability on shares in cooperatives	55	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 1,214.7 million is attributable to 1998 and later years. Purchase commitments for property, plant and equipment amount to DM 138.2 million.

Statement of Income

(13) Sales

Millions of DM	1997	1996	Change in %
Analysis by group			
Passenger tires/dealer organizations	4,355.1	4,227.6	+ 3.0
Commercial vehicle tires	1,310.6	1,073.1	+ 22.1
Continental General Tire	2,358.3	2,057.7	+ 14.6
ContiTech	3,093.5	2,967.7	+ 4.2
Other sales	68.6	104.5	– 34.4
	11,186.1	**10,430.6**	**+ 7.2**
Analysis by geographical area			
Germany	3,644.7	3,536.2	+ 3.1
Rest of Europe	4,696.1	4,247.0	+ 10.6
North America	2,424.3	2,174.5	+ 11.5
Other countries	421.0	472.9	– 11.0

Due to a change in the assignment within the Groups, sales for commercial vehicle tires include DM 167.4 million from Barum Continental. The corresponding figure for the previous year was shown under passenger tires/dealer organizations.

(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	1997	1996
Gains on the disposal of fixed assets and investments	23,373	33,517
Credit to income from the release of provisions	20,474	53,040
Credit to income from the reduction of the general bad debt reserve	1,561	3,804
Credit to income from the release of special reserves	5,642	5,643
Gains from exchange rate fluctuations	37,218	25,855
Miscellaneous income	131,125	136,633
	219,393	**258,492**

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	1997	1996
Losses on the disposal of fixed assets and investments	16,007	15,333
Losses on the disposal of current assets (except inventories)	36,687	34,164
Losses due to exchange rate fluctuations	47,667	27,600
Miscellaneous taxes	51,074	58,925
Miscellaneous expenses	211,962	153,206
	363,397	**289,228**

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	1997	1996
Net income from investments		
Income from investments		
from affiliated companies	1,179	822
from associated companies	6,518	2,539
from other companies	242	243
	7,939	**3,604**
Net interest expense		
Income from other securities and loans included in investments	1,819	2,434
Other interest and similar income		
from affiliated companies	127	271
from other companies	33,852	38,102
Interest and similar expenses		
paid to affiliated companies	– 146	– 1,330
paid to other companies	– 201,594	– 232,784
	– 165,942	**– 193,307**
Writedowns on investments and marketable securities		
Writedowns on investments	– 1,541	– 314
	– 1,541	**– 314**
Net income from investments and financial activities	**– 159,544**	**– 190,017**

The Corporation's net interest expense amounts to 1.5% (1996: 1.9%) of sales.

(18) Income Taxes

The improved earnings of the consolidated companies are necessitating higher current tax payments and the formation of provisions resulting in a rise in tax expense for the Corporation as a whole. There was no capitalization of deferred taxes due to existing tax loss carried forward. The tax ratio, at 30%, is still relatively low by international standards.

(19) Minority Interests in Earnings

Thousands of DM	1997	1996
Minority interests in the profit for the year	24,164	26,384
Minority interests in the other net income shown in the balance sheet	20,395	10,140
	44,559	**36,524**

Miscellaneous Data

Cost of Materials

Thousands of DM	1997	1996
Cost of raw materials and supplies and merchandise	4,005,870	3,353,700
Cost of outside services	660,344	576,200
	4,666,214	**3,929,900**

Personnel Expense

Thousands of DM	1997	1996
Wages and salaries	2,645,130	2,541,378
Social welfare contributions and expenses related to pensions and other employee benefits	780,451	729,108
Of which expenses for pensions	(89,140)	(82,224)
	3,425,581	**3,270,486**

Number of Employees (Quarterly Average)

	1997	1996
Salaried employees	15,354	15,751
Wage earners	29,465	30,690
	44,819	**46,441**

Depreciation, Amortization and Writedowns

Amortization on intangible assets, depreciation on property, plant and equipment, and writedowns on investments, computed in accordance with the principles of commercial law, are shown in the table "Changes in Consolidated Fixed Assets and Investments" on pages 46/47.

Remuneration of the Supervisory Board and the Executive Board

Provided that the Annual Meeting of Shareholders on June 5, 1998 approves the proposed dividend, total remuneration of the Supervisory Board will be DM 1.429 million, of the Executive Board (including remuneration paid by subsidiaries), DM 12.054 million, and of former members of the Executive Board and their surviving dependents, DM 8.955 million.

DM 40.873 million 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 80,953,593.83. The Supervisory and Executive Boards recommend that the Annual Meeting of Shareholders approve payment of a dividend of DM 0.70 per share with a par value of DM 5.00, or DM 80,153,311.00. The remainder of DM 800,282.83 is to be carried forward.

Hanover, March 17, 1998

Continental Aktiengesellschaft
The Executive Board

Audit opinion

The consolidated financial statements which we have audited in accordance with professional standards comply with the legal regulations. The consolidated financial statements present, in compliance with generally accepted accounting principles, a true and fair view of the net worth, financial position and results of the group. The group management report which is combined with the management report of Continental Aktiengesellschaft is in agreement with the consolidated financial statements.

Hanover, March 17, 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke
Wirtschaftsprüfer

Schulze
Wirtschaftsprüfer

Major Companies of the Continental Corporation

Company	Corporate interest %	Shareholders' equity DM 000	Net income/loss 1997 DM 000	Net income/loss 1996 DM 000	Sales 1997 DM 000	Employees 12/31/1997
I. Affiliated companies						
(according to accounting and valuation principles uniform throughout the Corporation)						
1. Domestic companies						
Benecke-Kaliko AG, Hanover	50.1	218,543	45,333	36,717	582,648	2,086
ContiTech Antriebssysteme GmbH, Hanover	100.0	15,972	1,420 *	1,261 *	244,753	966
ContiTech Formteile GmbH, Hanover	100.0	22,307	537 *	608 *	345,111	1,435
ContiTech Luftfedersysteme GmbH, Hanover	100.0	5,780	225 *	288 *	149,852	542
ContiTech Schlauch GmbH, Hanover	100.0	24,210	644 *	385 *	318,047	1,647
ContiTech Transportbandsysteme GmbH, Hanover	100.0	12,580	540 *	124 *	215,826	681
Techno-Chemie Kessler & Co. GmbH, Karben	100.0	26,661	874 *	1,565 *	244,092	919
2. Foreign companies						
Anoflex SNC, Caluire, France	100.0	39,275	1,869	2,184	264,879	1,244
Barum Continental spol.sr.o., Otrokovice, Czech Republic	61.0	186,189	31,439	21,010	586,126	3,803
Continental Däck Sverige AB, Göteborg, Sweden	100.0	5,019	1,202	320	108,223	48
Continental Dekk Norge AS, Oslo, Norway	100.0	12,322	970	1,079	121,395	97
Continental France SNC, Clairoix, France	100.0	26,490	887	4,665	367,810	203
Continental General Tire (subgroup), Charlotte, North Carolina, U.S.A.	100.0	210,941	74,327	25,273	2,404,806	6,071
Continental Gislaved Däck AB, Gislaved, Sweden	100.0	109,321	26,070	17,507	235,576	767
Continental Industrias del Caucho SA, Coslada, Madrid, Spain	100.0	44,185	10,351	8,839	239,374	313
Continental Italia S.p.A., Milan, Italy	100.0	5,935	1,175	831	163,072	69
Continental Mabor Indústria de Pneus S.A., Lousado, Portugal	100.0	102,550	47,264	25,618	250,433	826
Continental Pneus SNC, Sarreguemines, France	100.0	133,749	37,021	33,696	578,025	2,098
Continental Suisse S.A., Dietikon, Switzerland	100.0	29,776	2,676	2,068	133,538	91
Continental Tyre Group Ltd., West Drayton, U.K.	100.0	35,536	1,444	3,852	445,182	188
Continental Tyres Ltd., Newbridge, U.K.	100.0	– 10,498	– 20,896	19,012	167,286	920
ContiTech AGES S.p.A., Santena, Italy	100.0	13,152	3,719	275	227,910	1,094
National Tyre Service Ltd., Stockport, U.K.	100.0	44,892	– 23,771	– 21,420	365,838	1,702
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège, Belgium	100.0	20,910	– 27,200	3,913	627,694	804
Semperit Reifen Aktiengesellschaft, Vienna, Austria	100.0	230,635	800	– 75,644	625,941	1,472
II. Associated companies						
Compañía Ecuatoriana del Caucho, Cuenca, Ecuador	38.2	28,848 **		2,838	110,403 **	
Drahtcord Saar GmbH & Co. KG, Merzig, Saar, Germany	50.0	21,315	315	418	97,589	
General Tire & Rubber Company of Morocco, Casablanca, Morocco	34.2	37,363	1,089	2,790	82,109	
KG Deutsche Gasrusswerke GmbH & Co., Dortmund, Germany	32.1	15,000	1,500	1,500	121,701	

A complete list of the companies of the Continental Corporation and those of Continental Aktiengesellschaft will be filed with the Commerical 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

		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Balance sheet											
Fixed assets and investments	Millions of DM	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	3,516.1
Current assets	Millions of DM	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	4,131.8
Balance sheet total	Millions of DM	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	7,647.9
Shareholders' equity	Millions of DM	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	2,702.7
Long-term debt	Millions of DM	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	2,188.5
Capital expenditure on property, plant and equipment	Millions of DM	447.7	532.4	689.5	829.3	709.3	624.1	514.7	591.3	551.5	552.8
Equity ratio	%	30.4	31.9	28.2	22.8	22.9	23.8	24.6	25.3	27.8	35.3
Long-term financing of fixed assets, investments and inventories	%	113.6	103.7	89.6	89.0	90.0	86.3	90.1	79.4	85.1	104.6
Total indebtedness	Millions of DM	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	554.5
Self-financing ratio	%	112.3	94.4	68.1	52.1	133.8	86.4	113.5	122.9	132.9	173.7
Liquidity ratio	%	119.9	105.0	77.1	74.6	76.5	68.3	76.6	61.3	68.7	107.1
Statement of income											
Sales	Millions of DM	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	11,186.1
Foreign markets' share	%	64.3	65.0	61.8	62.8	63.9	65.4	67.6	66.5	66.1	67.4
Cost of sales[1]	%	74.6	74.7	75.9	74.7	73.2	74.1	74.0	73.9	73.4	71.9
Selling expenses[1]	%	13.1	14.0	14.7	14.8	15.0	16.7	16.3	15.6	15.8	16.0
Administrative expenses[1]	%	6.4	5.7	5.9	6.5	6.7	6.2	6.2	5.7	5.5	5.3
EBIT	Millions of DM	421.0	476.7	298.8	334.8	468.3	296.8	301.5	387.6	524.1	626.6
Personnel expense	Millions of DM	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	3,425.6
Depreciation[2]	Millions of DM	375.8	367.5	378.0	531.0	502.6	556.9	583.5	552.7	609.2	600.1
Cash flow	Millions of DM	623.4	604.9	510.0	526.1	701.4	578.9	625.9	739.7	814.6	960.1
Value added	Millions of DM	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	4,052.2
Net income/loss	Millions of DM	194.8	227.8	93.4	– 128.2	133.0	65.1	70.8	155.2	192.5	321.8
Employees											
Annual average	Thousands	44.8	46.9	48.4	50.8	50.4	49.8	49.0	48.4	46.4	44.8

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

Continental Aktiengesellschaft
Ten Year Survey

		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Balance sheet											
Fixed assets and investments	Millions of DM	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	1,909.3
Current assets	Millions of DM	1,133.9	770.1	843.2	735.5	872.4	904.9	849.0	1,167.5	1,262.9	1,868.7
Balance sheet total	Millions of DM	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	3,778.0
Shareholders' equity	Millions of DM	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	2,100.0
Long-term debt	Millions of DM	344.4	367.4	354.9	327.1	484.4	680.0	698.3	409.4	671.4	678.0
Capital expenditure on property, plant and equipment	Millions of DM	138.5	135.7	154.2	183.5	194.8	179.5	135.4	96.2	98.9	103.6
Equity ratio	%	63.0	61.7	51.7	41.4	38.7	41.7	46.4	46.7	47.6	55.6
Long-term financing of fixed assets, investments and inventories	%	116.7	92.8	76.1	62.0	64.5	79.4	92.6	90.4	106.4	137.5
Total indebtedness	Millions of DM	+ 171.0	99.1	604.1	863.8	1,037.2	659.2	418.1	193.0	36.7	+ 499.0
Self-financing ratio	%	103.5	35.0	26.8	53.2	91.3	79.6	901.0	– 249.1	194.9	123.6
Liquidity ratio	%	163.6	69.7	40.3	25.8	30.1	54.0	76.6	81.0	116.0	198.7
Statement of income											
Sales	Millions of DM	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	2,893.0
Foreign markets' share	%	36.8	38.1	36.0	36.9	37.4	34.6	34.9	32.6	37.0	38.3
Cost of sales[1]	%	80.4	81.5	83.3	81.0	82.4	86.7	86.8	83.5	81.0	79.2
Selling expenses[1]	%	7.1	7.1	7.3	7.4	7.6	7.9	8.5	8.4	10.6	11.9
Administrative expenses[1]	%	6.5	5.7	5.8	5.7	5.8	5.4	4.9	5.5	5.8	4.9
EBIT	Millions of DM	165.7	172.2	152.8	– 302.7	162.5	155.1	112.7	97.3	113.3	117.8
Cost of materials	Millions of DM	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	1,555.8
Personnel expense	Millions of DM	924.5	960.6	1,023.7	632.1	642.4	585.5	572.2	647.0	759.3	748.2
Depreciation[2]	Millions of DM	134.9	129.9	130.7	139.6	167.8	169.9	165.5	96.5	101.3	112.2
Cash flow	Millions of DM	262.4	282.5	224.1	303.0	273.5	211.8	219.0	211.4	315.8	308.5
Value added	Millions of DM	1,129.8	1,182.8	1,232.3	320.0	804.8	740.1	684.5	744.3	872.6	866.0
Net income/loss	Millions of DM	80.9	81.2	42.2	– 417.1	38.0	71.2	47.3	56.6	67.0	90.2
Dividend paid	Millions of DM	69.2	69.6	35.1	–	–	36.1	37.5	47.0	56.7	80.2
Employees											
Annual average	Thousands	15.1	15.9	16.1	8.8	8.4	7.5	6.7	7.4	8.0	7.5

[1] As a % of sales

[2] Excluding depreciation on investments

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 additional costs of drawing up 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. Moreover, financial statements prepared in accordance with IAS are still not accepted by the U.S. stock market supervisory authorities. 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.

The provisions for expenses which are ordinarily established in Germany would have to be reversed under IAS.

Contrarily, there is an effect from the computation of reserves for pension plans owing to account being taken, under international standards, of 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.

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.

Therefore, use of IAS or US GAAP accounting principles would – apart from the item of deferred taxes – lead to no significant changes in the balance sheet and statement of income.

Significant Dates

1998

Presentation of the Financial Statements	April 7
International Analysts Conference	April 7
Annual Meeting of the Shareholders	June 5
Dividend Payment	June 8
Mid-Year Report	August
International Telephone Conference	August
Nine-Month Report	November
International Telephone Conference	November

1999

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DVFA/SG earnings.

Computation of earnings per share according to DVFA/SG is based on a joint recommendation of the DVFA (German Association of Financial Analysts and Investment Counselors) and SG (Schmalenbach-Gesellschaft, German Business Administration Company). The objective of this computing method is to eliminate the effects of extraordinary and aperiodic influences on the earnings of corporations listed on the stock exchanges.

EBIT.

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

Equity ratio.

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

Gearing ratio.

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

Indebtedness.

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

Interest swap.

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

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).

Total assets.

A Group's total assets comprise its assigned fixed assets and investments, including goodwill, as well as current assets plus sold receivables and contingent liabilities on notes, less liquid assets.

Value added.

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

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.

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