

Continental 

Continental

Continental Gummi-Werke AG 1979–1986

		1979	1980	1981	1982	1983	1984	1985	1986
Balance sheet									
Fixed assets	DM million	601.9	670.9	704.6	701.4	663.7	677.7	750.0	761.6
Current assets	DM million	554.4	539.6	530.3	513.1	492.2	527.0	631.4	740.5
Balance sheet total	DM million	1156.3	1210.5	1234.9	1214.5	1155.9	1204.7	1381.4	1502.1
Equity	DM million	392.9	399.1	406.8	418.3	419.3	480.6	499.2	622.0
Long-term debt	DM million	472.1	467.7	449.1	429.9	415.2	413.7	457.8	430.0
Investments in property, plant and equipment	DM million	72.6	80.8	90.2	66.1	58.9	85.4	102.2	102.6
Equity ratio	in %	34.0	33.0	32.9	34.4	36.3	39.9	36.1	41.4
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	100.8
Total indebtedness	DM million	568.5	573.0	605.4	566.6	467.9	451.9	557.7	417.5
Self-financing ratio	in %	82.1	76.7	58.2	121.1	226.2	102.0	78.9	156.0
Liquidity ratio	in %	88.5	67.3	68.3	66.6	76.4	81.5	74.7	102.0
Profit and loss statement									
Sales	DM million	1692.6	1817.2	1823.9	1866.3	1992.7	2079.3	2312.9	2391.0
Export sales ratio	in %	26.3	28.5	29.3	28.6	28.2	33.4	34.4	35.4
Material costs to gross revenues	in %	44.1	43.3	45.0	44.3	45.0	47.3	48.8	45.9
Personnel costs to gross revenues	in %	41.5	40.7	40.7	39.9	38.6	37.5	35.8	37.1
Depreciation of property, plant and equipment	DM million	62.7	65.2	69.5	73.5	78.7	85.5	105.5	111.2
Gross cash flow	DM million	122.1	138.6	87.5	115.6	163.1	159.1	210.1	310.5
Value added	DM million	799.3	884.5	838.6	847.7	865.3	886.2	971.4	1071.8
Net income/loss	DM million	+ 11.9	+ 12.7	+ 0.2	+ 3.9	+ 15.1	+ 18.3	+ 37.2	+ 54.9
Dividend paid	DM million	–	13.5	–	–	16.2	17.9	29.9	37.5
Employees									
(annual average)	thousand	18.1	18.3	17.4	16.3	15.6	15.4	15.5	15.4

**Continental
Group
1979-1986**

1979	1980	1981	1982	1983	1984	1985	1986
789.4	809.3	827.2	815.7	782.9	764.9	1075.3	1123.3
1200.7	1215.2	1145.3	1103.0	1104.5	1200.8	1761.9	2036.3
1990.1	2024.5	1972.5	1918.7	1887.4	1965.7	2837.2	3159.6
396.9	418.6	401.9	420.6	442.7	522.2	638.4	822.4
627.5	742.9	729.4	694.3	680.1	692.6	965.2	1053.9
113.4	149.2	158.4	131.9	128.2	149.8	254.0	286.7
19.9	20.7	20.4	21.9	23.5	26.6	22.5	26.0
74.4	81.8	83.7	84.2	88.3	91.2	86.3	101.6
1268.2	1223.7	1195.9	1098.8	1012.3	998.2	1549.9	1509.9
110.1	116.6	69.1	133.0	170.4	143.5	113.1	139.8
61.9	67.2	71.0	71.1	77.7	82.1	76.4	100.8
2623.4	3159.7	3229.0	3248.8	3387.2	3534.0	5003.3	4968.6
34.5	37.0	38.0	37.3	36.4	40.1	49.9	48.3
42.8	41.4	41.5	41.6	41.7	43.3	45.7	39.8
39.7	39.2	39.7	39.2	37.9	36.8	33.5	35.8
96.0	115.4	120.0	123.8	135.5	150.8	205.5	229.4
163.7	218.5	139.0	204.2	269.9	273.9	399.0	581.3
1193.0	1480.2	1426.1	1476.3	1486.3	1519.0	1982.4	2161.7
+ 24.1	+ 26.1	- 17.8	+ 18.3	+ 40.2	+ 41.2	+ 77.2	+114.4
31.1	31.3	29.6	28.2	27.1	26.3	31.7	31.9

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Report on the 115th Business Year 1986

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Deutsche Bank AG

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

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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,
Pneu Uniroyal Englebert S.A.

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Works Council Chairman,
Vahrenwald Plant

Wilhelm Helms

Executive Director, Deutsche Schutz-
vereinigung für Wertpapierbesitz e.V.,
Lower Saxony Division

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Works Council Chairman,
Korbach Plant

Joachim Kost*)

Plant Manager, Vahrenwald

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Robert Bosch GmbH

Ernst Pieper

Chairman of the Executive Board,
Salzgitter AG

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Member of the Executive Board,
Veba AG

Günther Saßmannshausen

Chairman of the Executive Board,
Preussag AG

Friedrich Schiefer

Member of the Executive Board,
Allianz AG Holding

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Limmer Plant

Hugo Schleiermacher*)

Former 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 Executive Board reports. We have taken counsel with the Executive Board on the above.

The main subjects of these consultations were the budget, medium and long-range planning, including capital investment policy, fundamental questions of business policy and corporate structure as well as the development of the employment situation and results. We have taken decisions on matters which, in accordance with legal provisions or company statutes, were submitted to us for approval. Particularly noteworthy in this connection is the authorization of the Executive Board to negotiate a convertible loan and to make an authorized increase in preparation for the introduction of a share option plan for company executives.

We have examined the annual statements, the annual report and the proposed allocation of retained income. In doing so, there were no objections raised.

Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, who were approved as auditors at the Annual Shareholders' Meeting, have audited the annual 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, 1986 prepared by the Executive Board, and these are now adopted. We endorse the proposed allocation of retained income.

Dr. Julius Peter retired on 31st March, 1986. He had been a member of the Executive Board since 1st June, 1974 and most recently held responsibility for Manufacturing and Engineering, Technical Products. The company is greatly indebted to Dr. Peter for his great personal commitment and his outstanding technical expertise. We would like to extend to him our very special thanks.

Hanover, 4th May, 1987

The Supervisory Board



Alfred Herrhausen, Chairman

Members of the Executive Board

Helmut Werner

Chairman

Wilhelm Borgmann

Manufacturing and Engineering, Tyres

Peter Haverbeck

Technical Products

Hans Kauth

Director of Personnel

Julius Peter

Manufacturing and Engineering,

Technical Products

(up to 31.5.1986)

Wilhelm Schäfer

Marketing Tyres

Horst W. Urban

Finance, Affiliates and Purchasing

Report of the Executive Board

Positive development continued

The Continental Group continued to develop positively in 1986. We achieved the goals which we had set for the business year:

- We improved profits.
- We progressed with the integration of Semperit Reifen AG.
- We expanded our international business in both tyres and technical products.
- We succeeded in opening up new areas of application for rubber, our raw material.

Steady economic upswing

In 1986 the economic upswing in western industrialized countries was maintained and inflation rates in almost all countries fell significantly. The West European economies made a strong recovery after the downturn in winter 1985/86. In Japan, the buoyant economic situation was also maintained, although the impulses for growth were weaker than in the previous year. In the United States there was no change in the rate of economic growth.

In the fourth year of its economic upturn, the Federal Republic of Germany achieved real economic growth of 2.4 %. Capacity utilization continued to improve and in the autumn was almost on a par with the 1979/80 level, the highest point in the previous economic cycle. The main stimulus in 1986 switched from foreign to domestic demand. The reduction in interest rates, the relatively low oil prices as well as real growth in wages and salaries were all major factors contributing to the much improved levels of capital investment and private consumption. Exports however have increased only negligibly since mid-1985, due primarily to the substantial appreciation of the D-mark in real terms and the decline in demand from OPEC and developing countries.

Record results in the automotive industry

The West European automotive industry, our key customer, reported an extremely good year in 1986. With an output of 12.1 million units (+5.3 %), the production of passenger cars reached an all-time high. Higher real incomes made possible an increase in consumer spending and, in almost all western countries, this was concentrated on consumer durables. There was also a rise of 5.7 % in the production of commercial vehicles, bringing the total to about 1.6 million.

For the German automotive industry, 1986 was a record-breaking year. With production just short of 4.6 million units, of which 4.31 million were passenger cars, the industry exceeded the previous year's good result by 3.5 % for passenger cars and by 2.5 % for commercial vehicles.

Exports were better than expected and, with a total of 2.76 million vehicles, matched the previous year's level. Again, they accounted for some 60 % of production. Passenger car exports increased slightly to 2.59 million units as the anticipated slump in sales to the US market did not materialize.

In Germany new registrations at 2.97 million exceeded the previous year's figure by 18.3 %. Taking passenger cars on their own, new registrations increased by 18.9 % to 2.83 million vehicles. The only decrease reported in 1986 was in the new registrations of motorcycles and agricultural tractors.

Report of the Executive Board

Strong demand for rubber products

The West European rubber industry took part in the general economic upswing in West Europe and profited in particular from the brisk demand enjoyed by the automotive industry.

The German rubber industry, whose key customers apart from the automotive industry are the mining, mechanical engineering, electrotechnology and construction industries, increased sales of elastomer products in 1986 by 2.3 % to 1.2 million tonnes. Tyres accounted for just under two-thirds of the tonnage sold and technical products for the remaining one-third. Sales increased by 4.9 % to DM 13.2 billion. Of this, DM 9.9bn was generated by the domestic business. Imports of rubber products were up substantially in the year under review and almost reached the same level as Germany's exports in this sector.

1986 a good year

Despite no growth in sales, caused by foreign exchange movements, the Continental Group achieved a pleasing improvement in profits. Due to the great demand from the automotive industry, our capacities were close to being fully utilized. The concentration of all Divisions on profitable product and market segments as well as the rationalization programmes implemented in the past have paid off. A drop in some raw material prices and lower interest rates also eased the cost situation. At the same time, however, results were negatively affected by the increase in personnel and social security costs which we could not pass on to the market. Excess capacities in the industry and the growth in imports made competition sharper and triggered intensive price wars, whilst our export business became increasingly difficult owing to exchange rate movements and a slackening of demand by our foreign customers.

All Divisions, subsidiaries and affiliates improved their profitability and made a positive contribution to Group results.

The only exception was our plant in Ireland, which again closed with a loss. We have taken measures to achieve a lasting improvement there.

Close cooperation between our tyre production plants in Germany, Belgium, France, Great Britain, Austria and Ireland gave rise to a favourable European cost mix, and on this basis the Tyre Division improved its competitiveness and reduced its vulnerability to exchange rate fluctuations.

Despite the positive effects of the restructuring programmes and capital investment at the Hanover plants in Limmer and Vahrenwald, the Product Groups of the Technical Products Division based there are burdened by high location-related costs. We have continued our efforts to bring personnel costs down to a competitive level.

In order to meet the increasingly sophisticated requirements of our customers, especially the automotive industry, we have concentrated on increasing productivity, enhancing flexibility, specializing in high-technology products and systems as well as on improving product quality. In our role as supplier, the ability to react quickly in developing, manufacturing and delivering products as well as excellent product quality are decisive. We maintained our efforts to rationalize our plants. Also, we endeavoured to gear our management style to the requirements of the future by decentralizing, by eliminating some hierarchical levels and by giving employees a greater say. The willingness of the individual to accept responsibility and to take calculated risks is vital so as to encourage a greater degree of initiative throughout the Group. We enhanced the skills and motivation of our employees by providing internal and external training, by creating integrated workplaces and by working in quality circles.

Capital investment boosted further

In the year under review, additions to fixed assets totalled DM 286.7 million, an increase over the previous year of 12.9 %. The capital investment programme focused on productivity improvement, modernization, structural adjustments, expansion and quality.

The integration of the Semperit Tyre Group proceeded according to plan. Restructuring measures and building programmes at the Austrian plant in Traiskirchen progressed rapidly, so that in the foreseeable future we can expect to have yet another highly efficient plant. We intensified cooperation in the fields of basic research, manufacturing systems, logistics, purchasing and financing.

Apart from strengthening our company within, we also continued to concentrate on expanding our business in other European countries. In order to accommodate the increasingly international character of our operations, we introduced the Conti share to the stock exchanges in Zurich, Geneva, Basle and Vienna.

Financial strength improved

Using the conditionally authorized capital approved at the Annual Shareholders' Meeting, our subsidiary Conti-Gummi Finance B. V. (formerly Intercontinental Rubber Finance B. V.), Amsterdam, negotiated at the end of August 1986 D-mark bonds (with warrants attached) worth DM 150.0 million and with an interest rate of 5.5 %. They were guaranteed by Continental Gummi-Werke AG. The warrants entitle the holders to purchase shares in Continental Gummi-Werke AG and to acquire a further fixed-interest bond from Conti-Gummi Finance B. V. The total value of this bond amounts to DM 150.0 million.

In 1986, the Group was the first German corporation to introduce a share option plan for senior executives based on the American model. This gives some 100 individuals the right to purchase a certain number of Conti shares at a fixed price. We see this as a means of strengthening the executives' ties

with the company as well as motivating them to improve the company's profitability and potential. The Annual Shareholders' Meeting authorized us to negotiate a convertible loan of DM 2.0 million for this purpose and to raise conditionally authorized capital of DM 10.0 million.

At the beginning of the year under review, the holder of the convertible loan in US dollars exercised his conversion rights. Share capital consequently went up by DM 8.5 million. Continental had raised the US-dollar convertible loan in 1979 from Uniroyal Inc. to help finance the acquisition of the European Uniroyal companies. Also, conversion rights afforded by the 1984/94 5 % bonds (with warrants attached) for DM 70.0 million were exercised to acquire shares in our company, and new bearer shares with a nominal value of DM 4.6 million were issued. Share capital on 31.12.1986 was DM 312.1 million.

The Group's equity capital increased by DM 184.0 million to DM 822.4 million and was equivalent to 26.0 % of the balance sheet total (22.5 % in the previous year). The equity ratio of the parent company rose even more substantially from 36.1 % to 41.4 %. At the end of 1986 the parent company's total equity amounted to DM 622.0 million (DM 499.2 million in the previous year).

Different trends in sales due to strong D-mark

Despite the increase in units sold, Group sales in 1986 fell by 0.7 %. The table below shows the development for the Group and parent company by comparison with the previous year.

	1986	1985	Change
Sales	DM million	DM million	in %
Parent company	2,391.0	2,312.9	+ 3.4
Group	4,968.6	5,003.3	- 0.7

Group product sales (products and services) rose by DM 95.4 million (2.0 %) to DM 4,824.6 million. 73.0 % of this was generated by tyres and 27.0 % by other products. In the parent company, tyres and technical products accounted for 62.0 % and 38.0 % respectively. The difference between product sales and the sales indicated in the table above (which is shown for corporation law purposes) amounts to DM 144.0 million (DM 274.1 million in the previous year) and refers to ancillary business.

Further increase in dividend

Profit before tax in the parent company amounted to DM 135.7 million (DM 81.6 million in the previous year). Profit-related tax was DM 80.8 million (DM 44.4 million in the previous year), leaving an annual surplus of DM 54.9 million (DM 37.2 million in the previous year).

The Administration's proposal to the Annual Shareholders' Meeting is to use DM 37.5 million of the DM 40.0 million retained income to distribute a dividend of DM 6.00 per DM 50.00 share (12 %) and to carry forward the remaining DM 2.5 million.

The consolidated annual financial statements (worldwide) showed a pre-tax profit up by DM 106.3 million to DM 263.5 million (DM 157.2 million in the previous year). After the deduction of profit-related tax amounting to DM 149.1 million, the annual surplus at

Group level was improved by DM 37.2 million to DM 114.4 million. (DM 77.2 million in the previous year).

A word of thanks to our employees

The Continental Group is becoming increasingly international. This poses an additional challenge to our employees, their elected representatives and management personnel in the various countries to cope with the problems ahead. Without the commitment of each individual in resolving the day-to-day tasks responsibly and imaginatively, our company could not have developed so successfully in 1986.

We thank all our employees, including those who retired in 1986, for the contribution they made. Our thanks are also due to the employee representatives in the various plants and to the Overall and the Group Works Councils for their cooperation, without which we could not have resolved the problems that faced us in the year under review.

Outlook

In 1987 we expect to see the economic trend stabilize at a high level and utilization rates to be good. The developments of recent months have severely reduced the competitiveness of some national economies, in particular that of the Federal Republic of Germany and Japan. We can only avoid the negative effects if we succeed in reducing our manufacturing costs to a level where we regain our competitiveness. We expect business to become increasingly difficult and the pressure on prices to tighten in 1987. This will result in risks which call for considerable flexibility on our part. However, we will counter this challenge with productivity improvements, strict cost control, higher capital spending and further expansion of our European activities. We are confident that 1987 will be yet another successful year for our company.

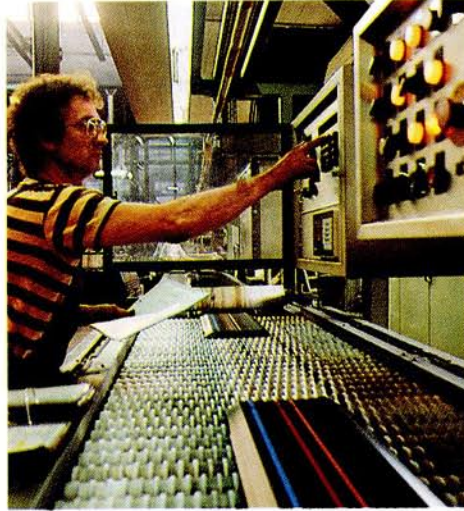
Tyre Division

The Group's three tyre brands Continental, Uniroyal and Semperit increased product sales by 0.9 % to DM 3,521.1 million (DM 3,489.0 million in the previous year). This very small increase is primarily attributable to substantial exchange rate shifts. Unit sales were up considerably.

Excess capacities in the European tyre industry and fewer export opportunities triggered fierce price competition on major markets which cancelled out a large share of the raw material advantages and depressed our results.

Nevertheless, profits are well up on the previous year. Key to the pleasing profit development was the increase in sales to the automotive industry in Germany, France, Great Britain and Japan as well as to the tyre trade in the European markets. Also, we further improved our product mix in favour of higher-grade products.

All Group tyre plants reported good utilization rates. Capacities for passenger car tyres were fully utilized, whilst the utilization rate for truck tyres was somewhat lower. The varying output caused by fluctuating demands, a further increase in the number of tyre sizes together with customer insistence on greater delivery flexibility all resulted in some logistics problems, which we nevertheless coped with well. We will continue to concentrate on optimizing logistics.



Multi-brand strategy successful

The market position of the Tyre Division continued to make progress in 1986. Our customers welcomed the specific product technology and features of our three autonomous brands which compete with one another on the tyre market. While exploiting all the synergies within the Group we attached particular importance to developing the specific product range and the identity of the individual brands.

Good European cost mix

In the year under review, all tyre plants within the Group, with the exception of the Semperit plant in Dublin/Ireland, closed with positive operating results. In this plant, we have introduced immediate action programmes that have

led to lower wastage, reduced overtime and higher output. Close production links among our plants ensured a European cost mix and again provided a basis for competitive production. It also allowed us to reduce the unfavourable effects of exchange rate variations in Europe.

After years of losses, our subsidiary Vergölst GmbH returned to profitability.

Technological challenge

Continental's new tyre concepts – EOT (Energy Optimised Technology) for trucks, and CTS (ContiTyreSystem) for passenger cars – will soon be available to the other two brands in the Group. Uniroyal and Semperit will launch truck tyres in 1987/88 with technology based on the EOT concept. The development of the new tyre system for passenger cars continued according to plan. In the foreseeable future we expect to go into full-scale production of these tyres for the automotive industry.

In strategic, technological and commercial terms the Group's brands Continental, Uniroyal and Semperit as well as our cooperation partners in the U.S.A. and Japan will play a key role in implementing these two new concepts.

Outlook

Our successful strategy of selling three competing brands side by side on the same markets by virtue of shared basic research holds good prospects for the future. As a tyre manufacturer with production in Europe only, we shall endeavour to strengthen our worldwide presence by expanding and intensifying our cooperations in Japan and the U.S.A.

1
Increasing use is made of automation: computer-aided extruding of tyre components.

2
Passenger car tyres passing through an automatic inspection system.

Continental

Product sales of Continental Tyre Operations (without Vergölst GmbH) fell by 0.7 % and reached DM 1,479.3 million, almost matching the previous year's figure (DM 1,490.2 million).

Declines in sales outside Europe following exchange rate variations and a slump in demand, especially in the Middle East and Africa, were compensated for by stepping up sales to the European original equipment sector and to tyre dealers.

New marketing concept

The new marketing concept "Conti 2000" has proved effective and was one of the main generators of profit growth. As in past years, we concentrated on products with a high technological input and on customers who attach more importance to the overall service package than to paying the lowest price.

Keen competition in truck tyre business

Sales of heavy truck tyres suffered from the relatively low output of commercial vehicle manufacturers and the fierce competition on replacement markets. The new EOT product concept, the main advantage of which is a substantial fuel saving, was successfully launched in key European markets. This enabled us to offset the slump in sales of conventional truck tyres. With light truck tyres we were able to hold our market position. The industrial truck tyre business developed well.

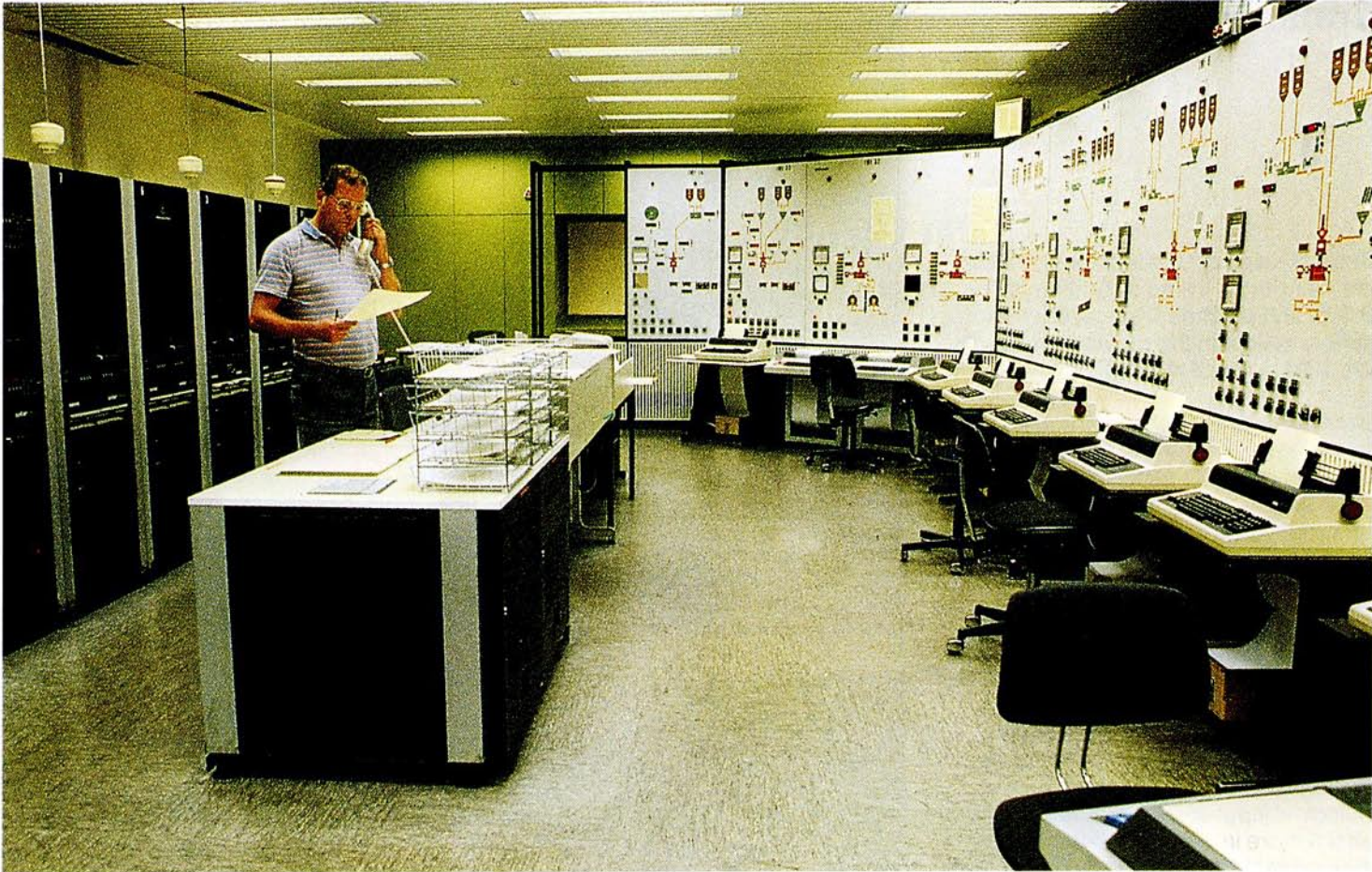
In the passenger car tyre sector, Continental gained market shares. The major factor here was closer proximity to markets and customers both in the original equipment and replacement business.



1
The extensive facilities at our Contidrom tyre testing track, opened 20 years ago, play an essential role in innovations.

2
A newly built braking test path at the Contidrom enables even more detailed readings to be obtained quickly.

Tyre Division



Flourishing winter tyre business

Sales of special-purpose tyres did well. This is true of both high-performance tyres, where we rounded off our product range, and of winter tyres. With ContiWinterContact, which has been successful for many years now, we continued to hold our position as market leader in Europe. In North European countries Continental increased its market share substantially through the introduction of a new spikeable winter tyre designed to cope with driving conditions in this region.

Agricultural tyres

Unit sales of agricultural tyres were affected by a pronounced decline in the production of agricultural vehicles and implements in Europe. As a result, we had to introduce short-time working towards the end of the year. In the replacement business we increased our market shares. We are currently devising a new production and marketing strategy for the Continental brand in order to emphasize the full range of our tyres for this sector.

Two-wheeler tyres

With bicycle tyres we have followed a new course in development, production and marketing. As the only supplier still manufacturing in the Federal Republic of Germany, we have aimed more specifically at the growing leisure and sports segment and have been successful here.

We were not satisfied with developments in our motorcycle tyre business. In future, we shall focus on selected customer segments and gear our product range to their specific needs.

¹ EDP in the mixing room. The variety of our products and their different recipes necessitate the use of computer technology.

Uniroyal Englebert

Uniroyal Englebert Tyre Operations increased product sales in 1986 to DM 930.0 million (DM 928.1 million in the previous year). This is a rise of 0.2 %. The restructured Belgian plant at Herstal achieved positive results for the first time in many years.

Good position in the original equipment sector

Uniroyal has significantly increased its business with the automotive industry and has enjoyed a substantial gain in market shares. The high-performance tyre segment experienced growth once again. We attained a good position with low-profile tyres. Our success is based on a very large number of technical approvals, which testify to the excellent quality of Uniroyal tyres, and on greater flexibility in production.

In the German replacement business, our unit sales of passenger car tyres stagnated, whilst we were able to expand our position in other European markets. This improvement was attributable mainly to new tyres with ultra-low profiles and to our winter tyres.

Growth in light truck tyre business

With light truck tyres too, there was a trend towards low-profile tyres. Uniroyal has developed a corresponding product range and introduced it at the beginning of 1986 to both the original equipment and the replacement markets where it met with a pleasing response. Unit sales of these tyre sizes have doubled.



1
Uniroyal has developed super-wide rain tyres for sports cars and fast limousines.

2
This is how the "Impulse 90" marketing concept is advertised to the tyre trade.

2

In the German original equipment sector, we increased our total sales of light truck tyres and expanded our market share. In the replacement business, which was virtually stagnant, we defended our good market position.

In the heavy truck tyre business, our capital investment in marketing and technology has paid off. In the persistently difficult original equipment and replacement sectors, Uniroyal expanded its market share thanks to the high quality of its products.

Our achievements in the original equipment sector are a reflection of our high technological standards which we plan to improve still further in the future. With "Impulse 90", a marketing concept for the tyre trade that is geared to the nineties, and "rain-tyre advertising" it is our aim to make the end user more conscious of our state-of-the-art tyre technology and to increase brand awareness.

Tyre Division

Semperit

The Semperit Tyre Group increased its product sales from DM 838.9 million by 6.4 % to DM 892.6 million and achieved a pleasing rate of profit growth. The large-scale restructuring programme at the Austrian plant in Traiskirchen proceeded according to plan. Production was only slightly affected by these measures.

German replacement business pleasing

Alongside Austria, the Federal Republic of Germany is Semperit's most important market. Here, we increased our sales of tyres for passenger cars as well as for light and heavy trucks and expanded our market shares. This indicates the market's recognition of the Semperit brand's price/performance ratio.

We scored similar success in the replacement business in Austria and the U.S.A. We also improved our position in Switzerland and France as well as in the original equipment sector.

Advanced tyre technology

1986 was another year in which we marketed new products. For the winter season we expanded the range of Top Grip siped tyres which we had launched back in 1985. By using special rubber compounds, the tread blocks can be separated by deep sipes that make the blocks flexible. The tread then adjusts

1
The tyre uniformity testing machine guarantees that the tight tolerances are met and every tyre comes up to the high quality standards.

2
The new EURO-STEEL, one of the most successful tyres Semperit makes for commercial vehicles, features high mileage, improved wet grip and extremely low rolling noise.



automatically to the various driving and road conditions. The difference between these and other tyres is most noticeable when moving off, accelerating, taking bends and braking.

In its home market, Austria, the Top Grip has achieved an above-average level of acceptance. The favourable reports appearing in leading international motoring magazines boosted sales. Semperit, too, has been giving greater attention to the special-purpose tyre segment (high-performance tyres, winter tyres and wide tyres). This is particularly true of the replacement business, Semperit's key customer segment.

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: 1,499

In the year under review Vergölst achieved its goals and generated a positive result. Restructuring of the retreading plant and the modernization of sales offices and depots have been rewarding. In Hanover we have built a large modern service centre close to the Vahrenwald plant.

Overall, sales edged up by 0.2 % to DM 322.4 million (DM 321.8 million in the previous year). We expect to see a continuing upward movement in the company's performance.

Continental Industrias del Caucho SA, Coslada/Madrid, Spain

Business activities: Production and marketing of retreaded tyres and industrial tyres as well as selling new tyres made by the Group

Employees: 292

The company has continued to progress satisfactorily and reported an improvement in results over the previous year. Contributing factors were both the retreading operation as well as the sale of industrial tyres manufactured in Spain and new Continental brand tyres.

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

Business activities: Retreading of commercial vehicle tyres

Employees: 94

As an integral part of the Semperit marketing strategy, Merkur Gummiwerk Gesellschaft m. b. H., Vienna, specializes in retreading truck tyres. Retreading makes tyres more economical by reducing costs per mile. With an 8 % growth in the number of tyres it retreaded, the company strengthened its market position in the year under review.

Trading companies

The sales efforts of our three brands are supported by Group-owned tyre trading companies. Our policy here is not to compete with established tyre dealers. Rather, it is the task of these trading companies to operate alongside the specialized tyre dealers by complementing our customer servicing and ensuring the customer has access to the full range of Group products. For this reason we acquired amongst others the Irish tyre trading company, Advance Tyre Company Ltd. in 1986.

¹
At the end of 1986 Vergölst opened a modern service centre at a prime site in Hanover.



Technical Products Division

1986 was a successful year for the Technical Products Division. Sales and profits grew considerably. Product sales rose by 3.5 % to DM 1,008.6 million (DM 974.5 million in the previous year).

The Product Groups and subsidiaries benefited from the upswing in the German economy, especially in the automotive industry. However, business outside Germany failed to live up to expectations due to the international economic environment. Nevertheless, we were able to strengthen our position in some foreign markets.

In the year under review we continued to focus on our role as partner to our customers and specialist for the application of advanced rubber technology. Many new product developments and the introduction of the latest manufacturing technologies have enabled us to meet the increasingly sophisticated demands of our customers.

The restructuring of our plants in Hanover-Limmer and Hanover-Vahrenwald continued to affect results, although these measures are starting to benefit the Product Groups involved – Power Transmission Products, Extrusions and Moulded Products. The signs of success are also visible in our Cushioning Products Business Group and at our subsidiaries Continental Alsa-Schuhbedarf and Deutsche Schlauchbootfabrik. Again, this is the consequence of restructuring measures.

Outlook

Our task, as we see it, is to focus increasingly on providing innovative designs and products capable of solving complex problems in branches of industry with differing requirements and, in doing so, to utilize the specific advantages of rubber in combination with other materials.



We shall continue to pursue our policy of decentralization with the aim of greater customer nearness and closer identification of employees with their specific Product Group.

As customer demands become more and more diverse, we have no alternative but to adjust our manufacturing methods, some of which are still geared to mass production. This will involve the increased use of electronics in the production process on the one hand and additional staff training and advancement programmes on the other.

The business year 1987 will confront us with new challenges. Our export business will be influenced by foreign exchange movements in key customer countries.

Conveyor Belting A slowdown in international trading

Increasingly difficult trading conditions worldwide had an impact on our exports during 1986. Some projects failed to materialize and the anticipated recovery of demand was not forthcoming.

In the first six months, we were able to offset the decline in foreign orders by expanding our market shares and by taking advantage of the buoyant demand on the domestic market. However, in the second half of the year, the slump in the price of imported coal and crude oil affected the operations of the German lignite and coal mining industry, and this in turn had a negative influence on our business.

Overall, we have not achieved our sales targets. However, the operating result developed positively. This is due both to our concentration on special-purpose products and to the utilization of our new cost-effective production plant for Fabric-Ply Belting. Process improvements geared to rationalization should enable us to expand our market shares.

2



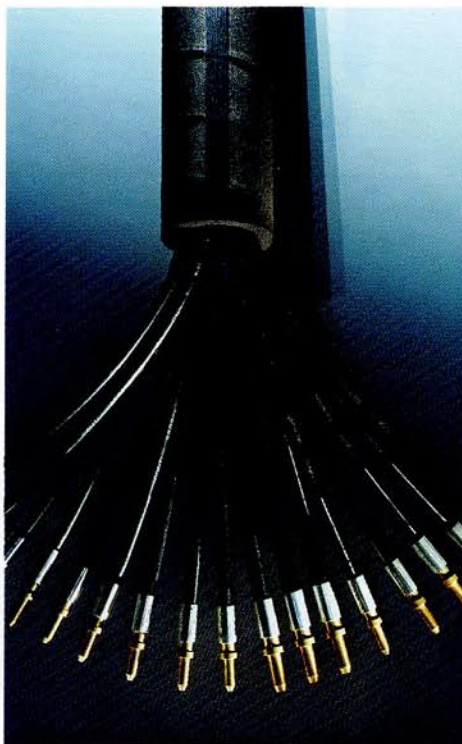
Coated Fabrics Upward trend continues

Sales and results in this Product Group, which has a highly diverse product range, continued to advance positively. Not all sales targets could be met in our export markets.

Our new Reinforced Diaphragms have now been fully accepted as a top quality product by suppliers to the automotive industry. Our business with Diaphragm Materials also proceeded well, and we expanded our position in this product segment in Europe.

Our new Printing Blankets, too, are giving us a strong foothold in the international marketplace. These include the Conti AIR UV, an allround blanket for use both with oil-based inks or those which harden when exposed to ultraviolet light.

3



Hose Focus on high-quality products

Sales and earnings of the Product Group progressed favourably. We continued to centre our Research and Development efforts on high-quality hose for use in motor vehicles and invested accordingly. Based on the high degree of acceptance of our products and the high manufacturing level in the automotive industry, this product segment accounted for a substantially increased proportion of our overall hose output.

Both in the Hydraulic Hose and the Industrial Hose business, we are facing increasingly fierce competition from companies in other European countries which benefit from public sector subsidies. In the case of Hydraulic Hose, which in volume terms is a significant business, it was difficult in the second half of the year to utilize capacities to the full. The reasons for this were the expanded capacity of our European competitors and the absence of US orders. The price level could not be held. Activity levels in the Industrial Hose business were mediocre. It continued to become less significant for us.

Moulded Products New markets tapped

In our three production plants Hanover-Limmer, Northeim and Dannenberg utilization levels were good and in line with demand. Thanks to our product innovations and new technologies, we succeeded in finding new markets. Thus, we reinforced our position in France both with vehicle manufacturers and with suppliers to the automotive industry. In the international business with moulded products for rail vehicles we gained ground with new products. The development of our products designed to damp vibrations and noise from transmissions and drive shafts in automobiles proceeded according to plan and these products could be launched on the market. Building on our achievements we shall continue with our efforts to work at new applications.

We improved the manufacturing process by using more microprocessor-controlled units and by setting up integrated workplaces. This has led to a further improvement in product quality which is in line with the more exacting demands of the market.

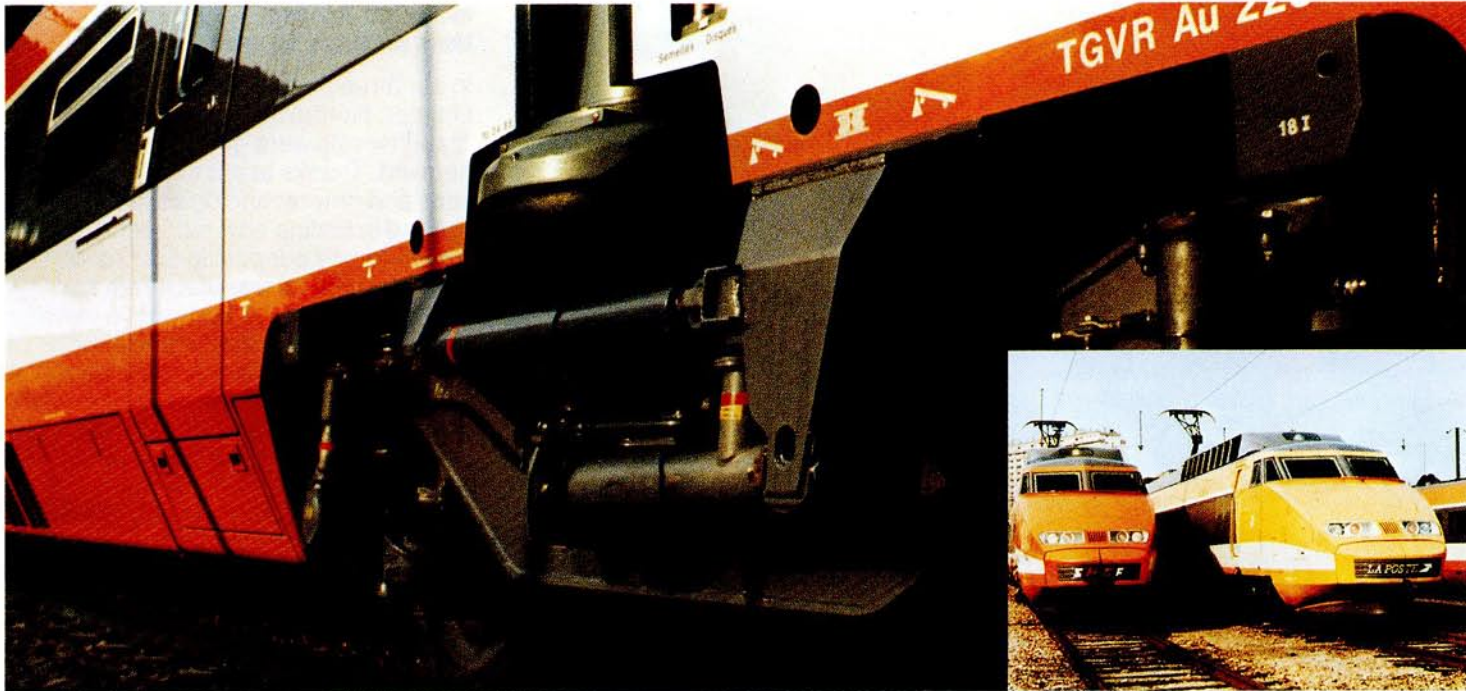
We have been able to cope with the costs of restructuring this Product Group to the extent that we again closed with a positive operating result.

1
Conti meets the increasingly exacting demands the automotive industry makes on hoses for cooling, fuel and air supply systems.

2
Diaphragm materials are used as rubber-fabric elements in fuel-injection pumps of modern vehicles.

3
Mini hydraulic hoses act as the central system controlling functions of machines in underground mining.

Technical Products Division



Extruded Products and Footwear Materials New materials, new processes

Sales in this Product Group remained at the previous year's level. There was an unavoidable decline in sales due to the phasing out of moulded expanded rubber seals in the automotive industry. However, we were able to partly offset this shortfall in sales with new products. We do not expect to compensate for it in full until 1987.

The operating result continues to be depressed by the restructuring programme. There has been an improvement, but we are not yet satisfied.

Within our restructuring project, we have reorganized our production halls and have redesigned plant and equipment in a way that takes due account of latest technology. By doing so, we have laid the foundation for manufacturing of the highest quality. The Product Group was particularly successful in the development of new products. One example is CONTIFLON®, a teflon coating for low-friction seals.

We have been able to use our know-how in the field of advanced sealing systems to expand our business activi-

ty. 1986 was characterized by intensive joint development work with customers, in particular those in other European countries.

In our efforts to strengthen our competitiveness, we shall continue to concentrate on areas of application which require a combination of different materials.

Reorganization of the Footwear Materials Product Group has been completed and production is now concentrated at our plant in Hanover-Limmer. Results fell just short of expectations.

Power Transmission Products Competition sharper

In spite of a difficult business climate, this Product Group reported further sales growth.

Overproportionate sales increases were achieved with Raw-Edge V-Belts, Synchronous Drive Belts and Multiple V-Ribbed Belts. We have been particularly successful with the automotive industry in other West European countries. In the case of Wrapped V-Belts we sustained a fall-off in sales on a shrinking market. Both in this product segment and with Raw-Edge V-Belts ex-

cess capacities have greatly intensified competition.

With Multiple V-Ribbed Belts, a product with good prospects, we scored a decisive breakthrough by obtaining technical approvals from the German automotive industry.

The Synchronous Drive Belt, which we developed to replace the conventional bicycle chain, is being fitted increasingly to bicycles in the upper price range.

We continued to restructure production at our Vahrenwald plant. The rationalization effects resulting from this modernization programme are vital to enhancing our competitive position. We are not yet satisfied with the result generated here.

¹
The modern high-speed French train TGV is also fitted with Conti Air Springs to guarantee a comfortable ride.

Air Springs **Progress in the commercial vehicle sector**

Despite the difficult market situation in key customer countries, we were able to increase our sales of Air Springs for commercial vehicles. We benefited particularly from the trend towards using complete Air Spring systems (i.e. including metal hardware), a product segment in which we have a competitive edge.

Our experience and know-how in the development and application of Air Springs for rail vehicles have again paid off. On completion of our joint development project, we won the order from the French State Railways to refit the high-speed train TGV (Train Grande Vitesse) with Air Springs. Our Air Springs are also being used successfully in the experimental high-speed train (ICE) of the German Federal Railways.

The Product Group generated good results.

Cushioning Products **Positive result with high capacity utilization**

During the period under review, for the first time we enjoyed the full benefits of our efforts to restructure and adjust capacities to the overall stagnation in demand. Our manufacturing facilities for Foam and Rubber-Hair Products were fully utilized. By comparison with previous years, sales and earnings in the Product Group were satisfactory. Capital expenditure on rationalization has led to a major improvement in productivity, so that for the first time over a long period we closed with a positive result.

We plan to continue expanding our Foam production and to improve our position as supplier to the furniture, automotive and leisure industries. Through joint development projects with various vehicle manufacturers we hope to promote the increased use of electro-pneumatically controlled Air-Cushioned Backrests in well-accessoried automobiles.

Subsidiaries

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

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

Employees: 428

The company achieved an 11.7 % sales growth. Whilst business with the automotive industry developed favourably, demand from other industries slackened in the second six months. Nevertheless, results were substantially improved over the previous year.

Sourcing difficulties in the first six months prevented an even stronger increase in sales. Major bottlenecks also occurred in the recruitment of production personnel, as skilled workers are difficult to find despite the high rate of unemployment.

The expansion of the company in recent years and the further sales growth anticipated for the future have prompted us to sell our plant in West Berlin and to acquire a larger production plant at another location within the city. Production is scheduled to start there in the first half of 1987. At our main plant in Karben, we have also expanded our production facilities by leasing an additional hall. Special-purpose hose assemblies for the automotive industry have been produced here since the beginning of 1987.

In 1986 we continued to focus on product developments which – due to the application engineering requirements of our customers – call for a high degree of product or manufacturing know-how. On this basis, we expect a good rate of growth and satisfactory returns in 1987.

Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen

Business activities: Production and marketing of inflatables and liferafts as well as engineered products made from rubberized fabrics

Employees: 163

The company reported good utilization levels in all product segments. However, because of the extremely difficult market situation we were unable to achieve our sales target. The fact that we nonetheless almost generated the planned result, which is considerably higher than that of the previous year, is attributable to the company's structural improvements and rationalization measures.

We completed development work on a new generation of rubber dinghies on schedule so that we were able to exhibit these at the Trade Fair in Friedrichshafen in October 1986. The response was encouragingly positive. Indications suggest that with the new rubber dinghies and the setting up of an effective dealer network we shall be able to regain the market shares lost during the past three years.

Sales of liferafts are becoming increasingly depressed by the lack of new shipbuilding orders. Consequently, the market for liferafts is shrinking accordingly and a fierce price war has broken out. By reducing our manufacturing costs we were just able to assert our position in the market.

Sales of special-purpose equipment – such as lifting bags and canal sealing cushions – have progressed positively. We won a number of valuable export orders whose processing will extend into 1987. In view of the diverse applications in this sector, we are endeavouring to enlarge our range by including products tailored to the needs of individual customers.



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

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

Employees: 124

The sales growth in recent years came to a halt in the second half of 1986 following drastic savings measures and cutbacks in output in the Rhineland lignite field. We therefore had to scale down our annual plan and make personnel adjustments.

Results were also depressed by the fact that we were not always able to pass on the costs of our company's high level of service. At the same time, our business with industrial customers for whom we recondition special-purpose belting, developed satisfactorily. Overall, the company generated a positive result.

Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell

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

Employees: 351

In the year under review, the company successfully continued with the consolidation and restructuring measures that had been launched in 1984. The product range was streamlined; unprofitable products were deleted, and we are now concentrating on high-quality special products. With our quality and design policy that is geared to quality-conscious customers, we reinforced our position in the market and increased our market share over the previous year.

Demand for our products was so great that existing capacities could not always keep up with market requirements. We adjusted to the situation by operating extra shifts and hiring additional employees.

The result was good and considerably better than in 1985. We anticipate

capacities will again be fully utilized in 1987 and that the financial situation of the company will become increasingly stable.

¹ A new generation of inflatables for leisure and sport will further improve DSB's market chances.

² As part of its expansion programme Göppinger Kaliko is relocating its headliner production to the new Überherrn plant in the Saarland.

Affiliated Companies Division

The Affiliated Companies Division again reported a good result in 1986. Our targets were met and in some instances exceeded. As in previous years, the companies reported full capacity utilization. Consolidated product sales rose by 9.5 % to DM 365.4 million. This figure includes only those companies in which Continental has a direct or indirect interest of more than 50 %.

Non-consolidated companies too have contributed to the positive result of the Affiliated Companies Division. Sales in 1986 totalled DM 502.3 million, whereby our holding is equivalent to DM 234.8 million.

At the end of the year under review personnel in the consolidated companies numbered 1,653 (1,504 in the previous year). The non-consolidated companies had 2,500 employees on their payroll (2,407 in the previous year).

All Division companies are concentrating their efforts on the development of new products and technologies as well as on the improvement of profitability.

Domestic Companies

Göppinger Kaliko- und Kunstlederwerke GmbH, Eislingen

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

Employees: 1,169

The company benefited from the upswing in the automotive industry. Despite substantial capital investment, some capacity bottlenecks occurred.

Sales increased over the previous year by 7.1 %. The result was considerably improved. A particularly strong contributor to the improvement in sales and results was the car roof headlining business. Expansion of this product segment has made it necessary for us to build a new plant. The entire production of car roof headlining is to be switched from Eislingen to Überherrn (Saarland).

Moreover, the primary product used in the manufacture of car roof headlining (polystyrene sandwich sheets) will also be manufactured there. The relocation of this product line is scheduled to be completed by the end of 1987. To complete the product range, Kaliko plans to produce and market another car roof headlining system.

Utilization levels in the traditional segments of synthetic leather and sheeting were high. We rate our prospects in the export business as good. We were again able to improve slightly our export ratio in the year under review.

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: 168

The company reported a sales growth of 12.9 % over the previous year. With roller blind materials particularly, we improved our position both at home and



Affiliated Companies Division

abroad. Despite fierce competition our export business developed well. Capacities were fully utilized. Results showed a further improvement.

To enhance the infrastructure and expand production, we decided at the end of 1986 to relocate from the centre of Bamberg to a new industrial development site on the outskirts of the city. We anticipate the relocation will be completed by 1988.

The sales company Wilh. Leo's Nachfolger also developed positively. Both sales and results were substantially improved.

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

Commission and annual results were again improved despite the increasingly difficult market conditions.

Drahtcord Saar GmbH & Co. KG, Merzig/Saar

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

Employees: 823

For a number of years now, the company has been a major supplier to our tyre plants and has enjoyed full capacity utilization. Rationalization measures within the factory have led to further improvements in productivity and a positive contribution to results.

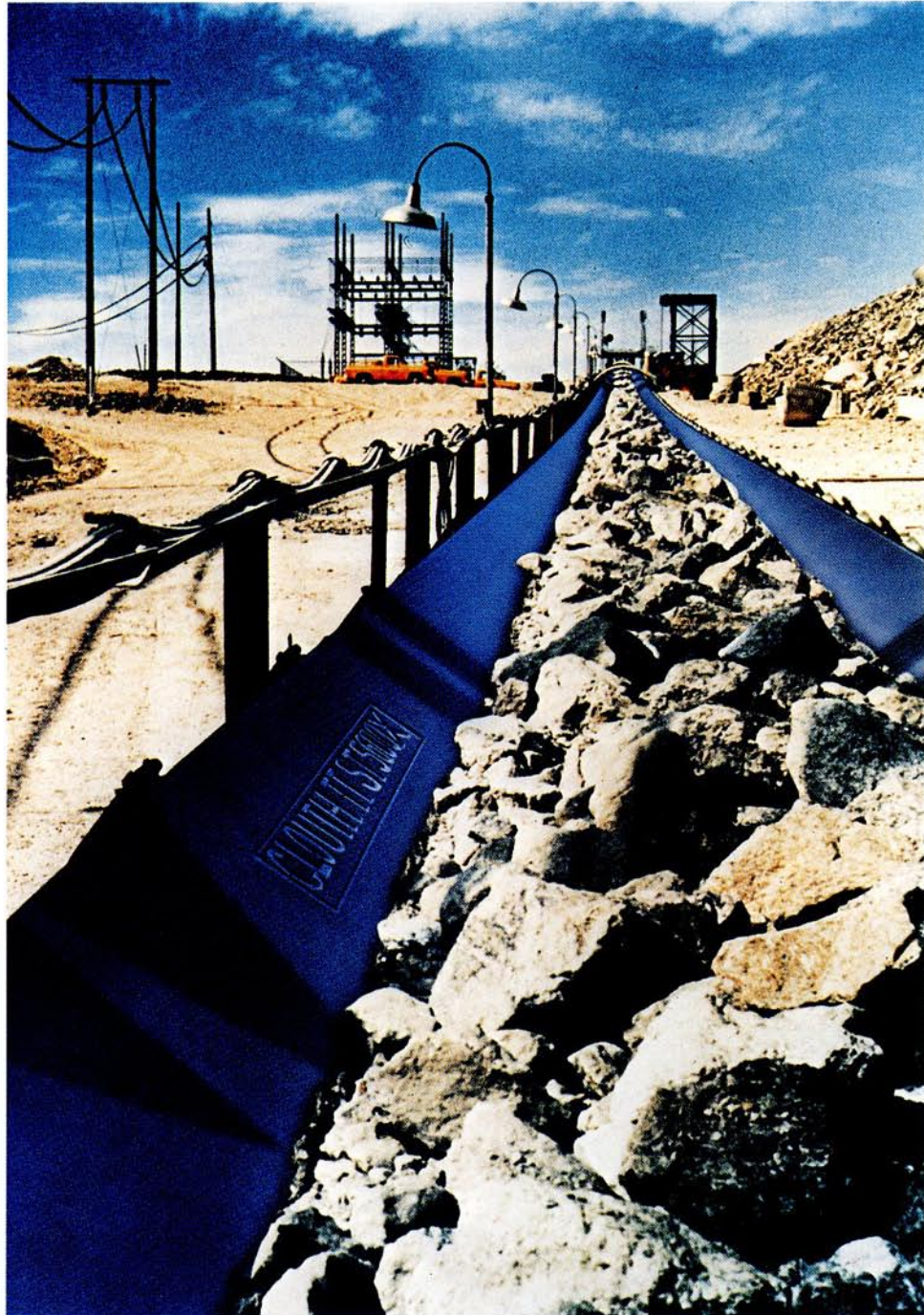
KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund

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

Employees: 198

1

In the Chilean copper mine of Chuquicamata, Clouth steel cable conveyor belts prove their worth in heavy-duty operations.



This company supplies a share of the Group's carbon black requirements for the production of tyres and technical products. Production facilities were fully utilized. The company again made a positive contribution to Group results.

Clouth Gummiwerke AG, Cologne

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

Employees: 1,479

Sales in the company were 1.6 % up on the previous year, the key contributors being linings, materials for military applications and moulded products.

The lining business especially reported substantial growth. Utilization levels are high with the production of linings used in connection with the desulphurization of power station emissions.

Owing to fierce price wars, we failed to meet earnings targets in the conveyor belting business. Rationalization and restructuring measures that were started in 1985 are nearing completion. They will provide a solid foundation for the future competitiveness of the company.

Clouth has begun to build a plant for the licenced production of conveyor belting together with cooperation partners in India.

The annual surplus amounts to DM 1.9 million (DM 2.7 million in the previous year), and a dividend of 10 % will be paid out.

Flockgarn GmbH, Mönchengladbach/Rheydt

Business activities: Production and marketing of flocked yarns

Employees: 33

The flocked yarn business which we acquired at the end of 1985 from Kühn, Vierhaus & Cie. AG was transformed into an autonomous company under the name of Flockgarn GmbH, in order to consolidate and expand our good position on the German market. As anticipated, the result generated in the 1986 business year was not satisfactory due to initial difficulties.



Foreign Companies

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

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

Employees: 240

As in previous years, the company again reported full utilization of capacity. Sales of tyre cord increased by 3.0 %. The annual surplus topped the previous year's high level and will be retained by the company.

Our efforts to modernize the machine pool in the yarn twisting mill began to reflect positively. We have expanded flocked yarn production in Luxembourg as planned. We are pleased to report the first successes on the market for this product.

Conti-Gummi Finance B. V., Amsterdam/Netherlands

Business activities: Financing services for domestic and foreign Group companies

The company, formerly Intercontinental Rubber Finance B. V., was renamed in 1986.

In the year under review, the company issued D-mark bonds (with warrants attached) to the value of DM 150.0 million at 5.5 % interest and with a term of 10 years, with option rights to purchase shares in Continental Gummi-Werke AG and option rights to acquire a further fixed-interest loan worth DM 150.0 million. The company again closed with a profit.

SVD Semperit Versicherungsdienst Gesellschaft mbH Traiskirchen/Austria

Business activities: Placing, servicing and administration of insurance for Semperit companies

The company developed according to plan in 1986.

¹ Tyre cords made of nylon, rayon, polyester and aramide fibres are manufactured at the Steinfort plant in Luxembourg.

Employees

Our company's success hinges on the skills, motivation and performance of our employees. For this reason, we continued in the year under review with our efforts to integrate our domestic and foreign companies within a single personnel policy framework. This applies particularly to compensation systems, personnel development and training concepts.

Workforce expanded

At the end of the year under review the workforce in the Group totalled 32,012. This is 339 more than in 1985.

In the Federal Republic of Germany we had 21,635 employees on the payroll. Of the 10,377 employees working outside Germany, 4,124 were based in Austria, 2,442 in France, 1,071 in Great Britain and 1,067 in Belgium. Altogether, our Group has employees in 17 countries.

The number of employees in the parent company at the end of the year likewise edged up from 15,382 to 15,438. During the period under review 992 employees left the company, mainly on reaching retirement age; 1,048 employees were hired. More people than in the previous year took advantage of the option provided by the 1985 collective agreement for the chemical industry on early retirement and part-time work for elderly employees. At the end of the year, 153 employees had left the company under an early retirement agreement; for 1987 a further 125 agreements have already been concluded. 10 employees opted for a part-time contract.



1
Quality control of truck tyres includes a visual inspection before they are dispatched to customers.

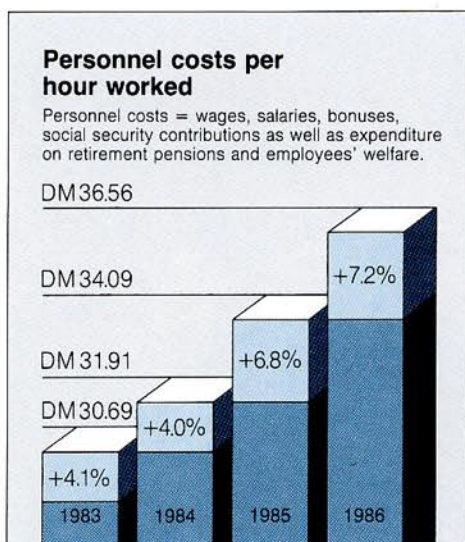
2
Two-day forums have become a regular feature. Employees and managers can hold informal discussions on several topics, above all in-house problems.

In the year under review 381 employees completed 25 years of service and 61 employees completed 40 years of service with the company. One member of staff celebrated a tenure of 50 years.

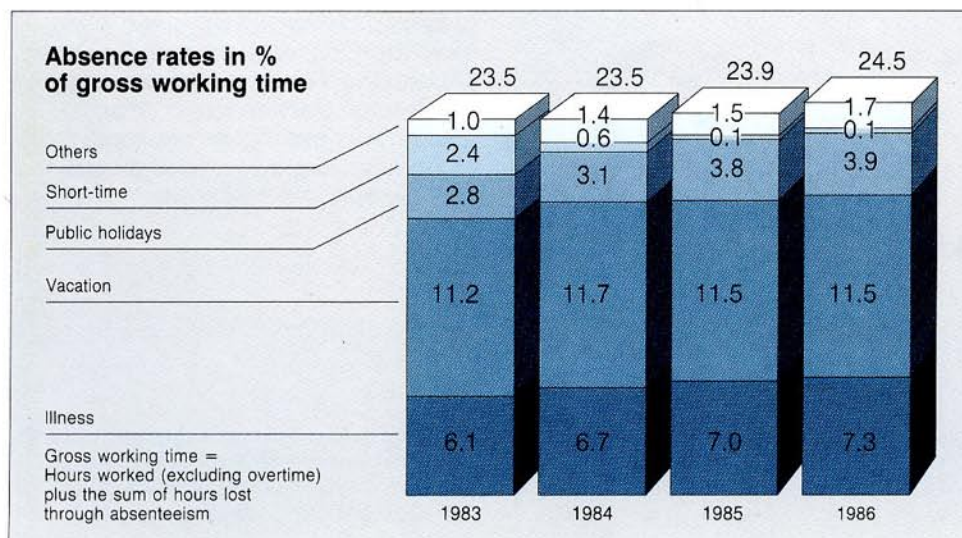
The average age of employees in the parent company was unchanged at 42. Average seniority was 17 years.

Personnel costs increased further

Personnel costs in the parent company rose by 5.7 % from DM 846.7 million to DM 895.2 million. Personnel costs per employee were up from DM 54,736 to DM 58,044 (+6.0 %) and per hour worked from DM 34.09 to DM 36.56 (+7.2 %).



	1986	1985	Change in %
Personnel costs in DM million	895.2	846.7	+ 5.7
Personnel costs per employee in DM	58,044	54,736	+ 6.0
Personnel costs per hour worked in DM	36.56	34.09	+ 7.2
Hours worked per employee	1,588	1,606	- 1.1
Personnel costs in % of gross revenues	37.1	35.8	



Wages and salaries paid out to employees increased by 4.1 %. This is attributable mainly to collectively agreed wage and salary rises. The higher rate of increase for overall personnel costs is due to our raising accruals to cover commitments resulting from the negotiated early retirement scheme.

Higher absence rates

The percentage of time lost relative to gross working hours increased in 1986 from 23.9 % to 24.5 %. The main reason for this was a rise in absence through illness.

Improved occupational safety

Our efforts to improve occupational safety met with pleasing success. The number of industrial accidents was 22 % down on the previous year to 505. In terms of accidents per 1,000 employees, industrial accidents in the year under review among blue-collar workers were down from 42 to 33. With just 20.6 accidents per million working hours in 1986, we achieved the lowest level since records were first kept in 1955.

In-house suggestion scheme effective

In the year under review two special campaigns "Accuracy is everything" and "Safety is your gain" were carried out by the department handling in-house improvement proposals. Our employees suggested a total of 2,542 improvements (+33 %), 913 of which resulted in monetary rewards (849 in the previous year).

The keen interest of our employees in improving operating processes and techniques has benefited both the company and its personnel. A record sum of DM 540,000 was paid out in the form of rewards, the highest single one being DM 26,220.



Expansion in vocational training

There was a further increase in the number of trainees, bringing the total to 432 at the end of the year; 150 of them were in their first year.

Training programmes have to be based on the early recognition of future company needs and corresponding advance planning. In 1986, therefore, we increased training opportunities in those vocations which secure for us the skills to put new technologies into practice. These vocations included that of power plant electronics engineer. We also concentrated on a new form of training which likewise provides higher qualifications and combines on-the-job training and studies. In the case of business administrators with VWA diploma, attendance at the Academy for Business Administration and Economics (VWA) is combined with commercial on-the-job training; for the production engineer, in-house training as a plastics moulder is combined with studying at a technical college.

Emphasis shifted in staff training

In our staff training we have focused on intensifying our efforts to satisfy the needs of "customers" from within the company. The objective is to further improve cooperation between the individual departments. To do this, we first identified training needs, designed the tuition programmes to the specific requirements of the various operating units and then carried out these programmes in different ways, e.g. classroom teaching, workshops and on-the-job learning. For on-the-job learning, which takes place mainly in small groups, we have trained more and more moderators to provide these groups with support and guidance.

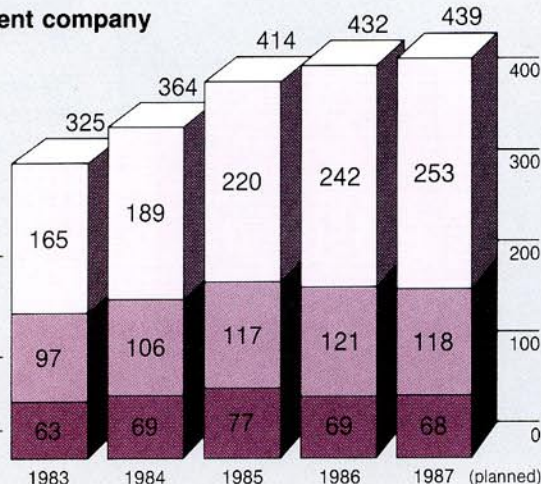
Vocational training at the parent company

Number of trainees

Production-oriented vocations
Skilled chemical worker, plastics moulder, production engineer

Technical vocations
Fitter, machinist, measuring & control technician

Commercial vocations
Business administrator, industrial manager, clerical assistant



1

Conti looks to meeting the steadily increasing demands that new technologies place on production skills. Here apprentice plastic moulders are being trained to work with rubber.



With regard to the training opportunities for executive personnel, we have standardized our international management training by bringing it into line with the programmes available at the parent company.

New approaches to personnel recruitment and training of future managers

Given the shortage of university graduates with science and technology degrees, we used our trade fair stands to establish contact with potential recruits. By giving personal interviews and distributing literature about our company, we showed that Continental offers attractive employment opportunities.

In order to secure managers for our company over the long term, we intensified our contacts with universities, provided practical courses for trainees, supported practice-oriented degree theses and invited students to visit our plants.

Considerable importance in personnel development is attached to the training of the younger generation of employees in the parent company and in the Group. We have therefore made organizational changes in the personnel department which will help us to reinforce our efforts in this direction. We are confident that by pursuing these new approaches we shall have the employees we need to cope with the tasks ahead.

¹ At the Hanover Fair our personnel staff advised graduates about future openings within the company.

Continental Group, Hanover

Tyre Division

Technical Products 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 Aktiengesellschaft,
Vienna/Austria

Semperit (Ireland) Ltd.,
Dublin/Ireland

Sava-Semperit,
Kranj/Yugoslavia

VERGÖLST GmbH,
Bad Nauheim

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

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

Liga Reifenhandel GmbH,
Hanover

Advance Tyre Company Ltd.,
Dublin/Ireland

Pneu Uniroyal-Englebert S.A.,
Geneva/Switzerland

Uniroyal Englebert Daek A/S,
Copenhagen/Denmark

Uniroyal Englebert Tyre Trading GmbH,
Aachen

C.U.P. GIE,
Roissy/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

Production, Sales and Services

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

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

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

Drahtcord Saar GmbH & Co. KG,
Merzig/Saar

Clouth Gummiwerke AG,
Cologne

Conti Versicherungsdienst GmbH,
Hanover

SVD Semperit Versicherungsdienst
Ges.m.b.H., Traiskirchen/Austria

Conti-Gummi 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 28 and 29.

Group Companies

	Nominal capital in '000s	Group interest in %
Associated Domestic Companies		
A. Companies included in the consolidated accounts		
1. VERGÖLST GmbH, Bad Nauheim ¹⁾	DM 28 000	99.4
2. Uniroyal Englebert Reifen GmbH, Aachen	DM 30 000	100.0
3. Deutsche Semperit GmbH, Munich	DM 15 500	100.0
4. GUSTRO Gustav Rohrbach GmbH, Frankfurt/M.	DM 2 000	100.0
5. Uniroyal Englebert Tyre Trading GmbH, Aachen	DM 1 000	100.0
6. Techno-Chemie Kessler & Co. GmbH, Frankfurt/M.	DM 15 000	100.0
7. Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	DM 3 000	95.0
8. Formpolster GmbH, Hanover ¹⁾	DM 50	100.0
9. Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell	DM 3 000	100.0
10. KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	DM 1 000	100.0
11. Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen ¹⁾	DM 24 000	96.3
12. Vereinigte Göppinger-Bamberger Kaliko GmbH, Bamberg ¹⁾	DM 3 000	96.3
13. Wilh. Leo's Nachfolger GmbH, Stuttgart	DM 420	96.3
14. Conti Versicherungsdienst GmbH, Hanover ¹⁾	DM 50	100.0
15. Continental Caoutchouc-Compagnie GmbH, Hanover ¹⁾	DM 250	100.0
16. Continental Caoutchouc-Export-Aktiengesellschaft, Hanover ¹⁾	DM 800	100.0
17. Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH, Hanover ¹⁾	DM 3 500	100.0
18. Union-Mittelland-Gummi-GmbH, Hanover ¹⁾	DM 50	100.0
19. Liga Reifenhandel GmbH, Hanover ²⁾ incl. subsidiaries	DM 250	100.0
20. Flockgarn GmbH, Hanover	DM 500	100.0

	Nominal capital in '000s	Group interest in %
B. Companies not included in the consolidated accounts		
21. Deutsche Gasrusswerke GmbH, Dortmund	DM 250	34.0
22. KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund	DM 15 000	31.0
23. Drahtcord Saar Geschäftsführung GmbH, Merzig/Saar	DM 60	50.0
24. Drahtcord Saar GmbH & Co. KG, Merzig/Saar	DM 30 000	50.0
25. Clouth Gummiwerke AG, Cologne	DM 14 000	50.0

Associated Foreign Companies

	Nominal capital in '000s	Group interest in %
A. Companies included in the consolidated accounts		
26. Continental France S.A.R.L., Sarreguemines/France	FFr 130 000	100.0
27. Continental Industrias del Caucho SA, Coslada/Madrid/Spain	Pta 622 492	100.0
28. Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	BFr 460 000	100.0
29. Pneu Uniroyal Englebert S.A., Compiègne/France	FFr 58 580	100.0
30. Uniroyal Englebert Tyres Ltd., Newbridge/Great Britain	£ 10 000	100.0
31. Semperit Reifen Aktiengesellschaft, Vienna/Austria	Sch 400 000	75.0
32. Semperit (Ireland) Ltd., Dublin/Ireland	IR£ 14 353	72.1
33. Continental Caoutchouc (Suisse) SA, Zurich/Switzerland	SFr 1 000	100.0
34. Continental Italia S.p.A., Milan/Italy	L 3 200 000	100.0
35. Continental Gummi AB, Solna/Sweden	SKr 4 600	100.0
36. Continental Products Corporation, Lyndhurst/N.J./USA	US\$ 10 289	91.8
37. C.U.P. GIE, Roissy/France	—	100.0
38. C.U.P. Ltd., West Drayton/Great Britain	£ 1 300	100.0

		Nominal capital in '000s	Group interest in %
39.	C.U.P. Gummi Gesellschaft mbH, Vösendorf/Austria ¹⁾ Sch	13 000	75.0
40.	Pneu Uniroyal-Englebert S.A., Geneva/Switzerland SFr	500	100.0
41.	Uniroyal Englebert Daek A/S, Copenhagen/Denmark DKr	3 500	100.0
42.	Merkur Gummiwerk Gesellschaft m.b.H., Vienna/Austria ¹⁾ Sch	60 050	75.0
43.	Räder-Klein Gesellschaft m.b.H., Vienna/Austria ¹⁾ Sch	7 000	75.0
44.	Rundpneu Beteiligungsgesell- schaft mbH, Vienna/Austria . . . Sch	5 000	75.0
45.	Profi Reifen- und Autoservice Gesellschaft mbH, Vösendorf/Austria ¹⁾ Sch	12 000	75.0
46.	Profi Gesellschaft mbH, Hard/Austria ¹⁾ Sch	15 000	75.0
47.	Profi Gesellschaft mbH, Graz/Austria ¹⁾ Sch	31 705	75.0
48.	Profi Gesellschaft mbH, Wels/Austria ¹⁾ Sch	23 000	75.0
49.	Semperit (Schweiz) AG, Dietikon/Switzerland SFr	10 000	100.0
50.	Neugummierungs AG, Schafisheim/Switzerland SFr	50	100.0
51.	Pneu Dick AG, Biel/Switzerland SFr	50	100.0
52.	Adam Touring GmbH, Dietikon/Switzerland SFr	100	100.0
53.	Adam Touring AG, Triesen/Liechtenstein SFr	100	100.0
54.	Semperit (Sales) Ltd., Dublin/Ireland IR£	0.1	72.1
55.	Semperit (UK) Ltd., Slough/Great Britain £	1 700	75.0
56.	Semperit Svenska AB, Nacka/Sweden SKr	2 000	75.0
57.	Uniroyal Englebert Textilcord, S.A., Steinfort/Luxembourg . . . LFr	50 000	100.0
58.	Advance Tyre Company Ltd., Dublin/Ireland ²⁾ IR£	1 760	100.0
59.	Conti-Gummi Finance B.V.,*) Amsterdam/Netherlands FI	1 000	100.0
60.	SVD Semperit Versicherungs- dienst Gesellschaft m.b.H., Traiskirchen/Austria ¹⁾ Sch	500	75.0

B. Companies not included in the consolidated accounts

		Nominal capital in '000s	Group interest in %
61.	Semperit (Hellas) Ltd., Athens/Greece Dr	900	60.3
62.	Sava-Semperit, Kranj/Yugoslavia Sch	556 374	20.9

*) Since August 1986; previously Intercontinental Rubber Finance B.V., Amsterdam/Netherlands.

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

²⁾ New to the Group in 1986.

We also have an interest in 24 other companies with minor or no business activities.

Proposed Allocation of Profits

Supervisory Board and Executive Board propose to the shareholders that from the **retained income** of DM 40,005,774.20

the distribution of a dividend amounting to DM 6.00 per share with a par value of DM 50.00 (12.0 %) be approved.

From a share capital of DM 312,104,450.00 this means a **distribution** of DM 37,452,534.00

and that the non-distributed **remaining amount** of DM 2,553,240.20

will be carried forward.

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

Financial position

In comparison with sales growth (3.4 %) there has been an overproportionate increase of 8.7 % in the balance sheet total (DM 120.7 million). However, more than half the increase is attributable to a higher volume of cash at banks and of receivables due from associated companies. The latter include receivables amounting to some DM 80 million from Central Cash Management.

The capital turnover rate (ratio of sales to total assets) was down to 1.59 (1.67 in the previous year). Disregarding investments in affiliates (holding function), the capital turnover rate would have been 2.12 (2.24 in the previous year). A comparison of these figures with the corresponding ones of five years ago shows a clearly positive trend. While sales are 31.1 % up on the 1981 level, the balance sheet total (excluding investments) has increased by 14.7 % only. Over the five-year period, the capital turnover rate has improved from 1.86 to 2.12.

The proportion of fixed assets to total assets has dropped to 50.7 % (54.3 % in the previous year). While fixed assets fell, investments in affiliates have continued to grow, a development which increasingly reflects the holding character of the parent company.

Following the temporary increase in the previous year, all short and long-term liabilities are down by DM 140.2 million to DM 417.5 million.

Equity capital, including those amounts of untaxed reserves allocable to equity capital, and that part of retained income which is not to be distributed improved by DM 122.8 million to DM 622.0 million. This gives an equity ratio of 41.4 % compared to 36.1 % in the previous year.

On the closing date, 81.7 % of fixed assets were financed out of equity (66.6 % in the previous year). The remaining fixed assets and all inventories were financed out of long-term debt.

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) increased substantially to 156.0 % (78.9 % in the previous year). The same is true of short-term receivables and liquid assets relative to short-term liabilities (102.0 % compared to 74.7 % in 1985).

Profit situation

Although gross revenues edged up by just 2.1 %, there was an overproportionate increase of 7.9 % in the gross margin, taking the figure from DM 1,210.2 million to DM 1,306.2 million.

The net operating result (including financing charges, but before profit tax) at DM 161.9 million is 85.2 % up on the previous year (DM 87.4 million).

The extraordinary result is a loss of DM 26.2 million (DM 5.8 million in the previous year). Here, the major items are changes in untaxed reserves, special depreciation of fixed assets, gains and losses from the disposal of assets, change in tax deductions on imports, 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.

Profit before tax increased by about 66 % to DM 135.7 million (DM 81.6 million in the previous year). By analogy, net income rose by DM 17.7 million to DM 54.9 million (DM 37.2 million in the previous year). Return on sales after tax improved from 1.6 % to 2.3 % and return on equity edged up from 7.5 % to 8.8 %.

The net cash flow increased by DM 63.4 million to DM 221.5 million and is equivalent to 9.3 % of sales (6.8 % in the previous year).

Balance sheet

The evaluation and depreciation methods as well as the classification rules used in the year under review are the same as those used in the previous year's report with the exception of reserves for early retirement compensation and part-time work for elderly employees. With regard to our commitments here, one-third of the expenditure involved had been allocated to reserves in the previous year. In the year under review the remaining two-thirds were allocated, so that no further costs will be incurred in years to come.

Property, plant and equipment

Additions to property, plant and equipment amounted to DM 102.6 million (DM 102.2 million in the previous year). The Tyre Division accounted for 39 % of new investments, the Technical Products Division for 55 % and central service functions for 6 %. As in the previous year, the focus was on the restructuring of our plants in Hanover-Limmer and Hanover-Vahrenwald followed by capacity expansion, rationalization, productivity improvement and quality assurance measures.

Depreciation has increased to DM 111.2 million (DM 105.5 million in the previous year). It includes fiscally permitted special depreciation amounting to DM 10.3 million (DM 11.6 million in the previous year). Property is depreciated based on a useful life of up to 33 years, machinery on a useful life of 10 to 12.5 years, supply lines and various plant fixtures up to 20 years, furniture and equipment 4 to 7 years and moulds up to 4 years.

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

Additions to machinery and long-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 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	7.7	7.0
Machinery and fixtures	50.0	12.0
Furniture and equipment	41.3	16.1
Assets under construction	3.6	—
	102.6	35.1

The disposal of fixed assets (DM 6.6 million) relates to obsolete machinery and fixtures as well as to the sale of real estate.

Over the last five years (1982–1986), investment in property, plant and equipment (including leasing-financed additions) has totalled DM 444.8 million compared to accumulated depreciation of DM 454.4 million. Moreover, during the same period financial investment has amounted to DM 146.6 million. Total gross investment between 1982 and 1986 has been DM 591.4 million.

Financial assets

The book value of investments has increased over the previous year by DM 27.8 million.

Approximately one-half of this increase is attributable to the acquisition of a further 16.7 % holding in Drahtcord Saar GmbH & Co. KG, Merzig/Saar, the take-over of the Irish tyre trading chain, Advance Tyre Company Ltd., Dublin/Ireland, and the acquisition of a number of smaller holdings. Other additions derive from share capital increases, for example in Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, and Pneu Uniroyal Englebert S. A., Herstal/Belgium.

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 were 3 % lower than in the previous year.

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-process 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.

Accounts receivable and other assets

Trade accounts receivable rose by DM 5.6 million, an increase of 3.4 % over the previous year. This increase is in accordance with the sales growth. Apart from individual adjustments to cover inherent risks, there was a bad debt reserve of DM 2.3 million. The large majority of receivables outstanding were due during the first few weeks of 1987 and were paid on schedule.

The increase in accounts receivable from associated companies (DM 74.6 million) and cash (DM 9.7 million) is chiefly attributable to higher balances from Central Cash Management.

Other debtors comprises mainly receivables from employees and suppliers, tax credits and other asset items.

Capital and reserves

Share capital amounted to DM 312.1 million at the end of 1986. It was increased by DM 8.5 million following conversion of the US-dollar convertible loan (US \$ 11.0 million) and by DM 4.6 million in the wake of the option rights afforded by the 1984/94 bonds with warrants attached (DM 70.0 million) being exercised.

In the framework of these capital increases, DM 12.1 million (convertible loan) and DM 6.3 million (1984/94 bonds with warrants attached) were allocated to legal reserves. Moreover, Continental Gummi-Werke AG charged Conti-Gummi Finance B. V., Amsterdam, an option fee of DM 77.9 million as issue premium for the 5.5 % 1986/96 bonds with warrants attached. This was likewise allocated to legal reserves. As a result, legal reserves increased altogether by DM 96.3 million to DM 271.2 million.

The Executive Board and the Supervisory Board have resolved in accordance with § 58 section 2 AktG (Stock Corporation Law) to allocate DM 18.0 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 and was reduced by DM 1.0 million to DM 5.4 million. On 31st December, 1986 there was a deficit equivalent to this amount in accrued pensions.

Conditionally authorized capital amounted to DM 122.0 million at the beginning of 1986. Following conversion of the US-dollar convertible loan, conditionally authorized capital was first reduced by DM 12.0 million and then increased again by DM 10.0 million in order to accommodate the conversion rights inherent in a new DM 2.0 million convertible loan.

Up to 31st December, 1986 the exercising of options afforded by the 1984/94 bonds with warrants attached had accounted for DM 4.6 million of conditionally authorized capital, and this was reclassified correspondingly as share capital. On 22nd August, 1986 we availed ourselves of the resolution passed by the 1985 Annual Shareholders' Meeting and issued 5.5 % bonds with warrants attached (1986/96) to the value of DM 150.0 million through Conti-Gummi Finance B. V. Exercising all the inherent option rights will require DM 45.0 million of conditionally authorized capital; the remaining DM 30.0 million of the original increase of DM 75.0 million in conditionally authorized capital was not therefore needed.

On 31st December, 1986 utilizable conditionally authorized capital totalled DM 85.4 million and is available for the funding of the following subscription rights:

	Nominal capital DM million
5 % bonds with warrants attached 1984/94 (remainder)	30.4
5.5 % bonds with warrants attached 1986/96 negotiated through Conti-Gummi Finance B.V., Amsterdam	45.0
Convertible loan 1986/96	10.0
	<u>85.4</u>

Alongside this there is authorized capital of DM 30.0 million which can be utilized up to 5th July, 1990.

At the beginning of the 1987 business year, minor amounts were exercised as option rights from the 1984/94 bonds with warrants attached and the 1986/96 convertible loan.

Untaxed reserves

Untaxed reserves increased by DM 6.3 million and amounts to DM 52.6 million on the closing date. Specifically, the breakdown is as follows:

	DM million
Allocation in accordance with § 3 Auslandsinvestitions-gesetz (the law governing the taxation of foreign investments made by German industry)	32.7
Allocation in accordance with § 6b EStG (gains from the sale of fixed assets)	17.0
Allocation in accordance with § 52 section 5 EStG (change in the interest rate used to compute pension accruals)	1.7
Allocation in accordance with § 74 EStDV (reserve for price increases)	1.2
	<u>52.6</u>

Accruals

Accrued pensions were computed on actuarial principles. The deficit as at 31st December, 1986 which derives from previous years, is covered in full by the reserve for pension payments that amounts to DM 5.4 million.

Other accruals, which have increased substantially, include mainly 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, as well as tax commitments and reserves to fund early retirement compensation and to balance the salary difference where elderly employees opt for part-time work.

The reserve for early retirement compensation and part-time work for elderly employees was computed on actuarial principles based on a rate of 6 %. All commitments that are anticipated for the foreseeable future are adequately covered.

Liabilities

Long-term liabilities with a term of at least four years decreased by DM 47.9 million.

As in the previous year, there were no short-term liabilities payable to banks and no notes payable on 31st December, 1986.

Trade payables fell by DM 23.8 million, with no change in payment schedules.

Payments received on account include mainly advance payments from customers. Payments due to associated companies were down by DM 52.2 million.

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 22.3 million to DM 175.5 million. This comprises mainly the trade bills of our domestic subsidiaries which are refinanced by the parent company in the framework of Central Cash Management.

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

Guarantees and warranties increased by DM 89.8 million to DM 283.5 million. They relate almost entirely to liabilities of our subsidiaries and affiliated companies, in particular guarantees amounting to DM 210.4 million for the capital market issues of our financing company Conti-Gummi Finance B. V., Amsterdam.

Outstanding payments on contributions to the capital of companies and on liabilities due to cooperatives total DM 9.3 million.

Profit and loss statement

Sales rose in 1986 by DM 78.1 million (3.4 %) to DM 2,391.0 million. Product sales, excluding ancillary business, increased from DM 2,193.6 million to DM 2,206.3 million (0.6 %). Tyres generated 62 % of sales (63 % in the previous year) and technical products 38 % (37 % in the previous year). The export sales ratio edged up to 35.4 % (34.4 % in the previous year).

Gross revenues rose by DM 50.5 million (2.1 %); material costs were DM 45.5 million down on the previous year and are equivalent to 45.9 % of gross revenues (48.8 % in the previous year). Personnel costs, including the reserve for early retirement compensation and part-time work for elderly employees, are equivalent to 37.1 % of gross revenues (35.8 % in the previous year).

Income from profit and loss transfer agreements and dividends amounted to DM 66.4 million (DM 34.8 million in the previous year). Revenues in the year under review do not comprise tax credits which have been openly offset against taxes in the profit and loss statement. Apart from dividends from our subsidiaries Continental France S.A.R.L., Sarreguemines/France and Uniroyal Englebert Tyres Ltd., New-bridge/Great Britain, all revenues derived from domestic companies. Losses did not have to be assumed in 1986.

Added to profits from affiliated companies is a sum of DM 4.0 million which was the variance from untaxed reserves in accordance with § 3 Auslandsinvestitionsgesetz. On balance, therefore, the affiliated companies and subsidiaries contributed DM 70.4 million to the parent company result (DM 25.6 million in the previous year).

The interest balance was down still further from DM 27.9 million to DM 20.9 million and is equivalent to just 0.9 % of gross revenues (1.2 % in the previous year).

The renewed increase in income from the disposal of fixed assets results mainly from the sale of real estate in Hanover.

Other income derives chiefly from service chargeouts to other Group companies, sales at our social amenities, proceeds from rents, insurance compensation and foreign exchange gains as well as public-sector allocations. Investment subsidies and grants have been included in extraordinary income.

Taxes totalled DM 89.8 million (DM 52.6 million in the previous year) and relate only to expenses in the period under review.

Other expenses such as repairs, freight charges, rents, advertising, costs of structural improvement, travel expenses and insurance premiums rose by DM 45.1 million. This is equivalent to 11.6 % of gross revenues (9.9 % in the previous year).

The remuneration of Executive Board members in 1986 totalled DM 5,537,303 (DM 5,233,862 in the previous year). Pensions to retired Board members or their dependents amounted to DM 2,460,783 (DM 1,977,068 in the previous year).

Emoluments to the Supervisory Board totalled DM 598,725 (DM 535,644 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 proposed allocation of profits.

New Issue
September 12, 1986

This advertisement appears
as a matter of record only.

Conti-Gummi Finance B.V.

Amsterdam/Netherlands

DM 150,000,000
5½% Deutsche Mark Bonds due 1996
with Warrants attached

unconditionally and irrevocably guaranteed by
Continental Gummi-Werke Aktiengesellschaft,
Hanover, Federal Republic of Germany

Offering Price: 150%
Interest: 5½% p.a., payable annually on September 12
Repayment: on September 12, 1996 at par
Subscription Right: each bond of nom. DM 1,000 will be issued with three warrants
– two warrants (equity warrants) entitling the holder from October 13, 1986 until September 12, 1996 inclusive to subscribe to a total of six bearer shares of Continental Gummi-Werke Aktiengesellschaft, Hanover, at a subscription price of DM 323.– per share of DM 50.– par value
– one warrant (bond warrant) entitling the holder from October 13, 1986 until September 26, 1989 inclusive to subscribe for nom. DM 1,000 of the 6% Deutsche Mark Bonds due 1994 issued by Conti-Gummi Finance B.V. at par plus accrued interest (if any).
Listing: Frankfurt am Main and Hanover. The equity warrants will be listed on all German stock exchanges.

Deutsche Bank Aktiengesellschaft

Banque Nationale de Paris

Bayerische Vereinsbank
Aktiengesellschaft

Commerzbank
Aktiengesellschaft

Dresdner Bank
Aktiengesellschaft

Morgan Guaranty GmbH

**Schweizerische Bankgesellschaft
(Deutschland) AG**

Algemene Bank Nederland N.V.

Julius Baer International
Limited

Banca Commerciale Italiana

Bank für Gemeinwirtschaft
Aktiengesellschaft

Bank J. Vontobel & Co. AG

Banque Générale du Luxembourg S.A.

Bayerische Hypotheken- und Wechsel-Bank
Aktiengesellschaft

Joh. Berenberg, Gossler & Co.

Berliner Bank
Aktiengesellschaft

Berliner Handels- und Frankfurter Bank

Chemical Bank
Aktiengesellschaft

Copenhagen Handelsbank

Crédit Lyonnais

Crédit du Nord

Creditanstalt-Bankverein

CSFB-Effectenbank

Daiwa Europe (Deutschland) GmbH

Delbrück & Co.

**Deutsche Bank Capital
Corporation**

EBC Amro Bank
Limited

Enskilda Securities
Skandinaviska Enskilda Limited

Generale Bank

Goldman Sachs International Corp.

Leu Securities Limited

**Manufacturers Hanover
Limited**

Merrill Lynch International & Co.

**Mitsui Finance International
Limited**

**Samuel Montagu & Co.
Limited**

**Morgan Grenfell & Co.
Limited**

Morgan Stanley International

Nomura Europe GmbH

Norddeutsche Genossenschaftsbank AG

Norddeutsche Landesbank

Sal Oppenheim jr. & Cie.

Orion Royal Bank
Limited

Société Générale

**Société Générale –
Elsässische Bank & Co**

Svenska International
Limited

**Swiss Bank Corporation International
Limited**

Swiss Cantonalbanks

Swiss Volksbank

Trinkaus & Burkhardt KGaA

Vereins- und Westbank

M. M. Warburg-Brinckmann, Wirtz & Co.

Westfalenbank

Aktiengesellschaft

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 twenty-three domestic and thirty-five foreign companies, in which the parent company has a direct or indirect financial interest of more than 50 %. The companies not included in the consolidated accounts do not detract from the stated financial position.

Five domestic companies and one foreign company 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 legally required.

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. 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 subsidiary companies were translated at the exchange rates which were valid on 31st December, 1986. 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.

Consolidation method

For 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 subsidiary company's equity capital (including profits or losses) and the residual balance is shown in the difference arising from consolidation.

Subsidiary 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 each company's equity and reserves held and are 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.

Financial position

Although sales to third parties were slightly down by 0.7 %, the balance sheet total improved by 11.4 %. This is mainly due to the substantial increase of DM 252.7 million in cash.

Without this cash increase, the balance sheet total would have edged up by only 2.5 %.

For the same reason, the capital turnover rate was down to 1.57 (1.76 in the previous year).

The proportion of fixed assets (including the difference arising from consolidation) to total assets fell in 1986 from 37.9 % to 35.6 %, whilst current assets, again primarily due to the cash increase, rose from 62.1 % to 64.4 % of total assets. The ratio of fixed assets in the Group is inevitably lower than for the parent company because investments are reduced substantially through consolidation. At the same time, the consolidated sales companies have higher current assets than the parent company. Equity capital, including

those amounts of untaxed reserves allocable to equity capital, rose from DM 638.4 million by DM 184.0 million to DM 822.4 million and is equivalent to 26.0 % of total assets (22.5 % in the previous year).

Group reserves increased in the year under review by DM 152.5 million to DM 414.5 million. DM 96.3 million was allocated to legal reserves. A total of DM 57.2 million was allocated to free reserves from the net income of the parent company and from other Group companies. The scheduled withdrawal from the reserve for pension payments was DM 1.0 million.

Fixed assets, the difference arising from consolidation and the inventories were completely financed out of equity capital and long-term debt (86.3 % in the previous year).

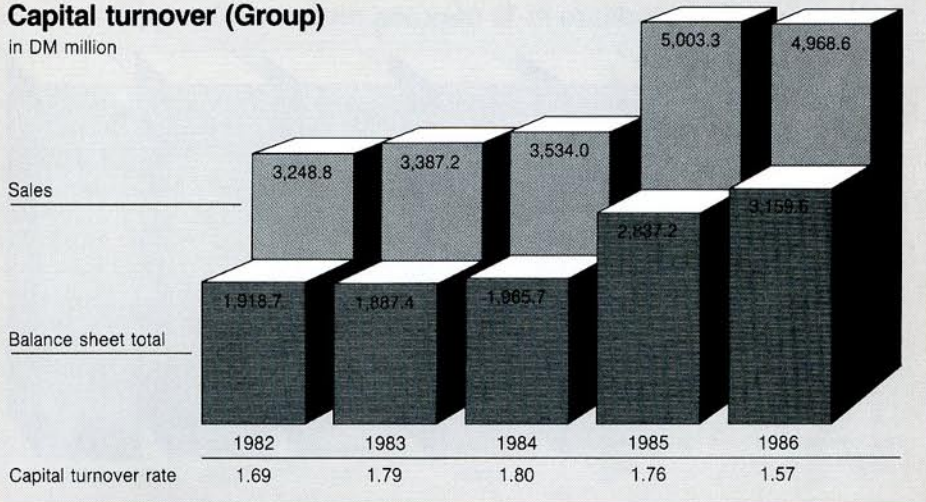
The self-financing ratio (financing of additions to fixed assets out of the net cash flow) increased to 139.8 % (113.1 % in the previous year).

The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) improved to 100.8 % (76.4 % in the previous year).

Total indebtedness (all short and long-term liabilities) decreased in the year under review by DM 40.0 million to DM 1,509.9 million. After deducting DM 252.7 million, the amount by which cash increased, a sum of DM 1,257.2 million remains which is comparable with the previous year's figure. Strictly speaking, therefore, reduction of indebtedness at Group level is DM 292.7 million.

Capital turnover (Group)

in DM million



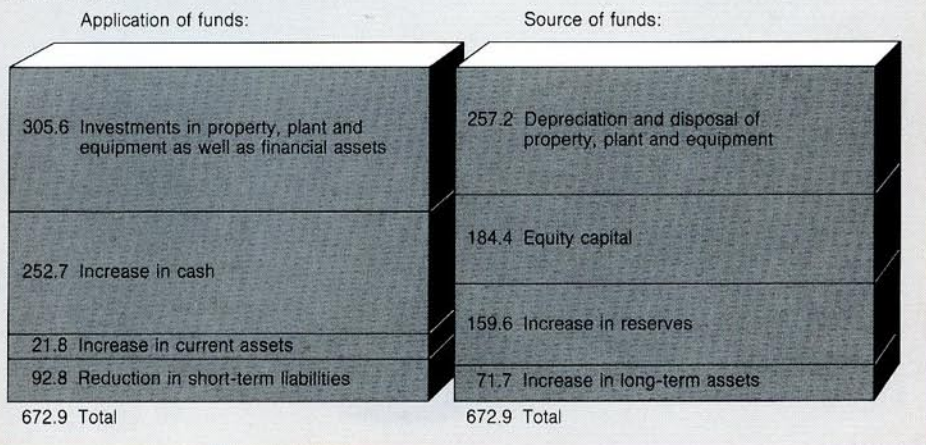
Computed according to the rules of German financial analysts (DVFA), the result improved by 75.0 % to DM 177.6 million. This puts earnings per share (excluding tax credit) at DM 28.45 (DM 16.97 in the previous year).

Balance sheet

The consolidated statements are based on the same evaluation, depreciation and classification principles as in the previous year, with the exception of allocations to 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. Again, advantage was taken of fiscally permitted special depreciation.

Group financing in 1986

in DM million



Property, plant and equipment

The declining-balance method of depreciation based on the highest rates fiscally permitted in Germany is used throughout the Group unless the straight-line method leads to higher expenditure. The same standard assumptions for useful life are applied Group-wide.

Property, plant and equipment, additions and depreciation can be broken down as follows:

	Total	Investments	Depreciation
	1986	1986	1986
	DM	DM	DM
	million	million	million
Parent company	382.9	102.6	111.2
Consolidated subsidiary companies	564.6	184.1	118.2
Group	947.5	286.7	229.4

Profit situation

Profit before tax amounted to DM 263.5 million (DM 157.2 million in the previous year) and was 94.2 % higher than at parent company level (DM 135.7 million). After the deduction of taxes, net income is DM 114.4 million (DM 77.2 million in the previous year).

For a loss sustained by our production company in Ireland we have formed untaxed reserves in the amount permitted in accordance with § 3 Auslandsinvestitions-gesetz. At the same time, part of the untaxed reserves which had been formed in previous years for the production companies in Great Britain and

Belgium was released and added to profits to conform with tax requirements. On balance, therefore, untaxed reserves decreased by DM 4.0 million. In accordance with Stock Corporation Law provisions this amount has to be included twice over in the consolidated profit and loss statement, first as consolidated profit and second as a change in reserves.

After-tax return on sales improved from 1.5 % in the previous year to 2.3 %; return on equity was up from 12.1 % to 13.9 %.

Net cash flow increased by DM 108.5 million to DM 412.0 million and is equivalent to 8.3 % of sales.

Notes on the Consolidated Annual Financial Statements of the Continental Group

Tyres accounted for 71.4 % of additions to property, plant and equipment and other products for 28.6 %. They related mainly to moulds and machinery which serve to maintain performance levels in terms of technology and costs. Restructuring and modernization of our Hanover plants in Limmer and Vahrenwald and the plant in Traiskirchen/Austria likewise involved major investments.

Over the last five years investment in property, plant and equipment, including that of the Semperit companies which we acquired in 1985, has totalled DM 1,160.9 million. Depreciation during the same period amounted to DM 845.0 million, which means that net investment totalled DM 315.9 million. Apart from this, there were leasing-financed additions (without EDP) of DM 33.2 million and investments to the tune of DM 47.4 million.

Financial assets

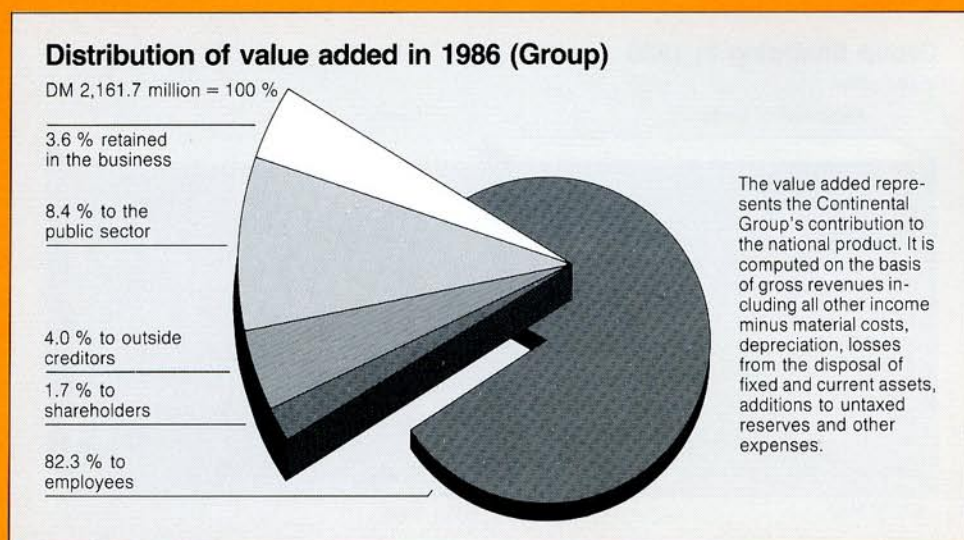
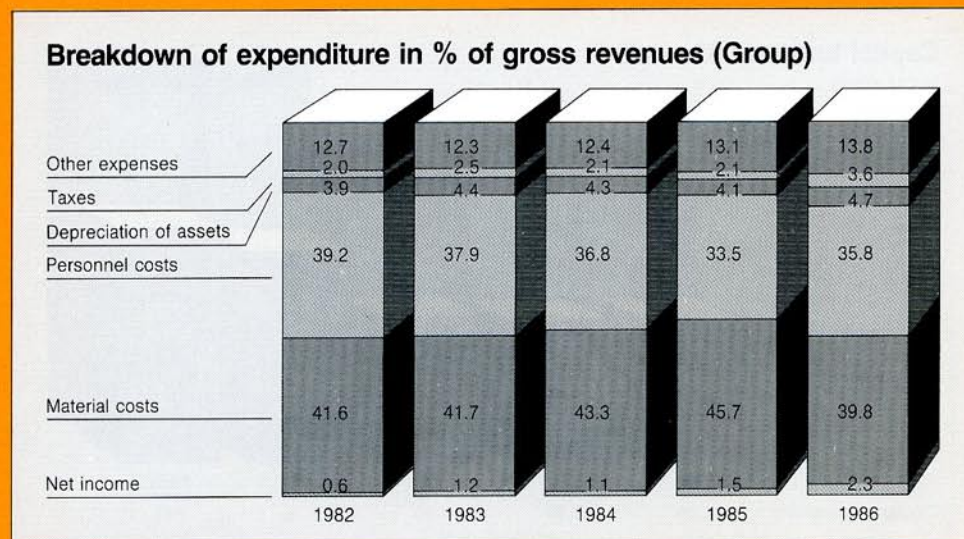
Interests in the non-consolidated companies are held mainly by the parent company. The increase over the previous year derives mainly from the acquisition of further shares in Drahtcord Saar GmbH & Co. KG, Merzig/Saar, and a capital increase at KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund.

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

Loans include home-building loans to employees and funds to energy supply companies as well as loans to non-consolidated companies.

Difference arising from consolidation

Apart from the amounts calculated according to the modified Anglo-American method (1986: reduction of DM 3.7 million), this item also includes the differences (1986: increase of DM 3.3 million) between equity capital and book values 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 computed according to the German method. Since these companies were acquired or capital was increased, the value of the D-mark has strengthened considerably relative to most other currencies. The equity capital of these companies translated at the rate valid on 31st December, 1986, therefore shows a lower D-mark value than the corresponding book value at the parent company. However, the fixed assets of these

companies are also converted at the same – lower – closing-date rates, without the actual value of the fixed assets having changed. In other words, these exchange rate differences can consequently be regarded as undisclosed reserves.

The increase in that part of the difference arising from consolidation in accordance with the German consolidation method includes mainly exchange rate differences deriving from the equity capital translation of our companies in the USA, France and Spain.

Inventories

Following the increase in 1985 due to the acquisition of the Semperit Tyre Group, inventories fell back in 1986 by DM 54.4 million and were equivalent to 25.1 % of the balance sheet total (29.9 % in the previous year).

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.

Inventories as per 31st December, 1986 can be broken down as follows:

	DM million
Parent company	324.3
Consolidated subsidiary companies	469.1
Group	793.4

Accounts receivable and other assets

Trade accounts receivable are virtually unchanged from the previous year. Special individual adjustments have been made to provide against possible risks; a bad debt reserve of DM 10.3 million serves to cover the general credit risk.

Accounts receivable and other assets as per 31st December, 1986 can be broken down as follows:

	DM million
Parent company	168.3
Consolidated subsidiary companies	603.3
Group	771.6

Other debtors increased by DM 66.8 million to DM 159.0 million. They include mainly claims due from suppliers, employees, tax authorities and other government institutions as well as other asset items.

Minority interests

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

Untaxed reserves

The increase amounts to DM 30.5 million, of which DM 6.3 million relates to the parent company. The remainder is mainly attributable to the necessary 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 in accordance with actuarial principles based on an interest rate of 6 % and 7 % (Austria) and applying Dr. Klaus Heubeck's new life tables.

The statutory compensation and pension entitlements of employees in some other foreign companies were also computed on actuarial principles, based on country-specific discount rates, and are included in pension accruals.

The pension funds available in the benefit schemes of two Group companies are short by DM 19.8 million.

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

Liabilities

Long-term liabilities have increased by DM 60.4 million. Whilst on the one hand we issued the 5.5 % DM 150.0 million bonds with warrants attached through Conti-Gummi Finance B.V., Amsterdam, and took low-interest loans, we also made scheduled and non-scheduled repayments of high-interest loans.

By contrast, short-term liabilities (without other accruals) were reduced by DM 92.8 million. Specifically, trade payables were down by DM 25.7 million and notes payable and liabilities due to banks fell by DM 58.9 million. Other liabilities comprise mainly wages and salaries, including payroll tax and outstanding social security contributions, interest, taxes and other liabilities arising in the ordinary course of business.

Contingent liabilities

Contingent liabilities on notes decreased to DM 267.3 million (DM 289.6 million in the previous year). Warranties and guarantees totalled DM 6.4 million (DM 11.3 million in the previous year).

Commitments arising from rent or leasing contracts.

Future commitments (without EDP) arising from rent or leasing contracts amount to a present cash value of DM 56.9 million (DM 64.8 million in the previous year). Land and buildings account for DM 38.3 million of this total, machinery and fixtures for DM 12.3 million, and furniture and equipment for DM 6.3 million.

31.9 % of the total commitment relates to the parent company and 68.1 % to the consolidated subsidiary companies.

Notes on the Consolidated Annual Financial Statements of the Continental Group

Profit and loss statement

Consolidated sales edged down by DM 34.7 million (0.7 %) to DM 4,968.6 million. Whilst product sales rose by 2.0 % or DM 95.4 million despite unfavourable foreign exchange developments, ancillary business fell by DM 130.1 million. In the previous year, this item included sales of technical products and supplies of the technical part of the Semperit Group.

Gross revenues decreased by DM 89.5 million. Material costs relative to gross revenues were down to 39.8 % (45.7 % in the previous year), while personnel costs were up to 35.8 % (33.5 % in the previous year).

The interest burden was reduced by DM 27.0 million to DM 70.1 million and was equivalent to 1.4 % of gross revenues (1.9 % in the previous year).

Extraordinary income of DM 18.8 million (DM 21.9 million in the previous year) includes mainly investment subsidies and grants as well as released adjustments and income deriving from other periods.

In the wake of the substantial profit growth, taxes increased by DM 74.3

million to DM 181.1 million. Moreover, in some companies we were able to offset only minor losses brought forward for tax purposes, which also led to higher taxes in 1986. Profit-related tax totalled DM 149.1 million.

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

Hanover, 10th April, 1987

Continental Gummi-Werke
Aktiengesellschaft

The Executive Board

Helmut Werner

Wilhelm Borgmann

Peter Haverbeck

Hans Kauth

Wilhelm Schäfer

Horst W. Urban

Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1986

Assets	31st December, 1986			31st Dec., 1985
	DM	DM	DM	DM 1000
I. Fixed Assets				
A. Property, Plant and Equipment				
1. Land				
a) with commercial plant and other buildings	115 821 022			125 145
b) with residential buildings	623 275			690
c) without buildings	449 231			194
2. Machinery	171 017 480			181 022
3. Furniture and equipment	52 733 291			50 973
4. Assets under construction and prepayments	42 274 659			40 084
		382 918 958		398 108
B. Investments				
1. Investments	376 309 239			348 498
2. Loans with a term of at least four years	2 385 747			3 388
thereof secured by mortgages DM 1 962 322		378 694 986		351 886
			761 613 944	749 994
II. Current Assets				
A. Inventories				
1. Raw materials and consumables	75 540 130			85 640
2. Work in progress	53 916 347			58 593
3. Finished goods, goods for resale	194 847 972			189 974
		324 304 449		334 207
B. Other Current Assets				
1. Payments on account		1 211 054		3 174
2. Accounts receivable		168 279 978		162 746
thereof due after one year DM 1 092 836				
3. Notes receivable		–		789
4. Checks		4 710 203		4 511
5. Cash on hand, at Federal Bank and on postal giro accounts		1 078 040		1 148
6. Cash at banks		27 669 660		17 352
7. Due from affiliated companies		175 148 347		100 466
8. Other receivables (§ 89 Stock Corp. Law)		328 097		260
9. Other debtors		37 256 309		6 218
			739 986 137	630 871
II. Prepaid Expenses				
1. Loan discounts		160 026		286
2. Other		365 647		286
			525 673	572
			1 502 125 754	1 381 437

Liabilities	31st December, 1986		31st Dec., 1985
	DM	DM	DM 1000
I. Share Capital (Common Stock)		312 104 450	299 000
Conditionally authorized capital DM 85 438 550			
II. Open Reserves			
1. Legal reserves			
Brought forward to 1st January, 1986.	91 920 200		
Allocation from the premium in accordance with § 150 section 2, nos 2 and 3 AktG (Stock Corporation Law)	96 315 651		
		188 235 851	91 920
2. Free reserves			
Brought forward to 1st January, 1986.	83 000 000		
Allocation from net income	18 000 000		
		101 000 000	83 000
3. Reserves for pension payments			
Brought forward to 1st January, 1986.	6 417 158		
Withdrawal	996 944		
		5 420 214	6 417
III. Untaxed Reserves			
according to § 3 Auslandsinvestitionsgesetz, § 6b EStG, § 52 section 5 EStG, § 74 EStDV		52 555 050	46 277
IV. General Bad Debt Reserve		2 320 000	2 265
V. Accruals			
1. Accrued pensions	163 771 960		154 019
2. Accruals for deferred maintenance	1 014 500		1 679
3. Other accruals	218 159 268		107 146
		382 945 728	262 844
VI. Liabilities With A Term Of At Least Four Years			
1. Bonds and convertible bonds	72 000 000		101 469
thereof secured by mortgages DM 70 000 000			
2. Loans and debentures	61 818 937		69 941
thereof secured by mortgages DM 16 557 077			
3. Due to banks	81 437 500		92 500
thereof secured by mortgages DM —			
4. Due to affiliated companies	11 123 015		10 352
		226 379 452	274 262
Due within four years DM 79 001 897			
VII. Other Liabilities			
1. Trade payables	100 366 774		124 227
2. Payments received on account	8 188 293		6 896
3. Due to affiliated companies	15 850 736		67 976
4. Other liabilities	66 753 432		84 388
		191 159 235	283 487
VIII. Retained Income		40 005 774	31 965
Contingent liabilities on notes. DM 175 548 635			
Guarantees DM 268 114 395			
Warranties DM 15 406 663			
		1 502 125 754	1 381 437

Fixed Assets Schedule 1986

	1st January, 1986 DM	Additions DM	Reclassifications DM	Deductions DM	Depreciation DM	31st Dec., 1986 DM
A. Property, Plant and Equipment						
1. Land						
a) with commercial plant and other buildings	125 145 330	7 216 582	228 032	1 672 698	15 096 224	115 821 022
b) with residential buildings	689 785	—	— 34 509	—	32 001	623 275
c) without buildings	193 835	—	255 396	—	—	449 231
2. Machinery	181 022 444	36 410 315	13 657 805	2 309 903	57 763 181	171 017 480
3. Furniture and equipment.	50 973 086	37 706 360	3 555 190	1 216 602	38 284 743	52 733 291
4. Assets under construction and prepayments	40 083 513	21 309 998	— 17 661 914	1 456 938	—	42 274 659
	398 107 993	102 643 255	—	6 656 141	111 176 149	382 918 958
B. Investments						
1. Investments	348 498 391	27 875 530		64 682		376 309 239
2. Loans with a term of at least four years	3 388 065	205 332		1 207 650		2 385 747
	351 886 456	28 080 862	—	1 272 332	—	378 694 986
	749 994 449	130 724 117	—	7 928 473	111 176 149	761 613 944

	1986		1985
	DM	DM	DM 1000
carried forward:		54 943 944	37 166
27. Profit brought forward		2 064 886	1 266
28. Additions from net income to reserves		18 000 000	12 000
29. Withdrawal from reserve for pension payments		996 944	5 533
30. Retained Income		40 005 774	31 965

Pension payments DM 10 220 959.

Anticipated payments in the following five years: 108 %, 115 %, 122 %, 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, 10th April, 1987

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1986

Assets	31st December, 1986		31st Dec., 1985
	DM	DM	DM 1000
I. Fixed Assets			
A. Property, Plant, Equipment and Intangible Assets			
1. Land			
a) with commercial plant and other buildings	298 814 746		279 610
b) with residential buildings	5 868 258		6 665
c) without buildings	4 201 148		6 262
2. Buildings on third parties' land	11 422 804		8 427
3. Machinery	380 920 603		367 267
4. Furniture and equipment	136 056 956		124 360
5. Assets under construction and prepayments	108 053 914		119 172
6. Intangible assets	2 216 622		883
		947 555 051	912 646
B. Investments			
1. Investments	69 694 012		54 111
2. Investment securities	20 192 946		17 182
3. Loans with a term of at least four years	17 117 938		22 198
thereof secured by mortgagesDM 2 619 273		107 004 896	93 491
		1 054 559 947	1 006 137
II. Difference Arising From Consolidation			
thereof from consolidation according to Anglo-American methodDM 8 697 202		68 765 071	69 163
III. Current Assets			
A. Inventories	793 406 040		847 773
B. Other Current Assets			
1. Payments on account	2 462 620		2 105
2. Accounts receivable	771 626 838		769 580
thereof due after one yearDM 1 931 772			
3. Notes receivable	2 691 493		2 485
thereof rediscountable with the Federal BankDM 165 252			
4. Checks	4 921 245		5 255
5. Cash on hand, at Federal Bank and on postal giro accounts	3 660 700		2 797
6. Cash at banks	121 935 397		20 717
7. Marketable securities	150 770 669		2
8. Due from affiliated companies	3 694 962		6 738
9. Other receivables (§ 89 Stock Corp. Law)	1 125 376		528
10. Other debtors	158 978 268		92 193
		2 015 273 608	1 750 173
IV. Prepaid Expenses			
1. Loan discounts	7 043 185		333
2. Other	13 946 709		11 371
		20 989 894	11 704
		3 159 588 520	2 837 177

Liabilities	31st December, 1986		31st Dec., 1985
	DM	DM	DM 1000
I. Share Capital (Common Stock)		312 104 450	299 000
Conditionally authorized capital. DM 85 438 550			
II. Open Reserves			
1. Legal reserves	188 235 851		91 920
2. Free reserves	220 819 269		163 638
3. Reserves for pension payments	5 420 214		6 417
		414 475 334	261 975
III. Minority Interests		27 461 288	29 703
including interests in net income DM 129 298			
IV. Untaxed Reserves			
according to § 3 Auslandsinvestitionsgesetz, § 6b EStG, § 52 section 5 EStG, § 74 EStDV and foreign tax regulations		108 184 032	77 568
V. General Bad Debt Reserve		10 305 742	10 418
VI. Accruals			
1. Accrued pensions and similar accruals	302 979 475		284 992
2. Accruals for deferred maintenance	3 195 166		2 329
3. Other accruals	431 000 784		289 267
		737 175 425	576 588
VII. Liabilities With A Term Of At Least Four Years			
1. Bonds and convertible bonds	282 442 756		158 016
thereof secured by mortgages DM 70 000 000			
2. Loans and debentures	61 818 937		69 941
thereof secured by mortgages DM 16 557 077			
3. Due to banks	310 235 921		362 891
thereof secured by mortgages DM 27 958 966			
4. Other liabilities	47 818 068		55 325
thereof secured by mortgages DM 5 796 586			
5. Due to affiliated companies	6 300 000		2 032
		708 615 682	648 205
Due within four years DM 220 610 330			
VIII. Other Liabilities			
1. Trade payables	271 960 392		297 745
2. Notes payable	123 335 287		145 713
3. Due to banks	193 287 834		229 819
4. Payments received on account	14 930 629		23 685
5. Due to affiliated companies	1 643 172		4 697
6. Other liabilities	196 103 479		200 096
		801 260 793	901 755
IX. Retained Income		40 005 774	31 965
Contingent liabilities on notes. DM 267 311 036			
Guarantees DM 4 382 830			
Warranties DM 2 000 000			
		3 159 588 520	2 837 177

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1986

	1986		1985
	DM	DM	DM 1000
1. Sales	4 968 579 389		5 003 338
2. Change in inventories of products	- 43 009 571		+ 16 336
3. Overheads capitalized on construction of fixed assets		4 925 569 818 48 275 311	5 019 674 43 692
4. Gross Revenues		4 973 845 129	5 063 366
5. Raw materials and consumables		1 981 352 867	2 311 758
6. Gross Margin		2 992 492 262	2 751 608
7. Income from profit and loss pooling agreements	1 691		—
8. Investment income	3 231 372		2 968
9. Income from long-term loans	2 219 694		2 693
10. Interest and similar income	17 641 730		7 412
11. Income from disposal of fixed assets	21 832 029		18 024
12. Income from release of accruals	19 379 467		13 065
13. Income from release of untaxed reserves	19 170 270		9 991
14. Other income	75 091 264		65 743
thereof extraordinary DM 18 815 900		158 567 517	119 896
		3 151 059 779	2 871 504
15. Wages and salaries	1 405 181 978		1 345 099
16. Social security contributions	287 943 648		275 263
17. Pensions and employees' welfare	85 408 309		73 475
18. Depreciation of property, plant, equipment and intangible assets	229 402 343		205 541
19. Depreciation of investments, including consolidated affiliated companies	6 136 382		1 010
20. Depreciation of current assets (excluding inventories)	14 727 813		11 602
21. Losses from disposal of fixed assets	6 709 285		3 072
22. Interest and similar expenses	87 733 006		104 476
23. Taxes			
a) on income, profit and net worth DM 169 307 088			
b) other DM 11 744 510			
	181 051 598		106 815
24. Expenses from profit and loss pooling agreements	—		1
25. Additions to untaxed reserves	25 720 164		17 470
26. Other expenses	706 618 670		650 452
		3 036 633 196	2 794 276
27. Net Income		114 426 583	77 228
carry forward:		114 426 583	77 228

	1986		1985
	DM	DM	DM 1000
carried forward:		114 426 583	77 228
28. Profit brought forward		2 064 886	1 266
29. Additions from net income to free reserves		76 277 201	51 244
30. Withdrawal from reserve for pension payments		996 944	5 533
31. Withdrawal from difference arising from consolidation		61 906	—
32. Addition to difference arising from consolidation		1 138 046	768
33. Income attributable to minority interests		129 298	109
34. Losses attributable to minority interests.		—	59
35. Retained Income		40 005 774	31 965

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, 10th April, 1987

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant