Annual Report 1985

Continental

Continental

Continental Gummi-Werke AG 1979–1985

		1979	1980	1981	1982	1983	1984	1985
Balance sheet								
Fixed assets	DM million	601.9	670.9	704.6	701.4	663.7	677.7	750.0
Current assets	DM million	554.4	539.6	530.3	513.1	492.2	527.0	631.4
Balance sheet total	DM million	1156.3	1210.5	1234.9	1214.5	1155.9	1204.7	1381.4
Equity	DM million	392.9	399.1	406.8	418.3	419.3	480.6	499.2
Long-term debt	DM million	472.1	467.7	449.1	429.9	415.2	413.7	457.8
Total investments	DM million	123.9	142.7	108.8	77.2	59.5	110.0	184.5
Equity ratio	in %	34.0	33.0	32.9	34.4	36.3	39.9	36.1
Equity and long-term debt to fixed assets and inventories	in %	96.7	89.5	88.7	88.7	92.7	94.7	90.9
Total indebtedness	DM million	568.5	573.0	605.4	566.6	467.9	451.9	557.7
Self-financing ratio	in %	82.1	76.7	58.2	121.1	226.2	102.0	78.9
Liquidity ratio	in %	88.5	67.3	68.3	66.6	76.4	81.5	74.7
Profit and loss statement								
Sales	DM million	1692.6	1817.2	1823.9	1866.3	1992.7	2079.3	2312.9
Export sales ratio	in %	26.3	28.5	29.3	28.6	28.2	33.4	34.4
Material costs to gross revenues	in %	44.1	43.3	45.0	44.3	45.0	47.3	48.8
Personnel costs to gross revenues	in %	41.5	40.7	40.7	39.9	38.6	37.5	35.8
Depreciation	DM million	70.8	68.8	69.5	77.0	92.1	88.5	105.5
Gross cash flow	DM million	122.1	138.6	87.5	115.6	163.1	159.1	210.1
Value added	DM million	799.3	884.5	838.6	847.7	865.3	886.2	971.4
Net income	DM million	+11.9	+12.7	+ 0.2	+ 3.9	+15.1	+18.3	+37.2
Dividends paid	DM million	–	13.5	–	–	16.2	17.9	29.9
Employees								
(annual average)	thousand	18.1	18.3	17.4	16.3	15.6	15.4	15.5

Continental Group 1979–1985

1979	1980	1981	1982	1983	1984	1985
789.4	809.3	827.2	815.7	782.9	764.9	1075.3
1200.7	1215.2	1145.3	1103.0	1104.5	1200.8	1761.9
1990.1	2024.5	1972.5	1918.7	1887.4	1965.7	2837.2
396.9	418.6	401.9	420.6	442.7	522.2	638.4
627.5	742.9	729.4	694.3	680.1	692.6	965.2
113.4	150.6	159.7	134.8	129.7	151.1	267.5
19.9	20.7	20.4	21.9	23.5	26.6	22.5
74.4	81.8	83.7	84.2	88.3	91.2	86.3
1268.2	1223.7	1195.9	1098.8	1012.3	998.2	1549.9
110.1	116.6	69.1	133.0	170.4	143.5	113.1
61.9	67.2	71.0	71.1	77.7	82.1	76.4
2623.4	3159.7	3229.0	3248.8	3387.2	3534.0	5003.3
34.5	37.0	38.0	37.3	36.4	40.1	49.9
42.8	41.4	41.5	41.6	41.7	43.3	45.7
39.7	39.2	39.7	39.2	37.9	36.8	33.5
101.4	119.3	120.3	126.2	150.1	153.9	206.6
163.7	218.5	139.0	204.2	269.9	273.9	399.0
1193.0	1480.2	1426.1	1476.3	1486.3	1519.0	1982.4
+24.1	+26.1	−17.8	+18.3	+40.2	+41.2	+77.2
31.1	31.3	29.6	28.2	27.1	26.3	31.7

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Report on the 114th Business Year 1985

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Member of the Executive Board,
Deutsche Bank AG

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Deputy Chairman,
Member of the Union Executive,
Chemie-Papier-Keramik

Rudolf Alt*)

Chairman of Group and Overall Works Council,
Works Council Chairman, Stöcken Plant

Adolf Bartels*)

Trade Union District Manager,
Chemie-Papier-Keramik

Manfred Emcke

Management Consultant

Baron Albert Englebert

Président du Conseil,
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Works Council Chairman,
Vahrenwald Plant

Wilhelm Helms

Executive Director, Deutsche Schutzvereinigung für Wertpapierbesitz e.V.,
Lower Saxony Division

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Works Council Chairman,
Korbach Plant

Joachim Kost*)

Plant Manager, Vahrenwald

Hans L. Merkle

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Robert Bosch GmbH

Ernst Pieper

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Salzgitter AG

Klaus Piltz

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Friedrich Schiefer

Member of the Executive Board,
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Siegfried Schille*)

Works Council Chairman,
Limmer Plant

Hugo Schleiermacher*)

Works Council Member,
Vahrenwald Plant

Eberhard Schlesies*)

Trade Union Manager, Hanover Branch,
Chemie-Papier-Keramik

Wolfgang Seelig

Member (ret.) of the Executive Board,
Siemens AG

Ernst Sprätz*)

Works Council Chairman,
Dannenberg Plant

*) Employee representative

Report of the Supervisory Board

We have been kept regularly and closely informed about the status and development of the company in Supervisory Board meetings and in many separate discussions as well as by oral and written reports, and we have taken counsel with the Executive Board.

The main subjects of these consultations were the budget and long-range planning, including capital investment policy, as well as fundamental questions of business policy and corporate structure. We have also taken decisions on matters which, in accordance with legal requirements or company statutes, were submitted to us for approval. Particularly noteworthy in this connection are the authorization of the Executive Board to issue option bonds up to a total nominal amount of DM 150 million and the commissioning of the Executive Board to make an authorized increase of up to DM 30 million. Finally, the negotiations to acquire a majority interest in Semperit Reifen AG necessitated a special meeting of the Supervisory Board as well as group and individual discussions.

We have examined the annual financial statements, the annual report and the proposal for the appropriation of the net profit. In doing so, there were no objections raised. Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, who were approved as auditors by the Annual Shareholders' Meeting, have audited the annual financial statements and the annual report and have confirmed that these are in consonance with the law and company statutes. We concur with the auditors' report.

The consolidated annual financial statements, the consolidated annual report and the auditors' report on the consolidated statements have also been submitted to us.

We have approved the annual financial statements as per 31st December, 1985 prepared by the Executive Board, and these are now adopted. We endorse the proposal for the appropriation of retained income.

Hanover, 7th May, 1986

The Supervisory Board

Alfred Herrhausen

Alfred Herrhausen, Chairman

Members of the Executive Board

Helmut Werner
Chairman

Wilhelm Borgmann
Manufacturing and Engineering, Tyres

Peter Haverbeck
Marketing Technical Products

Hans Kauth
Director of Personnel

Julius Peter
Manufacturing and Engineering,
Technical Products

Wilhelm Schäfer
Marketing Tyres

Horst W. Urban
Finance, Affiliates and Purchasing

Report of the Executive Board

Strategic goals achieved

Continental achieved two significant goals in 1985: First, the acquisition of a 75 % shareholding in the Austrian firm Semperit Reifen AG marked a further milestone in the company's forward strategy; and second, a corporate result was generated which enables us to increase our dividend to 10 %.

Economic recovery continued

The economic recovery in the industrialized West continued in 1985. However, economic growth tended to be restrained, so that with manpower supply increasing, the number of unemployed stagnated. Rates of inflation dropped further and in many countries have fallen to the low level of the 1960s.

Economic development in the Federal Republic of Germany was uneven. The major contributors to growth, which continued at a rate of 2.4 % in 1985, were the capital goods sector and the export business. The consumer goods industry generated only a low growth rate, and the building trade reported a substantial fall-off in production.

Upswing for motor vehicles and rubber products

The West European automotive industry, our key customer, reported positive development on the whole. However, this industry in France and Italy was unable to keep in line with the general upward movement.

Production in the German automotive industry progressed positively from early summer onwards. Output of passenger cars rose by 10 % and, with a unit volume of 4.2 million cars, even outperformed the record year of 1979 when 3.9 million cars were produced. The export business developed overproportionately well, with a growth rate of 15 %, whilst new registrations in Germany stagnated, especially as a result of the ongoing debate on the catalytic convertor. Whereas production of delivery vans rose by 63 %, the growth rate for commercial vehicles in excess of 2 tonnes was only 2.5 %.

The West European rubber industry, which is heavily dependent on the automotive sector, expanded generally speaking in line with the motor industry.

After many years of stagnation, the German rubber industry increased sales substantially, with growth rates of 6 % for tyres and 8 % for technical products. Growth stemmed primarily from domestic business, although exports fared well, too.

Continental on expansion course

In the year under review, all Continental Divisions made good progress in terms of sales, earnings, and productivity despite persistently fierce competition. Our product and technological innovations have strengthened our position with customers.

By acquiring a majority holding in the Austrian tyre company, Semperit Reifen AG on 1st January, 1985, we have taken an important step towards strategically safeguarding our rating as Europe's second largest tyre manufacturer.

Not only does Semperit give us an excellent footing in the Austrian market, it also provides us with access to the East European markets in which Semperit is already established as a supplier and cooperation partner.

Semperit's strong penetration with truck tyres in the European replacement business reinforces the role of our company in this product sector. With our three brands Continental, Uniroyal and Semperit we are in a position to serve new market segments with passenger car tyres, too.

Report of the Executive Board

In the first few months of our joint activity, we have already achieved substantial cost savings, particularly in the areas of purchasing and financing. At the same time, we have initiated a two-way technology transfer between our company and the Semperit plants. Semperit employees are cooperating effectively on the integration of their company into our Group.

Capital investment stepped up

Real investment (balance sheet additions) rose by 69.6 % to DM 254.0 million. Of this, DM 63.9 million was accounted for by the Semperit Group. As in previous years, the capital investment programme focused on rationalization and structural adjustments as well as the improvement of products and processes.

Sales much increased

In 1985, Group sales were up by 41.6 %. The table below shows the development at Group and parent company levels by comparison with the previous year.

	1985 DM million	1984 DM million	Change in %
Parent company	2,312.9	2,079.3	+ 11.2
Group (without Semperit)	3,948.9	3,534.0	+ 11.7
Group (1985 with Semperit)	5,003.3	3,534.0	+ 41.6

Group sales generated by products, i. e. excluding ancillary business and after deduction of inside sales, rose by DM 1,242.2 million (35.6 %) to DM 4,729.2 million. 73.8 % of this was generated by tyres and 26.2 % by other products. In the parent company, tyres and technical products accounted for 63 % and 37 % respectively of product sales.

Dividend per share improved to DM 5.00

With full capacity utilization, we generated improved earnings in the course of the year. However, extra shifts and retooling resulted in higher costs. In the second half we were better able to meet our customers' demands for greater flexibility in production and logistics.

In the parent company we achieved an annual surplus which is double that of the previous year and which enables us to distribute a dividend of 10 %. The so-called negative EK 56 was paid off in 1985, and results were no longer affected by the tax burden that this had involved.

Profit before tax amounted to DM 81.6 million (DM 49.0 million in the previous year). Profit-related tax was DM 44.4 million (30.7 million in 1984), leaving an annual surplus of DM 37.2 million (DM 18.3 million in the previous year).

The Administration's proposal to the Annual Shareholders' Meeting is to use DM 29.9 million of the DM 32.0 million retained income to distribute a dividend of DM 5.00 per DM 50.00 share and to carry forward the remaining DM 2.1 million.

The consolidated annual financial statements (worldwide) with a surplus of DM 77.2 million show a result which is DM 36.0 million or 87.4 % higher than in the previous year.

Thanks to our employees

Our company employs a total of more than 31,000 people, whose contributions in the areas of research and development, production, marketing and administration have been a vital factor in our positive development. We thank all our employees for their commitment and, in doing so, include all those who began their well-earned retirement in 1985. Our thanks are also due to the employee representatives in the various plants and to the Overall and Group Works Councils for their trustful cooperation in resolving our common tasks.

Outlook

Given the current situation, the economic climate in most West European industrialized countries will continue to develop positively in 1986.

By contrast to 1985, when growth was stimulated mainly by foreign demand, the upswing in the Federal Republic of Germany in 1986 will be boosted increasingly by domestic demand. The high level of capital investment, especially in the capital goods industry, will be sustained. Private consumption should experience a substantial revival due to pent-up demand, improved wages and salaries as well as favourable interest rates.

The German automotive industry anticipates a further increase in passenger car production. In the commercial vehicle sector a slight improvement in the sales situation is expected, particularly in the medium and heavy categories.

We are confident that our company will benefit from the economic upswing. With our high-quality products we have laid the foundation for achieving a further growth in earnings.

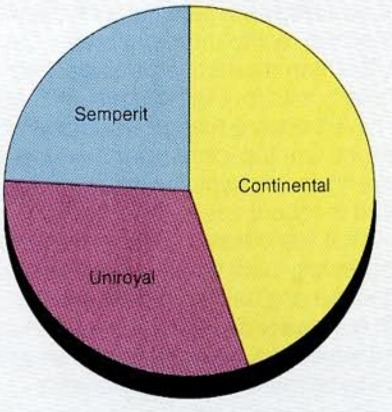
Tyre Division

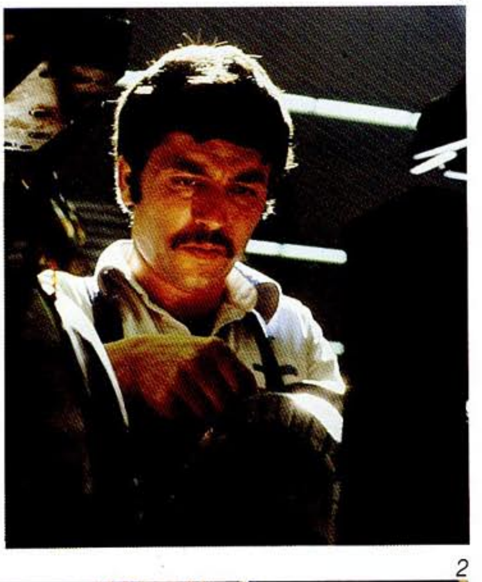
Product sales in the Tyre Division (including Semperit) after deduction of inside sales rose by 46.2 % to DM 3,489.0 million (DM 2,386.1 million in the previous year).

There was a disproportionately large increase in results. Capacities were fully utilized. Despite extra shifts we were not always able to avoid delivery bottlenecks. We have further reinforced our competitiveness on international markets by improving productivity levels in all plants.

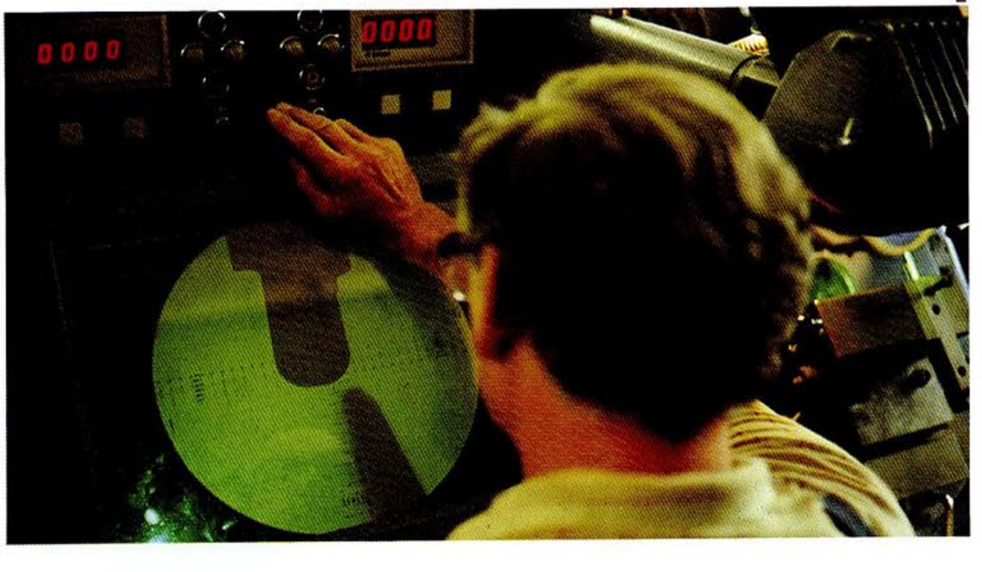
With competition persistently sharp, we were not always able to pass on price increases in full. This applies especially to the original equipment sector, where results continue to be unsatisfactory.

Share of turnover generated by each tyre brand





1
In tyre building the skill of individual staff is a crucial factor in determining the quality of the end product.



2
Manufacturing parts of moulds on an optical profile-grinding machine.

Now competing with three tyre brands

As in the previous year, the Continental and Uniroyal brands operated profitably; the Semperit brand too reports an improved, slightly positive result, which however was depressed by the restructuring programme in the main plant at Traiskirchen near Vienna.

In 1985, after many years, we finalized the process of building up an autonomous management with worldwide responsibility for each tyre brand. Thus, the ground is prepared for a brand policy geared to the brand-specific competitive situation.

Successful cooperations

The cooperation policy with our partners in the United States and in Japan has proved successful. In the USA we have been able to reinforce our market position by producing tyres at General Tire, Inc. This production base in the world's largest tyre market makes us less sensitive to exchange rate fluctuations. Our cooperation with the Japanese manufacturer, Toyo Tire and Rubber Co., Ltd. also developed positively.

By acquiring a majority interest in Semperit Reifen AG, the company also gained a minority shareholding in the Yugoslavian tyre manufacturer Sava. We are systematically exploiting the production and sales opportunities offered by this association.

Research activities and preparations for marketing the ContiTyreSystem are proceeding according to plan. We have achieved significant progress here.

Outlook

Our three tyre brands Continental, Uniroyal and Semperit provide our customers with commercial and technological alternatives, which will continue to enhance the competitiveness of the Tyre Division in 1986. We will exploit all the synergies inherent in this three-brand association and build up our position as one of Europe's leading tyre producers.

Tyre Division

Continental

With product sales of DM 1,490.2 million (DM 1,390.4 million in the previous year), Continental Tyre Operations (without VERGÖLST GmbH) achieved a growth of 7.2 %. High-performance tyres accounted for a disproportionately large share of this sales increase. All in all, the result is satisfactory.

New marketing orientation

Our success in recent years enables us to invest additional resources in our marketing effort. Thus, in 1985 we developed a new concept and made organizational adjustments accordingly. An important feature of this is a customer-oriented sales policy, both for the original equipment sector and for our business with the tyre trade whom we provide with tailor-made sales promotion packages. In the new training centre at our Hanover-Stöcken plant we hold various courses for our partners in industry and the trading sector.

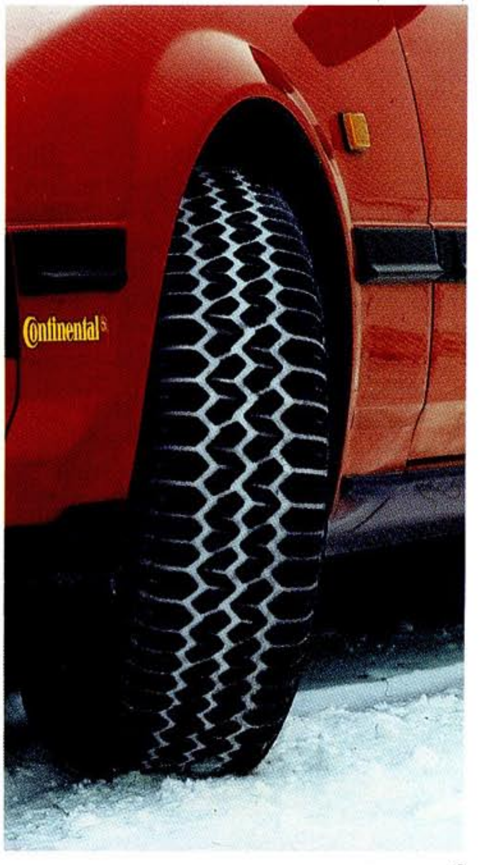
Again out in front: The WinterContact

For the fourth season in succession, our passenger car tyre ContiWinterContact was awarded excellent marks in tests carried out by the motoring press. On the German market sales exceeded 1 million units for the first time. In Europe we have become market leader with this product. Our top-class summer tyres for passenger cars, which we have introduced in recent years, have set new technical standards. They are marketed successfully both through the tyre trade and in the original equipment sector. With our newly developed low-section tyres we consolidated our position with leading car makers. In the Benelux countries, France and Scandinavia we expanded our market shares.

Truck tyres under competitive pressure

We achieved slight market share gains in Europe with large truck tyres. On the German market especially competitive pressure resulted in fierce price wars. We unveiled a series of innovations – particularly in the area of traction tyres.

1



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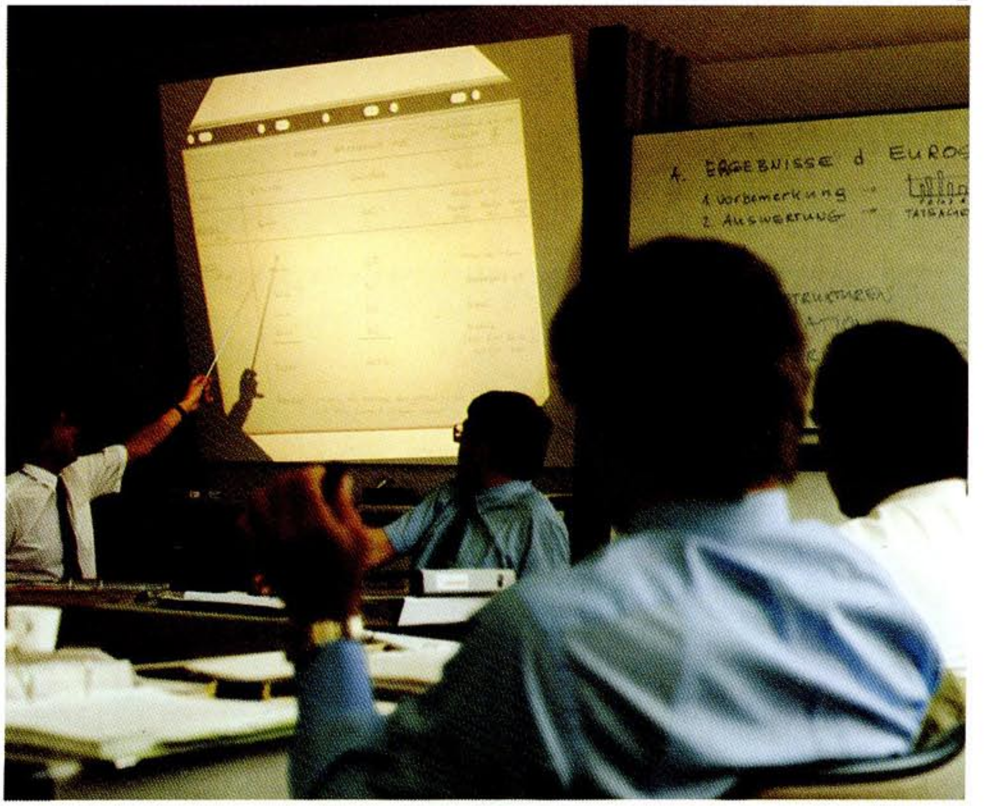
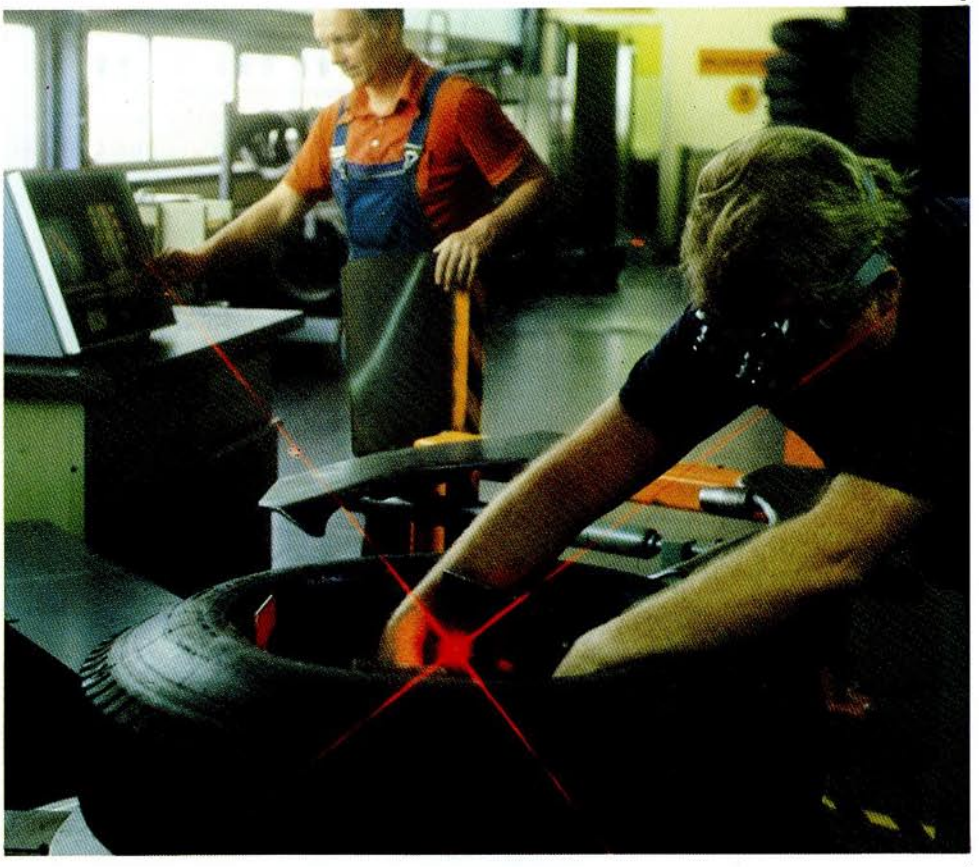


1
Undisputed market leader: The ContiWinterContact TS 740

2
Foreign and domestic tyre dealers as well as our staff receive instruction at the purpose-built ContiTrainingCenter.

3



4

In the lead with industrial tyres

In the industrial tyre segment, we have taken a leading position in Europe with our new product designs. Particularly successful have been our Super-Elastic-Tyres which we are developing further for special applications in close cooperation with our customers in the forklift truck industry.

Business with two-wheeler tyres unsatisfactory

The two-wheeler tyre business fell short of expectations. The decline in demand for motorcycles led to greater competitive pressure.

More product innovation

The outstanding development was the E.O.T. (Energy Optimised Tyre) for trucks which will come onto the market in 1986. A combination of lower fuel consumption and longer life gives this tyre concept the advantage of reduced operating costs. In several years of testing over many millions of kilometres, we have been able to prove that fuel savings of 5 % and more can be achieved with this tyre.

3
Quality testing: Holography of a truck tyre at the Hanover-Stöcken plant.

4
The new E.O.T. concept for commercial vehicles ensures significantly more economy. In the testing stage 16 million kilometres were driven.

Tyre Division

Uniroyal Englebert

Uniroyal Englebert Tyre Operations increased product sales in the year under review by 16.4 % to DM 928.1 million (DM 797.3 million in the previous year). Results were substantially improved. The modernization and expansion of our Belgian production plant at Herstal in the framework of a special capital investment programme has brought the plant a major step forward. However, the company has still not quite succeeded in getting into black figures.

High acceptance level with the automotive industry

The large number of technical approvals for the different passenger car models underlines our high technical standing with the automotive industry. Close cooperation with vehicle manufacturers is an essential factor in the technological advancement and perfection of our products.

Our generation of wide-base tyres achieved a high level of acceptance with the up-market models launched in 1985. In the original equipment sector we were able to improve both our level of participation and our product mix. The winter tyre business developed better than planned.

In the passenger car tyre business we achieved above-average growth rates in France, Belgium, Netherlands, Austria and Switzerland. On the other significant European markets too, we increased our shares.

1
In 1985 Uniroyal launched truck tyres that achieved high mileages in tests and normal service.

2
The new Uniroyal wide-base tyres have become very popular for the top-of-the-range sporty models made by German and other European manufacturers.

1

Commercial vehicle tyres perform well

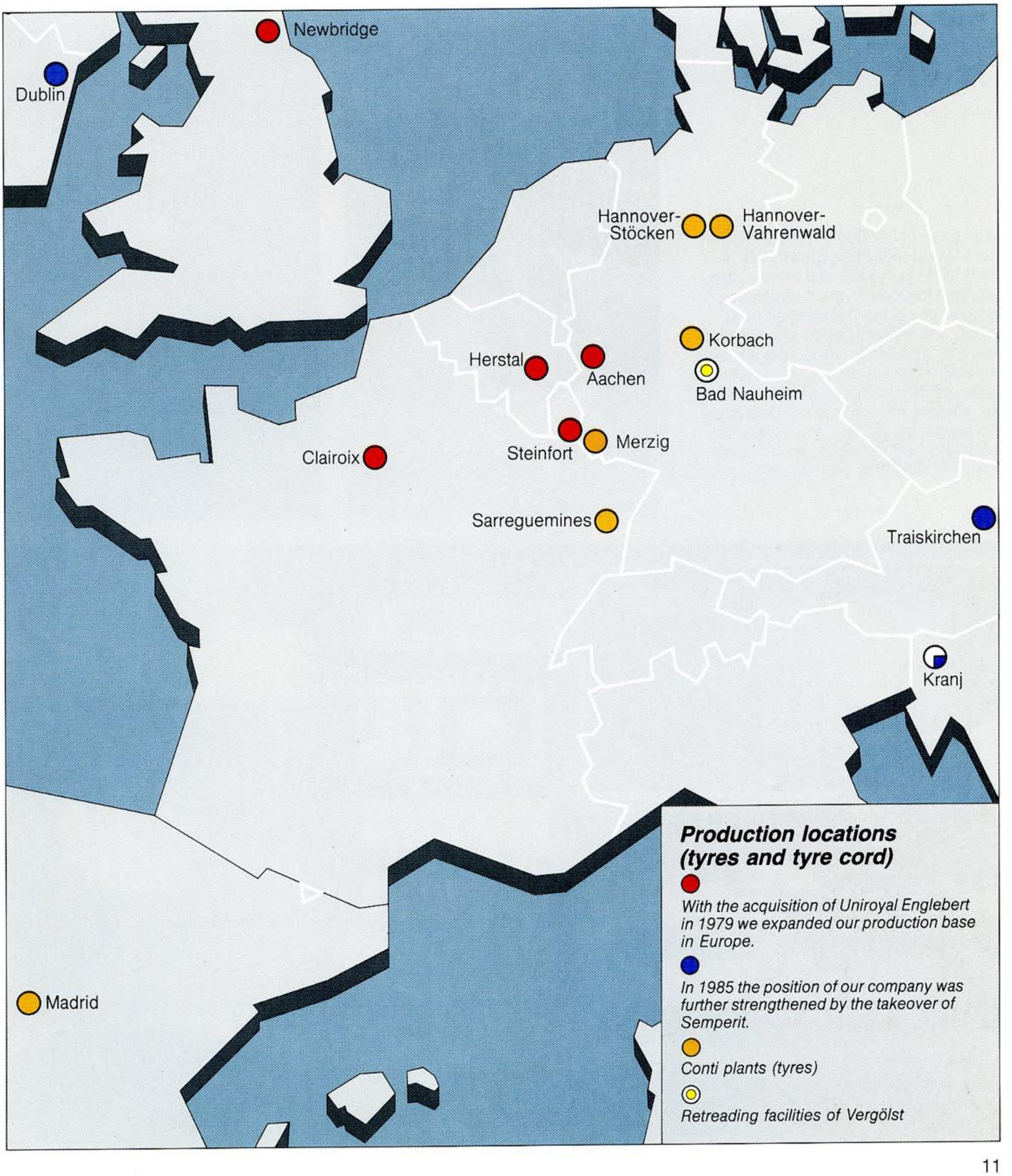
The success that we have scored in recent years with light truck tyres was consolidated in 1985 with a new generation of low-section tyres.

The commercial vehicle tyre range has been supplemented by tyres for truck tractors and trailers. The outstanding feature of the new tyre series is high mileage. Exports to countries outside Europe developed positively.

The tyre of the future: "Impuls"

At the Frankfurt Motor Show we introduced the Uniroyal "Impuls", which has been developed in line with the new ContiTyreSystem, on the test model of a leading car manufacturer. It was received with considerable interest both by the motoring press and the automotive industry.

2


Newbridge
Dublin
Hannover-Stöcken
Hannover-Vahrenwald
Korbach
Herstal
Aachen
Bad Nauheim
Clairoix
Steinfort
Merzig
Sarreguemines
Traiskirchen
Kranj
Madrid
Production locations (tyres and tyre cord)
With the acquisition of Uniroyal Englebert in 1979 we expanded our production base in Europe.
In 1985 the position of our company was further strengthened by the takeover of Semperit.
Conti plants (tyres)
Retreading facilities of Vergölst

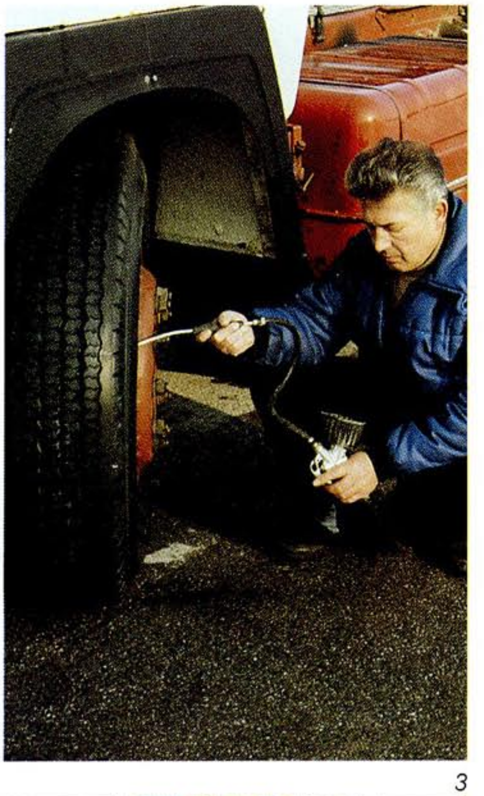
Tyre Division

Semperit

With sales of DM 838.9 million, the Semperit Group reported a growth rate of 14.3 %. In the year under review attention was focused on the restructuring programme in the Traiskirchen plant, which was initiated before incorporation into the Continental Group. We installed new plant and constructed new buildings without interrupting production. In doing so, adverse effects on production could not always be avoided. But despite the additional costs involved, we achieved a result in 1985 that was slightly positive.

1

2



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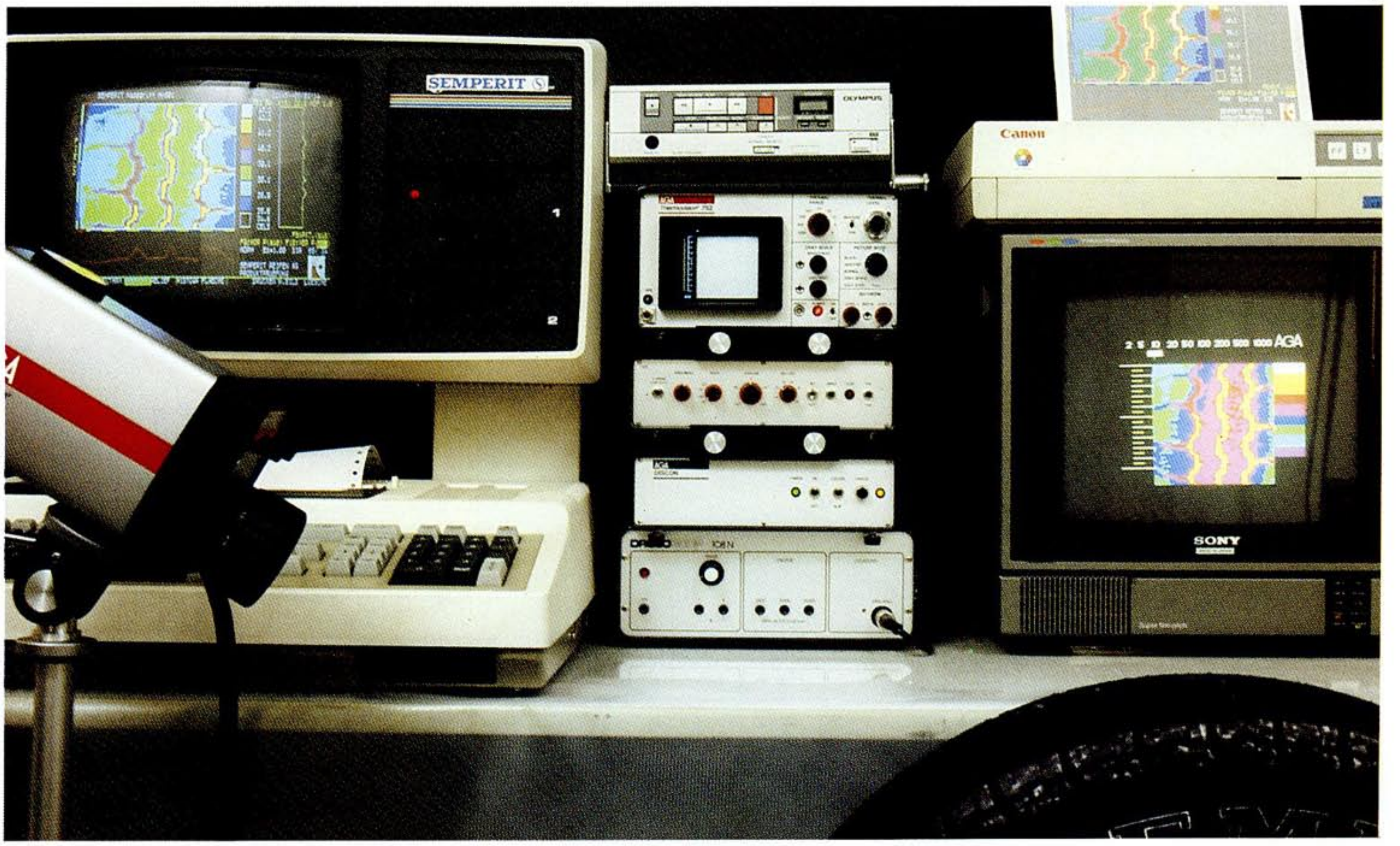


Replacement business pleasing

As on other European markets, the replacement business in Austria was characterized by a further sharpening of competition. In all product segments we maintained our share of the market. In the replacement business we increased both output and sales. We have implemented new partnership programmes with the Austrian tyre trade and have intensified cooperation.

Pleasing rates of sales growth were achieved in the Federal Republic of Germany and in Great Britain. The original equipment business progressed satisfactorily.

Ireland: A significant market

In Ireland, Semperit as the only remaining local tyre producer has now become market leader. The Dublin plant operated at capacity. However, the changeover to the new generation of passenger car tyres depressed plant efficiency in the year under review.

New products

The new summer tyre M 601 for passenger cars that was launched in 1985 impressed both the motoring press and customers with its particularly good handling qualities on wet surfaces. The new winter tyre TOP GRIP immediately achieved considerable success on the market and excellent test results.

Adam Touring, Dietikon, Switzerland

This tyre trading chain underwent a change of management and reported a slight improvement in earnings. Expansion of the sales network was completed with the opening of further sales offices for commercial vehicle tyres.

Merkur Gummiwerk Gesellschaft m. b. H., Vienna, Austria

The company specializes in the retreading of truck tyres. It was able to sustain the pleasing trend of previous years. A substantial increase in business volume was reported.

Subsidiaries

VERGÖLST GmbH, Bad Nauheim

Business activities: Sale of new tyres and car accessories, services in the automotive sector as well as production and marketing of retreaded tyres

Employees: 1,549

Following the economic upswing in the year under review Vergölst reported a significant improvement in results. Sales increased by 12.2 % to DM 321.8 million. The reorganization measures that have been implemented here are achieving the desired effect, so that we were able to keep losses well below the previous year's level. Efforts to restructure the company were sustained.

Continental Industrias del Caucho SA, Coslada/Madrid, Spain

Business activities: Production and marketing of retreaded tyres and industrial tyres as well as sale of new Group tyres

Employees: 284

The company developed satisfactorily, although performance was affected by a strike and an ensuing loss of production. Capital investment in the retreading operation and in industrial tyre production is beginning to have a positive influence on the operating result.

4

1
The new Semperit TOP GRIP as a "sipe gripper" was very successful in its first season on the market.

2
The EURO-STEEL, developed specially for truck front axles and buses, is characterized by excellent mileage and a good ride.

3
The testing facilities in Traiskirchen have state-of-the-art equipment. This thermography device enables temperatures of quickly rotating tyres to be measured.

4
Customers at the 160 Vergölst tyre service stations can choose from a wide range of goods.

Technical Products Division

1

The Technical Products Division further consolidated its position in 1985. By concentrating on high-technology products and systems the Product Groups and subsidiaries benefited from the upswing in their various customer segments. Product sales in the year under review rose by 11.3 % to DM 974.5 million. In 1984 the comparable figure was DM 875.5 million.

As in previous years, the price situation was such that we were not able to pass on cost increases in full. Moreover, we had to cope with financial burdens deriving from a big increase in social security costs and the restructuring of our plants in Hanover-Limmer and Hanover-Vahrenwald. However, we assume that the chief difficulties have been surmounted and expect to see the restructuring measures reflecting positively on the Product Groups of Power Transmission, Extruded and Moulded Products.

The Product Groups of Conveyor Belting, Coated Fabrics, Hose and Air Springs made good contributions to the result.

The Division also achieved above-average sales growth in the export business. Within Europe we reinforced our position both in the automotive and non-automotive industries.

Our exports to the overseas markets Australia, the Far East and the United States also showed pleasing rates of growth, a development which was favoured to some extent by the high value of the US dollar.

Our regained technological capability is reflected in the licenses awarded to overseas partners.

Outlook

In response to our customers' endeavours to phase out the early stages of their manufacturing processes and transfer them to their suppliers, we will focus increasingly on the production of complete systems. The logistics interface between supplier and automobile manufacturer requires that supply is perfectly matched to demand, and is becoming increasingly significant. In order to strengthen our position on key foreign markets, we plan to expand our production capacities abroad.

Given the overall positive economic development and the progress achieved so far, we expect to see the upward trend continue and our earnings in 1986 improve.

Conveyor Belting
Highly competitive segment

Our domestic customers stepped up their capital spending, and this resulted in a strong increase in demand which, however, also benefited importers quite significantly.

Helped by the favourable exchange rate, we aggressively expanded our export business. In order to capitalize more effectively on market opportunities, new production plant came on stream in 1985 and is now manufacturing Fabric-Ply Belts at substantially lower cost. The operating result has improved over the previous year.

In view of the changes which have now occurred in monetary parities, a major effort will be required not only to secure the positions which we have built up on export markets, but also to continue to tap new markets.

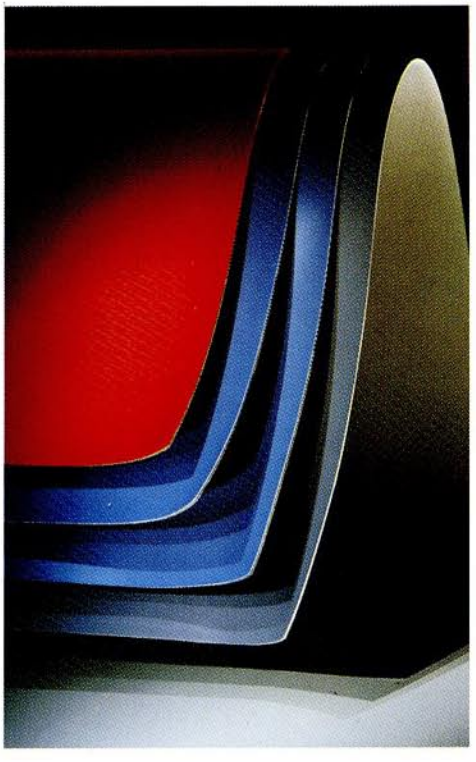
1
Restructuring of the Hanover-Limmer plant included the installing of microprocessor-controlled vulcanization units. Elastomer Moulded Products are manufactured here with a high degree of automation.

2
Printing blanket technology for high-speed rotary printing as well as for web and sheet offset printing.

3
Hydromounts, fitted in cars or trucks to support engines, reduce critical vibrations by selective damping.

4
CONVULTACK Laminated Elastomer Extrusions with optimal adhesive qualities on glass and metal simplify the fitting of windows in the automotive industry.

2



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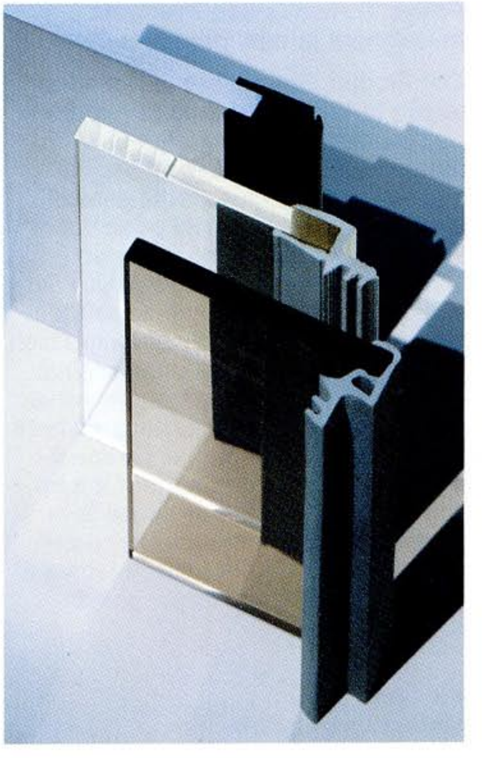


Coated Fabrics
Quality increasingly important

Our top Printing Blanket CONTI AIR WEB asserted its position in the face of strong international competition and gained access to new foreign markets.

As a supplier to the automotive industry, we have now started to manufacture Reinforced Diaphragms, alongside the production of Diaphragm Materials.

With regard to finished products made of Coated Fabrics we continue to focus on sophisticated applications for the international market.

Earnings in all segments of the Product Group developed positively. In 1986 too, we expect to see a further increase in sales.

Hose
Production facilities well utilized

In the case of Hydraulic and Refuelling Hose, capacities were fully utilized. Numerous extra shifts were required.

As a result of the upswing in the automotive industry, demand for Brake, Radiator and Fuel Hose was very substantial. Although the price situation continued to be strained, sales and earnings of the Product Group were up due to the greater quantities involved.

Demand for hose is mounting as the comfort level in vehicles is enhanced, e. g. steering aids and air conditioning. We have adjusted our capacities accordingly.

Moulded Products
Progress through structural improvement

The unsatisfactory situation with regard to Moulded Products which was attributable primarily to the unfavourable production environment in our Hanover-Limmer plant, has been improved following the introduction of new production technologies and integrated workplaces. New product advances and innovations likewise had a positive effect on results.

We were acknowledged by our customers as a competent supplier of construction elements and achieved our sales targets. The operating result improved, but it still fell short of the target.

Extruded Products
Technological innovation

In 1985, the Business Group achieved a significant increase in sales with newly developed products. 50 % of sales were generated with products that are no older than three years. We have specialized in areas of application which require a combination of different materials. We were able to take this step on the strength of our new manufacturing processes. Particularly noteworthy in this context are CONTIFLON for low-friction seals and the CONVULTACK system which chemically bonds rubber and glass. We are confident that we have laid the foundation for future expansion and for a further vital improvement in earnings.

Results of the Business Group are currently being depressed by a programme of structural measures which will have a positive effect on performance in years to come.

Technical Products Division

Power Transmission Products
Investment in new products

This Product Group achieved its sales targets in 1985. A pleasing development was the overproportionately high increase in sales to the foreign original equipment sector. Also in the general industrial and replacement business in France, Great Britain and Spain we achieved good rates of growth. Our Service-Free V-Belt which self-adjusts tension during operation has met with a high level of acceptance both in the original equipment sector and in the aftermarket. In the framework of our strategy we have introduced an ambitious capital investment programme. The burdens this involves during the start-up phase have impaired results. However, for the year 1986 we expect to see an improvement in results coupled with some growth in market shares.

Air Springs
Market share gains

Again in 1985 the market for Commercial Vehicle Air Springs was affected by the almost stagnant production of heavy trucks. Competitive pressure sharpened as a consequence. Nonetheless, we achieved market share gains with double-figure growth rates. We were particularly successful in export business.

In the case of Air Springs for rolling stock, we have upgraded product quality further and high-speed trains are now being fitted with our Air Springs. However, we sustained a decline in sales in 1985 due to the lack of major orders in the year under review.

In the case of Compensators, we are able to report a substantial increase in sales as a result of special transactions.

The Product Group generated good results.

Air Springs guarantee a comfortable ride for passengers: here in operation in the experimental ICE of the German Federal Railways.

Cushioning Products
Consolidation completed

The result for the year under review was kept down by the costs involved in merging our two foam production facilities. Our concept for producing Foam Materials at a single location has however proved meaningful as the more favourable operating result indicates.

We were able to substantially expand the business with Upholstery Elements made of Rubber Hair for the automotive industry. Our recently developed Air-Cushioned Backrest for automobile seats and upholstered furniture – a combination of foam, rubber hair and a rubber inflatable cushion – represents a product segment with good future prospects. These seats adjust automatically to individual body contours by means of an in-built control system.

Subsidiaries

Special conveyor belts made by KA-RI-FIX Transportband-Technik GmbH prove their worth not only in mining but also for transporting beets in a sugar refinery.

Techno-Chemie Kessler & Co. GmbH, Frankfurt am Main

Business activities: Production and marketing of hose assemblies, couplings and fittings

Employees: 437

The company reported a high level of activity in all product segments. Deliveries to the automotive sector were increased substantially. Due to the strong demand however, the company experienced difficulties in sourcing primary materials, so that temporary delivery bottlenecks occurred.

Again, the company achieved double-figure sales growth. There was an overproportionate improvement in results. Due to the high activity level, some additional employees were hired in the production section.

Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen

Business activities: Production and marketing of rubber dinghies and inflatable life rafts as well as engineered products built up from rubberized fabrics.

Employees: 169

Sharpening international competition forced us to introduce a programme of thoroughgoing structural changes, which resulted in a fall-off in sales. We geared the selective product range towards higher-quality pleasure boats, inflatable life rafts and public-sector projects. Production processes were simplified and thus inventory levels reduced. Despite the financial burdens, the company has succeeded in generating a positive, albeit not yet satisfactory, result.

KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf

Business activities: Confectioning, repair and marketing of conveyor belting and accessories

Employees: 133

Capital investment and re-fitting in open-cast mining operations in the Rhineland lignite field had a positive effect on the company's business development. The renewed increase in sales to industrial customers was due in part to the new branch in Koblenz.

The company reported a pleasing improvement in results.

Continental Alsa-Schuhbedarf GmbH, Steinau-Uerzell

Business activities: Production and marketing of shoe soles, shoe parts and footwear materials made of rubber, plastics and cork

Employees: 311

The company successfully continued with the measures that had been launched in 1984 to consolidate and restructure production and marketing. An effort was made to strengthen the customers' advisory service, and market opportunities were exploited with new products and models. Although the company result is still just negative, it was quite considerably improved over recent years. Given the current situation, we anticipate that capacities will continue to be fully utilized in 1986 and that at least a balanced result will be generated.

Affiliated Companies Division

The Affiliated Companies Division again reported a good result in 1985.

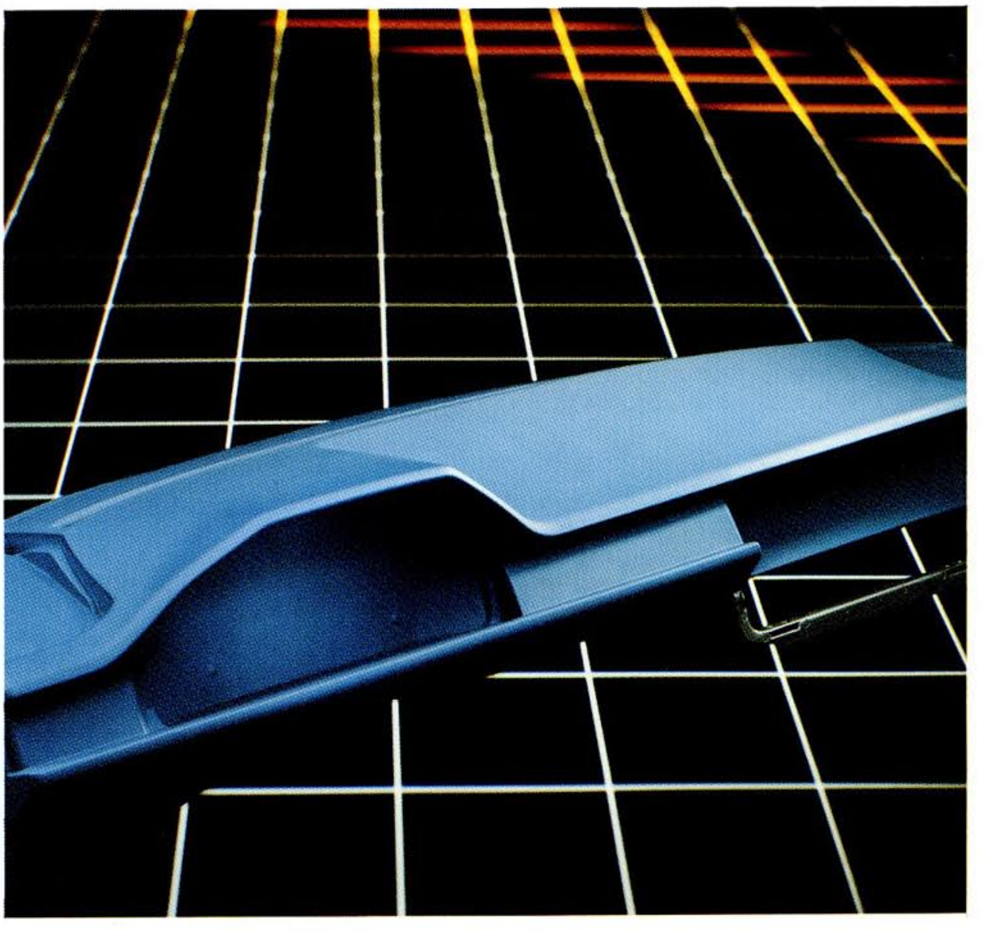
As in the previous year, production capacities were fully utilized in all the consolidated companies. Sales were up by 16.1 % to DM 333.6 million. At the end of the year, personnel totalled 1,504 (1,352 in the previous year).

Consolidated accounts include only those companies in which Continental has a direct or indirect shareholding of more than 50 %.

Non-consolidated companies too have met and in some instances exceeded their targets. Sales of these companies were up on the previous year by 11.8 % to DM 537.6 million. At the end of the year under review, employees numbered 2,407 (2,362 in 1984). Our holding is equivalent to DM 217.8 million or 1,021 employees.

All companies in the Affiliated Companies Division continue to concentrate on the development of new products and technologies as well as on productivity improvements.

1



1
The latest product developed by Göppinger Kaliko is the tailor-made "PRS covering" for dashboards.

2
Textile roller blind material made by Bamberger Kaliko is very popular. Our picture shows the "Sylt" motif based on an idea of a Japanese designer.

3
Drahtcord Saar manufactures reinforcing materials for the tyre industry. Here brassed steel wires are being twined into strands of 4 and 5 threads.

Domestic Companies

Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen

Business activities: Production and marketing of synthetic leather sheeting and car inside roof headlining

Employees: 1,072

Despite massive expenditure on the extension of production facilities, the upswing in the automotive industry posed major capacity problems for the company.

Sales were more than 17 % higher than in the previous year. The further improvement in the export ratio reflects our efforts to tap significant foreign markets.

The extremely difficult situation on the local labour market again faced the company with manpower shortages in the year under review, and this in turn affected production.

In response to this situation, Kaliko will switch production of car roof headlining to the Saar area. At the same location a production facility will also be set up for polystyrene sandwich sheets, which are used in the manufacture of car roof headlining.

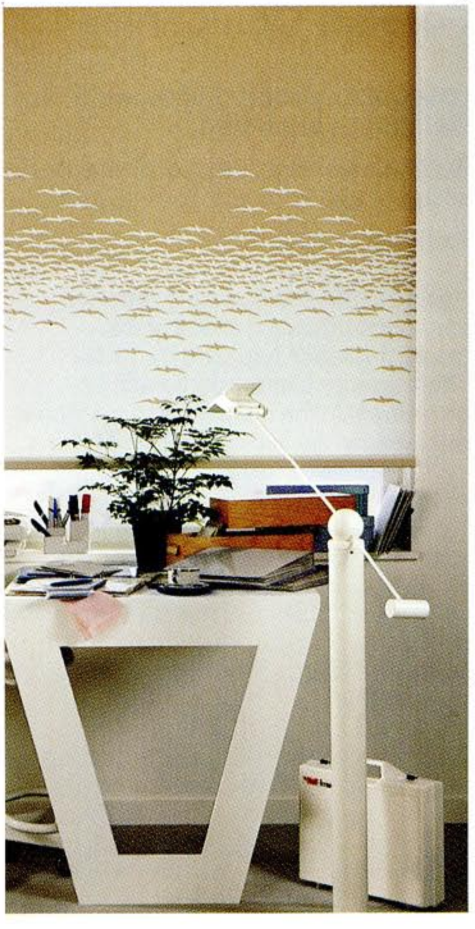
Despite the production difficulties and the resultant increase in costs, the year 1985 closed with a satisfactory result.

Vereinigte Göppinger-Bamberger Kaliko GmbH, Bamberg
Wilh. Leo's Nachfolger GmbH, Stuttgart

Business activities: Production and marketing of book binding and roller blind materials as well as PVC coated fabrics

Employees: 156

2



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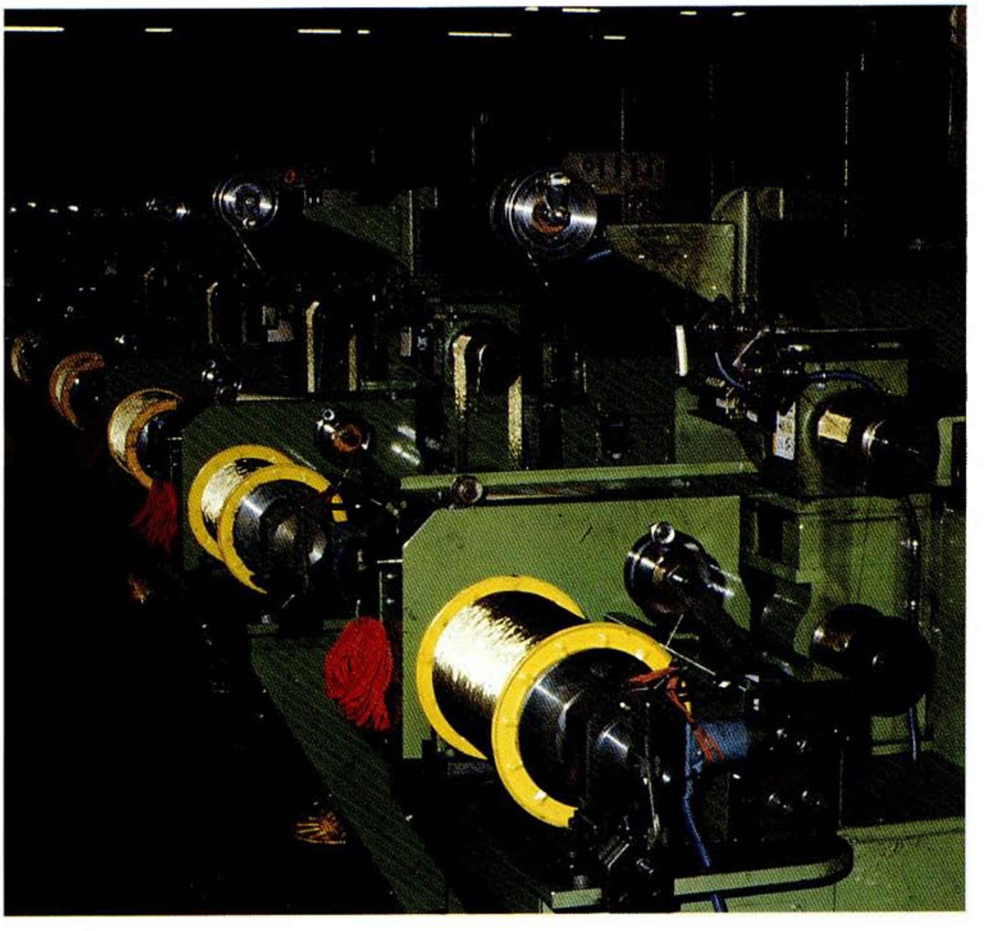


Vereinigte Göppinger-Bamberger Kaliko also made substantial capital investments in the year under review to meet market requirements. Sales growth was again in double figures at 13 %. The main contributing factors here were the scheduled expansion of foreign business and the extremely strong domestic demand. To improve the infrastructure and expand production, we are considering relocating the plant from the centre of Bamberg to a new industrial development site on the outskirts of the city.

Results continue to be good.

The sales company Wilh. Leo's Nachfolger likewise developed steadily according to plan.

Conti Versicherungsdienst GmbH (CVD), Hanover

Business activities: Placing, servicing and administration of insurance for Group companies and enterprises outside the Group as well as for individual employees in Germany and abroad

Employees: 16

The higher loss experience in some lines of German insurance business resulted in more difficult market conditions for the company.

Nonetheless, the company succeeded in providing cost-effective risk cover with both domestic and foreign insurers. Commission and annual results were again improved.

Drahtcord Saar GmbH & Co. KG, Merzig/Saar

Business activities: Production of wire and wire cord for the tyre industry

Employees: 832

Again in 1985, the company was a major supplier to the Group. Production capacities were fully utilized. Rationalization measures led to a further improvement in productivity, and this in turn had a positive effect on results.

Following the withdrawal of one of the partners and our acquisition of part of that shareholding, our interest in the limited partnership increases to 50 %.

Affiliated Companies Division

KG Deutsche Gasrusswerke G. m. b. H. & Co., Dortmund

Business activities: Production of furnace and gas carbon blacks for the rubber industry

Employees: 197

The company manufactures carbon black for the production of tyres and technical products and supplies a share of the Group's carbon black requirements. Production facilities were fully utilized. Results were satisfactory and similar to the previous year's level.

Clouth Gummiwerke AG, Cologne

Business activities: Production and marketing of conveyor belting and other rubber products

Employees: 1,378

The rationalization measures and structural improvements initiated in the previous year were continued and in some cases completed. Coupled with the capital investment programmes to modernize production facilities, they form a solid foundation for further improvement in competitiveness.

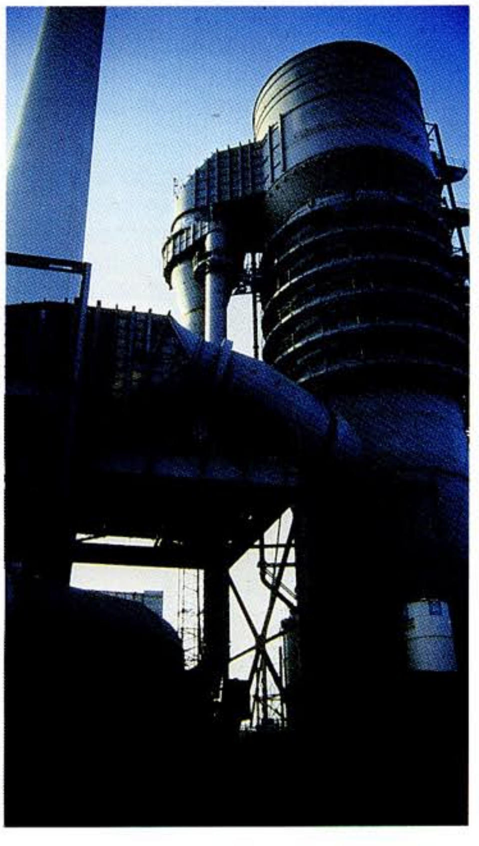
Sales in the company were some 8 % up on the previous year, the key contributors being conveyor belting, industrial rollers, rubberized fabrics, materials for military applications and moulded products.

The lining business that we had anticipated for 1985 in connection with the desulphurization of power station emissions started very much behind schedule so that sales failed to reach target. Because facilities in this business were not fully utilized and earnings in the conveyor belting sector were affected by fierce price wars, the annual result was not quite in line with plan.

The annual surplus amounts to DM 2.7 million (DM 2.7 million in the previous year), and a dividend of 16 % will be paid out.

1

2



Foreign Companies

Uniroyal Englebert Textilcord, S. A., Steinfort/Luxembourg

Business activities: Production and marketing of tyre cord and flocked yarns

Employees: 234

Again in 1985 the company reported very good utilization levels and increased sales of tyre cord by 13 %. There was an overproportionate improvement in the annual surplus which is retained by the company.

At the end of the year we began to launch the new product line "flocked yarns" which are used in the manufacture of fabrics for the automotive and upholstery industries. The start-up of flocked yarn production marked an important milestone in our company's diversification.

To reinforce activities in this promising market segment, we have acquired the flocked yarn division of Kühn, Vierhaus & Cie. AG, Mönchengladbach and now occupy a leading position on the European market. We rate the future sales prospects as very good.

Intercontinental Rubber Finance B. V., Amsterdam/Netherlands

Business activities: Financing services for domestic and foreign Group companies

In 1985 the company issued zero bonds on the German capital market with a nominal value of DM 150 million and a term of 15 years at an interest rate of 6.95 % p. a. Again, the company closed with a profit.

1
At Uniroyal Englebert Textilcord production of flocked yarn has started. It is used in the manufacture of fabrics for the automotive and upholstery industries.

2
Clouth makes anti-corrosion material for absorbers that desulphurize emissions from power stations.

Employees

3

At the end of the year under review the workforce in the Group totalled 31,673. Discounting the newly acquired Semperit Group, we had a total of 26,519 employees on the payroll at 31st December, 1985, i.e. 118 more than in the previous year.

The number of employees in the parent company at the end of 1985 was down by 129 to 15,382. On the annual average the number was 15,469 (15,377 in the previous year). The proportion of foreign workers in the total workforce was 15.0 % (15.3 % in the previous year).

1,275 employees left the company in 1985, mainly on reaching retirement age. 1,146 new employees were hired. In recruiting, we attached particular importance to candidates being qualified to cope with the requirements of today's workplaces.

On 1st May, 1985 the collective agreement for the chemical industry on early retirement and part-time work for elderly employees came into effect. Employees nearing retirement age are now eligible for part-time work or early retirement. Because many employees on reaching the requisite age had already opted for early retirement under a previous scheme, relatively few members of staff have so far chosen to take advantage of the new collective agreement. However, for 1987 and 1988 we expect to see more employees exercising this option provided by the collective agreement which is valid until the end of 1988.

In 1985 we negotiated with the Works Council an agreement on working hours which permits the use of production facilities in some areas of production at weekends. We plan to continue with this course in future in order to maintain our competitiveness.

In the year under review 635 employees completed 25 years of service and 44 employees completed 40 years of service with the company.

The average age of employees in the parent company was 42 (43 in the previous year). Average seniority was 16 years.

3
On-the-spot discussions are often the best way of finding a quick solution to a problem.

Broader range of training opportunities

After again increasing the number of traineeships available, a total of 414 youngsters were receiving vocational training in the parent company at the end of 1985, of whom 155 were in their first year. We were able to give permanent positions to all those who successfully completed their training with us in 1985.

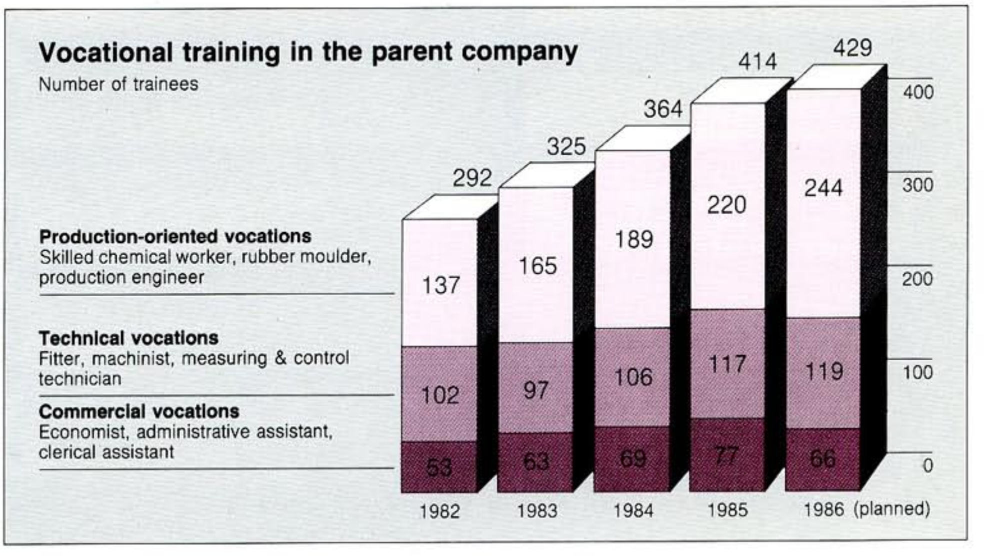
In order to ensure the technical skills needed to make use of today's production technologies, we have added a new training course for technical professions to our programme. The four-year sandwich course for production engineers is a combination of study at a technical college and on-the-job training.

We have considerably broadened our range of tuition programmes for employees. We have supplemented our standard programme for skilled workers with follow-up courses. Our staff-training work in the year under review focused on teaching new working techniques, tutoring moderators for quality circles, and a training programme for members of the marketing section which is aimed at promoting a more customer-oriented approach.

In the year under review some 200 moderators of quality circles in our plants and 100 technical managers attended our Group-wide convention "Konvent '85" which serves as a forum for the interchange of ideas and experience. The working sessions centred on planning models for integrated workplaces.

We plan to promote quality circles even further with the aim of enhancing job satisfaction and improving productivity.

2



2
A thorough basic training is a must also in the rubber industry.

Continental Group, Hanover

Tyre Division

Production and Sales

- Continental Plant Hanover-Stöcken
- Continental France S.A.R.L., Sarreguemines/France
- Continental Industrias del Caucho SA, Coslada/Madrid/Spain
- Uniroyal Englebert Reifen GmbH, Aachen
- Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium
- Pneu Uniroyal Englebert S.A., Compiègne/France
- Uniroyal Englebert Tyres Ltd., Newbridge/Great Britain
- Continental Plant Hanover-Vahrenwald
- Continental Plant Korbach
- Semperit Reifen AG, Vienna/Austria
- Semperit (Ireland) Ltd., Dublin/Ireland
- Sava-Semperit, Kranj/Yugoslavia
- VERGÖLST GmbH, Bad Nauheim
- Merkur Gummiwerk Gesellschaft m.b.H., Vienna/Austria

Technical Products Division

Production and Sales

- Continental Plant Hanover-Limmer
- Continental Plant Northeim
- Continental Plant Gohfeld
- Continental Plant Korbach
- Techno-Chemie Kessler & Co. GmbH, Frankfurt/M.
- Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschersh.

Sales Companies

- Continental Caoutchouc (Suisse) SA, Zurich/Switzerland
- Continental Italia S.p.A., Milan/Italy
- Continental Gummi AB, Solna/Sweden
- Continental Products Corporation, Lyndhurst/N.J./USA
- Continental Tyre and Rubber Company (Pty) Ltd., Sandton/RSA
- Pneu Uniroyal-Englebert S.A., Geneva/Switzerland
- Uniroyal Englebert Daek A/S, Copenhagen/Denmark
- Uniroyal Englebert Tyre Trading GmbH, Aachen
- C.U.P. GIE, Epinay/France
- C.U.P. Ltd., West Drayton/Great Britain
- C.U.P. Gummi Gesellschaft mbH, Vösendorf/Austria
- Deutsche Semperit GmbH, Munich
- Semperit (Sales) Ltd., Dublin/Ireland
- Semperit (Schweiz) AG, Dietikon/Switzerland
- Semperit (UK) Ltd., Slough/Great Britain
- Semperit Svenska AB, Nacka/Sweden

Affiliated Companies Division

Continental Plant Hanover-Vahrenwald

Continental Plant Dannenberg

Continental Plant Mendig

Uniroyal Plant Aachen

Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell

KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf

Production, Sales and Services

Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen

Vereinigte Göppinger-Bamberger Kaliko GmbH, Bamberg

Wilh. Leo's Nachfolger GmbH, Stuttgart

Uniroyal Englebert Textilcord, S. A., Steinfort/Luxembourg

Flockgarn GmbH, Hanover (as from 1.1.1986)

KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund

Drahtcord Saar GmbH & Co. KG, Merzig/Saar

Clouth Gummiwerke AG, Cologne

Conti Versicherungsdienst GmbH, Hanover

Semperit Versicherungsdienst Gesellschaft m.b.H., Traiskirchen/Austria

Intercontinental Rubber Finance B. V., Amsterdam/Netherlands

Adam Touring Gruppe, Switzerland/Liechtenstein

Profi Gruppe, Austria

Gustro Gustav Rohrbach GmbH, Frankfurt/M.

Companies not included in the consolidated accounts

Plants and establishments belonging to the parent company

Any deviations from this chart in the legal structure of companies associated with the Group are shown on pages 26 and 27.

Group Companies

	Nominal capital in 1000 (DM or other currency)	Group interest in %

Associated Domestic Companies

A. Companies included in the consolidated accounts

		Nominal capital in 1000 (DM or other currency)	Group interest in %
1.	VERGÖLST GmbH, Bad Nauheim[1])	28 000	99.4
2.	Uniroyal Englebert Reifen GmbH, Aachen	30 000	100.0
3.	Deutsche Semperit GmbH, Munich[2])	15 500	100.0
4.	Gustro Gustav Rohrbach GmbH, Frankfurt/M. [2])	2 000	100.0
5.	Uniroyal Englebert Tyre Trading GmbH, Aachen	1 000	100.0
6.	Techno-Chemie Kessler & Co. GmbH, Frankfurt/M.[1])	15 000	100.0
7.	Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	3 000	95.0
8.	Formpolster GmbH, Hanover[1])	50	100.0
9.	Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell	3 000	100.0
10.	KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	1 000	100.0
11.	Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen[1])	16 000	94.5
12.	Vereinigte Göppinger-Bamberger Kaliko GmbH, Bamberg[1])	3 000	94.5
13.	Wilh. Leo's Nachfolger GmbH, Stuttgart	420	94.5
14.	Conti Versicherungsdienst GmbH, Hanover[1])	50	100.0
15.	Continental Caoutchouc-Compagnie GmbH, Hanover[1])	250	100.0
16.	Continental Caoutchouc-Export-Aktiengesellschaft, Hanover[1])	800	100.0
17.	Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH, Hanover[1])	3 500	100.0
18.	Union-Mittelland-Gummi-GmbH, Hanover[1])	50	100.0

B. Companies not included in the consolidated accounts

		Nominal capital in 1000 (DM or other currency)	Group interest in %
19.	Deutsche Gasrusswerke GmbH, Dortmund	250	31.0
20.	KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund	7 360	27.7
21.	Drahtcord Saar Geschäftsführung GmbH, Merzig/Saar	60	33.3
22.	Drahtcord Saar GmbH & Co. KG, Merzig/Saar	30 000	33.3
23.	Clouth Gummiwerke AG, Cologne	14 000	50.0
24.	Unterstützungskasse mbH der Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen	50	94.5
25.	Wohnungsbau Salach GmbH, Eislingen	50	56.7
26.	Reifen-Friedenburg, KG, Troisdorf	90	66.3
27.	Unterstützungseinrichtung der Uniroyal-Werke GmbH, Aachen	50	98.6
28.	Reifen-Apel GmbH, Korbach[2])	50	89.5
29.	Liga GmbH, Hanover (from January 1986 renamed Flockgarn GmbH, Hanover)	50	100.0
30.	Hammesfahr Westdeutsche Bereifungs GmbH, Aachen	50	100.0

Associated Foreign Companies

A. Companies included in the consolidated accounts

			Nominal capital in 1000 (DM or other currency)	Group interest in %
31.	Continental France S.A.R.L., Sarreguemines/France	FF	130 000	100.0
32.	Continental Industrias del Caucho SA, Coslada/Madrid/Spain	Ptas	622 492	100.0
33.	Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	bfrs	460 000	99.9
34.	Pneu Uniroyal Englebert S.A., Compiègne/France	FF	58 580	99.9
35.	Uniroyal Englebert Tyres Ltd., Newbridge/Great Britain	£	10 000	100.0
36.	Semperit Reifen AG, Vienna/Austria[2])	öS	400 000	75.0
37.	Semperit (Ireland) Ltd., Dublin/Ireland[2])	IR£	14 353	72.1
38.	Continental Caoutchouc (Suisse) SA, Zurich/Switzerland	sfrs	1 000	100.0

		Nominal capital in 1000 (DM or other currency)	Group interest in %
39. Continental Italia S.p.A., Milan/Italy	Lire	1 700 000	100.0
40. Continental Gummi AB, Solna/Sweden	skr	4 600	100.0
41. Continental Products Corporation, Lyndhurst/N.J./USA	US$	10 289	91.8
42. C.U.P. Gie, Epinay/France		—	100.0
43. C.U.P. Ltd., West Drayton/Great Britain	£	1 300	100.0
44. C.U.P. Gummi Gesellschaft mbH, Vösendorf/Austria	öS	13 000	75.0
45. Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	sfrs	500	100.0
46. Uniroyal Englebert Daek A/S, Copenhagen/Denmark	dkr	3 500	100.0
47. Merkur Gummiwerk Gesellschaft m.b.H., Vienna/Austria[1][2]	öS	60 050	71.3
48. Räder-Klein Gesellschaft m.b.H., Vienna/Austria[1][2]	öS	7 000	75.0
49. Rundpneu Beteiligungsgesellschaft mbH, Vienna/Austria[2]	öS	100	75.0
50. Profi Reifen- und Autoservice Gesellschaft mbH, Vösendorf/Austria[1][2]	öS	12 000	75.0
51. Profi Gesellschaft mbH, Bregenz/Austria[1][2]	öS	15 000	75.0
52. Profi Gesellschaft mbH, Graz/Austria[1][2]	öS	31 705	72.2
53. Profi Gesellschaft mbH, Wels/Austria[1][2]	öS	23 000	75.0
54. Semperit (Schweiz) AG, Dietikon/Switzerland[2]	sfrs	10 000	100.0
55. Neugummierungs AG, Schafisheim/Switzerland[2]	sfrs	50	100.0
56. Pneu Dick AG, Biel/Switzerland[2]	sfrs	50	100.0
57. Adam Touring GmbH, Dietikon/Switzerland[2]	sfrs	100	100.0
58. Adam Touring AG, Triesen/Liechtenstein[2]	sfrs	100	100.0
59. Semperit (Sales) Ltd., Dublin/Ireland[2]	IR£	0.1	72.1
60. Semperit (UK) Ltd., Slough/Great Britain[2]	£	1 700	75.0
61. Semperit Svenska AB, Nacka/Sweden[2]	skr	2 000	75.0
62. Uniroyal Englebert Textilcord, S.A., Steinfort/Luxembourg	Flux	50 000	100.0
63. Intercontinental Rubber Finance B.V., Amsterdam/Netherlands	hfl	1 000	100.0
64. Semperit Versicherungsdienst Gesellschaft m.b.H., Traiskirchen/Austria[1][2]	öS	500	75.0

B. Companies not included in the consolidated accounts

		Nominal capital in 1000 (DM or other currency)	Group interest in %
65. Continental Tyre and Rubber Company (Pty) Ltd., Sandton/RSA	Rand	5	100.0
66. Semperit (Hellas) Ltd., Athens/Greece[2]	Dra	900	60.2
67. Sava-Semperit, Kranj/Yugoslavia[2]	öS	566 374	20.9
68. Englebert Gummi AB, Stockholm/Sweden	skr	100	99.9
69. Moos Holding AG, Basle/Switzerland[2]	sfrs	50	100.0

[1]) Companies with which profit and loss pooling agreements exist.

[2]) New to the Group in 1985.

We also have an interest in 28 other companies with minor or no business activities.

Proposal for the Appropriation of Profit

Supervisory Board and Executive Board will propose to the shareholders that from the	**retained** income of	DM 31,964,886.41
the distribution of a dividend amounting to DM 5.00 at the par value of DM 50.00 (10.0 %) is approved.		
From a share capital of DM 299,000,000.00 this means a .	**distribution** of	DM 29,900,000.00
The non-distributed	**remaining amount** of	DM 2,064,886.41
will be carried forward.		

Together with the corporation tax of DM 2.81 per share, a total income of DM 7.81 per DM 50.00 share (15.62 %) accrues to our domestic shareholders.

Notes on the Annual Financial Statements of Continental Gummi-Werke AG

Financial position

Whenever comparisons are made with the previous year, it should be noted that the acquisition of the Semperit Group has influenced some items of these financial statements.

With an increase in sales of 11.2 %, the balance sheet total was 14.7 % or DM 176.7 million higher than in the previous year. Fixed assets accounted for DM 72.3 million and current assets, including prepaid expenses, for DM 104.4 million of the increase. The capital turnover rate (ratio of sales to total assets) was down slightly from 1.73 to 1.67.

Disregarding investments in affiliates, which do not contribute directly to parent company sales, the balance sheet total was up by only 10.2 % or DM 95.8 million. Calculated on this basis, the capital turnover rate is 2.24 (2.22 in the previous year). A comparison of these figures with the corresponding ones of five years ago shows a clearly positive trend. While sales increased by 27.3 % in this period, the balance sheet total (excluding investments) rose by only 5.9 %, which means that the capital turnover rate has improved from 1.86 to 2.24.

The proportion of fixed assets to total assets has dropped further to 54.3 % (56.3 % in the previous year). Investments in affiliated companies account for just less than one half.

The company's total indebtedness (all short and long-term liabilities) increased by DM 105.8 million in 1985 to DM 557.7 million.

Taking into account 50 % of the increase in untaxed reserves and that part of retained income which is not to be distributed, equity capital rose by DM 18.6 million to DM 499.2 million. This gives an equity ratio of 36.1 % compared to 39.9 % in the previous year.

On the closing date, 66.6 % of fixed assets were financed out of equity (70.9 % in the previous year); 90.9 % of fixed assets and inventories were financed out of equity and long-term debt (94.7 % in the previous year).

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) dropped to 78.9 % (102.0 % in the previous year) following the large increase in investments. The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) at 74.7 % likewise fell slightly short of the previous year's figure of 81.5 %.

Profit situation

With gross revenues up by 12.0 %, the gross margin increased by 8.9 % or DM 99.3 million. The main reason for this disproportionately small growth is the substantial increase in merchandise with correspondingly lower profit margins.

The net operating result (including financing charges, but before profit tax) at DM 87.4 million was 40.5 % up on the previous year (DM 62.2 million).

The extraordinary result is a loss of DM 5.8 million (DM 13.2 million in the previous year). The major items here are changes in untaxed reserves, special depreciation of fixed assets in accordance with § 3 Zonenrandförderungsgesetz (economic development of border areas), § 51 EStG (research and development), and § 6b EStG (profit from the sale of fixed assets), gains and losses from the release of fixed assets, an increase in tax deductions on imports in accordance with § 80 EStDV, adjustments to the value of current assets, investment allowances and grants as well as gains from the release of reserves that were no longer required.

On balance, profit before tax is DM 81.6 million (DM 49.0 million in the previous year). After tax deduction net income amounts to DM 37.2 million (DM 18.3 million in the previous year). Return on sales after tax improved from 0.9 % to 1.6 %, and return on equity increased substantially from 3.8 % to 7.5 %. The gross cash flow was up from DM 159.1 million to DM 210.1 million and was equivalent to 9.1 % of sales (7.7 % in the previous year).

Balance sheet

The evaluation and depreciation methods are the same as those described in the previous year's report, with the exception of accrued pensions and reserves for early retirement compensation and part-time work for elderly employees. Reorganization of the employees' retirement scheme in 1984 resulted in an increase in pension commitments. In the previous year, allocations to accrued pensions had been made to cover one-third of this increase; the remaining two-thirds were allocated in the year under review. With regard to the commitments deriving from early retirement compensation and part-time work for elderly employees, expenditure has been spread over three years in accordance with tax provisions.

Property, plant and equipment

Additions to property, plant and equipment amounted to DM 102.2 million (DM 85.4 million in the previous year). The Tyre Division accounted for 37 % of new investments, the Technical Products Division for 59 %, and central service functions for 4 %. The focus was on the restructuring of our plants in Limmer and Vahrenwald as well as capacity expansion, rationalization, productivity improvement and further quality assurance measures.

Depreciation has increased by DM 20.0 million to DM 105.5 million; it includes fiscally permitted special depreciation amounting to DM 11.6 million (DM 3.5 million in the previous year). Thus, depreciation is virtually on a par with new investments. Property is depreciated based on a useful life of up to 33 years, machinery on a useful life of 10–12.5 years, supply lines and various plant fixtures up to 20 years, furniture and equipment 4–7 years, and moulds up to 4 years.

Additions to machinery and longer-lived furniture and equipment were depreciated in accordance with the declining-balance method on the basis of the highest rates fiscally permitted. The remaining property, plant and equipment was depreciated using the straight-line

Notes on the Annual Financial Statements of Continental Gummi-Werke AG

method, and economic goods of low value were written off completely in the year of acquisition.

Additions to property, plant and equipment in the year under review have been depreciated as follows:

	Additions and reclassifications DM million	Depreciation DM million
Land and buildings	9.4	6.6
Machinery and fixtures	48.8	13.8
Furniture and equipment	38.6	13.2
	96.8	33.6

The disposal of fixed assets amounting to DM 4.6 million relates to obsolete machinery and fixtures as well as to the sale of land and buildings which in the framework of restructuring our Hanover plants in Limmer and Vahrenwald were no longer required.

Over the last five years, investment in property, plant and equipment (including leasing-financed additions) has totalled DM 432.4 million. It exceeded depreciation by 4.8 %. Moreover, during the same period financial investment has amounted to DM 137.1 million, so that total gross investment since 1980 has been DM 569.5 million.

Financial assets

The book value of affiliates has increased over the previous year by DM 80.9 million to DM 348.5 million.

Effective from 1st January, 1985, we acquired 75 % of the share capital of Semperit Reifen Gesellschaft m. b. H., Vienna and at the same time transformed the company into a limited company (SRAG). The company's share capital amounts to öS 400.0 million. We have an option on the remaining 25 % which can be exercised on 1st January, 1987 at the earliest and on 31st December, 1989 at the latest. The purchase price for 100 % of shares is öS 440.0 million.

With the acquisition of SRAG, two subsidiaries of the company, Deutsche Semperit GmbH, Munich, and Semperit (Ireland) Ltd., Dublin, were transferred to Continental Gummi-Werke AG, Hanover. Deutsche Semperit GmbH, Munich acquired – as a non-cash capital contribution – shares in Uniroyal Englebert Tyre Trading GmbH, Aachen to the tune of DM 1.0 million; the share capital of Semperit (Ireland) Ltd., Dublin was increased by IR£ 4.0 million. In line with the change in the law governing companies with limited liability, several capital increases were made to meet the minimum capital requirement of DM 50,000.

Long-term loans are mainly home-building loans to our employees. Interest-free loans have been adjusted to their present value. Any differences between present value and last year's value are included in additions to investments.

Inventories

Inventories increased by 13.3 %. This is attributable mainly to the higher share of merchandise bought from Group companies. Because the acquisition price of these goods is higher than the capitalizable manufacturing costs at the parent company, this has led to an overproportionate increase in value terms.

Raw materials and supplies are stated at the lower of cost or market value, with cash discounts and any other price reductions duly deducted. Work-in-progress and finished goods were valued at manufacturing cost, including pro rata factory overhead expenses. Due allowance was made for slow-moving goods and items with limited usability. A comparison with the figures of five years ago shows that current inventories are only 5.8 % higher than at that time. This means that although sales have improved by 27.3 % during this period, relatively little additional capital (DM 18.2 million) has been tied up in inventories.

Accounts receivable and other assets

The increase of DM 5.2 million (3.3 %) in accounts receivable from deliveries and services is substantially lower than the 11.2 % increase in sales. A comparison with the figures as at 31st December, 1980 shows that the increase in accounts receivable – including all transactions with Group companies – at 24.4 % has likewise been significantly lower than sales growth.

Apart from individual adjustments which were offset from accounts receivable, there is a bad debt reserve of DM 2.3 million on the liabilities side. The majority of receivables outstanding were due at the beginning of 1986 and were paid on schedule.

The increase of DM 51.9 million in accounts receivable from associated companies is chiefly attributable to higher balances from Central Cash Management and claims from profit-transfer agreements. Also included in this item are receivables from the delivery of goods and diverse clearing accounts.

The item other debtors comprises mainly receivables from employees and suppliers as well as tax credits.

Capital and reserves

Share capital was unchanged at DM 299.0 million. Following the resolution of the Annual Shareholders' Meeting on 5th July, 1985, conditionally authorized capital was increased by DM 75.0 million to DM 122.0 million. This means that up to 5th July, 1990 further option bonds can be negotiated up to a maximum of DM 150.0 million. Of the remaining DM 47.0 million conditionally authorized capital, DM 35.0 million were obtained by exercising the option rights from the 1984/1994 option bonds and DM 12.0 million by exercising the conversion rights from the US dollar portion of the 1979 convertible loan.

At the beginning of 1986, the holder of the convertible loan in US dollars exercised his conversion rights. Share capital consequently increased by DM 8.5 million to DM 307.5 million. As a result, conditionally authorized capital, including an unusable balance of DM 3.5 million, decreased to DM 110.0 million.

The Executive Board was empowered by a resolution of the Annual Shareholders' Meeting on 5th July, 1985 to increase share capital by a total of DM 30.0 million by 5th July, 1990 (authorized capital).

The Executive Board and the Supervisory Board have resolved in accordance with § 58 section 2 AktG (Stock Corporation Law) to allocate DM 12.0 million of the company's net income to free reserves.

The reserve for pension payments serves to offset the deficits which have resulted under accrued pensions following last year's retroactive amendment of the annual statements 1977 to 1983. At the closing date the reserve was reduced by DM 5.5 million to DM 6.4 million. On 31st December, 1985 there was a deficit equivalent to this amount in accrued pensions.

Untaxed reserves

Untaxed reserves increased by DM 11.5 million.

Specifically, the breakdown is as follows:

	DM million
Allocation in accordance with § 3 Auslandsinvestitionsgesetz (the law governing the taxation of foreign investments made by German industry) for Semperit (Ireland) Ltd., Dublin	8.4
Allocation in accordance with § 3 Auslandsinvestitionsgesetz for Pneu Uniroyal Englebert S.A., Herstal-lez-Liège	1.9
Release of part of the reserve formed in accordance with § 3 Auslandsinvestitionsgesetz for Uniroyal Englebert Tyres Ltd., Newbridge	4.9
Allocation in accordance with § 6b EStG (gains from the sale of fixed assets)	6.6
Release of reserve in accordance with § 6b EStG	0.4
Allocation in accordance with § 74 EStDV (reserve for price increases)	0.1
Release of reserve in accordance with § 52 section 5 EStG (change in the interest rate used to compute pension accruals)	0.2
	11.5

Accruals

Accrued pensions were computed on actuarial principles using the new life tables developed by Dr. Klaus Heubeck. An allocation equivalent to only one-third of the non-recurring expenditure that arose in 1984 with the reorganization of the company pension scheme was made in the previous year in accordance with § 6a section 4 EStG; in the year under review we allocated the equivalent of the remaining two-thirds. The deficit of DM 6.4 million as at 31st December, 1985 which derives from previous years is covered in full by the previously mentioned reserve for pension payments.

Other accruals include warranties, bonuses and other commitments arising in the ordinary course of business and obligations to our employees. Also, provisions were made to cover contributions to the employers' liability insurance association, risks from contingent liabilities on notes, and tax commitments. The increase over the previous year is partly due to our forming a reserve for commitments to fund early retirement compensation and to balance the salary difference where elderly employees opt for part-time work. Calculations were based on the principles of § 6a EStG both regarding payments for which contracts have already been negotiated and for those which we still anticipate. For the calculation at the closing date we used the tables developed by Dr. Klaus Heubeck based on a rate of 6 %. The allocation has been spread over a period of three years in accordance with tax provisions. For the years 1986 and 1987 the additional expenditure will be DM 17.0 million.

Liabilities

Long-term liabilities with a term of at least four years increased on balance by DM 25.6 million. This growth is due to borrowers' note loans and other loans increasing by DM 36.4 million (purchase price for Semperit Reifen Aktiengesellschaft minus other loan repayments), a long-term loan of DM 10.4 million negotiated by Intercontinental Rubber Finance B. V., Amsterdam/Netherlands, and scheduled repayments of the 1971 bearer-bond (DM 10.0 million) and the repayment of bank loans (DM 11.2 million).

At 31st December, 1985 there were no short-term liabilities payable to banks.

Notes on the Annual Financial Statements of Continental Gummi-Werke AG

The increase of 11.5 % in trade payables is attributable to higher material requirements at the end of the year. Payments received on account include mainly advance payments from customers. Payments due to associated companies increased because of higher balances from goods transactions with some foreign production companies as well as to a short-term loan negotiated by Intercontinental Rubber Finance B. V., Amsterdam/Netherlands. Other liabilities are chiefly wages and salaries, tax commitments and interest as well as bonuses and commission.

Contingent liabilities

Contingent liabilities on notes decreased by DM 2.2 million to DM 197.8 million. This comprises mainly the customer notes of our subsidiaries which are refinanced by the parent company in the framework of Central Cash Management. Guarantees and warranties, which relate almost entirely to liabilities of our subsidiaries and affiliated companies, changed from DM 117.2 million to DM 193.7 million. Included here is our guarantee for the 1985/2000 zero bonds in Deutsche Mark issued in July 1985 by Intercontinental Rubber Finance B. V., Amsterdam/Netherlands to the amount of DM 150.0 million; the contingent liability is in line with the issue price including interest up to 31st December, 1985 amounting to DM 56.5 million.

Outstanding payments on contributions to the capital of companies and on liabilities due to cooperatives were unchanged from the previous year at DM 3.8 million.

Profit and loss statement

Sales rose in the year under review by DM 233.6 million (11.2 %) to DM 2,312.9 million. Product sales, i.e. excluding ancillary business, increased by DM 196.4 million (9.8 %) to DM 2,193.6 million. Similar to the previous year, tyres generated 63 % of sales and technical products 37 %. The export sales ratio improved to 34.4 % (33.4 % in the previous year). Five years ago (1980) it was just 28.5 %. With an increase in finished goods inventories and overheads capitalized on the construction of fixed assets, gross revenues were DM 253.5 million (12.0 %) up on the previous year.

Material costs rose by 15.5 %. Their proportion relative to gross revenues increased to 48.8 % (47.3 % in the previous year). This was largely attributable to the substantially higher volume of merchandise purchased from other Group companies. Personnel costs were up by 7.2 % and were equivalent to 35.8 % of gross revenues (37.5 % in the previous year). These too were indirectly kept down by the higher proportion of merchandise.

Income from profit and loss transfer agreements and dividends amounted to DM 30.9 million (DM 11.4 million in the previous year). Apart from a dividend from our French subsidiary, Continental France S.A.R.L., Sarreguemines, all revenues derived from domestic companies. Losses were assumed mainly from VERGÖLST GmbH, Bad Nauheim. Offset against this is an increase of DM 5.3 million in untaxed reserves in accordance with § 3 Auslandsinvestitionsgesetz. On balance, therefore, the Affiliated Companies Division contributed DM 25.6 million to the parent company result.

Interest expenses and income should be considered only on balance, because the loans in transit for our domestic subsidiaries in the framework of the Central Cash and Credit Management system limit the meaningfulness of the individual items. Due to the reduced credit requirements and lower interest rates, the interest balance was down DM 1.8 million to DM 27.9 million, which is equivalent to 1.2 % of gross revenues (1.4 % in the previous year).

The increase in income from the disposal of fixed assets resulted mainly from the sale of real estate in Hanover-Vahrenwald.

Other income derives chiefly from service charge-outs to other Group companies, sales in our kitchens and canteens, proceeds from rents, insurance compensation and foreign exchange gains. Also included are public-sector allocations which – insofar as these were in the form of investment subsidies and grants – were included in extraordinary income.

Taxes totalled DM 52.6 million and relate only to expenses in the period under review. The tax load in 1985 was no longer affected by the negative EK 56.

Other expenses, mainly repairs, freight charges, rents, advertising, travel expenses and insurance premiums rose by 11.4 %, primarily because of higher repair costs for buildings and machinery. This is equivalent to 9.9 % of gross revenues (10.0 % in the previous year).

The remuneration of Executive Board members in 1985 totalled DM 5,233,862 (DM 3,653,038 in the previous year). Pensions to retired Board members or their dependents amounted to DM 1,977,068 (DM 2,265,690 in the previous year). Emoluments to the Supervisory Board totalled DM 535,644 (DM 301,000 in the previous year). Insofar as these payments are dependent on dividend, it was assumed that the Annual Shareholders' Meeting will approve the Administration's proposal for the appropriation of profit.

The official announcement on 10th July, 1985 of the first DM zero-coupon bonds to be issued by a German industrial company.

New Issue
July 10, 1985

This advertisement appears as a matter of record only.

INTERCONTINENTAL RUBBER FINANCE B.V.

Amsterdam, Netherlands

DM 150,000,000
Deutsche Mark Zero-Coupon Bonds of 1985/2000

unconditionally and irrevocably guaranteed by

Continental Gummi-Werke Aktiengesellschaft,

Hannover, Federal Republic of Germany

Issue Price:	36½%
Redemption:	on July 11, 2000 at the principal amount
Listing:	Frankfurt am Main and Hannover

Deutsche Bank
Aktiengesellschaft

Commerzbank
Aktiengesellschaft

Dresdner Bank
Aktiengesellschaft

Morgan Stanley International

Union Bank of Switzerland (Securities) Limited

Algemene Bank Nederland N.V.
Allgemeine Elsässische Bankgesellschaft
Amro International Limited
Baden-Württembergische Bank Aktiengesellschaft
Julius Baer International Limited
Bank für Gemeinwirtschaft Aktiengesellschaft
Bank Leu International Ltd.
Bank J. Vontobel & Co. AG
Banque Bruxelles Lambert S.A.
Banque Générale du Luxembourg S.A.
Banque Nationale de Paris
Banque de Neuflize, Schlumberger, Mallet
Baring Brothers & Co., Limited
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Bayerische Vereinsbank Aktiengesellschaft
Joh. Berenberg, Gossler & Co.
Berliner Bank Aktiengesellschaft
Berliner Handels- und Frankfurter Bank
Chemical Bank International Limited
Compagnie de Banque et d'Investissements, CBI
Crédit Lyonnais
Crédit du Nord
Creditanstalt-Bankverein
Delbrück & Co.
Deutsche Bank Capital Corporation
Generale Bank N.V.
Goldman Sachs International Corp.
Kidder, Peabody International Limited
Manufacturers Hanover Limited
Merrill Lynch International & Co.
Morgan Grenfell & Co. Limited
Morgan Guaranty GmbH
Nomura International Limited
Norddeutsche Genossenschaftsbank AG
Norddeutsche Landesbank Girozentrale
Sal. Oppenheim jr. & Cie.
Österreichische Länderbank Aktiengesellschaft
Orion Royal Bank Limited
J. Henry Schroder Wagg & Co. Limited
Swiss Bank Corporation International Limited
Swiss Volksbank
Vereins- und Westbank Aktiengesellschaft
M. M. Warburg-Brinckmann, Wirtz & Co.
Westdeutsche Landesbank Girozentrale
Westfalenbank Aktiengesellschaft

Notes on the Consolidated Annual Financial Statements of the Continental Group

Consolidated Group of companies

The consolidated accounts constitute a worldwide financial statement, so that in accordance with § 329 of the Stock Corporation Law we are not required to draw up separate consolidated accounts for our domestic affiliated companies.

In addition to the parent company, the consolidated accounts cover eighteen domestic and thirty-four foreign companies, in which the parent company has a direct or indirect financial interest of more than 50 %. The companies included in the consolidated accounts and those which are not consolidated due to their having only minor or no business activities, are shown in the chart on pages 26 and 27. The companies not included in the consolidated accounts do not detract from the stated financial position.

Through the acquisition of a 75 % shareholding in Semperit Reifen Aktiengesellschaft, two domestic and eighteen foreign companies have been added to the consolidated Group of companies since the previous year.

All Group companies close their accounts on 31st December.

Structure and evaluation

The consolidated accounts have been drawn up in accordance with German Stock Corporation Law. The profit and loss statement is set out in more detail than legal provisions require.

The annual financial statements of the foreign companies, which in each case were drawn up to conform with national law, have been adjusted to comply with the structure required by German Stock Corporation Law. Evaluation has been done on the basis of standard Group rules. This also applies to the Semperit companies which were included for the first time in the consolidated accounts in 1985. These rules conform with generally accepted German accounting principles. National evaluation methods had to be modified in some cases.

Currency translation

The balance sheets of our foreign affiliated companies were translated at the exchange rates which were valid on 31st December, 1985. Items on the profit and loss statements were converted at average exchange rates for the year. Differences resulting from year-end rates (balance sheet) have been included under "other income" and "other expenses".

Consolidation method

For affiliated companies which have only been included in the Group since 1979, capital consolidation is done according to the modified Anglo-American method. This means that the purchase cost at the time of acquisition is compared with the affiliated company's equity capital (including profits or losses) and the residual balance is shown in the difference arising from consolidation.

Affiliated companies belonging to the Group before 1979 were consolidated according to the German method: The book values on the closing date are offset against the pro rata percentage of the affiliated company's equity and reserves held and shown in the difference arising from consolidation.

Accounts receivable and payable between the consolidated companies were offset, as were also expenditures and revenues deriving from intercompany transactions.

Comparison with previous year

Following the acquisition of the Semperit companies, most items on the consolidated balance sheet and profit and loss statement have changed substantially. This severely restricts the meaningfulness of a comparison with the previous year's figures. However, this does not apply to the capital and profitability ratios which retain their information value when compared with the figures for the previous year.

Financial position

With sales to third parties up by 41.6 %, the balance sheet total improved by 44.3 %. The capital turnover rate was 1.76 (1.80 in the previous year). In the years 1981–1985 the capital turnover rate has improved from 1.64 to 1.76. Sales in the same period have risen by 58.3 %; the balance sheet total has grown by 40.1 %.

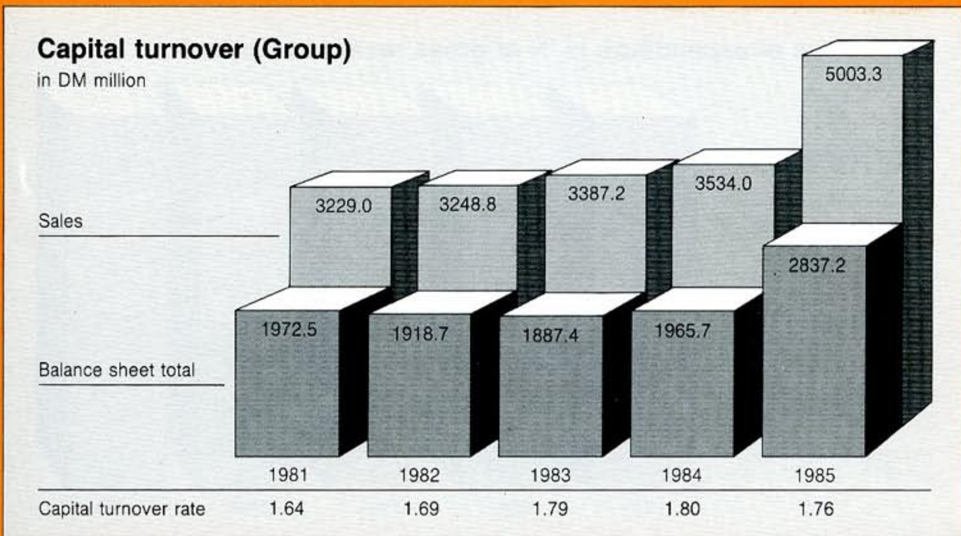
The proportion of fixed assets (including the difference arising from consolidation) to total assets fell in the year under review from 38.9 % to 37.9 %. In absolute terms, fixed assets have decreased by a total of DM 310.4 million, and current assets (including prepaid expenses) have increased by DM 561.1 million. The proportion of fixed assets in the Group is lower than for the parent company because consolidated assets are reduced substantially through consolidation and the consolidated sales companies have relatively high current assets.

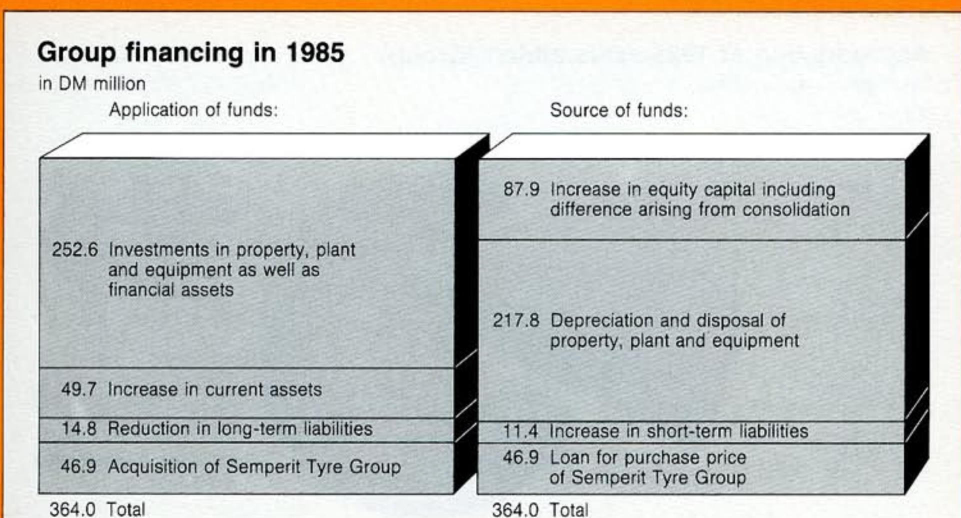
Total indebtedness (all short and long-term liabilities) rose in the year under review by DM 551.7 million to DM 1,549.9 million and has thus risen over the last five years by DM 326.2 million on balance. Leaving aside the newly acquired Semperit companies, the debt level in the five-year period would be down by DM 109.3 million.

A sum of DM 12.0 million from the parent company's net income and a further DM 44.5 million from the net income of the other Group companies were allocated to free reserves. Taking into account the withdrawal of DM 5.5 million from the reserve for pension payments at the parent company, consolidation-related reserves increased overall by DM 51.0 million to DM 262.0 million.

Equity capital, including that portion of untaxed reserves allocable to equity capital, rose to DM 638.4 million and on the closing date was equivalent to 22.5 % of total assets (26.6 % in the previous year).

With regard to fixed assets, the difference arising from consolidation, and inventories, altogether 86.3 % were fi-





nanced out of equity capital and long-term debt (91.2 % in the previous year).

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) decreased to 113.1 % (143.5 % in the previous year) despite the improved cash flow; this is well above the comparable ratio for the parent company (78.9 %).

At Group level too, the liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) at 76.4 % was lower than the figure for the previous year (82.1 %). The corresponding ratio for the parent company is 74.7 %.

Profit situation

Profit before tax amounted to DM 157.2 million (DM 100.9 million in the previous year) and again was just less than twice as high as at parent company level (DM 81.6 million). After the deduction of taxes and prior to the change in untaxed reserves in accordance with § 3 Auslandsinvestitionsgesetz annual net income is DM 80.2 million (DM 49.3 million in the previous year).

For the losses sustained in 1985 by production companies in Ireland (Semperit) and Belgium (Uniroyal Englebert) untaxed reserves of DM 10.3 million have been formed at the parent company in accordance with § 3 Auslandsinvestitionsgesetz to take advantage of legal means of tax avoidance. At the same time, DM 7.3 million of the untaxed reserves which had been formed in previous years at the parent company and at Uniroyal Englebert Reifen GmbH, Aachen for the production company in Great Britain (Uniroyal Englebert) were profitably released to conform with tax requirements. In accordance with the evaluation principles set out in the Stock Corporation Law, such amounts have to be included twice over in the consolidated profit and loss statement, first as consolidated loss or profit respectively and second as a change in reserves. In order to permit a better evaluation of consolidated results, we have shown the increase in these reserves (DM 3.0 million) separately. Net income according to the provisions of Stock Corporation Law thus amounts to DM 77.2 million. Allowing for the amount required to fund the parent company's proposed dividend, a sum of DM 45.7 million remains to strengthen reserves (DM 21.8 million in the previous year).

After-tax return on sales improved from 1.2 % in the previous year to 1.5 %; return on equity was up from 7.9 % to 12.1 %.

The gross cash flow increased by DM 125.1 million to DM 399.0 million and is equivalent to 8.0 % of sales (7.8 % in the previous year). The ratio at parent company level was 9.1 % (7.7 % in the previous year).

Computed according to the rules of German financial analysts (DVFA), the result improved by 91.5 % to DM 101.5 million. This puts earnings per share (including tax credit) at DM 19.78 (DM 10.56 in the previous year).

Notes on the Consolidated Annual Financial Statements of the Continental Group

Balance sheet

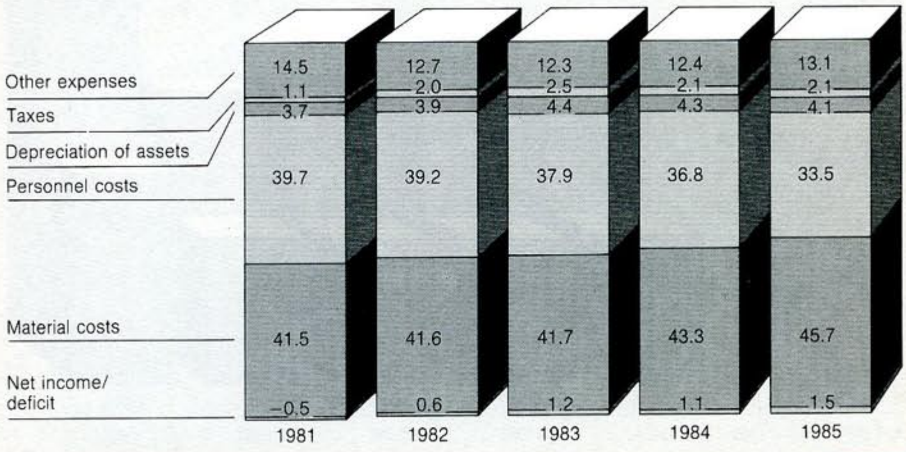
The consolidated statements too are based on the same evaluation and depreciation principles as in the previous year, with the exception of accrued pensions and the reserve for early retirement compensation and part-time work for elderly employees as already mentioned in the section of this report on the parent company. These principles were adopted without exception by the Semperit companies. With regard to the commitments of Uniroyal Englebert Reifen GmbH, Aachen deriving from early retirement compensation and part-time work for elderly employees, we have spread the expenditure as at the parent company over three years in accordance with tax provisions.

Property, plant and equipment

As in the parent company, the declining-balance method of depreciation based on the highest rates fiscally permitted in Germany was adopted by all foreign and domestic companies, including the Semperit companies. The straight-line method of depreciation was always applied where it led to higher expenditure. Depreciation throughout the Group is based on the same standard assumptions for useful life.

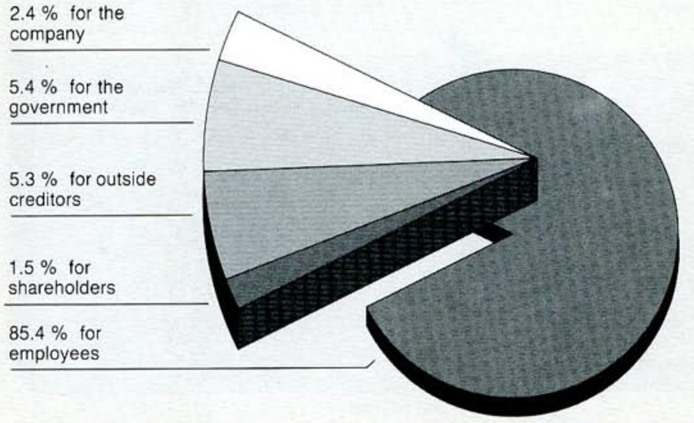
The parent company accounts for 43.6 % of property, plant and equipment (60.5 % in the previous year). The book value of foreign-based property, plant and equipment has increased from DM 141.5 million to DM 383.5 million and accounted for 42.0 % of the total at the end of the year.

Breakdown of expenditure in % of gross revenues (Group)



Appropriation of 1985 value added (Group)

DM 1982.4 million = 100 %



The value added represents the Continental Group's contribution to the national product. It is computed on the basis of gross revenues including all other income minus material costs, depreciation, losses from the disposal of fixed and current assets, expenses from profit and loss pooling agreements, additions to untaxed reserves and other expenses.

Additions and depreciation can be broken down as follows:

	Additions DM million	Depreciation DM million
Parent company	102.2	105.5
Consolidated affiliated companies	151.8	100.0
	254.0	205.5

Additions to property, plant and equipment totalled DM 254.0 million (DM 149.8 million in the previous year), with tyres accounting for 68 % and other products 32 %. Additions to property, plant and equipment relate mainly to machinery and moulds, which serve to maintain performance levels in terms of technology and costs, and to make structural adjustments as well as expand capacity in special priority areas, especially the Hanover plants at Limmer and Vahrenwald and the plant at Traiskirchen/Austria.

Over the years 1981–1985 investment in property, plant and equipment has totalled DM 822.3 million. Taking into account property, plant and equipment of the Semperit companies (DM 204.9 million) investment in property, plant and equipment amounts overall to DM 1,027.2 million; this is 39.6 % higher than depreciation. Together with the leasing-financed additions of DM 33.2 million and investments of DM 20.4 million during the same period, total gross investment is DM 1,080.8 million.

Financial assets

Interests in the non-consolidated companies (see the list of Group companies on pages 26 and 27) are held mainly by the parent company. The increase of DM 22.4 million in the book value derives mainly from the minority interest in Sava-Semperit, Kranj/Yugoslavia which we acquired with the takeover of Semperit Reifen Aktiengesellschaft, Vienna.

Investment securities are primarily fixed-interest securities required to cover the severence payment indemnity shown on Austrian balance sheets.

Loans include home-building loans to employees and funds to energy supply companies as well as loans to Semperit Reifen Aktiengesellschaft, Vienna which have been extended to a former affiliate and to Sava-Semperit, Kranj/Yugoslavia. Interest-free loans have been discounted to their present value.

Difference arising from consolidation

Apart from the amounts calculated according to the modified Anglo-American method, which increased in the year under review by DM 4.9 million, this item also includes the differences between nominal capital and reserves on the one hand and book values on the other hand that are computed on the basis of the German method.

In addition to undisclosed reserves arising from acquisitions, this item also includes exchange rate differences resulting from the equity translation of foreign companies which were consolidated according to the German method. Since these companies were acquired or capital was increased, the D-Mark has strengthened relative to other currencies. The equity capital of these companies translated at the rate valid on 31st December, 1985, therefore, shows a lower D-Mark value than the corresponding book value at the parent company. However, because the fixed assets of these companies were also converted at the same closing-date rates, thus resulting in D-Mark values that are lower than the book values at the time of acquisition, this part of the difference arising from consolidation can also be regarded as undisclosed reserves. In the past the effect of this foreign exchange loss was particularly marked in the consolidation of Continental France S.A.R.L., Sarreguemines/France, but on the other hand, it resulted in a substantial volume of undisclosed reserves.

The increase in that part of the difference arising from consolidation in accordance with the German consolidation method (DM 8.5 million) also includes exchange rate differences deriving from the equity capital translation of our companies in the USA and Spain.

Inventories

The growth in inventories by DM 235.9 million can be broken down as follows:

	DM million
Parent company	334.2
Consolidated affiliated companies	513.6
	847.8

By comparison with the consolidated balance sheet as per 31st December, 1980, inventories have risen by DM 201.5 million (31.2 %). In the same period sales have increased by DM 1,843.6 million (58.3 %).

Throughout the Group, inventories are stated at purchase or manufacturing cost, according to the lower of cost or market value. Intercompany profits have been eliminated, and proper allowance has been made for slow-moving goods and items with limited usability.

Accounts receivable and other assets

Trade accounts receivable increased by DM 257.5 million. Special individual adjustments have been made to provide against possible risks.

There is also a bad debt reserve of DM 10.4 million on the liabilities side to cover the general credit risk.

Other assets increased by DM 51.0 million to DM 92.2 million and include mainly receivables due from suppliers, employees, tax authorities and other government institutions.

Comparing inventories, accounts receivable and other assets with the corresponding figures of five years ago, there has been an overall increase of 47.2 %, while sales growth in the same period was 58.3 %.

Minority interests

This item relates chiefly to minority interests in the capital of Semperit Reifen Aktiengesellschaft, Vienna and Semperit Ireland.

Untaxed reserves

The increase of DM 35.1 million in untaxed reserves derives not only from the additions described in the section of this report on the parent company (DM 11.5 million) but also from a release of DM 2.4 million in accordance with § 3 Auslandsinvestitionsgesetz at Uniroyal Englebert Reifen GmbH, Aachen and the deferral of a tax-free allocation from the Austrian government to Semperit Reifen Aktiengesellschaft, Vienna.

Accruals

The accrued pensions of the German and Austrian Group companies were computed on the basis of actuarial prin-

Notes on the Consolidated Annual Financial Statements of the Continental Group

ciples, applying an interest rate of 6 % and 7 % respectively. In doing so, Dr. Klaus Heubeck's new life tables were applied.

The statutory compensation entitlements of employees in some foreign companies were also computed on actuarial principles, based on various discount rates, and are included in pension accruals. As already indicated, there is still a deficit at the parent company of DM 6.4 million which however is covered in full by the reserve for pension payments. The pension funds available in the benefit schemes of three Group companies are short by DM 22.3 million.

Other accruals include mainly tax and bonus commitments, warranties, contributions to the employers' liability insurance association and other contributions, vacation entitlements as well as early retirement and other commitments arising in the ordinary course of business.

Liabilities

Long-term liabilities have increased by DM 194.4 million, short-term liabilities by DM 357.4 million. Other liabilities comprise wages and salaries, including payroll tax and outstanding social security contributions, interest, taxes as well as other liabilities arising in the ordinary course of business. Also included are various liabilities of Semperit Reifen Aktiengesellschaft, Vienna to the former sole owner Semperit Aktiengesellschaft, Vienna.

Contingent liabilities

Contingent liabilities on notes increased to DM 289.6 million (DM 197.7 million in the previous year). Warranties and guarantees totalled DM 11.3 million (DM 5.4 million in the previous year).

Commitments arising from rent or leasing contracts

Future commitments arising from rent or leasing contracts amount to a present cash value of DM 64.8 million (DM 67.2 million in the previous year). Land and buildings account for DM 40.7 million of this total, machinery and fixtures for DM 18.3 million and furniture and equipment for DM 5.8 million. 42.9 % of the total commitment relates to the parent company and 57.1 % to the consolidated affiliated companies.

Profit and loss statement

Consolidated sales on foreign markets – translated into D-Mark – improved by 76.4 % and on the domestic market by 18.3 %. Overall, sales have increased by 41.6 % to DM 5,003.3 million, of which 49.9 % were generated on foreign markets (40.1 % in the previous year).

Gross revenues increased by 39.7 % to DM 5,063.4 million. Material costs relative to gross revenues were up to 45.7 % (43.3 % in the previous year), while personnel costs were down to 33.5 % (36.8 % in the previous year). These figures are lower than the corresponding ratios on parent company level mainly because the consolidated sales companies have relatively low material and personnel costs. The interest balance rose to DM 97.1 million (DM 65.0 million in the previous year) and was equivalent to 1.9 % of gross revenues (1.8 % in the previous year).

Extraordinary income of DM 21.9 million (DM 12.2 million in the previous year) includes mainly investment subsidies and grants as well as released adjustments and income deriving from other periods.

With pre-tax profit up by 55.8 %, taxes increased by DM 31.2 million to DM 106.8 million.

The main items in other expenses are freight charges, advertising and other sales expenditure, as well as repair costs, rents and so forth.

Hanover, 11th April, 1986

Continental Gummi-Werke Aktiengesellschaft

The Executive Board

Helmut Werner — Wilhelm Borgmann

Peter Haverbeck — Hans Kauth

Julius Peter — Wilhelm Schäfer

Horst W. Urban

Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1985

Assets	31st December, 1985 DM	DM	DM	31st Dec., 1984 DM 1000
I. Fixed Assets				
A. Property, Plant and Equipment				
1. Land				
a) with commercial plant and other buildings	125 145 330			131 364
b) with residential buildings	689 785			725
c) without buildings	193 835			193
2. Machinery	181 022 444			192 152
3. Furniture and equipment	50 973 086			46 839
4. Assets under construction and prepayments	40 083 513			34 748
		398 107 993		406 021
B. Investments				
1. Investments	348 498 391			267 590
2. Loans with a term of at least four years	3 388 065			4 046
thereof secured by mortgages DM 2 196 044		351 886 456		271 636
			749 994 449	677 657
II. Current Assets				
A. Inventories				
1. Raw materials and consumables	85 640 164			80 200
2. Work in progress	58 593 126			49 354
3. Finished goods, goods for resale	189 973 509			165 406
		334 206 799		294 960
B. Other Current Assets				
1. Payments on account		3 173 774		253
2. Accounts receivable		162 745 674		157 541
thereof due after one year DM 396 144				
3. Notes receivable		788 882		966
thereof rediscountable with the Federal Bank DM 512 677				
4. Checks		4 510 792		7 172
5. Cash on hand, at Federal Bank and on postal giro accounts		1 148 548		1 399
6. Cash at banks		17 351 702		5 450
7. Due from affiliated companies		100 466 556		48 601
8. Other receivables (§ 89 Stock Corp. Law)		259 691		175
9. Other debtors		6 217 756		9 887
			630 870 174	526 404
III. Prepaid Expenses				
1. Loan discounts		285 647		461
2. Other		287 311		163
			572 958	624
			1 381 437 581	1 204 685

Liabilities	31st December, 1985 DM	DM	31st Dec., 1984 DM 1000
I. **Share Capital** (Common Stock)		299 000 000	299 000
Conditionally authorized capital . . . DM 122 000 000			
II. **Open Reserves**			
1. Legal reserves		91 920 200	91 920
2. Free reserves			
Brought forward to 1st January, 1985	71 000 000		
Allocation from net income	12 000 000		
		83 000 000	71 000
3. Reserves for pension payments			
Brought forward to 1st January, 1985	11 950 000		
Withdrawal	5 532 842		
		6 417 158	11 950
III. **Untaxed Reserves** according to § 3 Auslandsinvestitionsgesetz, § 6b EStG, § 52 section 5 EStG, § 74 EStDV		46 276 883	34 844
IV. **General Bad Debt Reserve**		2 265 000	2 200
V. **Accruals**			
1. Accrued pensions	154 018 956		135 626
2. Accruals for deferred maintenance	1 679 125		1 052
3. Other accruals.	107 145 843		86 025
		262 843 924	222 703
VI. **Liabilities With Terms Of At Least Four Years**			
1. Bonds and convertible bonds	101 469 350		111 438
thereof secured by mortgages . . . DM 80 000 000			
2. Loans and debentures.	69 941 048		33 501
thereof secured by mortgages . . . DM 24 688 928			
3. Due to banks	92 500 000		103 750
thereof secured by mortgages . . . DM —			
4. Due to affiliated companies	10 351 805		—
		274 262 203	248 689
Due within four years . . . DM 107 988 008			
VII. **Other Liabilities**			
1. Trade payables	124 226 839		111 405
2. Payments received on account	6 896 167		21 431
3. Due to affiliated companies	67 976 160		12 389
4. Other liabilites	84 388 161		57 948
		283 487 327	203 173
VIII. **Retained Income**		31 964 886	19 206
Contingent liabilities on notes. . . . DM 197 844 367			
Guarantees . . . DM 173 183 507			
Warranties . . . DM 20 575 471			
		1 381 437 581	1 204 685

Fixed Assets Schedule 1985

	1st January, 1985 DM	Additions DM	Reclassifications DM	Deductions DM	Depreciation DM	31st Dec., 1985 DM
A. Property, Plant and Equipment						
1. Land						
a) with commercial plant and other buildings	131 364 228	8 737 403	696 769	773 774	14 879 296	125 145 330
b) with residential buildings	724 662				34 877	689 785
c) without buildings	192 703	1 132				193 835
2. Machinery	192 152 442	40 292 714	8 516 621	2 576 639	57 362 694	181 022 444
3. Furniture and equipment	46 838 810	33 612 923	4 971 861	1 275 832	33 174 676	50 973 086
4. Assets under construction and prepayments	34 748 264	19 520 500	– 14 185 251			40 083 513
	406 021 109	102 164 672	—	4 626 245	105 451 543	398 107 993
B. Investments						
1. Investments	267 589 964	81 912 250		1 003 823		348 498 391
2. Loans with a term of at least four years	4 045 765	431 172		1 088 872		3 388 065
	271 635 729	82 343 422	—	2 092 695	—	351 886 456
	677 656 838	184 508 094	—	6 718 940	105 451 543	749 994 449

Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1985

	1985 DM	1985 DM	1984 DM 1000
1. **Sales**	2 312 880 710		2 079 320
2. Change in inventories of products	+ 26 939 984		+ 7 292
		2 339 820 694	2 086 612
3. Overheads capitalized on construction of fixed assets		22 575 896	22 296
4. **Gross Revenues**		2 362 396 590	2 108 908
5. Raw materials and consumables		1 152 196 449	998 020
6. **Gross Margin**		1 210 200 141	1 110 888
7. Income from profit and loss agreements	11 459 272		9 426
8. Investment income	23 373 532		15 868
9. Income from long-term loans	368 756		190
10. Interest and similar income	6 923 587		8 478
11. Income from disposal of fixed assets	15 158 929		5 559
12. Income from reduction of general bad debt reserve	—		200
13. Income from release of accruals	1 396 617		2 160
14. Income from release of untaxed reserves	5 522 157		3 377
15. Other income	60 200 681		61 498
thereof extraordinary DM 4 732 003		124 403 531	106 756
		1 334 603 672	1 217 644
16. Wages and salaries	690 636 844		659 063
17. Social security contributions	118 045 107		112 941
18. Pensions and employees' welfare	38 024 251		18 024
19. Depreciation of property, plant and equipment	105 451 543		85 482
20. Depreciation of investments	—		3 007
21. Depreciation of current assets (excluding inventories)	871 669		2 364
22. Losses from disposal of fixed assets	2 068 621		3 131
23. Interest and similar expenses	34 840 954		38 164
24. Taxes			
a) on income, profit and net worth DM 58 857 336			
charged to subsidiaries DM 6 850 725			
DM 52 006 611			
b) other DM 646 929			
	52 653 540		39 706
25. Expenses from profit and loss pooling agreements	3 983 256		13 885
26. Additions to untaxed reserves	16 955 181		13 551
27. Other expenses	233 906 819		210 005
		1 297 437 785	1 199 323
28. **Net Income**		37 165 887	18 321
carry forward:		37 165 887	18 321

	1985 DM	1985 DM	1984 DM 1000
carried forward:		37 165 887	18 321
29. Profit brought forward		1 266 157	—
30. Additions from net income to reserves		12 000 000	—
31. Withdrawal from reserve for pension payments		5 532 842	885
32. **Retained Income**		31 964 886	19 206

Pension payments DM 10 624 987.
Anticipated payments in the following five years: 110 %, 118 %, 125 %, 130 %, 135 %.

Continental Gummi-Werke
Aktiengesellschaft
The Executive Board

The accounting, the annual financial statements and the management report, which we have examined with due care, comply with German Law and the company's statutes.

Berlin/Hanover, 11th April, 1986

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1985

Assets	31st December, 1985 DM	31st December, 1985 DM	31st Dec., 1984 DM 1000
I. Fixed Assets			
A. **Property, Plant, Equipment and Intangible Assets**			
1. Land			
a) with commercial plant and other buildings	279 610 254		192 697
b) with residential buildings	6 664 785		1 384
c) without buildings	6 262 019		3 645
2. Buildings on third parties' land	8 427 368		5 983
3. Machinery	367 266 712		318 849
4. Furniture and equipment	124 359 769		92 591
5. Assets under construction and prepayments	119 172 265		55 707
6. Intangible assets	882 442		671
		912 645 614	671 527
B. **Investments**			
1. Investments	54 111 022		31 747
2. Investment securities	17 181 978		256
3. Loans with a term of at least four years	22 198 223		5 647
thereof secured by mortgages .DM 4 578 016			
		93 491 223	37 650
		1 006 136 837	709 177
II. Difference Arising From Consolidation		69 163 466	55 776
thereof from consolidation according to Anglo-American method .DM 12 434 765			
III. Current Assets			
A. **Inventories**	847 772 669		611 854
B. **Other Current Assets**			
1. Payments on account	2 104 537		581
2. Accounts receivable	769 579 583		512 119
thereof due after one year .DM 1 067 194			
3. Notes receivable	2 485 119		8 724
thereof rediscountable with the Federal Bank . . .DM 636 839			
4. Checks	5 255 333		9 300
5. Cash on hand, at Federal Bank and on postal giro accounts	2 797 283		3 183
6. Cash at banks	20 716 408		7 224
7. Marketable securities	2 086		2
8. Due from affiliated companies	6 737 792		1 038
9. Other receivables (§ 89 Stock Corp. Law)	528 385		411
10. Other debtors	92 193 454		41 187
		1 750 172 649	1 195 623
IV. Prepaid Expenses			
1. Loan discounts	333 744		543
2. Other	11 370 759		4 598
		11 704 503	5 141
		2 837 177 455	1 965 717

Liabilities	31st December, 1985 DM	DM	31st Dec., 1984 DM 1000
I. **Share Capital** (Common Stock)		299 000 000	299 000
Conditionally authorized capital . . . DM 122 000 000			
II. **Open Reserves**			
1. Legal reserves	91 920 200		91 920
2. Free reserves	163 637 626		107 138
3. Reserves for pension payments	6 417 158		11 950
		261 974 984	211 008
III. **Minority Interests**		29 702 654	1 621
including interests in net income . . . DM 108 890			
less interests in losses . . . DM 58 652			
IV. **Untaxed Reserves**		77 567 941	42 503
according to § 3 Auslandsinvestitionsgesetz, § 6b EStG, § 52 section 5 EStG, § 74 EStDV and foreign tax regulations			
V. **General Bad Debt Reserve**		10 417 973	6 819
VI. **Accruals**			
1. Accrued pensions and similar accruals	284 992 354		205 548
2. Accruals for deferred maintenance	2 328 952		1 818
3. Other accruals	289 267 044		179 977
		576 588 350	387 343
VII. **Liabilities With Terms Of At Least Four Years**			
1. Bonds and convertible bonds	158 016 202		111 438
thereof secured by mortgages . . . DM 80 000 000			
2. Loans and debentures	69 941 048		33 501
thereof secured by mortgages . . . DM 24 688 928			
3. Due to banks	362 891 529		282 858
thereof secured by mortgages . . . DM 50 244 883			
4. Other liabilities	55 324 874		26 056
thereof secured by mortgages . . . DM 5 235 753			
5. Due to affiliated companies	2 032 000		—
		648 205 653	453 853
Due within four years . . . DM 281 906 223			
VIII. **Other Liabilities**			
1. Trade payables	297 744 723		209 165
2. Notes payable	145 713 076		78 047
3. Due to banks	229 819 167		90 544
4. Payments received on account	23 685 282		37 922
5. Due to affiliated companies	4 696 506		1 525
6. Other liabilities	200 096 260		127 161
		901 755 014	544 364
IX. **Retained Income**		31 964 886	19 206
Contingent liabilities on notes . . . DM 289 632 674			
Guarantees . . . DM 5 197 678			
Warranties . . . DM 6 100 971			
		2 837 177 455	1 965 717

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1985

	1985 DM	1985 DM	1984 DM 1000
1. **Sales**	5 003 337 600		3 534 008
2. Change in inventories of products	+ 16 336 547		+ 57 386
		5 019 674 147	3 591 394
3. Overheads capitalized on construction of fixed assets		43 691 720	32 875
4. **Gross Revenues**		5 063 365 867	3 624 269
5. Raw materials and consumables		2 311 757 719	1 569 442
6. **Gross Margin**		2 751 608 148	2 054 827
7. Investment income	2 968 393		2 313
8. Income from long-term loans	2 692 972		282
9. Interest and similar income	7 411 575		2 298
10. Income from disposal of fixed assets	18 024 490		8 260
11. Income from release of accruals	13 064 771		10 998
12. Income from release of untaxed reserves (without § 3 Auslandsinvestitionsgesetz)	2 711 110		3 624
13. Other income	65 742 782		43 188
thereof extraordinary DM 21 864 368		112 616 093	70 963
		2 864 224 241	2 125 790
14. Wages and salaries	1 345 099 320		1 082 892
15. Social security contributions	275 262 527		214 834
16. Pensions and employees' welfare	73 474 559		37 041
17. Depreciation of property, plant, equipment and intangible assets	205 541 066		150 829
18. Depreciation of investments	1 009 660		3 036
19. Depreciation of current assets (excluding inventories)	11 602 052		8 900
20. Losses from disposal of fixed assets	3 071 524		5 895
21. Interest and similar expenses	104 476 255		67 357
22. Taxes			
a) on income, profit and net worth DM 95 468 940			
b) other DM 11 345 913			
	106 814 853		75 589
23. Expenses from profit and loss pooling agreements	1 450		—
24. Additions to untaxed reserves (without § 3 Auslandsinvestitionsgesetz)	7 228 245		2 181
25. Other expenses	650 452 313		427 971
		2 784 033 824	2 076 525
26. **Net Income** (before change in untaxed reserves according to § 3 Auslandsinvestitionsgesetz)		80 190 417	49 265
carry forward:		80 190 417	49 265

	1985 DM	1985 DM	1984 DM 1000
carried forward:		80 190 417	49 265
27. Change in untaxed reserves according to § 3 Auslandsinvestitionsgesetz			
a) additions	10 242 000		12 410
b) withdrawal	7 280 000		4 330
		2 962 000	8 080
28. **Net Income**		77 228 417	41 185
29. Profit brought forward		1 266 157	—
30. Additions from net income to free reserves		51 244 152	21 792
31. Withdrawal from reserves for pension payments		5 532 842	885
32. Addition to difference arising from consolidation		768 140	966
33. Income attributable to minority interests		108 890	110
34. Losses attributable to minority interests		58 652	4
35. **Retained Income**		31 964 886	19 206

Continental Gummi-Werke
Aktiengesellschaft

The Executive Board

The consolidated annual financial statements and the management reports concerning the Continental Group, which we have examined with due care, comply with legal requirements.

Berlin/Hanover, 11th April, 1986

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant