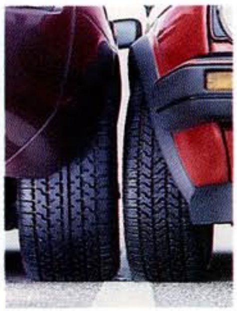
Continental
Aktiengesellschaft

Annual
Report
1987

Continental –
a Group that has Grown with the Years



When "Continental-Caoutchouc- und Gutta-Percha-Compagnie" was founded in 1871, the firm was one among many that had settled in North Germany to process rubber. As early as 1861, the Kingdom of Hanover counted six rubber factories – more than there were in any other part of the German Federation at the time.

As a result of good products and its policy of expansion, Continental soon took the lead in the German rubber industry. At the end of the 1920s, the Company increased its economic strength still further through mergers with other rubber manufacturers. In the 30s, production and sales facilities abroad ensured worldwide penetration for its products and the name "Continental".

In Germany during the 60s and 70s, Continental resumed its acquisition of shareholdings in companies belonging to the rubber industry. Today the Group numbers about 80 firms and corporations, most of them located in Germany, other European countries and North America. Technical cooperation and license agreements have been signed with tire manufacturers in Japan, India, Sweden and a number of other countries. In 1979 and 1985 respectively, two tire makers with a long-established tradition, Uniroyal Englebert and Semperit, were acquired by the Group. The three brands compete against one another with stimulating effect.

In 1987 Continental acquired the American manufacturer General Tire. As a result, the Group is one of the few tire producers that are active on a global scale, taking first place in Germany, second place in Europe and fourth place worldwide.

In recent years Continental has had an outstanding record in developing new technologies for tires and industrial products.

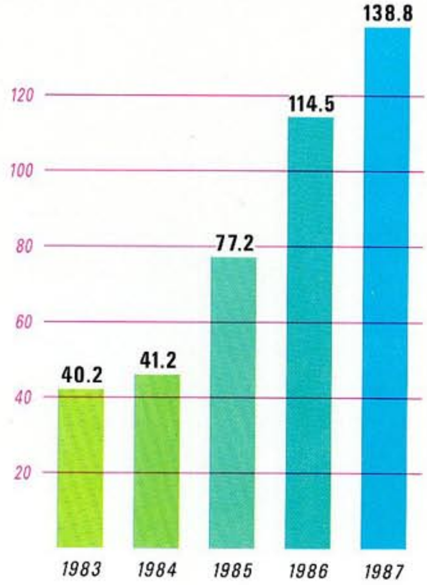
Today the Group employs about 42,000 people around the globe.

Continental Group at a Glance

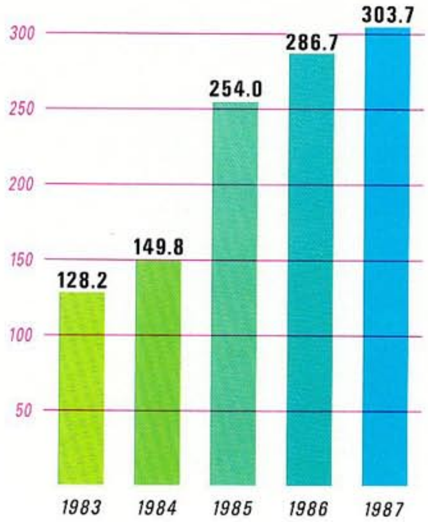
		1983	1984	1985	1986[1]	1987[1]
Sales	DM million	3,387.2	3,534.0	5,003.3	4,968.6	5,097.6
Income before taxes	DM million	100.8	100.9	157.2	263.5	271.7
Dividend paid	DM million	16.2	17.9	29.9	37.5	48.0
Net cash flow	DM million	190.7	204.9	303.5	375.9	464.0[2]
Debt ratio	in %	3.4	2.9	3.1	2.0	1.9
Shareholders' equity	DM million	442.7	522.2	638.4	808.0	1,515.8
Equity ratio	in %	23.5	26.6	22.5	26.1	31.6
Employees at year-end		26,688	26,401	31,673	32,012	42,263

1) According to German Accounting Directives Law
2) Based on DVFA income formula

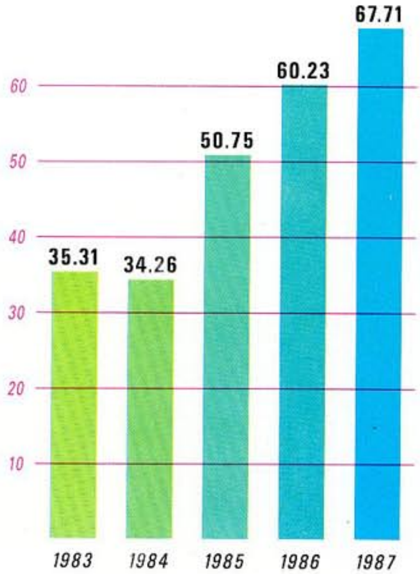
Net income after taxes in DM million (Group)



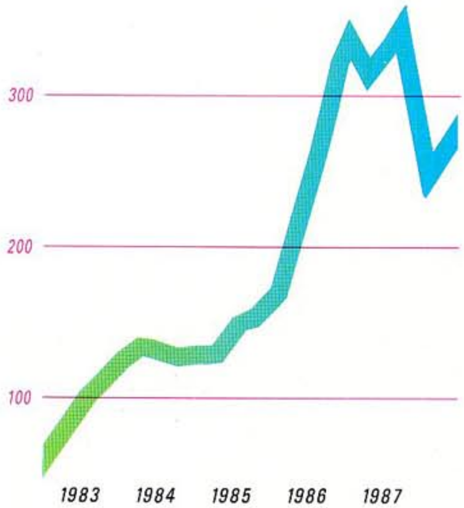
Investments in DM million (Group)



Net cash flow per share in DM (Group)



Share price development



Report on 1987, the Company's 116th Fiscal Year

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Members of the Supervisory Board

Alfred Herrhausen, Chairman
Member of the Board of Managing Directors,
Deutsche Bank AG

Wolfgang Schultze*)
Vice Chairman
Member of the Executive Council
Industriegewerkschaft Chemie-Papier-Keramik

Rudolf Alt*)
Chairman of the Group Employee Council, the Joint Employee Council of Continental AG and the Employee Council for the Stöcken Plant

Adolf Bartels*)
District Manger
Industriegewerkschaft Chemie-Papier-Keramik

Manfred Emcke
Management Consultant

Baron Albert Englebert
Chairman of the Board of Directors
Pneu Uniroyal Englebert S.A.

Willi Goldschald*)
Chairman of the Employee Council
Vahrenwald Plant

Wilhelm Helms
Executive Director
Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
Region of Lower Saxony

Richard Köhler*)
Chairman of the Employee Council
Korbach Plant

Joachim Kost*)
Manager of the Vahrenwald Plant

Hans L. Merkle
Chairman of the Supervisory Board
Robert Bosch GmbH

Ernst Pieper
Chairman of the Managing Board
Salzgitter AG

Klaus Piltz
Member of the Managing Board
Veba AG

Günther Saßmannshausen
Chairman of the Managing Board
Preussag AG

Friedrich Schiefer
Member of the Managing Board
Allianz AG Holding

Siegfried Schille*)
Chairman of the Employee Council
Limmer Plant

Hugo Schleiermacher*)
Former Member of the Employee Council
Vahrenwald Plant

Eberhard Schlesies*)
Manager of the Hanover Office
Industriegewerkschaft Chemie-Papier-Keramik

Wolfgang Seelig
Member (retired) of the Managing Board
Siemens AG

Ernst Sprätz*)
Chairman of the Employee Council
Dannenberg Plant

*) Employee representatives

Report of the Supervisory Board

At Supervisory Board meetings and individual conferences, as well as through oral and written reports, we were provided regularly with detailed information about the Company's status and progress and have discussed these with the Managing Board.

The main topics of these discussions were the budget, the corporate medium- and long-term planning, including its capital investment programs, and basic questions about business policy, corporate structure and trends in capacity utilization and earnings. We also ruled on issues which, under the applicable statutory provisions and the Company's bylaws, had to be submitted to us for approval. Of special significance in this connection is our authorizing the Managing Board to issue convertible debentures and/or bonds with warrants attached, up to a total par value of DM 450 million, and to create authorized capital in the amount of DM 130 million. During the negotiations concerning the acquisition of General Tire Inc., a special meeting was held on June 5, 1987, at which the Supervisory Board authorized the Managing Board to make a binding offer to the parent company, GenCorp Inc.

We have examined the financial statements, the management report on the business and the proposal for the allocation of net income available for distribution; our examination reveals no grounds for objection. The Supervisory Board concurs in the result of the audit by Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, which has confirmed, in its capacity as independent auditor, that the accounting records and financial statements comply with the legal requirements and with the bylaws and that the management report on the business is consistent with the financial statements. We have approved today the financial statements as of December 31, 1987, prepared by the Managing Board, which are thereby definitively confirmed, and we endorse the proposal of the Managing Board regarding the allocation of the net income available for distribution.

The consolidated financial statements, the management report on the Group's business and the auditors' report on the consolidated financial statements have been submitted to us as well.

Effective October 31, 1987, Helmut Werner resigned from the Managing Board of Continental AG to take on a new assignment in another company. Mr. Werner had been a member of the Managing Board since August 1, 1979 and its Chairman since January 1, 1982. During a challenging period for the Company, he used his entrepreneurial vision to expedite the integration of the various companies within the Group, set an important new strategic course and thereby had a substantial influence on the Company's growth. The acquisition of our 75% interest in Semperit Reifen AG, Austria, in 1985 and the purchase of General Tire Inc., U.S.A., in 1987 took place during his term on the Board. We wish to express our special appreciation and respect to Mr. Werner for his achievements and wish him success in his new position.

Wilhelm Schäfer, who had been a member of Continental AG's Managing Board since January 1, 1975 as Head of Tire Marketing and Sales, also left the Board as of October 31, 1987. Mr. Schäfer is remaining with the Continental group; on November 1, 1987 he became Chairman of the Managing Board of Semperit Reifen AG. Thanks to his personal dedication, profound knowledge of the market and good contacts with customers, Mr. Schäfer has made a decisive contribution to the Company's progress. We express our special gratitude to him and wish him, too, success in his new sphere of activity.

At its special meeting on September 16, 1987, the Supervisory Board nominated Horst W. Urban Chairman of the Managing Board, effective November 1, 1987. Up to then Mr. Urban had been the member of the Managing Board responsible for Finance, Affiliated Companies and Purchasing. Dr. Wilhelm Borgmann, responsible for Tire Manufacturing and Engineering, was nominated Vice Chairman of the Managing Board. At the same time, Günter H. Sieber and Wilhelm P. Winterstein were appointed to the Managing Board; Mr. Sieber as Head of Tire Marketing and Sales and Mr. Winterstein as Head of Controlling and Logistics.

Hanover, May 2, 1988

The Supervisory Board

Alfred Herrhausen, Chairman

Members of the Managing Board

Horst W. Urban
Chairman
(as of November 1, 1987)

Helmut Werner
Chairman
(through October 31, 1987)

Wilhelm Borgmann
Vice Chairman
(as of November 1, 1987)
Tire Manufacturing and Engineering

Peter Haverbeck
Industrial Products

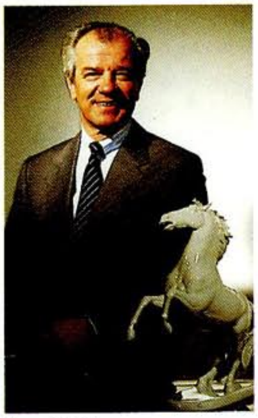
Hans Kauth
Director of Personnel

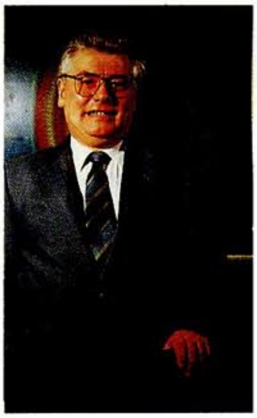
Günter H. Sieber
Tire Marketing and Sales
(as of November 1, 1987)

Wilhelm Schäfer
Tire Marketing and Sales
(through October 31, 1987)

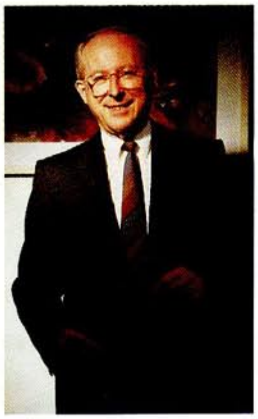
Wilhelm P. Winterstein
Controlling and Logistics
(as of November 1, 1987)

Ingolf Knaup
Deputy Member
Corporate Finance
(as of May 2, 1988)

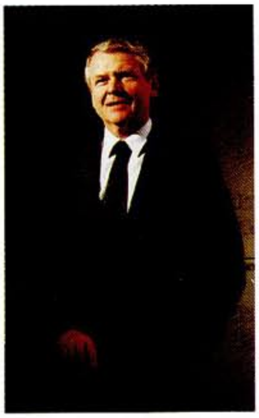

Horst W. Urban


Wilhelm Borgmann


Peter Haverbeck


Hans Kauth


Günter H. Sieber


Wilhelm P. Winterstein

Dear Shareholders,

1987 was an exceptional year for Continental. We were able to improve on the good earnings of 1986 and at the same time increase our financial strength very significantly. In addition, our acquisition of the large American corporation, General Tire Inc., enabled us to join the small group of tire manufacturers operating on a global scale. We are thus expanding beyond the dimensions of a basically European company with its major activities in German-speaking areas. With nine plants in North America, affiliated companies in South America, Africa and Asia and about 10,000 new employees in non-European countries, approximately one-third of our sales will be made outside Europe. We will take this shift of emphasis into account in our future capital investment policy.

The placement of our shares on international markets in the fall of 1987 has caused the number of our shareholders outside Germany to increase. We therefore feel that it is appropriate to bring the way we report more into line with international practice. This gives me the welcome opportunity, as the new Chairman of the Managing Board, to address a few personal words to those of you who cannot attend our Annual Shareholders' Meeting.

This year's financial statements for the entire Group have been prepared for the first time in accordance with the provisions of the new German Accounting Directives Act, and so the statements differ in many aspects from our previous method of reporting.

Later in this report you will read about the financing of the General Tire acquisition. Bonds in three different currencies with warrants attached, as well as the shares issued during the first capital increase, were placed successfully on the market. We think this is proof of the confidence that the financial world and our old and new shareholders have in our Company, its goals and its management. That gives us all the more reason to regret that the second capital increase, with subscription rights for shareholders, coincided with the sharp price declines on the international stock markets, so that the shares could not be sold and remained at the underwriting banks. The price of our share then stayed unusually low for a while which, in view of the financial data and the progress of our Company, was basically unjustified even by international standards.

It is causing us some concern that the competitiveness of our German manufacturing operations is decreasing as the result of the development in foreign exchange rates, high ancillary wage costs and the enormous tax burden. In-house problems we can resolve ourselves, receiving in doing so support from the unions, our employee representatives and our staff. Competitive disadvantages stemming from economic and social policy, on the other hand, can only be eliminated by legislatures and governments. We will continue our efforts to promote an awareness of what ought to be done in this respect.

My colleagues and I regret the departure of Helmut Werner, who was a member of the Managing Board for eight years and had a decisive influence during that time on the development of our Company. We wish him good luck and success in his new position.

At Continental, management is, and always will be, a matter of teamwork. We shall do our best to adjust our management and organization structure to the greatly expanded responsibilities of the Continental group. From now on, our executives and all other employees will have to orient themselves even more than in the past to the international dimension of our Company. I personally was delighted to experience at first hand the straightforward spirit of cooperation in which the management and employees of General Tire welcomed us Europeans. We have a good base for coping with the challenges that lie ahead.

During the current year we are faced with tasks similar in scope to those of fiscal 1987. However, we are confident that we will master them, as well as any other challenges the future may bring. At the June Shareholders' Meeting in Hanover, to which I cordially invite you, I shall have an opportunity to inform you in detail about our plans and the progress we have made.

Sincerely,

Horst W. Urban

Horst W. Urban

Economic Environment

Our business benefited from the continuing boom on international automobile markets.

The economic climate in the Western industrial countries was adversely affected by the turbulence on the stock and foreign exchange markets in the fall of 1987. Plunging prices on the stock exchanges actually played a less significant role than the slide of the dollar, which continued to accelerate. The general mood of the economy and, in turn, expectations for the future were consequently negatively influenced. In the Federal Republic of Germany and other large industrial nations, there was increasing uncertainty as to whether the previous growth pattern would persist. However, for the Western industrial countries, 1987 as a whole was a period in which the positive economic trend of the previous years continued.

The United States showed above average development; benefiting from the lower dollar, its exports increased significantly. Japan also recorded strong economic growth, due in particular to a vigorous rise in domestic demand.

In the Federal Republic of Germany, consumers continued to provide vital support for the economy. Demand for automobiles was especially high. The number of new vehicle registrations rose by 3%. Production of passenger cars and station wagons, at 4.37 million units, exceeded the record level set in 1986 by 1.5%. The output of light commercial vehicles decreased considerably, but there was a slight gain in production of heavy trucks.

From the international standpoint as well, the trend in automobile manufacturing was predominantly positive. Only the United States and Canada showed a decline in passenger car production. The manufacture of small commercial vehicles, on the other hand, rose significantly.

The German rubber industry benefited from favorable conditions in the automotive industry. Production and sales volumes of tires grew substantially. However, a further intensification of price competition permitted only a modest increase in sales revenues. The trend in industrial products varied. While suppliers to the auto industry recorded good growth rates, other sectors, which sell to industries that did not participate in the economic upswing, experienced a decline in revenues.

For 1988 we expect in general that the economy in the Federal Republic of Germany will continue to expand. Due to currency-related export problems, the main impetus for economic activity will once again come from domestic demand. Consumption in the private sector, in particular, will gain strength during the second phase of the tax reform.

The automotive industry is preparing for more difficult times, but anticipates that production levels will remain high. Other major customers of the rubber industry, such as the mechanical engineering and mining industries, do not expect business to pick up this year. The mining industry is struggling with persisting weak demand, and the mechanical engineering sector, which has always depended heavily on exports, is adversely affected by the weak dollar.

We have no reason to be pessimistic; we shall instead prepare ourselves to take effective action in order to meet whatever challenges are in store.

Management Report for the Group and Continental Aktiengesellschaft

Worldwide Supplier

During the past decade, concentration and internationalization of activities have taken place much more among tire manufacturers than among the manufacturers of industrial rubber products, which are usually medium-sized companies geared to supplying their home markets. There are only a few regional suppliers left among the tire manufacturers. The large ones have been establishing themselves to an increasing extent in the automobile production centers outside their home region, in order to operate as global suppliers.

Continental AG, whose business in the 70s was still concentrated primarily on the German market, first reinforced its base in Europe by acquiring Uniroyal Englebert in 1979 and Semperit Reifen AG in 1985. During that period we also concluded technical cooperation and reciprocal supply agreements with Toyo Tire & Rubber Co., Japan, and General Tire Inc., U.S.A., so as to strengthen our competitive stance in the two other major automobile manufacturing centers as well.

A Year of Acquisition

The acquisition in 1987 of General Tire, our cooperation partner, represented a decisive step on the North American continent. In view of the slow growth of demand in Europe and the weak dollar, our presence in North America – the world's largest tire market, accounting for more than 40% of global sales – is particularly important. We were pleased to find that our purchase of General Tire was welcomed equally by the company's management and its employees, and we are convinced that the cooperation initiated some years ago can be successfully expanded to the benefit of both companies. In acquiring General Tire we have passed an important landmark for the future progress of our Company.

A gigantic cake was a pleasant surprise for Continental Managing Board members at the official takeover of General Tire in Akron.

The No. 4 Tire Manufacturer

General Tire is the fifth-largest tire manufacturer in the U.S.A., with worldwide sales of approximately U.S. $1.2 billion. The purchase of this company is the most important acquisition in the history of the Continental group. On October 31, 1987, we took over the plants and activities of General Tire in the U.S.A. and Canada, as well as its affiliated companies in Ecuador and Tanzania. The purchase of its companies in Mexico and Morocco and its minority interests in manufacturing companies in Angola, Mozambique, Pakistan and Portugal was completed during the first few months of 1988. The provisional purchase price amounts to U.S. $643 million in total.

With future tire sales of about DM 6 billion, our Group now ranks fourth among the world's tire manufacturers.

Expansion of Our Capacities in North America

General Tire has a good position as a supplier to the automotive industry in the U.S.A. Our goal is to expand this position and simultaneously strengthen the General brand in the replacement business. In addition to building up our business on the North American continent, it is important for us to be able to supply other markets from our American plants. Since General Tire's existing manufacturing facilities for passenger and commercial vehicle tires are fully utilized, even with a seven-day work week, we plan to enlarge them.

We also intend to increase our manufacturing potential for commercial vehicle tires through a joint venture, under the leadership of General Tire, with the two Japanese tire manufacturers, Yokohama Rubber Co. Ltd. and Toyo. A letter of intent to this effect was signed at the end of 1987. Our Japanese partners will be able to cover a major part of their requirements for the American market from this production. But the joint venture will also enable General Tire to significantly broaden its own base in the commercial vehicle sector.

We took a decisive step forward with the acquisition of General Tire.

Substantial growth in volume made a major contribution to our good earnings in 1987.

Strengthening Our Worldwide Market Presence

In the wake of our successful cooperation with Toyo, we have recently reached a similar agreement with Yokohama, Japan's second-largest tire manufacturer. In addition to an intensive exchange of know-how between the participating companies, both Yokohama and Toyo will locally manufacture tires with brand names of our Group and supply these tires for Japanese automobile exports to Europe and the U.S.A.

The acquisition of General Tire has provided us with affiliated companies in Africa and Asia that are capable of expansion and enabling us to strengthen our presence in these regions as well.

At the beginning of this year, in order to fortify our position in the French industrial products market, we purchased the shares of the Anoflex Group, which specializes in manufacturing threaded pipe joints and in making hose assemblies.

New Accounting Provisions

For the first time, our annual financial statements have been prepared in accordance with the provisions of the German Accounting Directives Act of December 19, 1985. This applies to the financial statements of the parent company and all its domestic and foreign subsidiaries, as well as the consolidated financial statements.

The balance sheets of the General Tire companies acquired on October 31, 1987, with their assets and liabilities as of the date of acquisition, have been included in full in the consolidated financial statements at year-end. The earnings of General Tire for the last two months of the year were included in consolidated net income.

A Successful Year

1987 was the most successful year in the history of the Continental group. Earnings continued to increase and our financial strength grew substantially. Our Tire and Industrial Products Divisions, including the related subsidiaries and affiliated companies, operated at a profit. General Tire operations, which have only been part of the Continental group since their acquisition on October 31, 1987, reported a positive operating income for the last two months of the year. Even after deducting the costs of financing and foreign exchange hedging, as well as nonrecurring incidental acquisition expenses, there still remained a small net income for the year.

Sales Grow Despite the Strong D-Mark

Our Group benefited from the boom in the auto industry, but encountered slight setbacks in sales to those domestic customers who were exposed to increased pressure from foreign competitors or declining demand.

Our exports to overseas markets were adversely affected by the trend in the value of the dollar. In addition, a number of companies that used to export tires to the dollar area are now trying to sell them in Europe, so that competition here has grown stiffer. As a result, prices decreased in some cases, while expenses – particularly employment cost – rose.

Due to these factors, consoli-

dated sales (without General Tire), at DM 5,097.6 million (1986: DM 4,968.6 million), rose by only 2.6%, despite the encouraging increase in sales volumes.

The table below shows sales compared with 1986.

Sales	1987 DM million	1986 DM million	Change in %
Parent company	2,423.1	2,391.0	+ 1.3
Group	5,097.6	4,968.6	+ 2.6

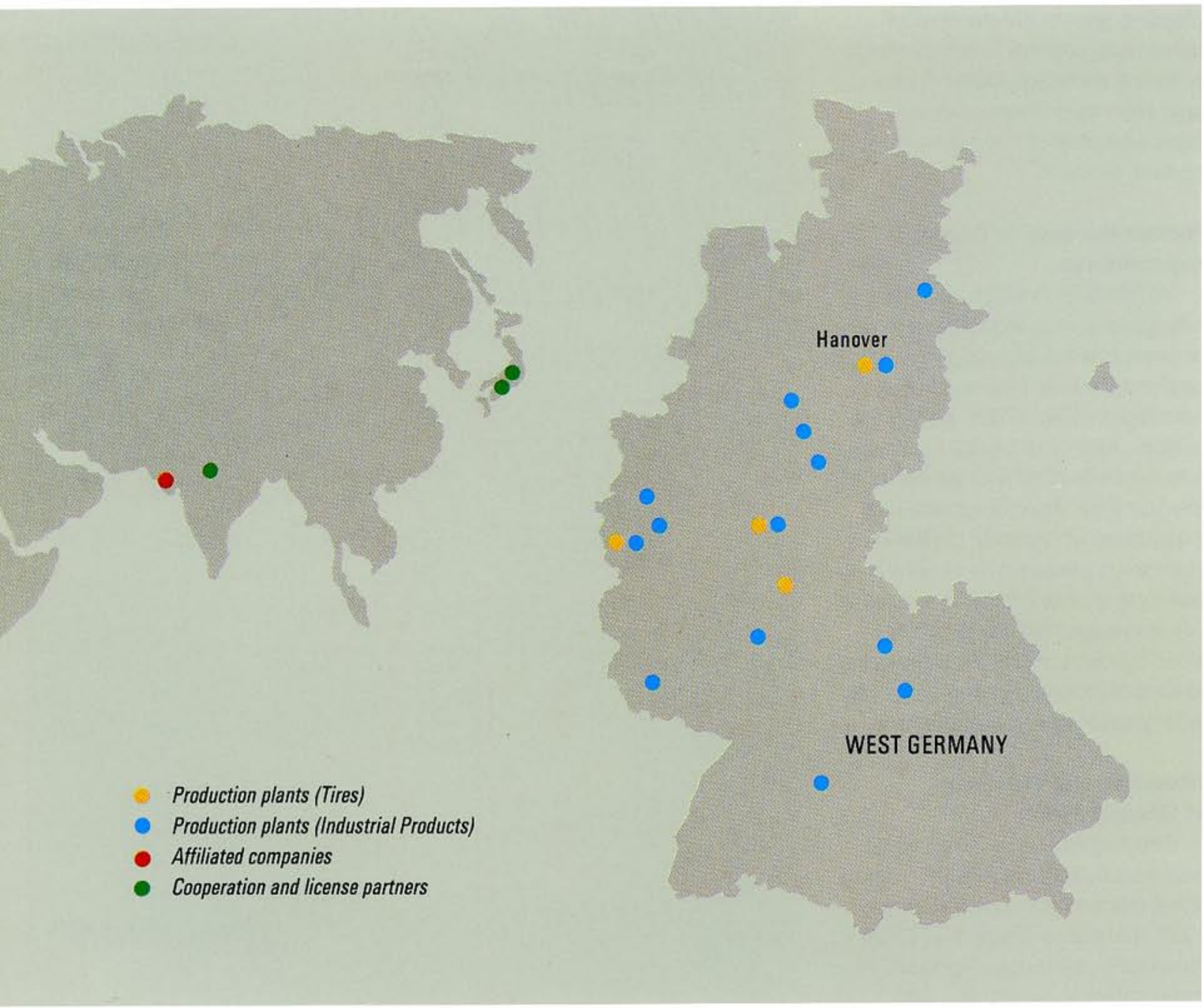
Tires accounted for 72.1% (1986: 72.0%) and industrial products for 27.9% (1986: 28.0%) of consolidated sales. In the parent company, 61.5% of sales (1986: 62.0%) was attributable to tires and 38.5% (1986: 38.0%) to industrial products. The difference of DM 97.3 million (1986: DM 79.5 million) between product sales and the consolidated sales shown above, and calculated in accordance with German Stock Corporation Law, is due to other sales.

Factors Affecting Earnings

Our good level of earnings has continued thanks in good measure to a substantial increase in volume, especially in passenger tires, where we operated several extra shifts during the year. In the wake of heavy demand, the Group sold a record number of tires. Business with snow tires, low-profile tires and high-performance tires went particularly well. Most of the business groups and companies in the Industrial Products Division also made healthy contributions to consolidated net income.

Earnings were positively influenced not only by the product mix, which has been improved and is now better tailored to customers' needs, but also by significant gains in productivity throughout the Group, attributable in part to our high capital investments in recent years. In addition, the interest expense reduced substantially.

However, these positive factors were almost completely nullified by the sharp price decline on domestic and foreign markets, by substantial increases in employment cost and in



Now that it has acquired General Tire, Continental has become a global player.

Our two capital increases attracted new circles of domestic and international investors for Continental stock.

Financial ads were placed to coincide with the presentation of our Company at major international stock exchange centers.

employee benefits and by the nonrecurring costs associated with the capital increases in the fall of 1987.

Although we have proceeded on schedule with the restructuring of our Limmer and Vahrenwald plants in Hanover, we are not satisfied with the results achieved so far. Costs are still too high and further adjustments must be made for these plants to operate permanently at a profit. Appropriate projects are under way.

Research and Development

During the fiscal year we again devoted great attention to research and development and increased the Group's efforts and expenditures, particularly in the area of computer technology. Additions were made to the work force, and there was a pleasing gain in the number of patent applications. Extensive technological exchange under the cooperation agreement with our Japanese partner was again an important element.

Further Increase in Capital Expenditures

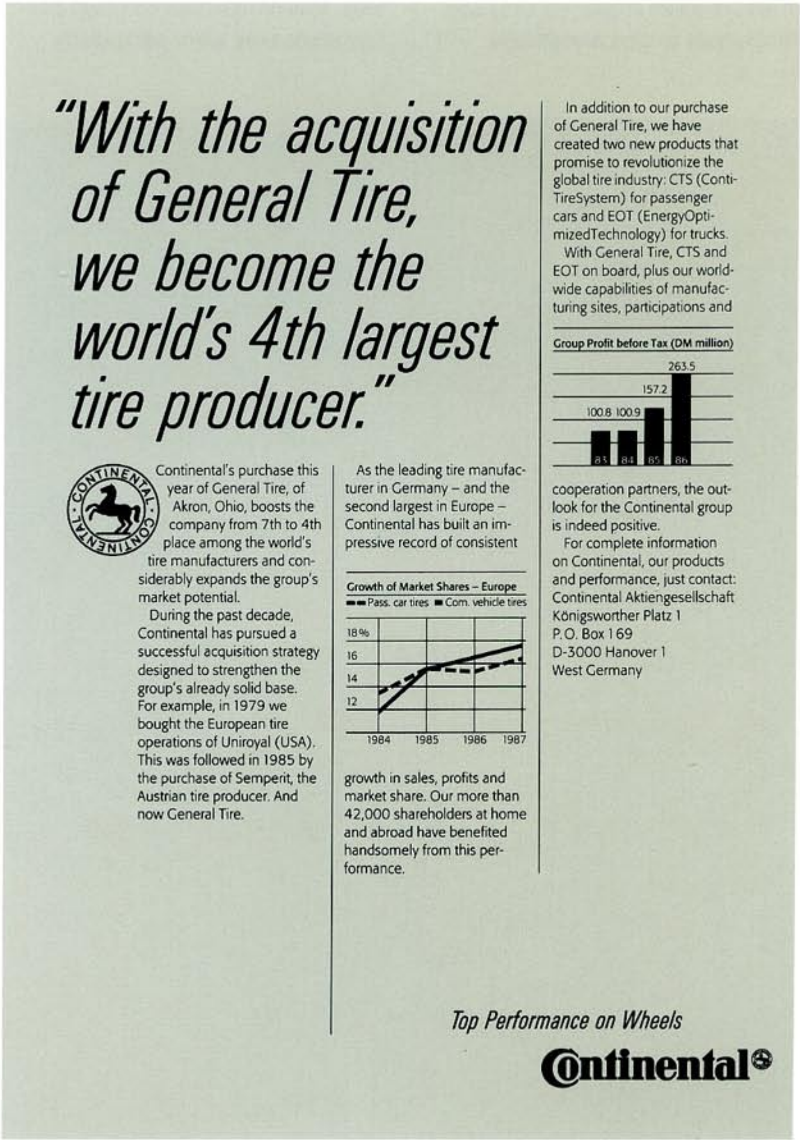
At DM 303.7 million, additions to intangible assets and to the property, plant and equipment of the Group (without General Tire) reached a new high in 1987 (1986: DM 286.7 million). Approved capital expenditure exceeded DM 400 million for the first time. Apart from targeted expansions of capacity, capital investments centered on streamlining and further improvements in quality. We also expanded our computer-aided systems and methods in order to control procedures and processes with greater speed and flexibility.

Financing and Purchase of General Tire

The acquisition of General Tire was financed just before the international stock market crash in October 1987. We raised almost half of the purchase price by issuing bonds in three different currencies, with warrants attached and terms of 10 and 15 years, which were placed successfully in the Euromarket by our affiliated company, Continental Rubber of America, Inc. The remaining funds were obtained through the two capital increases described below.

Through an international placement, in which our shareholders could participate, we issued 1,200,000 new shares at a price of DM 320.00 per share. We thus achieved our goal of attracting new circles of international investors for Continental stock. We had previously taken the opportunity to present our Company to financial analysts, investors and the financial press at six of the world's leading stock exchange centers. These presentations in Frankfurt, Zurich, Geneva, New York, Tokyo and London aroused great interest.

The second capital increase, in October 1987, effected by issuing another 1,200,000 new shares at a price of DM 300.00 per share – this time with subscription rights for the shareholders – coincided with the powerful downward trend on the international stock exchanges. As the



market price was less than the subscription price at the beginning of the subscription period, the underwriting banks were left holding almost the entire issue.

We raised a total of DM 1.3 billion from the bond issue and the capital increases. The payment of the provisional purchase price for the General Tire Group accounted for a total of DM 1.1 billion. The balance of approximately DM 200 million is available for future capital investments.

51% of the acquisition of General Tire, U.S.A., was carried out by an investment company established exclusively for this purpose and 49% through the repurchase by General Tire, U.S.A., of its own shares. This explains why an addition to investments of only DM 600.0 million has been reported for Continental AG from the purchase of General Tire U.S.A. and Canada as well as from capital increases at other Group companies.

Improved Financial Strength

The capital stock of Continental AG rose from DM 312.1 million, at December 31, 1986, to DM 432.7 million at December 31, 1987. About 8.6 million shares have now been issued. The equity ratio of the parent company increased from 44.4% to 63.4%. At the end of 1987, its shareholders' equity was DM 1,567.2 million (1986: DM 667.1 million).

Consolidated shareholders' equity rose by DM 707.8 million to DM 1,515.8 million and covers 31.6% of total assets (1986: 26.1%).

Growth in Consolidated Earnings

The Group's income (including General Tire) before income taxes rose to DM 271.7 million (1986: DM 263.5 million). After deducting income taxes in the amount of DM 132.9 million, net income for the fiscal year came to DM 138.8 million, up 21.2% over the previous year (DM 114.5 million).

The parent company's income before income taxes amounted to DM 136.8 million (1986: DM 135.8 million). Income taxes came to DM 81.0 million (1986: DM 80.8 million), leaving a net income for the fiscal year of DM 55.8 million (1986: DM 55.0 million). The net income available for distribution was DM 48.8 million.

Dividend Proposal

The Administration proposes to the Shareholders' Meeting that DM 48.0 million of the net income available for distribution be used to pay a dividend of DM 7.00 per share of DM 50.00 (14%) and that the remaining amount of DM 0.8 million be carried forward.

Thanks to Our Employees

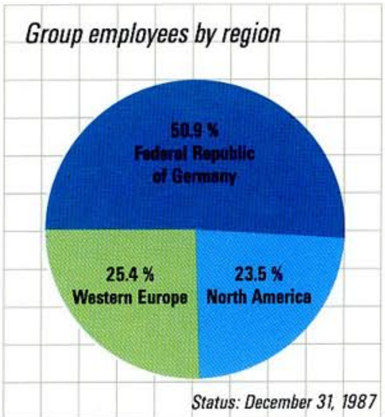
1987 was marked by the further internationalization of our Company and more difficult market conditions. The ensuing demands made on the performance of each individual member of our work force were met by our employees with great dedication, initiative and a sense of responsibility. This is evidenced by the fine results.

We wish to thank all employees of the Company, including those who retired in 1987. Our thanks also go to the employees' representatives in the plants and to the Joint Employee Council and the Group's Employee Council for their cooperation, without which we could not have performed our common tasks.

Outlook

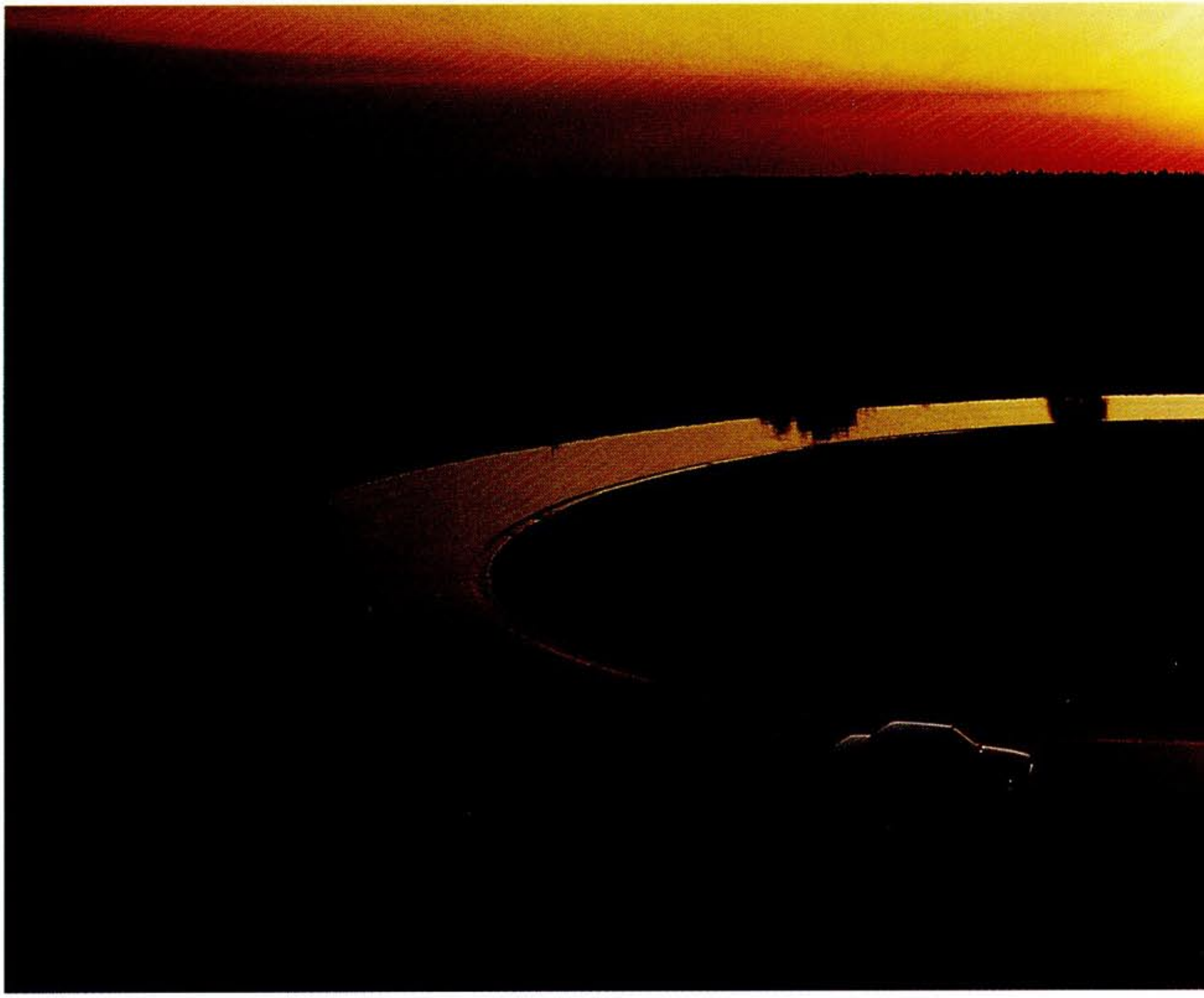
We view the progress of our Company in 1988 with cautious optimism. We are convinced that we can master the challenges that lie ahead. Our economic environment will probably become even more difficult in the future. If we are to hold our own against international competitors who can supply at aggressive prices because of their lower costs, and if we want to expand our manufacturing locations in Germany we must make every effort to improve our competitive position. This means that we must exercise fiscal restraint, utilize our reserves of efficiency and productivity to the utmost and respond with even more flexibility to the rapidly changing market conditions.

Internationalization of the business: Two thirds of our sales will in future be generated outside the Federal Republic of Germany, one half of these outside Western Europe.



Internationalization of the work force: Almost half our employees work at plants and sales organizations outside the Federal Republic of Germany.

Tire Division



The Group's three-brand strategy has proved successful.

Supported by a healthy economic climate, sales volume in the Tire Division scored a further increase. Consolidated product sales for the Continental, Uniroyal and Semperit brands amounted to DM 3,604.8 million during the fiscal year, a gain of 2.4% compared with the figures for 1986, which have been adjusted to the altered structure of the Tire Division. Because of the drastic changes in foreign exchange rates and heavy pressures on prices, sales revenues grew at a considerably slower rate than volume. For these reasons, earnings were only slightly higher than in 1986. One positive factor was a further increase in Semperit's net income, again confirming that our decision to acquire this group of companies in 1985 was the right one.

Six-Day Week

Responding to higher demand for passenger tires, we operated a number of extra shifts. Furthermore, at our plants in Sarreguemines, France, and Newbridge, Scotland, the introduction of a six-day week enabled us to make better use of our facilities. Sustained demand and the high cost of expanding our capacities will probably make it necessary to arrive at similarly flexible arrangements at our other tire plants.

Joint Research But Separate Development

Research and development work on the Tire Division's three brands was intensified. Our policy of conducting joint basic research to achieve positive synergy effects, while maintaining distinct product development programs for each brand, proved successful.

The success enjoyed by each of the brands shows that we have been able to exploit the synergistic effects without infringing the brands' autonomy. Jointly, Continental, Uniroyal and Semperit have gained a leading position in the German market and occupy second place in Europe.

Tires are put through their paces at the Contidrom, Continental's testing grounds on the Lüneburg Heath.

New Tire Concepts

We continued our intensive development work to ready the ContiTireSystem (CTS) for series production. It can be launched, as scheduled, in 1988/89. In the summer of 1987, CTS tires mounted on a compact passenger car, passed an endurance test conducted by journalists of the international automotive press, covering the 19,000 miles from Alaska to Tierra del Fuego. We were pleased to receive the innovation prize awarded by the magazine Auto Zeitung.

The International Automobile Fair (IAA) in Frankfurt gave us an opportunity to herald this achievement to numerous visitors and representatives of trade publications.

Demand for heavy truck tires was stagnant in 1987, which is one reason why we were unable to sell the planned volume of EOT (Energy-OptimizedTechnology) tires. We are pleased to report, however, that all major commercial vehicle makers have given approval for this tire concept. Many of the new commercial vehicles exhibited by our customers at the Hanover Industrial Fair were fitted with EOT tires. We are confident that we will achieve our projected sales volumes in 1988.

Greater Efficiency in Tire Logistics

Increasingly diverse customer requirements have led to a proliferation of tire sizes. Smaller production runs, the desire to offer the broadest possible product spectrum on the market and the need to be as close as possible to our customers have been presenting increasing challenges to our planning and distribution. During 1987, therefore, we intensified our efforts to create additional synergies in Group logistics for all our brands. We have also inaugurated programs to improve the flexibility of supply at the depots and plant warehouses as well as to reduce storage and distribution costs.

Continental Tire Operations

Within two years Continental has become a major supplier of low-profile tires in Europe.

Continental Tire Operations raised product sales by 1.7% to DM 1,466.6 million in 1987 again generating a good profit.

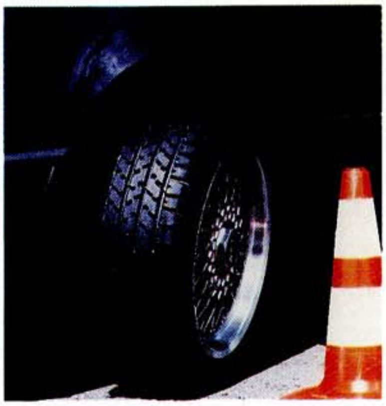
In sales of original equipment, revenues and volumes maintained their high level of 1986. Our market shares showed particularly pleasing growth in the European countries outside Germany. In the replacement market, we increased both revenues and volumes; business was especially good in Germany, the United Kingdom, France, Italy and Spain.

Varying Trends in Business Overseas

About 90% of our sales volume goes to the Western European countries, the remaining 10% being exported to the U.S.A. and other overseas markets.

The number of tires sold in the U.S.A. was gratifyingly high. Earnings in D-marks, however, were affected by the slide of the dollar and therefore declined sharply. Nevertheless, we shall continue to expand our position in the American market.

Business in other overseas countries also posed substantial problems. Sales revenues were almost 50% lower than in 1985, for volume was stagnant in many markets, due to foreign currency shortages and

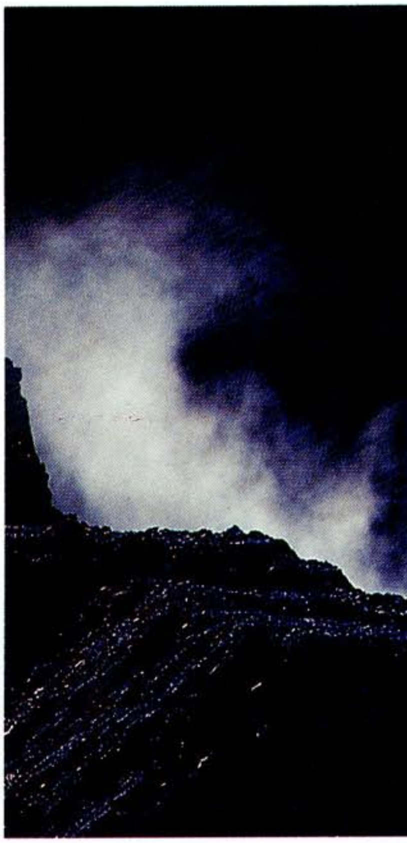


the strength of the D-mark. We are confident, however, that this trend will bottom out in the near future.

Higher Market Shares for Passenger Tires

Continental reported excellent results for passenger tires in 1987, with above-average sales of replacement tires helping to boost volume by 9%. We are pleased with the trend on the home market in Germany, where we had a record year. Moreover, our market shares elsewhere in Europe grew as well.

Continental snow tires have been leading the Western European markets for several years. Here too, 1987 was significantly better than the record year of 1986, with a 14% jump in snow tire sales.



We vigorously pursued plans to win a larger share of the low-profile tire market. A new product line has been developed for this purpose in close collaboration with the automotive industry. In the spring of 1987 we presented the new ContiSportContact tire to our customers and 250 journalists of the international automotive press. The reaction of the media, the dealers and the auto manufacturers was very positive. Volumes of low-profile tires had already risen substantially in 1986; we succeeded in doubling them during fiscal 1987. It has thus taken us only two years to become one of the major European suppliers of these tires.

Tires for Commercial Vehicles Beset by Price Wars

Sales of light truck tires also gained in volume. While we sold the same amount of original equipment as in 1986, the replacement busi-

Quality assurance in tire manufacturing also includes precise measuring of tire molds.

The ContiSportContact enabled us to double our sales volume in the low-profile tire segment.

The ContiTireSystem had no problems in passing a 19,000-mile endurance test from Alaska to Tierra del Fuego.

ness grew at an impressive rate, due mainly to strong sales in France, Germany, the United Kingdom and Portugal. For heavy truck tires, on the other hand, demand for original equipment rose, while the replacement business stayed at the 1986 level because of reduced export shipments.

Overall demand for commercial vehicle tires was unsatisfactory both as regards original equipment and replacements, leading to surplus capacities in the tire industry. The result was cut-throat competition, with substantial pressure on prices. Although the market has recently been showing some signs of improvement, there is reason for concern that this business will not receive any new incentive for growth in 1988.

Industrial and Agricultural Tires

The industrial tire business was also characterized by stiffening competition. With a view to safeguarding and expanding our market leadership in Europe, we have strengthened our sales organization in a number of countries.

Although the market for agricultural tires was relatively unfavorable, we continued to improve our traditionally strong position in key product groups, particularly in Germany. As in 1986, the original equipment business suffered from a pronounced decline in European production of agricultural vehicles and equipment.

Bicycle and Motorcycle Tires

We continued to expand our good market position in the growing leisure and sport segment with new, technically sophisticated bicycle tires. Customers have expressed a lively interest in our recently introduced tires for mountain and trekking bikes.

"Conti 2000" Marketing Concept

In 1986 we devised the Conti 2000 marketing concept primarily to enhance the image of the Continental brand in the tire trade. It was further developed during the fiscal year and has recently been implemented on the markets. In addition, we have continued to decentralize our sales organization, assigning greater responsibility to smaller sales units and strengthening the sales teams accordingly.

In 1987, Uniroyal was again successful in original equipment sales to the European automotive industry.

Uniroyal can look back on a good 1987; its market position improved both in sales to the automotive industry and in the replacement business. Despite a pleasing increase in volume sales, Uniroyal reported a gain in revenues of only 0.2% to DM 934.9 million. Earnings were once again good.

Successful Original Equipment Business

Uniroyal's passenger tires have always enjoyed a strong position with the automotive industry. Again in 1987 we achieved significant successes in close technical collaboration with our customers. Our products were represented on almost all the new models that appeared on the market, especially our high-performance tires for top-of-the-line vehicles.

Growth in the Replacement Business

The high degree of acceptance of Uniroyal tires in the automotive industry as well as the Impulse 90 marketing concept developed for independent dealers formed the basis of our success in the replacement markets. This was particularly true of low and extra-low profile tires, a product segment that involves intensive technical support. The expansion of this product line to include series 45 extra-low profile tires permits us to cover virtually all our customers' requirements. We intend to further expand our good position in the market for low-profile tires.

There has been a growing trend in France to switch over to snow tires in the winter. Uniroyal took full advantage of this market opportunity. In Belgium our comprehensive line of tires enabled us to consolidate our recently acquired position as market leader and in Italy we have joined the top rank of companies supplying imported passenger tires.

Progress in Commercial Vehicle Tires

For some time now, light truck tires have been following the trend to lower aspect ratios. We therefore took prompt action and developed a modern line of low-profile tires, which has brought us above-average growth rates both for original equipment and for replacements.

Original equipment manufacturers demand especially high standards of design and manufacture for heavy truck tires. The large number of technical approvals we have received and the resulting growth in our share of deliveries to original equipment manufacturers show clearly that we are meeting these quality requirements. The extensive investments we have made in recent years to modernize truck tire production have thus paid off.

International Communication Concept

Uniroyal employed new advertising methods aimed at increasing its degree of penetration and enhancing the rain-tire image. For example, a novel TV commercial was broadcast in a number of different countries. We participated in championship truck races in nine countries. Driving a vehicle equipped with our tires, Rod Chapman of the United Kingdom won the European championship.

Uniroyal has been working for years to improve driving habits and bring about safer traffic conditions and is conducting studies for this purpose. We are the first industrial company to receive the Christophorus Prize, an award given by the German insurance industry (HUK Association).

Uniroyal scored a great success at the European Truck Racing Championships.

In Austria, its home base, Semperit has further increased its pronounced lead in the market, while consolidating its position in exports.

Semperit had a successful 1987. Despite a marked rise in volume, product sales, at DM 787.4 million, were however slightly below the 1986 level because of fierce price competition.

Nevertheless, Semperit achieved a solid increase in earnings compared with the previous year, as the result of exceptional successes in specific product and market segments, such as snow tires and the international original equipment business.

Good Business in Replacements

In Austria, its home market, Semperit maintained its significant lead in all key product segments, even expanding its position in regular passenger tires and passenger snow tires. We also strengthened our position in the Federal Republic of Germany, Semperit's next most important market, as well as in the other Western European markets, in which we operate our own sales companies.

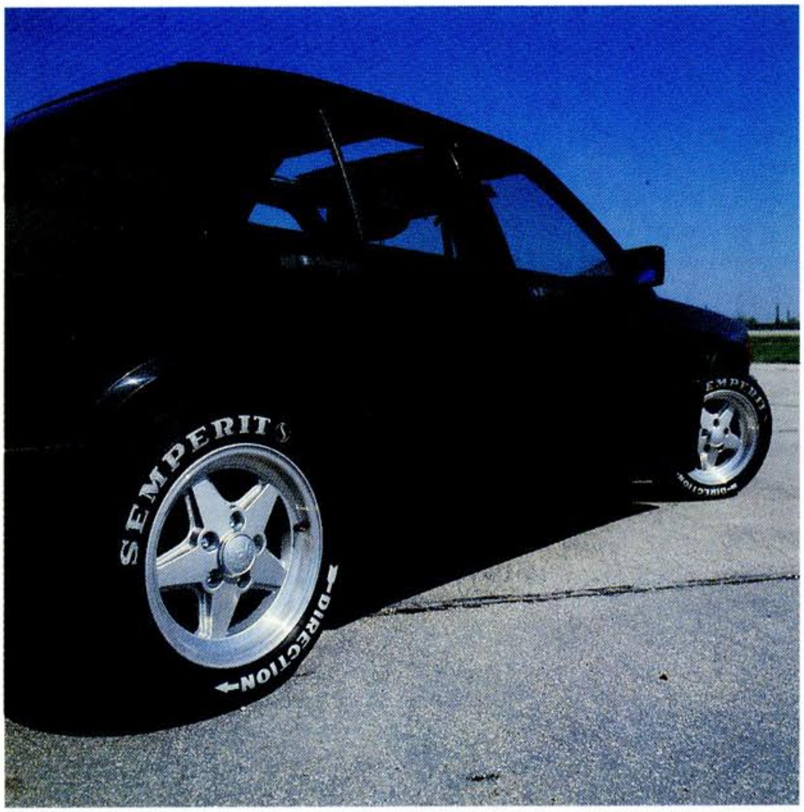
In 1987 the Top Grip snow tire was responsible for the most successful snow-tire sales in the history of the company. A new entry in the top market segment is our Direction high-performance tire for passenger cars, which features a directional tread. Nassgriff, a standard wet-traction tire, and the Hi-Speed low-profile tire also continued to be in great demand.

Sales of light and heavy tires for commercial vehicles were well above average, giving rise to substantial gains in market shares. The growth of our position in this market is mainly attributable to increased sales to the tire trade.

Production Rises Despite Restructuring

During the fiscal year we proceeded on schedule with our comprehensive program to modernize Semperit's main plant in Traiskirchen, Austria, and improve its production processes. Although this imposed heavy burdens on our employees, we achieved a significant increase in production and coped successfully with the more stringent requirements demanded by the market.

Restructuring of this facility, in which we have so far invested a total of DM 170 million, was virtually completed in 1987. Traiskirchen will be one of the Group's most modern plants.



With Direction, its new high-performance tire, Semperit leaped into the topmost market segment.

Improved Situation in Dublin

Our Irish plant in Dublin is still not profitable. However, we made major progress during 1987 in boosting productivity and quality, while simultaneously reducing costs. With the consent of the work force and employee representatives, a new wage system was successfully introduced. In addition, we significantly increased output and expect that the competitiveness of this plant will continue to improve.

Healthy Exports at Sava

Sava-Semperit in Kranj, a Yugoslavian joint venture in which Semperit Reifen AG holds a minority interest, continued to do good business in 1987. Both volumes and revenues rose, as the result of a further increase in the size of production runs and an improvement in product quality. The share of exports was close to 50% during the fiscal year.

Despite the difficult economic situation in Yugoslavia, Sava-Semperit again earned a gratifying profit.

Trading Companies

Most Vergölst outlets have recently been converted into modern "Round the Wheel" service centers.

Revenues in this part of the Tire Division, not including those generated by the Group's own brands, amounted to DM 415.9 million (1986: DM 350.3 million). They stemmed mainly from the sale of other manufacturers' products, as well as retreading, services and automotive accessories. The trading companies supplement the services of the regular tire dealers and support our delivery and counseling services for end users. At the same time, we are providing the market with a wider supply of the Company's own brands of tires.

Business at **Vergölst GmbH,** Bad Nauheim, was very satisfactory during the fiscal year, and earnings climbed further. Sales rose 3.4% to DM 333 million.

Conversion of the outlets into modern "Round the Wheel" service centers continued with great success. Capital expenditures at the retreading plant for passenger and truck tires were mainly on quality improvement.

Vergölst is devoting special attention to the future-oriented training and continuing education of its employees. For this reason, a training center has been established in Bad Nauheim as part of a long-term program.

Although the retreading business at **Continental Industrias del Caucho SA,** Madrid, was affected by falling prices, the company made further progress in sales of Continental-brand industrial and passenger tires in Spain. The company again operated at a satisfactory profit.

The **tire trading companies** in Germany, Austria, Switzerland and Ireland were grouped together for administrative purposes in the fiscal year. Taken as a whole, the companies operated at a profit, with good sales increases.

*Customer counseling is even better with T*I*S, the tire information system we have developed for tire dealers.*

The Company

General Tire, the youngest member of the Continental group, was founded in 1919 in Akron, Ohio, where its headquarters and research and development center, employing 1,805 people at year-end, are still located. 8,038 employees are working in the plants and sales organizations of the consolidated General Tire companies.

The manufacturing program covers a wide spectrum of tires for vehicles ranging from compact cars to heavy earth-moving equipment. General Tire thus qualifies as one of the major tire suppliers with a complete line of products for original equipment and replacements.

The production facilities of the companies in which General Tire holds a majority interest are located in the following countries:

four tire plants in the U.S.A.

Mayfield, Kentucky
Charlotte, North Carolina
Mt. Vernon, Illinois
Bryan, Ohio

one tire plant in Canada

Barrie, Ontario

two tire plants in Mexico

Mexico City
San Luis Potosi

one tire plant in Morocco

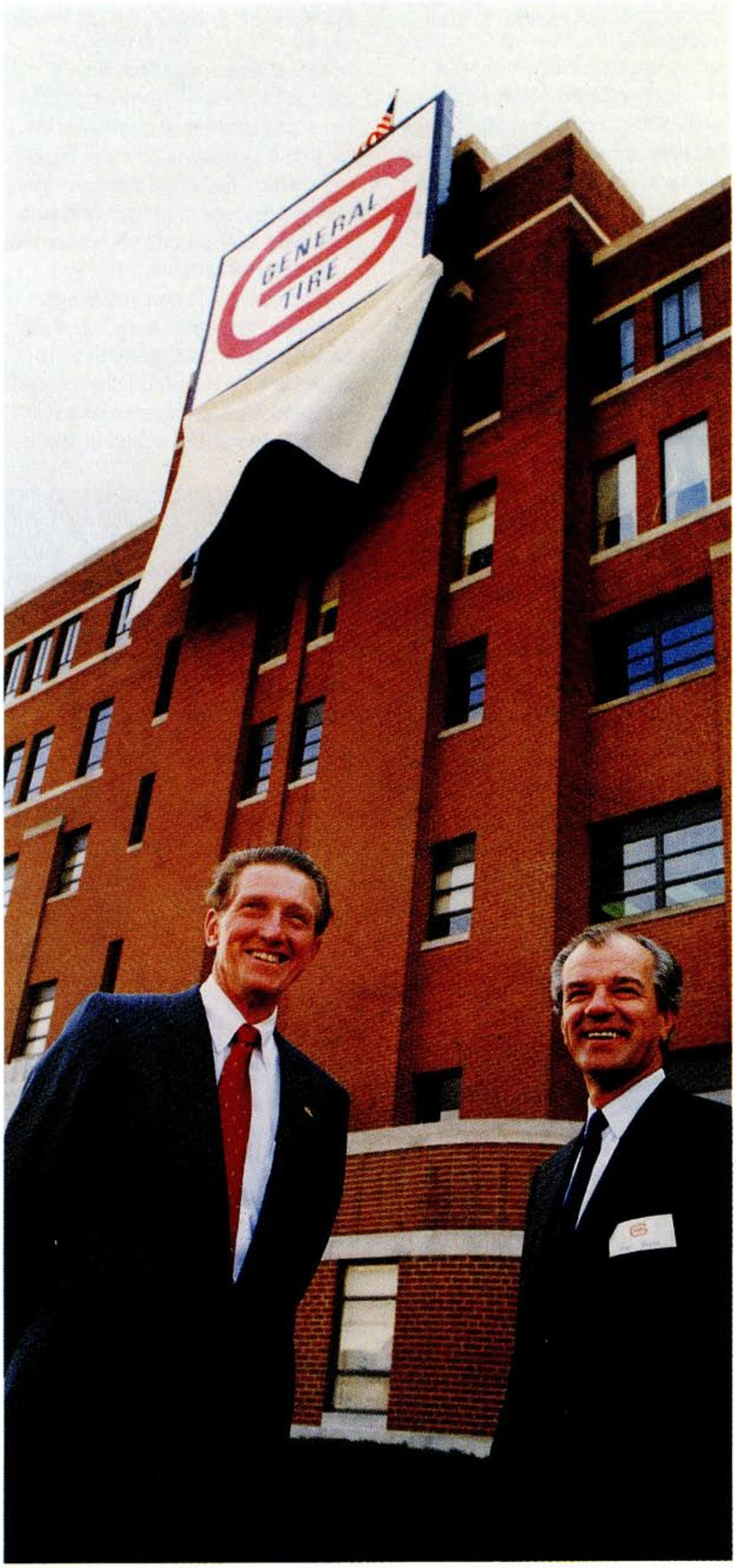
Casablanca.

There are two additional factories in the U.S.A., a synthetic rubber plant in Odessa, Texas, and a tire cord plant in Barnesville, Georgia.

North America, the Home Market

In November and December 1987, that is, since it was acquired by the Continental group, the company's sales revenues amounted to U.S. $186.2 million (U.S. $174.7 million in the corresponding period of the previous year).

The company supplies major American and Japanese auto man-



Beaming faces at the unveiling of the new company logo: Horst W. Urban (Continental) and Gil Neal (General Tire, on the left).

With its motivation program, "Commitment to Excellence", General Tire takes direct aim at becoming a quality leader.

ufacturers in the U.S.A., where it successfully maintained its position during 1987. It held 13% of the American original equipment market for passenger tires, but only 8% of the replacement business. It is our goal to strengthen General Tire's presence in this market segment.

In the U.S. light truck segment, the percentages are reversed: an 8% market share of the original equipment business and 13% of the replacement business. In the heavy truck segment, the corresponding market shares are 6% and 8% respectively.

ing contribution came from a sports car tire which made its debut in a series of races organized by the Sports Car Club of America (SCCA). Its racing successes greatly facilitated the introduction of this tire on the market. General Tire's new low-profile tires for passenger cars also sold well, both as original equipment and as replacements.

Extensive additions have been made to the plant in Mayfield, Kentucky, substantially expanding its capacities for the production of agricultural tires, another segment in which General Tire's market share

A tire cord developed by General Tire makes it possible for tires to meet the most stringent requirements, such as those in mining operations.

has grown. 1987 also saw the market introduction of the first radial tires for tractor driving wheels. The company plans special marketing programs to further increase the sales volume of its agricultural tires.

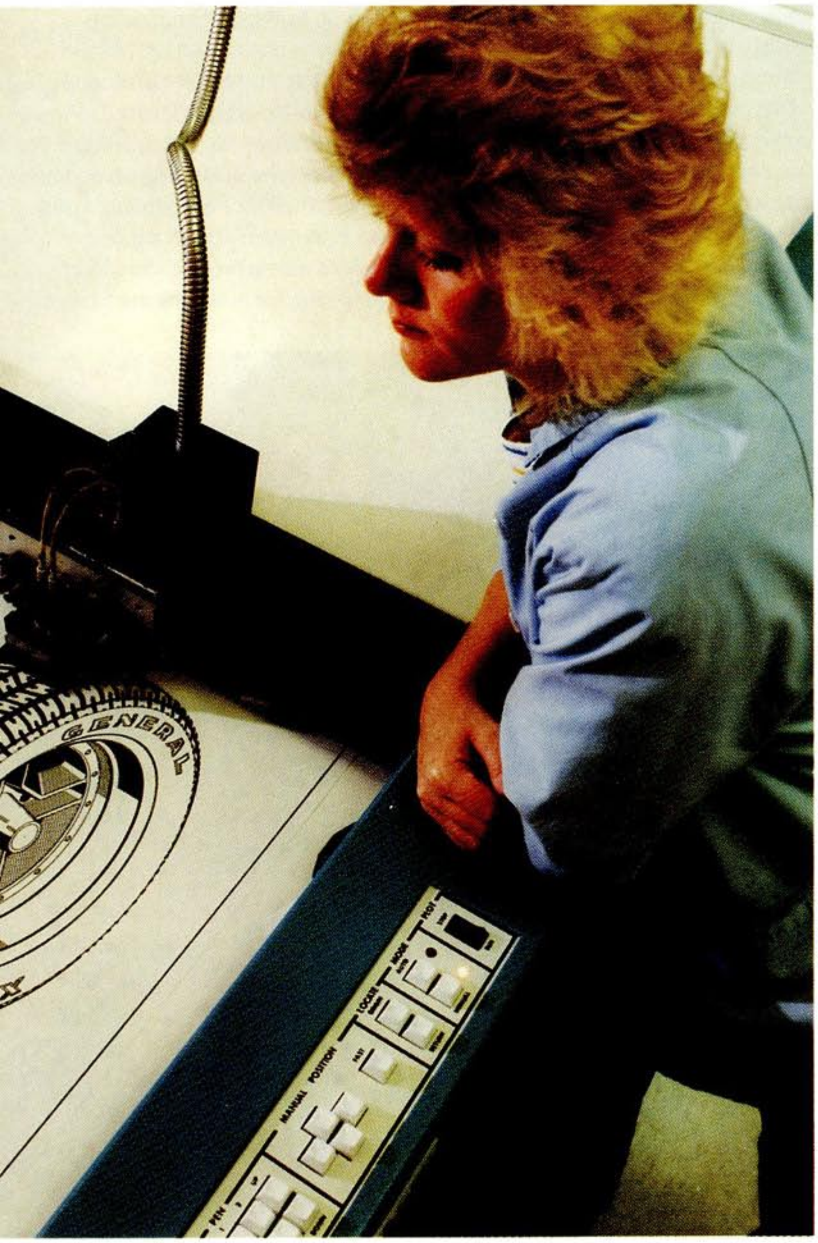
The company made an important breakthrough into a new market segment with the development of a sophisticated high-performance tire. Customers for this product include one of the big U.S. automobile companies.

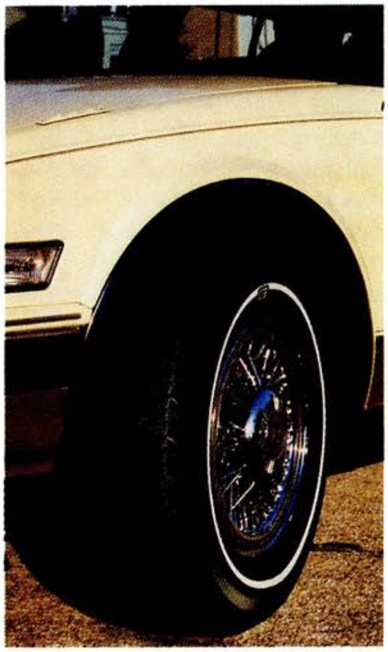
General Tire had already expanded its market shares in high-speed passenger tires and light truck tires in 1986. Both these product lines again recorded excellent growth rates in 1987. An outstand-

Quality Prize

The tire plants in Charlotte, North Carolina, and Mt. Vernon, Illinois, have been awarded a prize for outstanding quality achievements by a major automobile manufacturer. Only a few suppliers have so far received this coveted prize.

General Tire is strongly oriented to quality and has developed a broad-based motivation program, known as "Commitment to Excellence" or CTE, which is designed to steadily improve the quality consciousness of its employees. In 1987 the entire staff of the Akron headquarters participated; in 1988 it will be the turn of the employees at the manufacturing plants and the

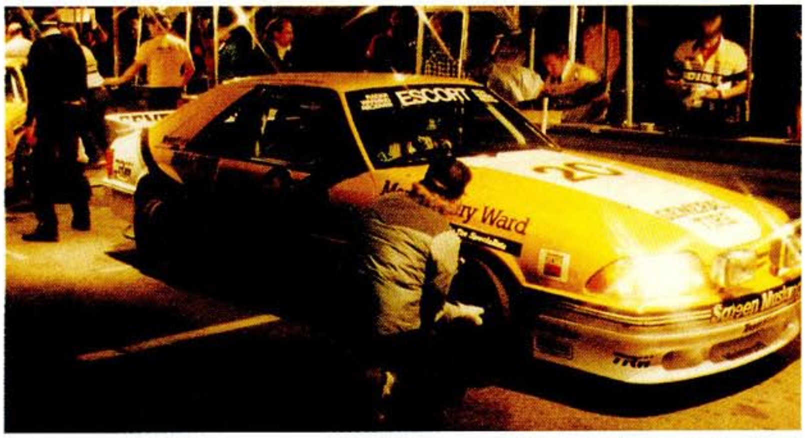




With Ameri-Classic, a new tire for luxury limousines, General Tire successfully rounded off its product spectrum.

Modern technologies are assisting engineers in the development of new tires.

U.S. branch offices. The CTE program is a vital element in the company's efforts to gain a leading position in the tire industry as regards quality in every field of activity.



The XP 2000 high-speed tire is a winner even under the toughest racing conditions.

Our broad spectrum of rubber and plastic products ranges from complex conveyor belt systems to tiny precision-molded parts for brake systems in automobiles.

The affiliated companies Kaliko Group, Uniroyal Englebert Textilcord S.A., Luxembourg, Flockgarn GmbH and Clouth AG, were included in the Industrial Products Division for the first time during the fiscal year, since they produce related – or, in some cases, identical – products. In 1987 the Division's product sales amounted to DM 1,395.5 million, an increase of 2.0% compared with the previous year's DM 1,368.0 million. Clouth AG is not contained in consolidated sales, but is taken account of on the balance sheet in accordance with the provisions of equity consolidation. The Industrial Products Division now generates about 28% of consolidated sales (without General Tire) and employs 10,482 people.

The Division's business groups and subsidiaries are organized into sixteen units manufacturing a broad array of rubber and plastic products, the vast majority of which are sold to the automotive industry. However, its customers also include a large number in other industries, as well as the technical trade. Among the most important product groups are conveyor belting, molded products, extrusions, industrial and automotive hoses, power transmission products, air springs, coated fabrics and also products made of synthetic leather, textiles and foam for automobile interiors.

Most of the business groups and subsidiaries operated at a profit and, in some cases, reported good earnings. This was particularly true of those supplying the automotive industry. As a result, the net income of the Industrial Products Division as a whole was well in the black, although not reaching the 1986 level. Intensified competition led to lower profits in some segments. Likewise, some of our customer industries had difficulties to contend with. These two points made increases in price and sales volume almost impossible.

Earnings were also negatively affected by restructuring costs in connection with the modernization of our Limmer and Vahrenwald plants in Hanover. The capital investment program initiated a few years ago is proceeding on schedule and has already produced substantial reductions in manufacturing costs and infrastructural overhead. Nevertheless, in comparison to many of our competitors our costs are still too high, so further rationalization measures have been set in train to ensure the permanent profitability of the business groups located in these plants. Further result-impairing costs were incurred in starting up additional capacities for new product lines and in transferring Göppinger Kaliko's entire production of roof headlining for automobiles from the

Latest manufacturing technologies are the basis for high quality in brake hose production.

Eislingen plant to the new Überherrn plant in the Saarland.

In mid-1987 our subsidiary Techno-Chemie Kessler & Co. opened a new manufacturing plant in Berlin, which is already operating to our complete satisfaction. Bamberger Kaliko's operations will be relocated from the inner city to a new building in the industrial park on the outskirts of Bamberg in the course of 1988, thereby strengthening the competitive position of this company. However, in 1987 the company was already able to exceed its 1986 net income, because of the improved cost situation.

Before they are installed in motor vehicles, hydromounts undergo continuous quality testing.

Good Capacity Utilization

The Division's individual business groups and subsidiaries, apart from a few product lines, operated at high capacity. Automotive hoses were in such strong demand that the Hose business group hired new employees and introduced additional shifts. The Cushioning Products business group was also manufacturing to capacity, and therefore could increase output only slightly. Nonetheless, earnings continued to improve.

Research and Development

The Industrial Products Division is developing materials based on special elastomers to meet the increasingly high standards for dynamic strength, for resistance to oil, diffusion and weathering and for long service life under high and low working temperatures. By combining different rubber compounds with carefully selected reinforcing materials, we manufacture products according to our customers' specifications and thus help to provide optimum solutions to their problems. In order to assure a high level of product quality, our process development work is concentrated on strict uniformity of materials and process reliability.

A Recognized Partner of Our Customers

As a partner of our customers in their development work, we supply not only products, but ideas as well. Our customers expect more than components from us; they also want sophisticated solutions that ensure a better end product and permit rubber to be combined with other materials, such as plastics, metals and fabrics. At the same time, increasing automation in our customers' manufacturing processes requires components made with greater and greater precision, and so quality has absolute priority in all our activities. Our commitment to quality is one of our strong points in international competition, and one which we shall continue to promote. During the fiscal year, too, domestic and foreign customers acknowledged our efforts by ordering significant shares of their requirements from us.

Again in 1987, the sixteen units of this Division supplied the market with purpose-designed innovations under the "Conti-Technik" name.

New Markets Through New Products

We were able to present new products in almost every area of our business during 1987. The Extrusions business group developed new sealing systems for the automotive industry; these already account for 20% of the business group's sales. In addition, it introduced a new manufacturing process in which three elastomer materials are extruded together with metal. The Hose business group unveiled new shaped hoses for the automotive industry as well as special hydraulic hoses. Other highlights of our development work included new molded products for vibration-isolation and sealing technology, as well as rubber timing belts and multi-V-ribbed belts for use in automobiles and machinery. In view of the increasing use of airspring systems in rail vehicles, we expect sales volumes to show above-average growth rates in this product segment as well.

In the conveyor belting sector we have introduced a special belt for bulk material handling and are about to fill a major order for belts for slope conveyors in underground mining operations. We expect that this project will attract international attention and generate additional orders.

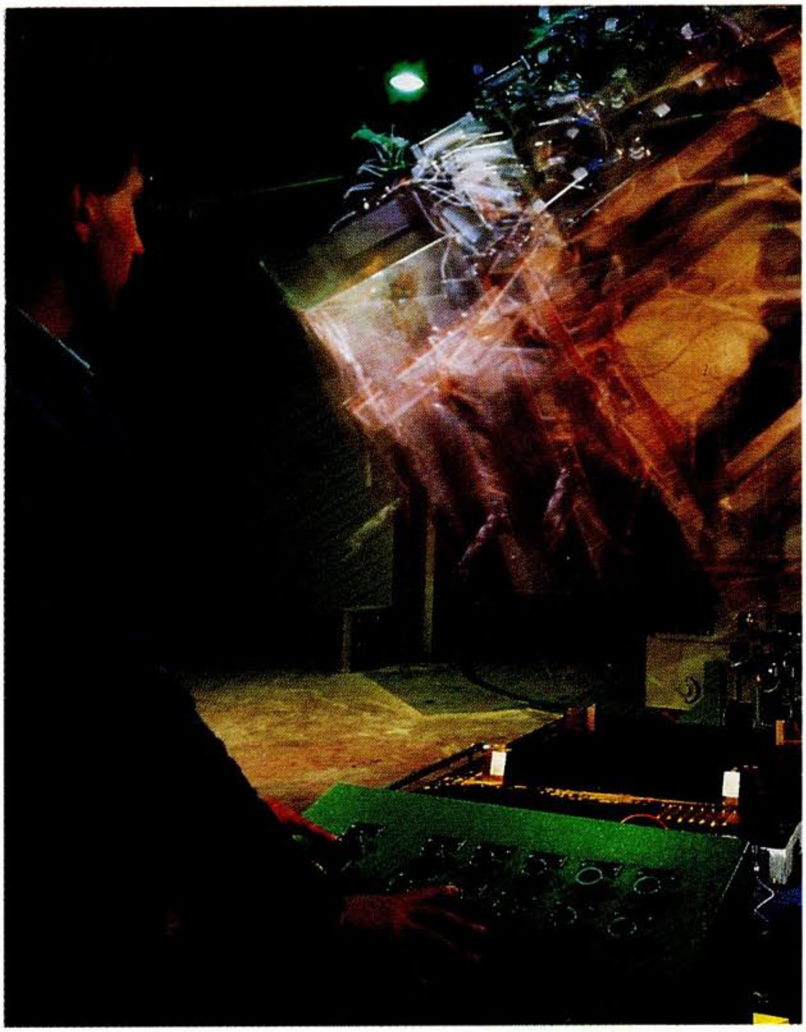
New international markets are also opening up for our coated fabrics, including Conti AIR WEB HS blankets for high-speed web offset printing.

Our subsidiary Deutsche Schlauchbootfabrik has marketed a new generation of inflatable boats, as well as inflatable lifeboats which have recently been approved by all major competent maritime authorities in Germany and abroad.

Competition Is Getting Even Tougher

In spite of the healthy demand for our products, which we expect will persist in fiscal 1988, the surplus capacities in this industry will continue to be a source of price wars. Competition is getting tougher, the more so as some of the automobile manufacturers, our main customers, are tending to limit the number of their suppliers, while increasing the proportion of imported components, as an economy measure.

Therefore, we must and shall do everything we can to invest in productivity, quality and new products, while maintaining our technological advantage. In addition, we are obliged to adopt every means of improving our performance capability, streamlining our manufacturing and increasing the flexibility with which we respond to customer requirements. We are confident that we will succeed against the competition and make an appropriate contribution to consolidated earnings.



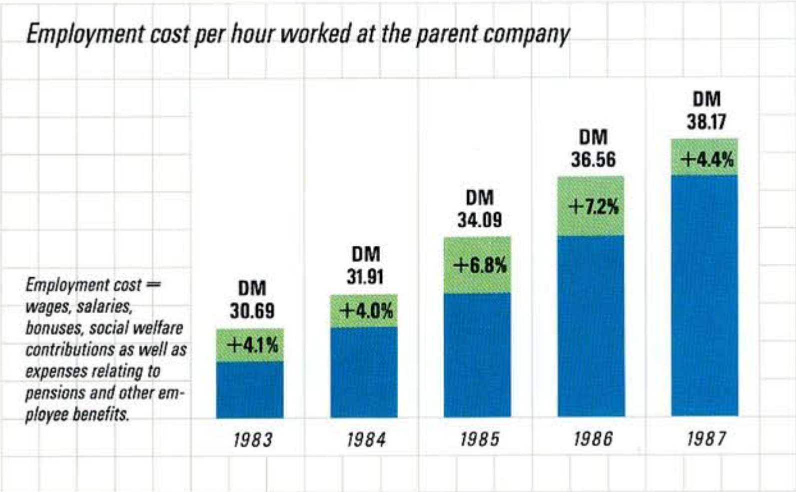
At the Überherrn plant of the Göppinger Kaliko company, "PSR molded skin" is produced for automobile dashboards.

Employees

The total number of employees grew by almost one third as a result of the acquisition of General Tire. For our executives, including those at General Tire, this step represents a great new challenge to adapt the inner structure of the Group to its increasingly global activities. It is vital for all employees to understand the significance of their individual function and the role of their organizational units within the expanded Group. The economic trends and social environments in other countries, which have an influence on Continental's further growth, will have to be given even more weight in our future planning.

At year-end, 42,263 employees were working for the Group, including the 9,843 General Tire employees added to the work force in 1987, and the 622 new positions created. The number of people employed by the old Continental group increased to 32,420 (1986: 32,012) on December 31, 1987.

Some of the additional employees were needed at our tire plants in France and the United Kingdom in order to staff the newly introduced Saturday shifts. At the end of the fiscal year, we had 21,498 employees in the Federal Republic of Germany, 10,719 in the other Western European countries and 10,046 in North America and other parts of the world. In Germany, too, the number of employees grew, but this was attributable exclusively to our subsidiaries; at Continental AG the work force decreased by 195 to 15,243. The average age of all its employees remained unchanged at 42.



Continental AG	1987	1986	Change in %
Employment cost in DM million	928.6	895.2	+ 3.7
Employment cost per employee in DM	60,920	58,044	+ 5.0
Employment cost per hour worked in DM	38.17	36.56	+ 4.4
Hours worked per employee	1,587	1,588	− 0.1
Employment cost in % of total operating performance	38.1	37.1	

Employment Cost

Employment cost (wages, salaries, social welfare contributions and expenses for pension plans and other employee benefits) rose by 5.6% to DM 1,878.3 million (1986: DM 1,778.5 million) in the Group (without General Tire), and by 3.7% to DM 928.6 million (1986: DM 895.2 million) at Continental AG.

The increase in the Group is due to the inclusion of additional companies and the formation of reserves for long-term service anniversary bonuses in Germany and abroad.

Employment cost per hour worked at Continental AG rose from DM 36.56 to DM 38.17 (+ 4.4%). In the Group, employment cost per employee climbed from DM 55,557 to DM 57,937 (+ 4.3%); in the parent company, it went from DM 58,044 to DM 60,920 (+ 5.0%).

Trainees and Recent University Graduates

At year-end the parent company was employing a total of 430 (1986: 432) young people in apprenticeship positions. Our training program puts greater emphasis on new technologies and the requirements they entail. We are also making special efforts to achieve a better synthesis of classroom work and practical experience, and to give the trainees a sound preparation for their careers in a changing world.

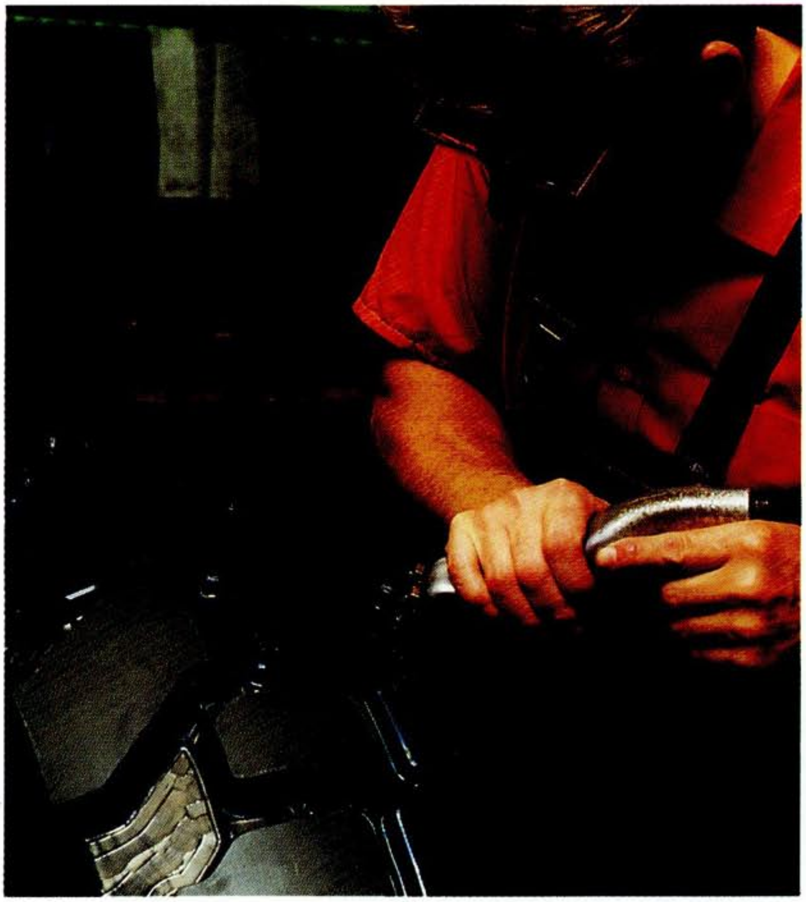
In addition, we have developed an extensive program to recruit qualified university graduates, particularly those with an engineering or scientific background. We actively support this concept by maintaining a wealth of contacts with universities, offering internships and assisting with undergraduate theses based on practical experience.

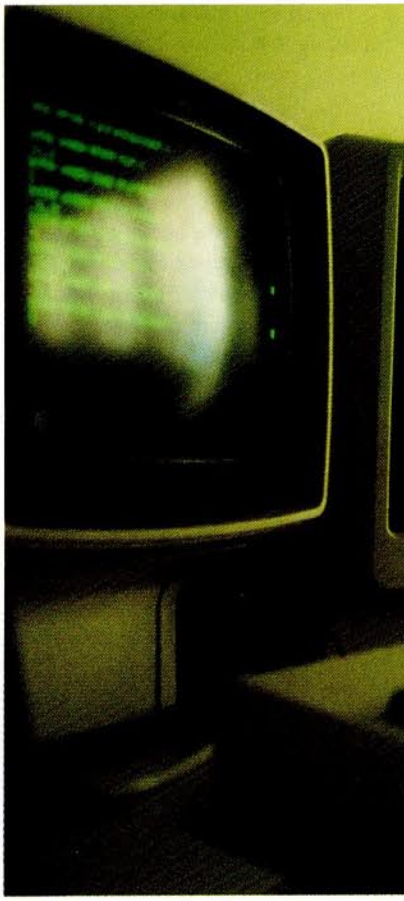
Continuing Education for Executives

The increasing globalization of the Group is imposing particularly stringent requirements on ex-

Our employees are the Company's most important resource. Our goal is to heighten their awareness of problems and to qualify them for the international challenge.

Precision and care are absolutely essential for quality work in tire manufacturing.





ecutives in every department and company. We are therefore working systematically, more than ever before, to expand our personnel development program and to enhance the skills of our executives. We also intend to use extended assignments abroad as one means of giving our employees wider professional experience.

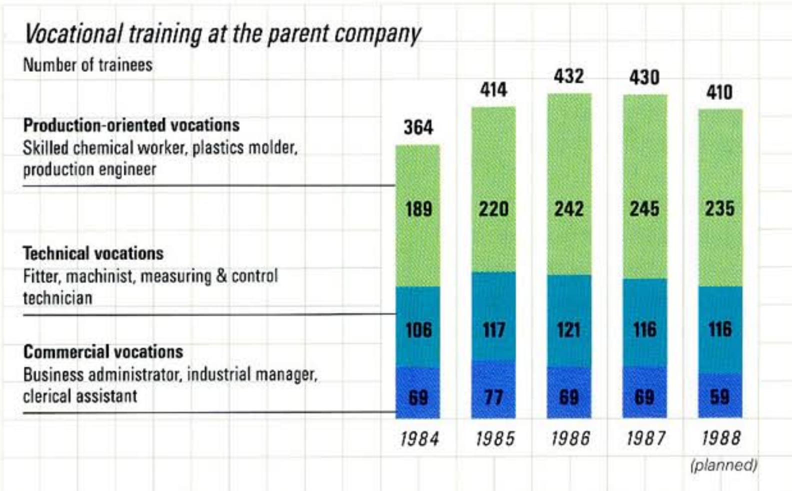
Motivation Through Joint Responsibility

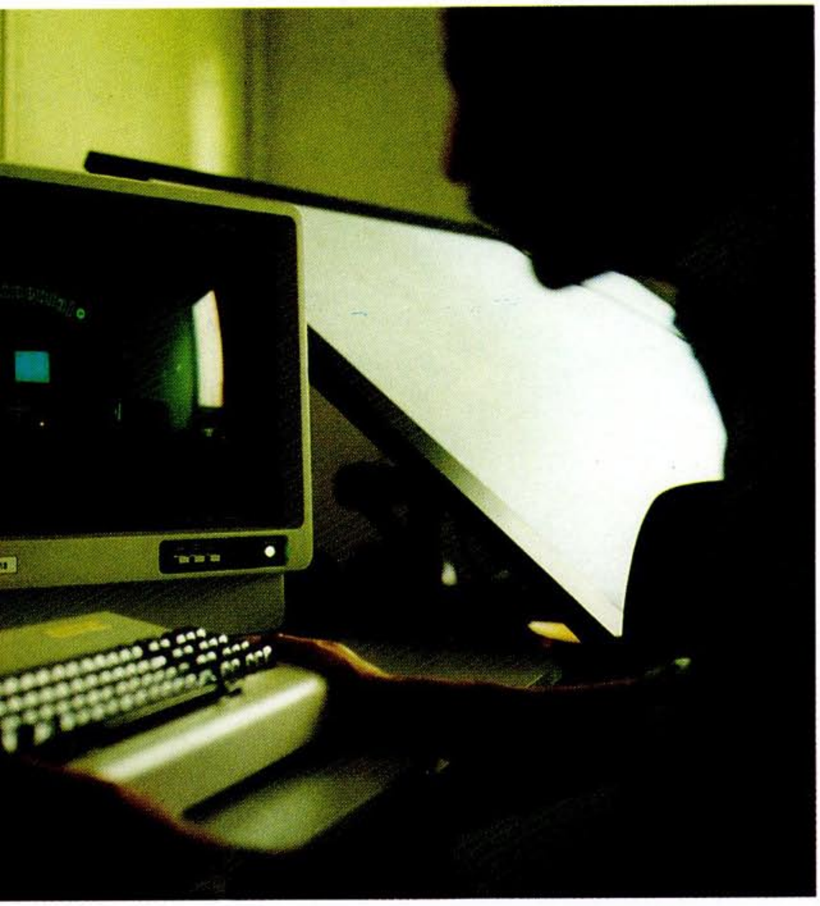
For several years we have been making successful efforts to step up the involvement of our employees in the procedures and problems of their immediate sphere of work, in order to increase their motivation and sense of identification with the Company. Work groups have therefore been created for this purpose in every Division. One of these groups won the German Quality Circle Prize.

In addition, we have set up pilot projects at two of our plants to improve our employees' problem-solving abilities and their understanding of complex economic relationships. Both projects are now being introduced in other units of the Group.

Occupational Safety and Employee Suggestion Program

We pay close attention to occupational safety in every one of the Continental companies. Regular meetings are held at international level in order to utilize the knowl-





edge and experience gained at individual companies. Our executives' and employees' awareness of safety at the workplace is being reinforced by intensive information programs. As a result, the accident rate in the Group's plants was reduced by 11% during 1987.

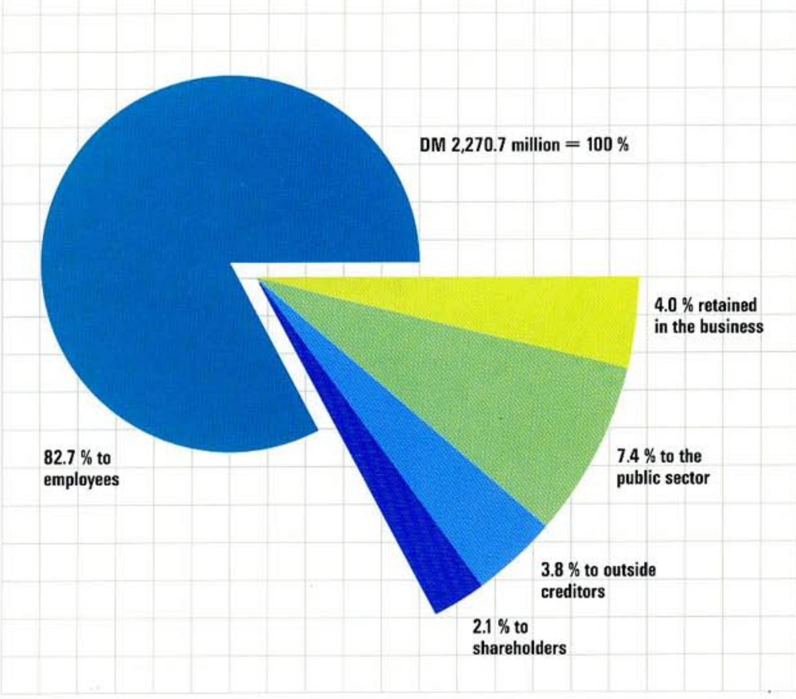
The great dedication of our employees is also evidenced by their suggestions for improvements, which rose by another 20% to 3,058 at Continental AG. We paid a total of DM 616,000.00 in cash awards for these suggestions.

Stepped-up use of data processing in every area makes increasingly high demands on the skills of our employees.

Absenteeism

There were differing trends in absence due to illness at the various domestic and foreign companies. In the German plants of Continental AG, the rate of illness showed a tendency to stabilize, remaining at the 1986 level of 7.6%, but at our other German companies it was on the rise. The rate at our foreign plants, on the whole, was significantly lower than at those in the Federal Republic of Germany.

Distribution of value added in 1987 (Group)



The value added represents the Continental Group's contribution to the national product. It is computed on the basis of total operating performance plus other operating income minus material costs, depreciation, losses from the disposal of fixed assets and investments and current assets, additions to tax-free reserves and other expenses.

Continental Group

Tire Division (Continental, Uniroyal, Semperit)

Production and Sales

- Continental Plant Hanover-Stöcken
- Continental Plant Korbach
- Continental Plant Sarreguemines / France
- Continental Plant Coslada / Madrid / Spain
- Uniroyal Plant Aachen
- Uniroyal Plant Herstal-lez-Liège / Belgium
- Uniroyal Plant Clairoix / France
- Uniroyal Plant Newbridge / United Kingdom
- Semperit Plant Traiskirchen / Austria
- Semperit Plant Dublin / Ireland
- Semperit Plant Kranj / Yugoslavia □
- KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund □
- Drahtcord Saar GmbH & Co. KG, Merzig / Saar □

Trading Companies in

- Germany
- Austria
- Ireland
- Switzerland
- Liechtenstein

Industrial Products Division

Production and Sales

- Continental Plant Hanover-Limmer
- Continental Plant Hanover-Vahrenwald
- Continental Plant Northeim
- Continental Plant Korbach
- Continental Plant Dannenberg
- Continental Plant Gohfeld
- Continental Plant Mendig

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./U.S.A.
- Pneu Uniroyal-Englebert S.A., Geneva / Switzerland
- Uniroyal Englebert Daek A/S, Copenhagen / Denmark
- Uniroyal Englebert Tyre Trading GmbH, Aachen
- C.U.P. SNC, Roissy / France
- C.U.P. Ltd., West Drayton / United Kingdom
- C.U.P. Gummi Gesellschaft mbH, Vösendorf / Austria
- Deutsche Semperit GmbH, Munich
- Semperit (Sales) Ltd., Dublin / Ireland

Techno-Chemie Kessler & Co. GmbH, Karben, Berlin

Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen

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

Kaliko Group, Eislingen, Bamberg, Überherrn

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

Flockgarn GmbH, Hanover, Rheydt

Clouth Gummiwerke AG, Cologne □

Anoflex Group, Lyon / France ■

Semperit (Schweiz) AG, Dietikon / Switzerland

Semperit (UK) Ltd., Slough / United Kingdom

Semperit Svenska AB, Nacka / Sweden

General Tire Division

Production and Sales

Plant Mayfield, Kentucky / U.S.A.

Plant Charlotte, North Carolina / U.S.A.

Plant Mt. Vernon, Illinois / U.S.A.

Plant Bryan, Ohio / U.S.A.

Plant Odessa, Texas / U.S.A.

Plant Barnesville, Georgia / U.S.A.

Plant Barrie, Ontario / Canada

Plant Mexico D. F. / Mexico ■

Plant San Luis Potosi / Mexico ■

Plant Casablanca / Morocco ■

Mabor — Manufactura Nacional de Borracha S.A.R.L., Lousado / Portugal ■ □

Manufactura Angolana de Borracha S.A.R.L., Luanda / Angola ■ □

Compañia Ecuadoriana del Caucho, Cuenca / Ecuador □

Manufactura de Borracha S.A.R.L., Maputo / Mozambique ■ □

The General Tyre & Rubber Company of Pakistan Ltd., Karachi / Pakistan ■ □

General Tyre East Africa Ltd., Arusha / Tanzania □

Trading Companies

88 outlets in U.S.A. and Canada

■ Acquired in 1988
□ Interest of 50% or less

The acquisition of General Tire was financed in part by issuing bonds in three different currencies.

Continental

3-Tranche Warrant Issue
for the
Continental Group
coordinated by
Deutsche Bank AG

New Issue
October 6, 1987

This advertisement appears as a matter of record only.

Continental Rubber of America, Corp.
Wilmington, Delaware, U.S.A.

DM 190,000,000
6¾% Deutsche Mark-Bonds of 1987 due 1997

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

with warrants attached to subscribe for bearer shares of
Continental Aktiengesellschaft

Issue Price:	134%
Interest:	6¾% p.a., payable annually in arrears on October 6
Repayment:	October 6, 1997 at par
Subscription Right:	Each bond in the denomination of DM 5,000 is issued with four bearer warrants entitling the holder to subscribe for a total of sixteen bearer shares of Continental Aktiengesellschaft in the nominal amount of DM 50 each at a subscription price of DM 360 per share. The warrants are detachable as from October 6, 1987 and may be exercised from November 6, 1987 through October 6, 1997.
Listing:	
– bonds	Frankfurt am Main and Hanover
– warrants	all German stock exchanges, Luxembourg, Zurich, Basle, Geneva, Bern, and Lausanne

Deutsche Bank Aktiengesellschaft
Morgan Stanley GmbH

Bayerische Vereinsbank Aktiengesellschaft
Berliner Handels- und Frankfurter Bank
BNP Capital Markets Limited
Commerzbank Aktiengesellschaft
Dresdner Bank Aktiengesellschaft
Morgan Guaranty GmbH
Schweizerische Bankgesellschaft (Deutschland) AG

Algemene Bank Nederland N.V.	Baden-Württembergische Bank Aktiengesellschaft	Julius Baer International Limited
Banca Commerciale Italiana	Banca del Gottardo	Bank für Gemeinwirtschaft Aktiengesellschaft
Bank in Liechtenstein (Frankfurt) GmbH	Bank of Tokyo (Deutschland) Aktiengesellschaft	Bank J. Vontobel & Co. AG
Banque Générale du Luxembourg S.A.	Banque Internationale à Luxembourg S.A.	Banque Paribas Capital Markets GmbH
Baring Brothers & Co., Limited	Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft	Joh. Berenberg, Gossler & Co.
Berliner Bank Aktiengesellschaft	Chemical Bank Aktiengesellschaft	Copenhagen Handelsbank
Crédit Commercial de France	Crédit Lyonnais SA & Co (Deutschland) oHG	Crédit du Nord
Creditanstalt-Bankverein	CSFB-Effectenbank	Daiwa Europe (Deutschland) GmbH
Delbrück & Co.	Den Danske Bank	Deutsche Bank Capital Corporation
Dominion Securities Inc.	EBC Amro Bank Limited	Enskilda Securities Skandinaviska Enskilda Limited
Euromobiliare S.p.A.	Generale Bank	Groupement Privé Genevois S.A.
Georg Hauck & Sohn Bankiers Kommanditgesellschaft auf Aktien	Industriebank von Japan (Deutschland) Aktiengesellschaft	Kredietbank S.A. Luxembourgeoise
Leu Securities Limited	Manufacturers Hanover Limited	Marcard, Stein & Co.
McLeod Young Weir International Limited	Merck, Finck & Co.	Merrill Lynch International & Co.
B. Metzler seel. Sohn & Co. Kommanditgesellschaft auf Aktien	Samuel Montagu & Co. Limited	Morgan Grenfell & Co. Limited
The Nikko Securities Co., (Deutschland) GmbH	Nomura Europe GmbH	Norddeutsche Genossenschaftsbank AG
Norddeutsche Landesbank Girozentrale	Sal. Oppenheim jr. & Cie.	Orion Royal Bank Limited
Privatbanken A/S	Salomon Brothers AG	Schweizerischer Bankverein (Deutschland) AG
Shearson Lehman Brothers International	Société Générale – Elsässische Bank & Co.	Svenska Handelsbanken PLC
Swiss Cantonalbanks	Swiss Volksbank	Trinkaus & Burkhardt KGaA
M.M. Warburg-Brinckmann, Wirtz & Co.	S.G. Warburg Securities	Westfalenbank Aktiengesellschaft
Wood Gundy Inc.	Vereins- und Westbank Aktiengesellschaft	Yamaichi International (Deutschland) GmbH

New Issue
October 6, 1987

This advertisement appears as a matter of record only.

Continental Rubber of America, Corp.
Wilmington, Delaware, U.S.A.

SFr. 100,000,000
4¾% Swiss Franc Bonds 1987–2002

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

with warrants attached to subscribe for bearer shares of
Continental Aktiengesellschaft

Issue Price:	127%
Interest:	4¾% p.a., payable annually in arrears on October 6
Repayment:	October 6, 2002 at par
Subscription Right:	Each bond in the denomination of SFr. 5,000 is issued with five bearer warrants entitling the holder to subscribe for a total of seventeen bearer shares of Continental Aktiengesellschaft in the nominal amount of DM 50 each at a subscription price of DM 360 per share. The warrants are detachable as from October 6, 1987 and may be exercised from November 6, 1987 through October 6, 1997.
Listing:	
– bonds	Zurich, Basle, Geneva, Bern, and Lausanne
– warrants	all German stock exchanges, Luxembourg, Zurich, Basle, Geneva, Bern, and Lausanne

Union Bank of Switzerland — **Swiss Bank Corporation** — **Credit Suisse**
Deutsche Bank (Suisse) S.A. — **Morgan Stanley S.A.**

Swiss Volksbank	Bank Leu Ltd	Members of the Groupement des Banquiers Privés Genevois
Bank Sarasin & Cie	Private Bank and Trust Company	Members of the Groupement de Banquiers Privés Zurichois
Swiss Cantonalbanks		Banca della Svizzera Italiana
Bank Cantrade Ltd.	Swiss Deposit and Creditbank	Bank Hofmann Ltd.
	Banque Romande	
Chemical N.Y. Capital Market Corporation	Commerzbank (Switzerland) Ltd.	Dresdner Bank (Switzerland) Ltd.
Morgan Guaranty (Switzerland) Ltd.		Nomura (Switzerland) Ltd.

New Issue
October 6, 1987

This advertisement appears as a matter of record only.

Continental Rubber of America, Corp.
Wilmington, Delaware, U.S.A.

U.S. $ 75,000,000
9¾% U.S. Dollar Bonds of 1987 due 1997

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

with warrants attached to subscribe for bearer shares of
Continental Aktiengesellschaft

Issue Price:	130%
Interest:	9¾% p.a., payable annually in arrears on October 6
Repayment:	October 6, 1997 at par
Subscription Right:	Each bond in the denomination of U.S. $ 5,000 is issued with ten bearer warrants entitling the holder to subscribe for a total of thirty bearer shares of Continental Aktiengesellschaft in the nominal amount of DM 50 each at a subscription price of DM 360 per share. The warrants are detachable as from October 6, 1987 and may be exercised from November 6, 1987 through October 6, 1997.
Listing:	
– bonds	Luxembourg stock exchange
– warrants	all German stock exchanges, Luxembourg, Zurich, Basle, Geneva, Bern, and Lausanne

Deutsche Bank Capital Markets Limited — **Morgan Stanley International**

BNP Capital Markets Limited	Commerzbank Aktiengesellschaft	Credit Suisse First Boston Limited
Daiwa Europe Limited	Dresdner Bank Aktiengesellschaft	EBC Amro Bank Limited
Generale Bank	Merrill Lynch International & Co.	Mitsubishi Trust International Limited
Morgan Guaranty Ltd	Nomura International Limited	Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited		S. G. Warburg Securities

Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft	Bayerische Vereinsbank Aktiengesellschaft	Berliner Handels- und Frankfurter Bank
Chemical Bank International Limited	Delbrück & Co.	Norddeutsche Landesbank Girozentrale
Sal. Oppenheim jr. & Cie.		M.M. Warburg-Brinckmann, Wirtz & Co.

Financing and Earnings – Group

Due to the acquisition of General Tire, the financial data are only in certain cases comparable with previous years.

Consolidated total assets rose by 55.3% to DM 1,710.1 million. DM 1,627 million of this amount is attributable to the initial consolidation of the American and Canadian General Tire companies. Without General Tire the increase in total assets amounted to 2.7% and thus increased proportionally to sales.

The capital turnover rate for the Group decreased to 1.1% (1986: 1.6%) since the General Tire companies we acquired were included in the balance sheet with their assets and liabilities, but their sales have not yet been included in the statement of income.

Fixed assets and investments constitute 34.3% (1986: 34.4%) of total assets, and current assets 65.7% (1986: 65.6%).

The consolidated equity ratio (taking into account the equity portion of special reserves) increased considerably, reaching 31.6% (1986: 26.1%). The equity ratio of Continental Aktiengesellschaft now comes to 63.4% (1986: 44.4%). The substantial increase in shareholders' equity over the previous year is mainly the result of the capital increases carried out during fiscal 1987 and of the premium from the 1987 bond issues. The total amount was reduced by offsetting all the goodwill entries and parts of the consolidation adjustment, as well as a number of items charged to shareholders' equity.

Shareholders' equity and long-term borrowings cover 118.6% (1986: 103.8%) of the Group's fixed assets, investments and inventories. The self-financing ratio (proportion of additions to property, plant and equipment financed by the net cash flow) amounted to 150.9% (1986: 126.7%). The degree of liquidity (coverage of short-term borrowings by monetary current assets) rose from 104.3% to 134.7%.

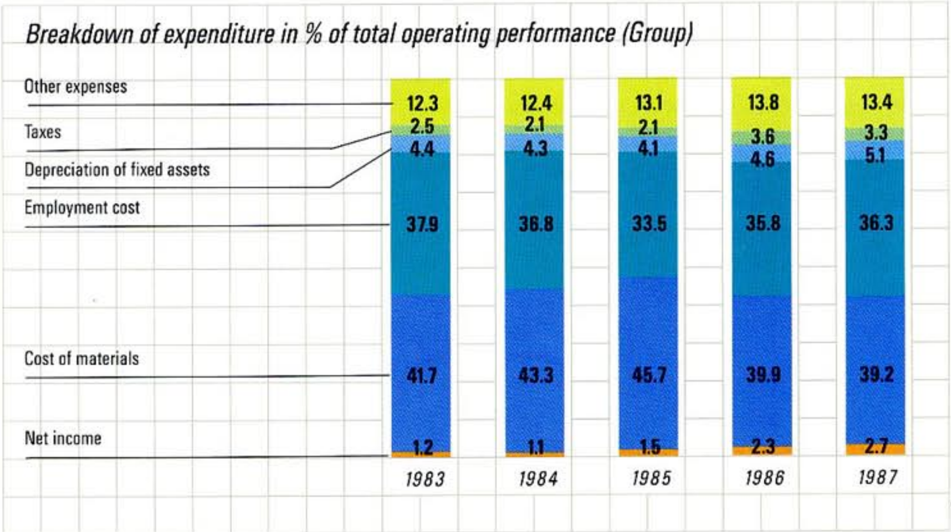
Outstanding loans (the sum of all short- and long-term interest-bearing liabilities minus liquid assets) decreased by DM 68.5 million to DM 672.7 million (1986: DM 741.2 million) despite the acquisition of General Tire.

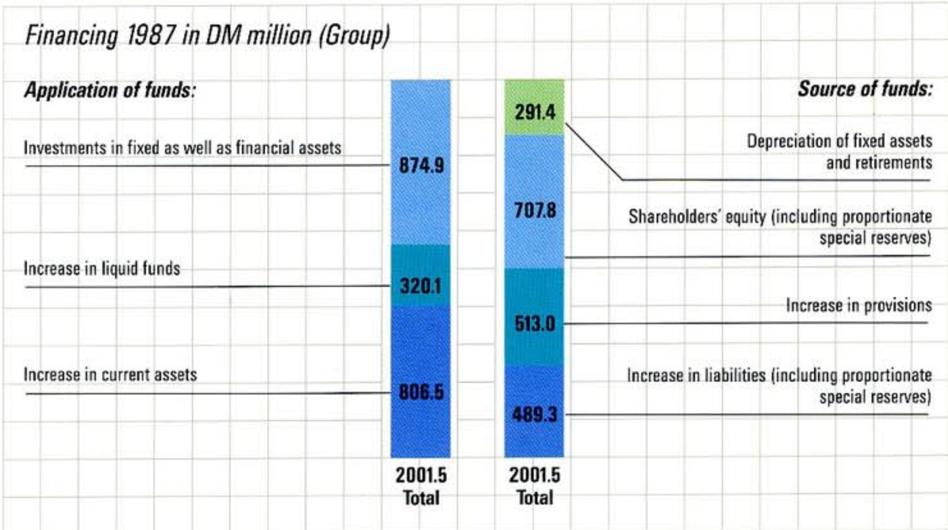
The net profit margin after taxes came to 2.7% (1986: 2.3%) for the Group. As a result of the increased capital, the return on shareholders' equity declined to 9.2% (1986: 14.2%); without General Tire the return on shareholders' equity would have been 16.8%.

The Group's net cash flow rose by 23.4% to DM 464.0 million (1986: DM 375.9 million), or 9.1% (1986: 7.6%) of sales.

Earnings computed according to the new rules of the German Financial Analysts' Association (DVFA) increased to DM 200.8 million (1986: DM 166.0 million on a comparable basis), or DM 29.30 per share (1986: DM 26.60 per share on a comparable basis) without the tax credit.

The net cash flow per share, which is an even better indicator, amounted to DM 67.71 (1986: DM 60.23) for the fiscal year. This figure is significantly affected by the Continental group's depreciation rate, which is high by international comparison.





Notes to the 1987 Consolidated Financial Statements and Financial Statements of Continental Aktiengesellschaft

Application of the German Accounting Directives Act

The new German Accounting Directives Act requires that the provisions relating to individual financial statements be applied for the first time in fiscal 1987 and those relating to the consolidated financial statements as of 1990. In order to ensure the uniformity of the individual and consolidated financial statements, we have also prepared the latter in accordance with the new accounting principles. The 1986 figures have therefore been adjusted, insofar as necessary for comparability, to the new directives concerning classification, accounting and valuation.

For the sake of greater clarity, certain items have been combined on the balance sheets and income statements; they are broken down in the respective notes.

Scope of Consolidation

Apart from a few exceptions pursuant to § 296 of the Commercial Code, the consolidated financial statements include, in addition to Continental Aktiengesellschaft, all domestic and foreign companies in which Continental Aktiengesellschaft has a direct or indirect interest of more than 20%.

The scope of consolidation comprises 30 domestic and 52 foreign companies.

6 domestic and 17 foreign companies were added in 1987.

In particular, General Tire Inc., Akron, Ohio, including its American subsidiaries, and General Tire Canada Ltd., Barrie, Ontario, both of which were acquired on October 31, 1987, are being consolidated for the first time.

We made use of the options provided by § 299 of the Commercial Code and included these companies with their balance sheets as of the date of acquisition, October 31, 1987, in the consolidated financial statements. The income statements for November and December 1987, on the other hand, have not been fully consolidated. Only the net income for the year was included in the consolidated financial statements.

Retirement benefit organizations and a few companies whose property, expenses and income are, individually and in total, of only minor significance in the asset, financial and earnings situation of the Group have not been consolidated.

Principles of Consolidation

The individual financial statements of the companies in which we hold a majority (more than 50%) are prepared according to principles of accounting and valuation that are uniform throughout the Group. The assets and liabilities of these companies are entered in the financial statements, instead of the book value of our holdings.

Associated companies are valued by the equity method.

When the book value of our investments is higher than the shareholders' equity shown on the books of these companies, the companies' undisclosed reserves have been offset mainly against land. Any remaining goodwill items or shortages are shown as deductions from consolidated retained earnings. The same is true of the credit consolidation adjustment in the amount of DM 68,765,071.00 that appeared in the 1986 financial statements.

Sales, expenses and income as well as receivables and liabilities among companies of the Group are consolidated. Intercompany profits relating to inventories are eliminated; intercompany profits relating to fixed assets are not, because they are insignificant.

Whenever consolidation procedures result in profits and losses, deferred taxes are accounted for.

Foreign Currency Translation

We translate the foreign currency receivables and liabilities of domestic companies at the rate prevailing on the date they are entered on the books for the first time or, if they have been hedged by forward exchange transactions, we value them at the forward price.

Unrealized losses resulting from foreign exchange rate fluctuations are charged to income on the balance sheet date; unrealized profits from foreign exchange rate fluctuations are disregarded.

The balance sheets of foreign companies are translated at the year-end middle rate. Differences with the previous year's translations are offset, with no effect on income, against retained earnings. Income statements are translated at average rates for the year.

Principles of Accounting and Valuation

Assets

Acquired intangibles are carried at acquisition cost and amortized by the straight-line method in accordance with their useful life.

Property, plant and equipment is valued at acquisition or manufacturing cost, less scheduled depreciation. We take full advantage of the special depreciation afforded by the tax laws.

Manufacturing cost includes individual costs and an appropriate amount of manufacturing overhead; interest on borrowed funds is not included.

The declining balance method is used, insofar as permissible under German tax laws, for scheduled depreciation. We change over to the straight-line method as soon as it leads to higher depreciation.

The following table shows the useful life used as a basis for depreciating the major categories of property, plant and equipment:

Buildings up to 33 years

Technical facilities and machinery
10 to 12.5 years

Plant and office equipment
4 to 7 years

Molds up to 4 years.

Additions to movable assets made during the first six months of the year are depreciated at the full annual rate, and those made during the last six months at half the annual rate. Low value items (up to DM 800.00) are written off completely in the year of acquisition.

These depreciation rules are applied by each of the domestic and foreign companies, as of the date it became part of the Group. The newly acquired General Tire companies are an exception. They use the straight-line method, but base it on the useful lives used throughout the Group. This takes into account North American market practice.

Companies held as investments are valued at acquisition cost or, in individual cases, at the lower current value.

Interest-bearing loans granted are shown at par; loans which bear little or no interest are discounted to their cash value.

Inventories are valued at the lower of acquisition/manufacturing cost or market.

Special deductions allowed against imported inventories are shown under special reserves in the amount permissible under the tax laws. Due allowance was made for slow-moving goods and items with limited usability.

In valuing receivables and miscellaneous assets, we take all perceivable individual risks and the general credit risk into account by making appropriate adjustments.

Marketable securities are valued at the lower of cost or market.

On all our fixed assets, investments and current assets, we are continuing to take the extraordinary depreciation and writedowns, as well as the depreciation and writedowns for tax purposes, which were taken in previous years.

Discounts and other issue costs of loans and bonds are shown as prepaid expenses and amortized over the term of the individual loans and bonds. The costs of capital increases, on the other hand, are fully included in expenses.

Shareholders' Equity and Liabilities

Provisions are set up according to sound business judgment for all perceivable risks in connection with undetermined obligations and for impending losses.

The provisions for pensions and similar obligations of German companies are set up on the basis of actuarial computations in accordance with the statutory method at a 6 % interest rate. Pensions and similar obligations of foreign companies are also computed according to actuarial principles, discounted to the present value at the interest rates prevailing in the respective countries and covered by appropriate provisions for pension plans or by pension funds.

The pension obligations of American companies have been set up according to the new valuation rules in force as of 1987 in the U.S. In addition, the Austrian and French companies established provisions to cover severance benefits.

Furthermore sufficient provisions have been made in the balance sheet of General Tire Inc., Akron, Ohio, for post-retirement medical benefits.

Provisions for deferred repairs to be carried out in 1988 were established in the amount of the probable cost.

For timing differences between the values shown in the balance sheets used by the individual companies for tax purposes and their commercial balance sheets, which are prepared according to valuation principles that are uniform throughout the Group, the resulting future tax expenses and tax refunds (deferred taxes) are first computed for each balance sheet item in gross amounts, which are then netted within the individual companies.

Any resulting debit balance is shown on the balance sheets of the individual companies. We did not make use of the option to capitalize credit balances on the balance sheets of the individual companies.

Credit and debit balances from deferred taxes that are the result of consolidation measures having an effect on income are also taken into account in the consolidated financial statements.

Liabilities are stated at their redemption amount.

Notes to the Balance Sheet

Assets

Fixed Assets and Investments

The separate categories of fixed assets and investments that are combined in the balance sheets and the changes in them during the fiscal year are shown on pages 48 and 52.

The various assets are shown at their gross value, determined by the original acquisition or manufacturing cost or by the residual book value at the time of acquisition.

(1) Intangible Assets

The additions relate to purchased EDP software, patents, etc.

(2) Property, Plant and Equipment

Additions to property, plant and equipment are shown in the table.

Capital expenditures were used mainly to acquire new machinery and molds in order to maintain and safeguard our technical and economic capability, to expand capacities, to streamline operations, to boost productivity and to assure the quality of our products. The restructuring of the Traiskirchen plant in Austria was virtually completed during 1987. Retirements consisted of land that was no longer needed for our operations and of technologically and economically obsolete machinery and facilities.

The Group (without General Tire) owns 76,707,000 square feet of land.

	1987		1986	
DM 000	Continental AG	Group	Continental AG	Group
Tires	50,406	195,445	39,954	200,039
Industrial Products	59,775	95,097	55,640	77,683
Other	9,533	9,538	6,488	6,515
	119,714	300,080	102,082	284,237

(3) Investments

The book value of the affiliated companies included in the balance sheet of Continental Aktiengesellschaft increased by DM 599.6 million. The principal contributing factors were the capital invested to form U.S. holding companies for the takeover of General Tire Inc., Akron, Ohio, the capital to finance the newly formed acquisition company that took over the tire activities of General Tire in Canada and capital increases at two other Group companies.

It should be noted that 49% of the acquisition of General Tire was accomplished by the repurchase of its own shares, and 51% by a holding company acting as intermediary.

As of January 1, 1987, the two French manufacturing companies, Continental France S.A.R.L., Sarreguemines, and Pneu Uniroyal Englebert S.A., Compiègne, were merged to form SICUP SARL, Sarreguemines.

A list of the major companies included in the Continental group can be found on pages 54/55 of this report. A comprehensive list of our holdings has been filed with the Commercial Register of the Hanover District Court under HRB No. 3527.

The securities we hold as investments consist mainly of fixed-interest government obligations, which are used to cover provisions shown in the Austrian companies' balance sheets for retirement claims of employees (severance benefit obligations). Loans granted include residential construction loans to employees and financing contributions to utility companies.

	12/31/1987		12/31/1986	
DM 000	Continental AG	Group	Continental AG	Group
Shares in affiliated companies	930,975	1,449	331,364	575
Shares in associated companies	–	58,933	–	51,081
Investments	45,003	2,261	44,945	3,531
Securities included in investments	–	20,167	–	19,741
Other loans	3,090	23,452	2,487	17,714
	979,068	106,262	378,796	92,642

(4) Inventories

	12/31/1987		12/31/1986	
DM 000	Continental AG	Group	Continental AG	Group
Raw materials and supplies	76,872	244,659	78,728	173,319
Work in process	63,562	151,092	53,916	112,386
Finished goods and merchandise	176,639	799,827	194,849	510,577
Advances to suppliers	2,427	6,939	1,143	1,143
Advances from customers	–	827	261	261
	319,500	1,201,690	328,375	797,164

(5) Receivables and Other Assets

Of our trade accounts receivable in the amount of DM 165.6 million, 74.3% is attributable to domestic customers and 25.7% to customers abroad.

The receivables from affiliated companies include DM 183.8 million in loans granted under the Central Cash Management system.

Continental AG	Due in			Comparable
DM 000	less than	more than		figures
As of 12/31/1987	1 year	1 year	Total	12/31/1986
Trade accounts receivable	164,387	1,236	165,623	165,960
Receivables from affiliated companies	271,676	–	271,676	175,148
Receivables from companies in which participations are held	–	–	–	–
Other assets	8,570	4,614	13,184	37,551
	444,633	5,850	450,483	378,659

Group	Due in			Comparable
DM 000	less than	more than		figures
As of 12/31/1987	1 year	1 year	Total	12/31/1986
Trade accounts receivable	1,169,395	3,214	1,172,609	761,984
Receivables from affiliated companies	4,312	–	4,312	3,695
Receivables from companies in which participations are held	10,426	–	10,426	3,077
Other assets	122,470	6,834	129,304	161,374
	1,306,603	10,048	1,316,651	930,130

(6) Marketable Securities

Our portfolio consists exclusively of fixed-interest securities in D-marks. It serves as a temporary investment for excess liquidity.

(7) Liquid Assets

The increase in the liquid assets of Continental Aktiengesellschaft is due, among other things, to amounts not yet paid in connection with the General Tire acquisition.

	12/31/1987		12/31/1986	
DM 000	Continental AG	Group	Continental AG	Group
Checks	6,963	9,475	4,710	4,921
Cash on hand, deposits at the Bundesbank and in postal checking accounts	636	3,146	1,078	3,661
Cash in banks	267,100	337,721	27,670	121,935
	274,699	350,342	33,458	130,517

(8) Prepaid Expenses

The miscellaneous prepaid expenses consist mainly of the still unamortized portion of the costs of the bond issues of 1985, 1986 and 1987.

	12/31/1987		12/31/1986	
DM 000	Continental AG	Group	Continental AG	Group
Discount on loans/bonds	52	7,043	160	6,410
Miscellaneous	210	29,370*	366	14,580
	262	36,413	526	20,990

* includes DM 1.5 million deferred taxes (netted)

Shareholders' Equity and Liabilities

(9) Subscribed Capital

The table shows the capital stock of Continental Aktiengesellschaft as of December 31, 1987.

During the fiscal year, it was increased by a total of DM 120.55 million.

DM 0.55 million of this amount was attributable to the exercise of warrants under the 1984/94 bonds with warrants attached and conversions of the 1986/96 convertible debentures.

The addition of a further DM 120 million is the result of two capital increases in the fall of 1987 with a total par value of DM 60 million each. With the consent of the Supervisory Board, the Shareholders' Meeting of June 24, 1987 authorized the Managing Board to carry out these increases until June 24, 1992.

The first capital increase was placed internationally with exclusion of the statutory subscription right. However, shareholders were permitted to buy shares in a 6:1 ratio at a price of DM 320.00. Purchasers were entitled to one-fourth of the dividend for 1987. The gross proceeds of the issue amounted to DM 384 million.

The second capital increase with subscription rights of shareholders (including the new shareholders from the international placement), which followed shortly afterwards, was issued in a ratio of 13:2 at a price of DM 300.00. These new shares are likewise entitled to one-fourth of the dividend for 1987. Continental Aktiengesellschaft received the gross amount of DM 360 million from the second increase.

The Company still has authorized capital available in the amount of DM 10 million for the issue of employee shares.

Type	No. of shares	Par value per share in DM	Capital stock in DM
Common shares	403,623	1,000.—	403,623,000.—
Common shares	170,054	100.—	17,005,400.—
Common shares	240,523	50.—	12,026,150.—
			432,654,550.—

The change in the conditionally authorized capital may be seen from the table below.

	DM 000
Conditionally authorized capital as of 12/31/1986	85,439
Utilization due to exercise of warrants attached to 1984/94 bonds	18
Utilization due to conversion of 1986/96 convertible debentures	532
Addition per resolution of the Shareholders' Meeting of 6/24/1987	70,000
Conditionally authorized capital as of 12/31/1987	154,889

(10) Additional Paid-in Capital

This item includes amounts received upon the issuance of shares in excess of the par value of the shares (premiums) totaling DM 724.9 million, as well as proceeds totaling DM 222.6 million received by Continental Aktiengesellschaft from the sale of option rights. DM 764.8 million was added during the fiscal year, and the amount required to adjust retained earnings was subtracted.

(11) Retained Earnings

DM 000	Continental AG	Group
As of 12/31/1986	106,521	226,340
Reconciliation to the German Accounting Directives Law		
Reversal of price increase reserve	1,178	1,178
Reversal of consolidation adjustment	–	– 45,402
Equity-consolidation	–	– 14,508
As of 12/31/1986 after reconciliation to the German Accounting Directives Law	107,699	167,608
Goodwill and differences from currency translation	–	– 287,953
Deferred taxes from consolidation and others	–	5,209
Allocation from net income for the year	10,000	92,699
Transfer from retained earnings	–	22,437
As of 12/31/1987	117,699	–

(12) Minority Interests

This item shows the interests of outsiders in capital and earnings, in particular the minority interests in the capital stock of Semperit Reifen Aktiengesellschaft, Vienna, and Semperit (Ireland) Ltd., Dublin.

(13) Reserve for Retirement Benefits

The reserve for retirement benefits was set up to compensate for shortfalls in the provision for pension plans. It was reduced by DM 0.5 million to DM 4.9 million. On December 31, 1987, there was an equivalent shortfall, which cannot be made up until later for tax reasons, in the provision for pension plans of Continental Aktiengesellschaft.

(14) Special Reserves

	12/31/1987		12/31/1986	
DM 000	Continental AG	Group	Continental AG	Group
Reserve under § 3, Foreign Investment Act	36,989	36,989	32,715	32,715
Reserve under § 6b, Income Tax Act	8,894	9,187	17,015	17,308
Reserve under § 52 Par. 5, Income Tax Act	1,411	2,139	1,646	2,842
Governmental capital investment subsidies	–	60,236	–	50,679
Other	3,236	3,693	3,189	3,808
	50,530	112,244	54,565	107,352

(15) Provisions

The principles by which we value pensions and similar obligations are explained on page 33.

At one of our retirement benefit organizations, there is a shortfall of DM 20.0 million in the coverage of pension obligations to employees. The provisions at five other domestic companies have been funded only to the maximum amount permitted for tax purposes, and so they total DM 4.1 million less than the value required according to actuarial principles.

The provisions for taxes include amounts relating both to the current fiscal year and to previous years.

Provisions for deferred taxes from the individual financial statements were outweighed by the deferred taxes from consolidation procedures, resulting in a credit balance of DM 1.5 million, which is shown as a prepaid expense. Substantial credit balances for deferred taxes from the individual financial statements of the Group companies which may be capitalized, are not included.

Miscellaneous provisions consist mainly of provisions for employment cost, expenses of a provident nature, warranties, bonuses and other obligations from ordinary business operations, for premiums payable to the Workmen's Compensation Board, for risks on discounted notes, for obligations to pay early retirement benefits and compensation in connection with part-time work by older employees and for employment anniversary bonuses. The Group's provisions for early retirement benefits, part-time work by older employees and employment anniversary bonuses were increased by DM 43.4 million.

	12/31/1987		12/31/1986	
DM 000	Continental AG	Group	Continental AG	Group
Provisions for pensions and similar obligations	175,792	476,701	163,772	302,980
Provisions for taxes	82,796	111,219	73,212	115,290
Provisions for deferred taxes	–	–	–	–
Miscellaneous provisions	199,608	665,656	145,962	322,367
	458,196	1,253,576	382,946	740,637

(16) Liabilities

Continental AG		Due in			Comparable
DM 000	less than	1 to	more than		figures
As of 12/31/1987	1 year	5 years	5 years	Total	12/31/1986
Bonds, convertible*	314	–	71,580	71,894	72,000
Bank borrowings	42,000	14,400	4,020	60,420	81,437
Advances from customers	3,273	–	–	3,273	5,427
Trade accounts payable	123,162	1,156	–	124,318	91,405
Payables to affiliated					
companies	15,542	–	11,952	27,494	26,974
Payables to companies in which					
participations are held	6,507	–	–	6,507	8,962
Other liabilities*	57,841	57,478	4,006	119,325	131,072
of which taxes				(6,483)	(18,037)
of which relating to					
social security					
and similar obligations				(9,058)	(8,849)
	248,639	73,034	91,558	413,231	417,277

* total amount secured by land charges: DM 84.3 million

Group		Due in			Comparable
DM 000	less than	1 to	more than		figures
As of 12/31/1987	1 year	5 years	5 years	Total	12/31/1986
Bonds, convertible*	314	–	718,434	718,748	282,443
Bank borrowings*	183,592	112,772	86,039	382,403	503,524
Advances from customers	15,632	–	–	15,632	14,882
Trade accounts payable	436,246	1,331	–	437,577	262,486
Liabilities on					
acceptances and					
notes payable	61,921	–	–	61,921	123,335
Payables to					
affiliated companies	1,991	6,668	–	8,659	7,943
Payables to companies in which					
participations are held	6,463	–	–	6,463	9,474
Other liabilities*	262,779	80,295	22,784	365,858	305,740
of which taxes				(47,699)	(35,836)
of which relating to					
social security					
and similar obligations				(44,033)	(48,592)
	968,938	201,066	827,257	1,997,261	1,509,827

* amount secured by land charges, mortgages and comparable collateral: DM 134 million

Guarantees and Other Commitments

Contingent liabilities on notes result from the discounting of trade bills. Continental Aktiengesellschaft's liabilities on guarantees and warranties relate, except for DM 2.9 million, to liabilities of subsidiaries and other companies held as investments, in particular, guarantees in the amount of DM 647.3 million for capital market financing by Conti-Gummi Finance B.V., Amsterdam, and Continental Rubber of America Corporation, Wilmington, Delaware.

	12/31/1987		12/31/1986	
DM 000	Continental AG	Group	Continental AG	Group
Acceptance liability	116,162	228,786	175,549	267,311
of which due to affiliated companies	(27,447)	–	(57,811)	–
Liabilities on guarantees	703,020	2,256	268,114	4,383
Liabilities on warranties	9,999	–	15,407	2,000
Liability on shares in cooperatives	82	82	57	57

Other Financial Obligations

Liabilities under rental and leasing agreements relate primarily to real estate used for business activities.

	Continental AG	Group	Continental AG	Group
DM 000	1988	1988	from 1989	from 1989
Rental and leasing agreements	15,455	48,298	65,618	227,087
Purchase commitments	30,000	135,678	–	–
	45,455	183,976	65,618	227,087

Notes to the Statement of Income

(17) Sales

Continental AG			Change
DM million	1987	1986	in %
Analysis by sector			
Tires	1,359.0	1,367.7	– 0.6
Industrial Products	850.6	838.6	+ 1.4
Other sales	213.5	184.7	+ 15.6
	2,423.1	2,391.0	+ 1.3
Analysis by geographical area			
Federal Republic of Germany	1,547.1	1,543.7	+ 0.2
Europe (without Federal Republic of Germany)	720.1	666.8	+ 8.0
Non-European countries	155.9	180.5	– 13.6

Consolidated sales amounted to DM 5,097.6 million (1986: DM 4,968.6 million), and other revenues to DM 97.3 million (1986: DM 79.5 million). The foreign markets' share accounted for DM 2,422.0 million, or 47.5% (1986: 48.3%) of total sales. The sales of General Tire operations are not included in these figures.

Group			Change
DM million	1987	1986	in %
Analysis by sector			
Tires			
Continental	1,466.6	1,442.3	+ 1.7
Uniroyal Englebert	934.9	933.6	+ 0.1
Semperit	787.4	794.9	– 0.9
Merchandise and services	415.9	350.3	+ 18.7
Industrial Products	1,395.5	1,368.0	+ 2.0
Other sales	97.3	79.5	+ 22.4
	5,097.6	4,968.6	+ 2.6
Analysis by geographical area			
Federal Republic of Germany	2,675.6	2,568.3	+ 4.2
Europe (without Federal Republic of Germany)	2,000.6	1,920.2	+ 4.2
Non-European countries	421.4	480.1	– 12.2

(18) Other Operating Income

In addition to current income from rentals and leasing, deliveries and services, and other sideline operations, other operating income also includes compensation paid by insurance companies and income attributable to other fiscal years.

	1987		1986	
DM 000	Continental AG	Group	Continental AG	Group
Gains on the disposal of fixed assets and investments	1,688	11,356	18,148	21,832
Credit to income from the reversal of provisions	2,392	22,572	2,725	19,379
Credit to income from the reduction of the general bad debt reserve	20	959	–	556
Credit to income from the reversal of special reserves	8,896	9,493	19,159	19,736
Miscellaneous income	76,446	113,765	68,272	74,462
	89,442	158,145	108,304	135,965

(19) Cost of Materials

This item consists mainly of expenditures for raw materials and supplies and for merchandise.

	1987		1986	
DM 000	Continental AG	Group	Continental AG	Group
Cost of raw materials and supplies				
and merchandise	1,021,931	1,883,471	1,037,313	1,826,444
Cost of outside services	66,673	144,052	69,911	155,463
	1,088,604	2,027,523	1,107,224	1,981,907

(20) Employment Cost

Employment cost increased by DM 99.8 million for the Group and DM 33.4 million for Continental Aktiengesellschaft, compared with the previous year. This item includes additional contributions to the provision for early retirement, part-time work for older employees and employment anniversary bonuses.

	1987		1986	
DM 000	Continental AG	Group	Continental AG	Group
Wages and salaries	765,788	1,521,105	719,278	1,405,182
Social welfare contributions and				
expenses related to pensions				
and other employee benefits	162,799	357,259	175,955	373,352
of which to pensions	(23,578)	(50,769)	(20,142)	(82,183)
	928,587	1,878,364	895,233	1,778,534

Employees as of 12/31/1987	Continental AG	Group*
Salaried employees	4,385	7,245
Wage earners	10,428	24,472
Trainees	430	703
	15,243	32,420

* without General Tire

(21) Depreciation, Amortization and Writedowns

Amortization on intangibles, depreciation on property, plant and equipment and writedowns on investments, computed in accordance with the principles of commercial law, are shown in the tables "Development of Fixed Assets and Investments" (pages 48 and 52). They include special depreciation for tax purposes in the amount of DM 17.0 million for the Group and DM 13.7 million for Continental Aktiengesellschaft (§§ 6b, Income Tax Act; 82d, Income Tax Directives; 3, FRG/GDR Border Area Assistance Act; 7d, Income Tax Act; 14, Tax Incentive Law for Berlin).

(22) Other Operating Expenses

The allocation to special tax-free reserves consists primarily of the tax-exempt reserve for the losses incurred by our subsidiaries in Ireland in 1987.

The miscellaneous expenses are mainly maintenance expenses, costs of outside services, direct selling expenses, rentals and leasings, as well as miscellaneous operating and administrative costs.

DM 000	1987 Continental AG	1987 Group	1986 Continental AG	1986 Group
Losses on the disposal of				
fixed assets and investments	1,030	3,926	24,816	6,709
Losses on the disposal of				
current assets (except inventories)	257	13,771	2,354	14,521
Allocation to special reserves	4,861	5,336	2,206	25,651
Miscellaneous expenses	305,220	783,132	279,037	706,619
	311,368	806,165	308,413	753,500

(23) Net Income from Investments and Financial Activities

There was no significant change in the net income received by the Group from its investment in nonconsolidated companies.

Continental Aktiengesellschaft's net income from investment in other companies includes DM 88.3 million (1986: DM 66.4 million) from profit-and-loss transfer agreements and dividends.

With the exception of the dividends received from our subsidiaries SICUP SARL, Sarreguemines, France, and Uniroyal Englebert Tyres Ltd., Newbridge, United Kingdom, all the income is generated by domestic companies.

In spite of the acquisition of the General Tire companies in the U.S.A. and Canada and the borrowings this necessitated, the net interest expense of both the Group and Continental Aktiengesellschaft was reduced to only 1.0% (1986: 1.4%) of consolidated sales and 0.5% (1986: 0.9%) of the sales of Continental Aktiengesellschaft.

Continental AG DM 000	1987	1986
Net income from investments		
Income under profit-and-loss transfer agreements	9,148	14,252
Income from investments*	79,176	52,136
of which from affiliated companies	(76,878)	(50,004)
Losses absorbed under profit-and-loss		
transfer agreements	–	–
	88,324	66,388
Net interest expense		
Income from other securities and loans		
included in investments	170	178
of which from affiliated companies	–	–
Other interest and similar income	15,573	10,991
of which from affiliated companies	(14,070)	(8,816)
Interest and similar expenses	– 27,104	– 31,878
of which to affiliated companies	(8,086)	(7,753)
	– 11,361	– 20,709
Net income from investments and		
financial activities	76,963	45,679

* Includes DM 26.1 million in chargeable corporate income tax, DM 22.0 million of which was shown in 1986 as a deduction from income taxes.

Group		
DM 000	1987	1986
Net income from investments		
Income under profit-and-loss transfer agreements	2	2
Income from investments in associated companies	5,083	3,131
Income from investments in other companies	223	100
of which from affiliated companies	(192)	(77)
Losses absorbed under profit-and-loss transfer agreements	–	–
	5,308	3,233
Net interest expense		
Income from other securities and loans included in investments	2,049	2,220
of which from affiliated companies	–	–
Other interest and similar income	32,712	17,642
of which from affiliated companies	(79)	(60)
Interest and similar expenses	– 85,287	– 87,733
of which to affiliated companies	(467)	(382)
	– 50,526	– 67,871
Writedowns on investments and marketable securities		
Writedowns on investments	– 806	– 6,137
Writedowns on marketable securities	– 634	– 206
	– 1,440	– 6,343
Net income from investments and financial activities	– 46,658	– 70,981

(24) Taxes

Although there was only a slight change in net income before taxes, income taxes within the Group were DM 16.1 million lower than in 1986. The reasons were reduced rates of taxation in certain countries and better utilization of loss carryforwards, principally as a result of the increased net income in Austria.

The valuations made for tax purposes with respect to 1987 and the previous fiscal years will cause a future increase in the earnings of the Group and parent company.

	1987		1986	
DM 000	Continental AG	Group	Continental AG	Group
On income	92,515	132,927	91,331	149,002
Charged to subsidiaries deemed integrated for tax purposes	– 11,507	–	– 9,824	–
Other taxes	18,173	35,330	8,576	31,976
Charged to subsidiaries deemed integrated for tax purposes	– 1,459	–	– 268	–
	97,722	168,257	89,815	180,978

(25) Minority Interests in Earnings

This item shows the minority interests of domestic and foreign shareholders in our earnings.

Remuneration of the Supervisory Board and the Managing Board

Provided that the Shareholders' Meeting on June 22, 1988 approves the proposed dividend, the amount spent for the Supervisory Board will be DM 758,000 (1986: DM 599,000); for the Managing Board it will be DM 5,163,000 (1986: DM 5,537,000) and for former members of the Managing Board and their surviving dependents DM 2,261,000 (1986: DM 2,461,000). DM 16,596,000 has been set aside for pension obligations to former members of the Managing Board and their surviving dependents.

Proposed Allocation of Profits

Proposal for the allocation of the net income available for distribution

The net income available for distribution amounts to	DM 48,803,629
The Supervisory and Managing Boards recommend that the Shareholders' Meeting approve payment of a dividend of DM 7.00 on each share with a par value of DM 50.00*, or	DM 47,971,637
The remaining amount of	DM 831,992

is to be carried forward.

* Shares with a total par value of DM 312.7 million are entitled to receive the full dividend.

Shares with a total par value of DM 120.0 million are entitled to receive one-fourth of the dividend.

Hanover, April 11, 1988

Continental Aktiengesellschaft
The Managing Board

Horst W. Urban

Wilhelm Borgmann

Peter Haverbeck

Hans Kauth

Günter H. Sieber

Wilhelm P. Winterstein

Continental Aktiengesellschaft
Consolidated Balance Sheet at December 31, 1987

Assets

	See Note No.		12/31/1987 DM 000	12/31/1986 DM 000
Fixed assets and investments				
Intangibles	(1)	8,450		2,341
Property, plant and equipment	(2)	1,532,333		968,575
Investments	(3)	106,262		92,642
			1,647,045	**1,063,558**
Current assets				
Inventories	(4)	1,201,690		797,164
Receivables and other assets	(5)	1,316,651		930,130
Marketable securities	(6)	251,059		150,771
Liquid assets	(7)	350,342		130,517
			3,119,742	**2,008,582**
Prepaid expenses	(8)		**36,413**	**20,990**
			4,803,200	**3,093,130**

Liabilities and shareholders' equity

	See Note No.		12/31/1987 DM 000	12/31/1986 DM 000
Shareholders' equity				
Subscribed capital	(9)	432,654		312,104
Capital reserves	(10)	925,061		182,715
Retained earnings	(11)	–		167,608
Minority interests	(12)	28,671		27,460
Reserve for retirement benefits	(13)	4,930		5,421
Net income available for distribution		48,803		40,006
			1,440,119	**735,314**
Special reserves	(14)		**112,244**	**107,352**
Provisions	(15)		**1,253,576**	**740,637**
Liabilities	(16)		**1,997,261**	**1,509,827**
			4,803,200	**3,093,130**

Continental Aktiengesellschaft
Consolidated Statement of Income
for the period from January 1 to December 31, 1987

	See Note No.		1987 DM 000	1986 DM 000
Sales	(17)		**5,097,600**	**4,968,579**
Change in inventories of finished goods and work in process		+ 32,352		– 43,009
Company-produced additions to plant and equipment		41,430		48,275
Total operating performance			**5,171,382**	**4,973,845**
Other operating income	(18)	158,145		135,965
Cost of materials	(19)	– 2,027,523		– 1,981,907
Employment cost	(20)	– 1,878,364		– 1,778,534
Depreciation and amortization	(21)	– 263,792		– 229,402
Other operating expenses	(22)	– 806,165		– 753,500
Net income from investments and financial activities	(23)	– 46,658		– 70,981
Net income from regular business activities			**307,025**	**295,486**
Taxes	(24)	– 168,257		– 180,978
Net income for the year			**138,768**	**114,508**
Balance brought forward from previous year			2,553	2,065
Minority interests in earnings of consolidated subsidiaries	(25)		– 310	– 129
Withdrawal from the reserve for retirement benefits			+ 491	+ 997
Change in reserves			– 92,699	– 77,435
Net income available for distribution			**48,803**	**40,006**

Based on an audit performed in accordance with our professional duties, the consolidated financial statements comply with the legal regulations. The consolidated financial statements present, in compliance with required accounting principles, a true and fair view of the net worth, financial position and results of the group. The group management report is in agreement with the consolidated financial statements.

Berlin/Hanover, April 11, 1988

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Certified Public
Accountant

Kirste
Certified Public
Accountant

Development of **Consolidated** Fixed Assets and Investments

	Acquisiton/Manufacturing Cost					
	As of 1/1/1987 DM 000	Additions new comp. DM 000	Additions DM 000	Reclassi-fications DM 000	Retirements DM 000	12/31/1987 DM 000
I. Intangibles						
Concessions, industrial and similar rights and assets and licenses in such rights and assets	2,131	4,355	–	–	703	5,783
Goodwill	631	–	675	–	1,306	–
Other intangible assets	2,804	3,239	2,685	151	408	8,471
Payments to suppliers	198	–	285	– 151	1	331
	5,764	**7,594**	**3,645**	**–**	**2,418**	**14,585**
II. Property, plant and equipment						
Land, land rights and buildings including buildings on third party land	728,014	179,089	19,904	15,631	9,923	932,715
Technical equipment and machines	1,822,776	268,540	81,981	84,550	42,463	2,215,384
Other equipment, factory and office equipment	647,353	33,929	81,297	20,204	44,269	738,514
Payments to suppliers and assets under construction	108,025	75,305	116,898	– 120,385	1,840	178,003
	3,306,168	**556,863**	**300,080**	**–**	**98,495**	**4,064,616**
III. Investments						
Shares in affiliated companies	732	519	371	–	–	1,622
Shares in associated companies	51,081	7,427	1,320	–	895	58,933
Investments	4,263	–	30	–	1,300	2,993
Securities included in investments	19,785	1	2,727	–	2,278	20,235
Other loans	21,531	15,565	2,082	–	9,426	29,752
	97,392	**23,512**	**6,530**	**–**	**13,899**	**113,535**
	3,409,324	**587,969**	**310,255**	**–**	**114,812**	**4,192,736**

Accumulated Depreciation As of 1/1/1987 DM 000	Additions new comp. DM 000	Additions DM 000	Reclassi-fications DM 000	Retire-ments DM 000	Write-ups DM 000	12/31/1987 DM 000	Book value as of 12/31/1987 DM 000	Book value as of 12/31/1986 DM 000
1,080	58	348	–	187	–	1,299	4,484	1,051
535	–	207	–	742	–	–	–	96
1,808	977	2,196	–	145	–	4,836	3,635	996
–	–	–	–	–	–	–	331	198
3,423	**1,035**	**2,751**	**–**	**1,074**	**–**	**6,135**	**8,450**	**2,341**
384,346	6,849	31,019	22	5,528	–	416,708	516,007	343,668
1,441,855	7,036	145,298	163	38,259	–	1,556,093	659,291	380,921
511,383	5,280	84,724	– 185	41,729	–	559,473	179,041	135,970
9	–	–	–	–	–	9	177,994	108,016
2,337,593	**19,165**	**261,041**	**–**	**85,516**	**–**	**2,532,283**	**1,532,333**	**968,575**
157	16	–	–	–	–	173	1,449	575
–	–	–	–	–	–	–	58,933	51,081
732	–	–	–	–	–	732	2,261	3,531
44	–	25	–	1	–	68	20,167	19,741
3,817	3,128	81	–	721	5	6,300	23,452	17,714
4,750	**3,144**	**106**	**–**	**722**	**5**	**7,273**	**106,262**	**92,642**
2,345,766	**23,344**	**263,898**	**–**	**87,312**	**5**	**2,545,691**	**1,647,045**	**1,063,558**

Continental Aktiengesellschaft
Balance Sheet at December 31, 1987

Assets				
	See Note No.		12/31/1987 DM 000	12/31/1986 DM 000
Fixed assets and investments				
Intangibles	(1)	443		125
Property, plant and equipment	(2)	378,791		382,794
Investments	(3)	979,068		378,796
			1,358,302	**761,715**
Current assets				
Inventories	(4)	319,500		328,375
Receivables and other assets	(5)	450,483		378,659
Marketable securities	(6)	70,295		–
Liquid assets	(7)	274,699		33,458
			1,114,977	**740,492**
Prepaid expenses	(8)		**262**	**526**
			2,473,541	**1,502,733**

Liabilities and shareholders' equity				
	See Note No.		12/31/1987 DM 000	12/31/1986 DM 000
Shareholders' equity				
Subscribed capital	(9)	432,654		312,104
Capital reserves	(10)	947,498		182,715
Retained earnings	(11)	117,699		107,699
Reserve for retirement benefits	(13)	4,930		5,421
Net income available for distribution		48,803		40,006
			1,551,584	**647,945**
Special reserves	(14)		**50,530**	**54,565**
Provisions	(15)		**458,196**	**382,946**
Liabilities	(16)		**413,231**	**417,277**
			2,473,541	**1,502,733**

Continental Aktiengesellschaft
Statement of Income
for the period from January 1 to December 31, 1987

	See Note No.		1987 DM 000	1986 DM 000
Sales	(17)		**2,423,094**	**2,391,017**
Change in inventories of finished goods and work in process		– 8,436		+ 642
Company-produced additions to plant and equipment		22,741		21,245
Total operating performance			**2,437,399**	**2,412,904**
Other operating income	(18)	89,442		108,304
Cost of materials	(19)	– 1,088,604		– 1,107,224
Employment cost	(20)	– 928,587		– 895,233
Depreciation and amortization	(21)	– 121,764		– 111,176
Other operating expenses	(22)	– 311,368		– 308,413
Net income from investments and financial activities	(23)	76,963		45,679
Net income from regular business activities			**153,481**	**144,841**
Taxes	(24)	– 97,722		– 89,815
Net income for the year			**55,759**	**55,026**
Balance brought forward from previous year			2,553	2,065
Withdrawal from the reserve for retirement benefits			+ 491	+ 997
Transfers to retained earnings			– 10,000	– 18,082
Net income available for distribution			**48,803**	**40,006**

Based on an audit performed in accordance with our professional duties, the accounting records and the financial statements comply with the legal regulations. The financial statements present, in compliance with required accounting principles, a true and fair view of the net worth, financial position and results of the company. The management report is in agreement with the financial statements.

Berlin/Hanover, April 11, 1988

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter	Kirste
Certified Public Accountant	Certified Public Accountant

Development of Fixed Assets and Investments of Continental Aktiengesellschaft

	Acquisition/Manufacturing Cost				
	As of 1/1/1987 DM 000	Additions DM 000	Reclassi- fications DM 000	Retirements DM 000	12/31/87 DM 000
I. Intangibles					
Other intangible assets	801	1,203	38	–	2,042
Payments to suppliers	38	78	– 38	–	78
	839	**1,281**	**–**	**–**	**2,120**
II. Property, plant and equipment					
Land, land rights and buildings including buildings on third party land	339,062	7,455	1,223	256	347,484
Technical equipment and machines	1,017,138	45,339	14,264	18,299	1,058,442
Other equipment, factory and office equipment	326,275	38,722	3,234	17,028	351,203
Payments to suppliers and assets under construction	42,236	28,198	– 18,721	–	51,713
	1,724,711	**119,714**	**–**	**35,583**	**1,808,842**
III. Investments					
Shares in affiliated companies	339,587	599,611	–	–	939,198
Investments	44,945	58	–	–	45,003
Other loans	2,587	1,076	–	513	3,150
	387,119	**600,745**	**–**	**513**	**987,351**
	2,112,669	**721,740**	**–**	**36,096**	**2,798,313**

Accumulated Depreciation As of 1/1/1987 DM 000	Additions DM 000	Retire-ments DM 000	Write-ups DM 000	12/31/1987 DM 000	Book value as of 12/31/1987 DM 000	Book value as of 12/31/1986 DM 000
714	963	–	–	1,677	365	87
–	–	–	–	–	78	38
714	**963**	**–**	**–**	**1,677**	**443**	**125**
222,169	16,159	236	–	238,092	109,392	116,893
846,120	64,969	17,246	–	893,843	164,599	171,018
273,628	39,673	15,185	–	298,116	53,087	52,647
–	–	–	–	–	51,713	42,236
1,341,917	**120,801**	**32,667**	**–**	**1,430,051**	**378,791**	**382,794**
8,223	–	–	–	8,223	930,975	331,364
–	–	–	–	–	45,003	44,945
100	–	35	5	60	3,090	2,487
8,323	**–**	**35**	**5**	**8,283**	**979,068**	**378,796**
1,350,954	**121,764**	**32,702**	**5**	**1,440,011**	**1,358,302**	**761,715**

Major Companies of the Group

Company, registered office	Group interest in %	Shareholders' equity in 000		Net income in 000	
I. Affiliated companies					
1. Federal Republic of Germany					
Uniroyal Englebert Reifen GmbH, Aachen	100.0	DEM	56,152	DEM	36,521
Uniroyal Englebert Tyre Trading GmbH, Aachen	100.0	DEM	5,593	DEM	2,168
Göppinger Kaliko GmbH, Eislingen	96.3	DEM	30,041	DEM	113*
Bamberger Kaliko GmbH, Bamberg	96.3	DEM	4,172	DEM	2,997*
Techno-Chemie Kessler & Co. GmbH, Karben	100.0	DEM	16,662	DEM	1,586
Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen	95.0	DEM	3,044	DEM	871
Deutsche Semperit GmbH, Munich	100.0	DEM	16,022	DEM	940
KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf	100.0	DEM	3,085	DEM	369
Continental Alsa-Schuhbedarf GmbH, Steinau-Uerzell	100.0	DEM	3,078	DEM	632
Flockgarn GmbH, Hanover	100.0	DEM	627	DEM	320
2. Foreign countries (according to accounting and valuation principles uniform throughout the Group)					
SICUP SARL, Sarreguemines/France	100.0	FRF	358,307	FRF	74,791
CUP SNC, Roissy/France	100.0	FRF	100		–
Semperit Reifen Aktiengesellschaft, Vienna/Austria	75.0	ATS	1,118,877	ATS	316,210
Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium	100.0	BEC	660,877	BEC	11,421
Uniroyal Englebert Textilcord S.A., Steinfort/Luxembourg	100.0	BEC	728,301	BEC	95,721
Continental Industrias del Caucho SA, Coslada/Madrid/Spain	100.0	ESP	830,484	ESP	132,212
Semperit (Ireland) Ltd., Dublin/Ireland	72.1	IRP	3,010	IRP	– 1,462
Uniroyal Englebert Tyres Ltd., Newbridge/United Kingdom	100.0	GBP	17,554	GBP	6,229
General Tire Inc., Akron/Ohio/USA	100.0	USD	306,797		–
General Tire Canada Ltd., Barrie/Ontario/Canada	100.0	CAD	20,000		–
C.U.P. Gummi Gesellschaft mbH, Vösendorf/Austria	75.0	ATS	12,218	ATS	4,984*
C.U.P. Ltd., West Drayton/United Kingdom	100.0	GBP	7,160	GBP	213
Semperit (UK) Ltd., Slough/United Kingdom	75.0	GBP	2,732	GBP	441
Uniroyal Englebert Dæk A/S, Copenhagen/Denmark	100.0	DKK	4,750	DKK	105
Continental Gummi AB, Solna/Sweden	100.0	SEK	9,464	SEK	1,043
Semperit Svenska AB, Nacka/Sweden	75.0	SEK	2,847	SEK	781
Continental Caoutchouc (Suisse) SA, Zurich/Switzerland	100.0	CHF	9,952	CHF	692
Pneu Uniroyal-Englebert S.A., Geneva/Switzerland	100.0	CHF	5,566	CHF	952
Semperit (Schweiz) AG, Dietikon/Switzerland	100.0	CHF	5,391	CHF	1,281
Continental Italia S.p.A., Milan/Italy	100.0	ITL	4,887,738	ITL	258,456
Continental Products Corporation, Lyndhurst/N.J./USA	91.8	USD	6,178	USD	1,735

Company, registered office	Group interest in %		Shareholders' equity in 000		Net income in 000
II. Associated companies					
Clouth Gummiwerke AG, Cologne	50.0	DEM	19,900	DEM	1,900**
KG Deutsche Gasrusswerke G.m.b.H. & Co., Dortmund	31.0	DEM	16,500	DEM	1,500
Deutsche Gasrusswerke GmbH, Dortmund	34.0	DEM	286	DEM	36
Drahtcord Saar GmbH & Co. KG, Merzig/Saar	50.0	DEM	22,906	DEM	1,906
Drahtcord Saar Geschäftsführung GmbH, Merzig/Saar	50.0	DEM	66	DEM	6
SAVA-Semperit, Kranj/Yugoslavia	20.8	ATS	449,038	ATS	26,918

A comprehensive list of our holdings has been filed with the Commercial Register of the Hanover District Court.

* Profit-and-loss transfer agreements exist with these companies.
** Net income as of December 31, 1986.

Continental Group 1979–1987

		1979	1980	1981	1982	1983	1984	1985	1986[1]	1987[1]
Balance sheet										
Fixed assets and investments	DM million	789.4	809.3	827.2	815.7	782.9	764.9	1075.3	1063.6	1647.0
Current assets	DM million	1200.7	1215.2	1145.3	1103.0	1104.5	1200.8	1761.9	2029.5	3156.2
Balance sheet total	DM million	1990.1	2024.5	1972.5	1918.7	1887.4	1965.7	2837.2	3093.1	4803.2
Shareholders' equity	DM million	396.9	418.6	401.9	420.6	442.7	522.2	638.4	808.0	1515.8
Long-term debt	DM million	627.5	742.9	729.4	694.3	680.1	692.6	965.2	998.9	1541.6
Investments in intangibles and property, plant and equipment	DM million	113.4	149.2	158.4	131.9	128.2	149.8	254.0	286.7	303.7
Equity ratio	in %	19.9	20.7	20.4	21.9	23.5	26.6	22.5	26.1	31.6
Equity and long-term debt to fixed assets, investments and inventories	in %	74.4	81.8	83.7	84.2	88.3	91.2	86.3	103.8	118.6
Total indebtedness	DM million	903.5	915.7	909.8	806.4	695.0	594.0	992.5	741.2	672.7
Self-financing ratio	in %	110.1	116.6	69.1	133.0	170.4	143.5	113.1	126.7	201.4
Liquidity ratio	in %	61.9	67.2	71.0	71.1	77.7	82.1	76.4	104.3	134.7
Statement of income										
Sales	DM million	2623.4	3159.7	3229.0	3248.8	3387.2	3534.0	5003.3	4968.6	5097.6
Foreign markets' share	in %	34.5	37.0	38.0	37.3	36.4	40.1	49.9	48.3	47.5
Cost of materials to total operating performance	in %	42.8	41.4	41.5	41.6	41.7	43.3	45.7	39.9	39.2
Employment cost to total operating performance	in %	39.7	39.2	39.7	39.2	37.9	36.8	33.5	35.8	36.3
Depreciation of intangibles and property, plant and equipment	DM million	96.0	115.4	120.0	123.8	135.5	150.8	205.5	229.4	263.8
Gross cash flow	DM million	163.7	218.5	139.0	204.2	269.9	273.9	399.0	524.9	596.9[2]
Net cash flow	DM million	124.8	161.4	108.2	144.2	190.7	204.9	303.5	375.9	464.0[2]
Value added	DM million	1193.0	1480.2	1426.1	1476.3	1486.3	1519.0	1982.4	2161.8	2270.7
Net income	DM million	+ 24.1	+ 26.1	− 17.8	+ 18.3	+ 40.2	+ 41.2	+ 77.2	+ 114.5	+ 138.8
Employees										
Annual average	in 000	31.1	31.3	29.6	28.2	27.1	26.3	31.7	31.9	32.3

[1]) According to German Accounting Directives Law
[2]) Based on DVFA income formula

Continental Aktiengesellschaft 1979–1987

		1979	1980	1981	1982	1983	1984	1985	1986[1]	1987[1]
Balance sheet										
Fixed assets and investments	DM million	601.9	670.9	704.6	701.4	663.7	677.7	750.0	761.7	1358.3
Current assets	DM million	554.4	539.6	530.3	513.1	492.2	527.0	631.4	741.0	1115.2
Balance sheet total	DM million	1156.3	1210.5	1234.9	1214.5	1155.9	1204.7	1381.4	1502.7	2473.5
Shareholders' equity	DM million	392.9	399.1	406.8	418.3	419.3	480.6	499.2	667.1	1567.2
Long-term debt	DM million	472.1	467.7	449.1	429.9	415.2	413.7	457.8	402.0	375.3
Investments in intangibles and property, plant and equipment	DM million	72.6	80.8	90.2	66.1	58.9	85.4	102.2	102.6	121.0
Equity ratio	in %	34.0	33.0	32.9	34.4	36.3	39.9	36.1	44.4	63.4
Equity and long-term debt to fixed assets, investments and inventories	in %	96.7	89.5	88.7	88.7	92.7	94.7	90.9	105.5	122.8
Total indebtedness	DM million	419.2	429.5	409.6	373.6	288.0	233.7	250.5	192.9	+ 139.6
Self-financing ratio	in %	82.1	76.7	58.2	121.1	226.2	102.0	78.9	146.6	31.5
Liquidity ratio	in %	88.5	67.3	68.3	66.6	76.4	81.5	74.7	117.0	192.7
Statement of income										
Sales	DM million	1692.6	1817.2	1823.9	1866.3	1992.7	2079.3	2312.9	2391.0	2423.1
Foreign markets' share	in %	26.3	28.5	29.3	28.6	28.2	33.4	34.4	35.4	36.2
Cost of materials to total operating performance	in %	44.1	43.3	45.0	44.3	45.0	47.3	48.8	45.9	44.7
Employment cost to total operating performance	in %	41.5	40.7	40.7	39.9	38.6	37.5	35.8	37.1	38.1
Depreciation of intangibles and property, plant and equipment	DM million	62.7	65.2	69.5	73.5	78.7	85.5	105.5	111.2	121.8
Gross cash flow	DM million	122.1	138.6	87.5	115.6	163.1	159.1	210.1	290.7	344.4[2]
Net cash flow	DM million	94.1	105.7	73.6	89.5	122.8	120.7	158.1	209.9	263.4[2]
Value added	DM million	799.3	884.5	838.6	847.7	865.3	886.2	971.4	1071.9	1109.2
Net income	DM million	+ 11.9	+ 12.7	+ 0.2	+ 3.9	+ 15.1	+ 18.3	+ 37.2	+ 55.0	+ 55.8
Dividend paid	DM million	–	13.5	–	–	16.2	17.9	29.9	37.5	48.0
Employees										
Annual average	in 000	18.1	18.3	17.4	16.3	15.6	15.4	15.5	15.4	15.3

[1] According to German Accounting Directives Law
[2] Based on DVFA income formula

The Annual Report is also published in German. A shorter version is available in French or German.

To obtain a copy of either publication, please contact:

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