Report on the Business Year 1978

Continental

Report on the 107th Business Year 1978

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Agenda

for the ordinary shareholders' meeting on Friday, September 7, 1979 at 10.00 a.m. in the Kuppelsaal of the Stadthalle, Hannover, Theodor-Heuss-Platz 2.

1.

Presentation of the adopted annual financial statement of December 31, 1978, and the annual report of the Supervisory Board and of the Executive Board for the business year 1978.

Presentation of the consolidated financial statement and of the consolidated annual report for the business year 1978.

The Executive Board and the Supervisory Board propose carrying forward the balance sheet profit of DM 3,814,814.38 for the business year 1978.

2.

Resolution on the ratification of the Supervisory Board's acts for the business year 1978.

3.

Resolution on the ratification of the Executive Board's acts for the business year 1978.

In respect of points 2 and 3, the Supervisory Board and the Executive Board propose discharging the Supervisory Board and the Executive Board for the business year 1978.

4.

Resolution on the amendments to the Articles of Association.

5.

Election of the Supervisory Board and one deputy member to the Supervisory Board. The term of office of the acting members of the Supervisory Board expires at the conclusion of the shareholders' meeting on September 7, 1979. Pursuant to sec. 96, para. 1, sec. 101 para 1. AktG (Corporation Law) and pursuant to sec. 7, para. 1, sentence 1 no. 3 of the codetermination law of May 1976, the Supervisory Board shall comprise ten members elected by the shareholders at the shareholders' meeting and ten members elected by the employees. The shareholders' meeting is not bound to the election nominations in the election of the shareholders' representatives. The Supervisory Board proposes the following gentlemen for election to the Supervisory Board for the next term of office.

Manfred Emcke (Businessman) Hamburg, Karl-Wilhelm Graf Finck von Finckenstein (personally liable partner of Trinkaus and Burkhardt) Essen, Prof. Dr. Ernst Fuhrmann (Chairman of the Managing Board of Dr. Ing. h.c. F. Porsche AG) Stuttgart, attorney at law and notary, Dr. Wilhelm Helms (General Manager of the Deutsche Schutzvereinigung für Wertpapierbesitz, Landesverband Niedersachsen) Hannover, Dr. Alfred Herrhausen (Member of the Executive Board of the Deutsche Bank AG) Düsseldorf, Prof. Dr. phil. h.c. Hans L. Merkle (Chairman of the Managing Board of Robert Bosch GmbH) Stuttgart, Wilhelm Meyerheim (Member of the Supervisory Board of Bayer AG) Leverkusen, Ernst Pieper (Vice-Chairman of the Executive Board of Salzgitter AG) Salzgitter, Klaus Piltz (Member of the Executive Board of Veba AG) Düsseldorf, and Prof. Dr. phil. nat. Bernhard Timm (Chairman of the Supervisory Board of BASF AG) Heidelberg.

The Supervisory Board further proposes election of Dr. Dieter Wefers (Director of the Deutsche Bank AG, Hannover branch) Hannover, as deputy member for a prematurely retiring member of the Supervisory Board elected by the shareholders.

6.

Election of the auditor for the business year 1979.

The Supervisory Board proposes election of the Deutsche Treuhand-Gesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Hannover, as auditor for the business year 1979.

Members of the Supervisory Board

Alfred Herrhausen, Chairman
Member of the Executive Board of Deutsche Bank AG

Benno Adams*), Vice-Chairman
District Manager of the Industrial Union Chemicals, Paper, Ceramics

Hans L. Merkle, Vice-Chairman
Chairman of the Managing Board of Robert Bosch GmbH

Günther Bartilla*)
former Chairman of the Plant Labor Council of Continental Gummi-Werke AG

Manfred Emcke
Businessman (from June 14, 1978)

Rudolf Groth
Banker, retired

Otto Merkle
Insurance Director, retired (until June 14, 1978)

Wilhelm Meyerheim
Businessman

Bernhard Timm
Chairman of the Supervisory Board of BASF AG

Wilhelm Wessel*)
Member of the Labor Council of Continental Gummi-Werke AG

*) elected by the employees

Report of the Supervisory Board

The Supervisory Board exercised control over the management of the company by keeping itself informed on the company's situation on the basis of the Executive Board's written and verbal reports.

In the meetings of the Supervisory Board and in numerous separate meetings we have discussed the business policy and the financial position and the planned capital expenditures of the company. Detailed discussions were held on the budget and the long-term objectives of the company.

The annual financial statement including the accounts and the annual report, has been examined by the Deutsche Treuhand-Gesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Hannover, and was given the unqualified auditor's endorsement. We agree with the result of the audit.

We examined the annual financial statement and the annual report. In accordance with the conclusive findings of our examination there are no grounds for objection.

The consolidated financial statement, the consolidated annual report included in the annual report of the company and the report of the auditor of the consolidated financial statement have also been presented to us.

We have approved the annual financial statement by the Executive Board. It has thus been adopted.

Effective from the date of the shareholders' meeting June 14, 1978, Mr. Norbert Dahlström retires as a member of the Executive Board. Dr. Peter Haverbeck was appointed deputy member of the Executive Board, replacing Mr. Dahlström. We extend our thanks to Mr. Dahlström for his meritable work for the company.

Due to health reasons, Mr. Werner Klein retired as a member of the Executive Board effective December 31, 1978. He earned great recognition for his work for the company extending over more than 28 years. We would like to express our sincere thanks for this.

Replacing Mr. Otto Merkle, who retired because of age reasons, the shareholders' meeting elected Mr. Manfred Emcke as a member of the Supervisory Board. Mr. Otto Merkle was closely connected with Continental in his 6 years as a member of the Supervisory Board. We extend our thanks to him as well.

Hannover, April 6, 1979
The Supervisory Board

Alfred Herrhausen, Chairman

Members of the Executive Board

Carl H. Hahn
Chairman

H. Norbert Dahlström
Marketing, Technical Products (until June 14, 1978)

Werner Klein
Purchasing and Logistics (until December 31, 1978)

Gerhard Lohauß
Personnel and Legal Department

Julius Peter
Technology, Tires

Wilhelm Schäfer
Marketing, Tires

Horst W. Urban
Finance

Hans Georg Wenderoth
Technology, Technical Products

Peter Haverbeck
Marketing, Technical Products (deputy member from May 1, 1978)

Report of the Executive Board

General Survey

Rubber Industry

The economic situation of the European, especially the German rubber industry remained unsatisfactory in 1978 because of heavy price competition in tires and technical rubber products. The profit situation further deteriorated. Despite the partial increase in physical sales in the business with the automobile industry and the slight growth in some other customer sectors, domestic sales stagnated or increased only slightly in some product groups.

Foreign business was hampered by the unfavourable economic situation in important export markets and by the persistent revaluation of the DM. On the other hand imports captured an even higher share on the domestic market due to currency fluctuations.

The German tire industry continues to be strongly affected by this negative development. Owing to improved products, the replacement demand has dropped by approximately one third in the last five years in Germany, although the amount of passenger cars in the period increased significantly and even by the beginning of the eighties a total of 23 million passenger cars will have been reached. Originally, this volume was predicted for 1990.

Excess capacities available world-wide in the tire industry will continue to increase relatively due to the present shift towards radial tires in the important markets of the USA and Japan. Keen price competition which has been going on for years in Europe has forced several producers to cut their production capacities and even to abandon the tire business.

This phenomenon is essential and is to be welcomed. It is however a slow process and is combined with cut-price competition. Perceptible relief cannot be expected until the beginning of the eighties.

The market of the technical products was mainly characterized by an increase in physical sales in the automotive sector. Business with most other customer groups stagnated and was additionally hampered by cheaper import prices.

The more exacting demands made on materials, dimensional accuracy and durability of the products as well as the legal requirements on environmental protection and the extension of product liability all contribute to the extremely high development and production costs which generally cannot be covered by the price due to the market situation.

The trend to excess capacities has been further accelerated by the fact that manufacturers abandoning the tire business are trying to break into the technical products' market instead. This expansion of capacity, not always corresponding to the increase in demand, leads to keener competition.

In addition the recovery process of the market for tires and technical products has been delayed because of competitive-distorting measures in some countries and concerns. As long as the restructuring fails to make further progress, the price level in our industry will consequently probably not recover.

Continental

As far as our company is concerned we do not see any way to isolate ourselves from the current extreme competition. For years this has been an extreme burden for our employees and shown disappointing results for our shareholders. However, an international comparison shows that there are no other alternatives for our company than to resolutely pursue our policy of innovation, quality and productivity.

We consider it an endorsement of our policy that we were again chosen as the deliverer of the year in the three product sectors tires, industrial hose and imitation leather by an international automobile company.

Tire Division

Thanks to the quality of our products we have maintained our position in the replacement business and have further consolidated our original equipment business in a year of unparalleled price competition. The production of our passenger car steel-belted tires and truck all-steel tires was expanded to a satisfactory extent. All plants were utilized satisfactorily in the year under review.

Nominal tire sales increased by 1 %. Because of further declining prices and rising costs the results however, compared to the previous year remained negative.

Technical Products Division

Since the beginning of the year under review this division has been organized into eight product groups. In line with our long-term planning, unproductive sectors have been abandoned, and the marketing and development activities have been increased in special areas. Parallel to this considerable amounts have been invested in modern facilities.

Although parts of the production were abandoned or relocated in line with the division of labor to domestic and foreign subsidiaries, the technical products division increased its sales by 3 % and achieved a positive result, which is however below that of the previous year.

Subsidiaries and Related Companies

The stronger integration of individual companies into the Continental group together with continued coordination of activities at the subsidiaries and related companies resulted in a significantly positive trend. Despite difficulties still existing in a few companies, especially in Spain and Brazil, the subsidiaries sector all in all achieved better results compared with the previous year.

With the object of expanding our activities in the hose sector we took over the hose coupler Techno-Chemie Kessler & Co. GmbH, Mörfelden with effect from July 1, 1978.

Sales and Consolidated Sales

World sales of Continental increased by 4% to DM 2,030 million (DM 1,950 million in the previous year) including the consolidated sales of our foreign related companies in which a majority interest is held. Domestic consolidated sales increased by 3.1% to DM 1,950 million (DM 1,858 million in the previous year).

The following table shows the development of sales of the parent company:

Sales	1978 DM million	1977 DM million	Increase in %
Domestic	1,159.6	1,135.5	+ 2.1
Foreign	395.8	383.4	+ 3.2
Total	1,555.4	1,518.9	+ 2.4

Of the sales, DM 895 million (DM 885 million in the previous year) were allocated to tires, DM 622 million (DM 604 million in the previous year) to technical products and DM 38 million (DM 30 million in the previous year) to other sales (especially commercial goods and services). The ratio of tires to technical products is 59 : 41 and has changed only slightly compared to the previous year.

After high growth rates in the previous years, sales per employee again increased from DM 83,800 to DM 86,100. Due to longer periods of absences (sickness and vacation), personnel expenses per hour worked increased by 7.5% which is higher than personnel expenses per head (4.3%).

Personnel expenses were 43.4% (41.7% in the previous year) of the total gross revenues, which decreased slightly to DM 1,564 million. The increase in personnel expenses gives reason for considerable concern. It shows the restraint placed on our competitiveness in a period of decreasing prices. Material expenses accounted for 44.5% (43.8% in the previous year) of the total gross revenues.

Owing to losses in the tire section, the operating profit was negative. For 1978 we disclosed a balance sheet profit of DM 3.8 million, including contributions of our subsidiaries and related companies and extraordinary income.

We propose to carry forward the unappropriated retained income.

Balance sheet structure

The financial structure of our company with respect to equity capital, liquidity and debt ratio shows a well-grounded picture. The balance sheet total increased by altogether 4.1% to DM 1,091 million due to increased fixed assets and financial assets.

Capital expenditures rose by DM 16 million to DM 78 million. They were used to improve productivity, to assure quality and to expand production in both divisions.

Financial assets increased by approximately DM 26 million to DM 147 million due to increased loans and movements in investments in associated companies.

Codetermination

On March 1, 1979, the High Court ruled that the codetermination law of 1976 is compatible with the Constitution. On March 26, 1979, the Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (association representing the interests of German shareholders) consequently withdrew its petition at the Supreme Court in Celle, concerning a court decision about the composition of the Supervisory Board of Continental Gummi-Werke AG pursuant to sec. 98 Akt. G (Corporation Law). The codetermination law of 1976 is therefore binding on the company.

In this year's shareholders' meeting the company's Articles of Association will be amended in accordance with the codetermination law of 1976 and the number of members of the Supervisory Board will be raised to twenty. As the election of the employees' representatives to the Supervisory Board will take time, the date of the shareholders' meeting has intentionally been set at a later date than usual. The shareholders' meeting will be held on September 7, 1979.

Outlook

The German rubber industry estimates an increase in physical sales of about 2% for the current year. This increase will mainly result from a possible increase in domestic sales, whereas foreign deliveries will mainly stagnate due to competition obstacles. Continental has set the conditions for further growth which will be extensively utilized.

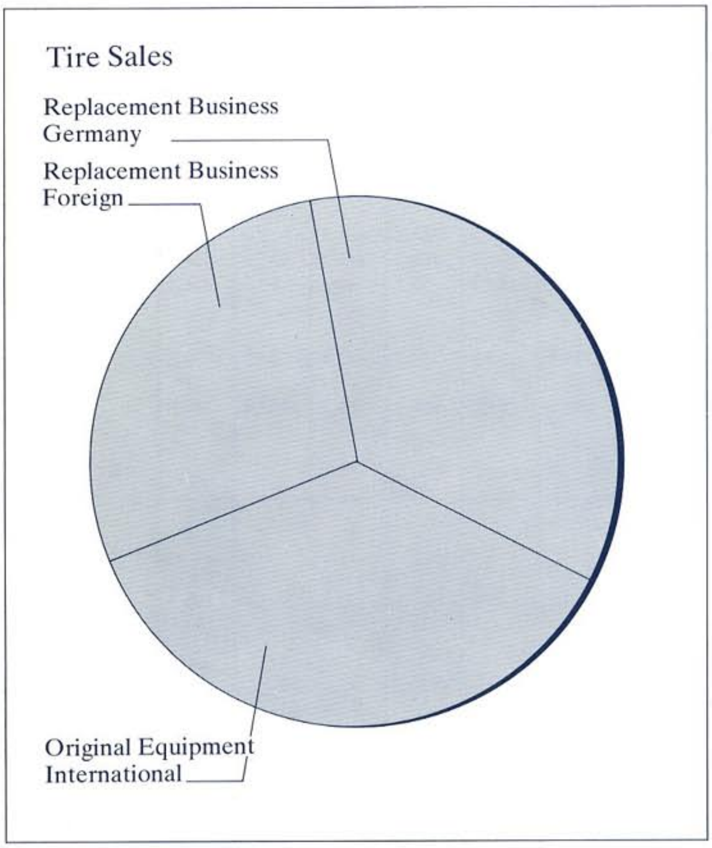
The first quarter of 1979 was marked by in some cases extreme price increases in raw materials. They mainly concern petro-chemical primary products accounting for nearly two-thirds of our expenses for raw materials and supplies. The present and anticipated price increases amount to 20% on average. The profit situation in 1979 will chiefly depend on whether we succeed in passing on the price increases to the market.

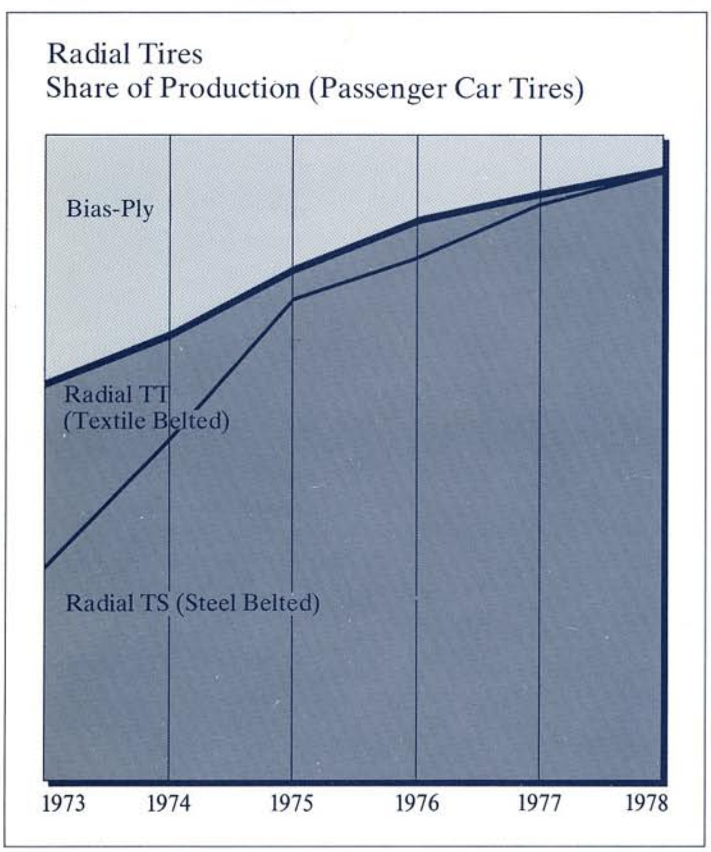
Tire sales were increased by 10% and sales of technical products by 4% compared to the corresponding period in the previous year.

Continental
1969–78

		1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Balance sheet											
Fixed assets	(DM million)	453,7	514,8	587,3	607,8	568,0	542,0	520,6	504,1	513,2	558,1
Current assets	(DM million)	463,3	566,2	526,0	480,9	527,5	525,0	488,2	511,9	534,8	533,3
Balance sheet total	(DM million)	917,0	1081,0	1113,3	1088,7	1095,5	1067,0	1008,8	1016,0	1048,0	1091,4
Shareholders' Equity	(DM million)	442,4	453,3	464,2	422,2	381,4	361,5	364,2	356,8	373,9	377,5
Long term debt	(DM million)	162,9	237,0	371,3	370,3	430,7	463,8	460,3	468,2	431,4	446,5
Addition to fixed assets	(DM million)	87,9	134,0	154,8	102,3	60,5	58,9	50,7	60,6	65,5	106,1
Shareholders' Equity of total assets	as %	48,2	41,9	41,7	38,8	34,8	33,9	36,1	35,1	35,7	34,6
Shareholders' Equity and long term debt of: fixed assets and inventories	as %	93,5	87,4	96,9	91,0	98,1	101,7	106,4	107,9	102,4	100,6
Profit and Loss Statement											
Sales	(DM million)	1256,8	1311,7	1301,7	1174,2	1264,0	1453,2	1369,0	1439,0	1518,9	1555,4
Export share	as %	16,3	15,9	17,4	16,4	19,0	25,6	22,4	25,1	25,2	25,4
Material expenses of total gross revenues	as %	43,3	40,8	38,9	39,5	39,8	42,3	41,9	43,6	43,8	44,5
Personnel expenses of total gross revenues	as %	36,4	39,7	42,7	47,2	47,4	40,6	42,0	42,3	41,7	43,4
Depreciation	(DM million)	58,1	68,6	77,4	76,7	78,7	81,1	68,7	65,8	53,8	58,1
Net income/loss	(DM million)	+ 39,9	+ 39,9	+ 21,0	− 42,1	− 40,6	− 19,6	+ 3,5	+ 8,0	+ 20,2	+ 3,8
Dividends	(DM million)	31,9	31,9	16,0	–	–	–	–	–	–	–
Employees											
annual average	(in thousands)	27,5	28,1	26,5	24,3	23,4	21,5	19,6	18,7	18,1	18,1

Tires





We have maintained our position in the tire market which was still fiercely contested in 1978, and we have expanded in important sectors. This is due to the emphasis we place on quality in our business for the automobile industry and to paying closer attention to the international replacement markets.

The expansion of our market share in the automobile industry required a maximum of quality and precision production in view of the strict terms of acceptance. The technically high standard of the vehicles includes the tire as a component incorporating safety, and specially designed to meet customers' requirements. The releases by the car manufacturers are preceded by extensive test and tuning programs.

In the replacement business, too, our close cooperation with the automobile industry to optimize the tire's quality is of advantage to the consumer. In the replacement markets, the demands for improved quality made by dealers and consumers alike has led to reorientation towards tires suitable as original equipment. We have benefited from this and it adds impetus to our drive towards quality.

In 1978, too, we invested considerable funds in quality improvement and the diversification of our tire program. The high standard we attained leads us to expect the increasing sales trend to continue in the future. The rates of growth achieved in international business with original equippers in specialized trade with our modern passenger car steel-belted tires, truck all-steel tires and tires for motorcycles and materials handling vehicles were, in spite of considerable productivity improvements, not sufficient to balance the increase in costs and the decline in prices. After satisfactory utilization of our capacities and a rise in tire sales by 1% to DM 895 million, corresponding to a share of about 59% of the total sales made by the parent company, this division closed its annual accounts with a loss higher than that of the previous year.

Passenger Car Tires

The Continental tire development has especially concentrated on the improvement of the economy and the performance potentials of our HR and VR tires (for speeds up to and over 210 km/h) in the year under review. Being among the few suppliers, we again played an important role in this sector.

In line with our intention of keeping our products at the highest standard of modern technology we completed our reliable SR tire series for speeds up to 180 km/h. With considerably improved aquaplaning qualities these tires occupy a leading position on the international market. In 1978 they passed a remarkable test in a spectacular round-the-world trip with the new Audi 100 5 D. This vehicle used only one set of standard Conti steel-belted tires on its world trip driven at rally speed. After this world trip on mainly impassable roads the tires still had a remaining tread depth equivalent to a third of that of a new tire.

As a leading supplier, Conti took part in a greater proportion in this year's winter tire business, which was marked by a considerable decline in prices. The Conti Contact TS 730 is one of the few winter tires explicitly recommended by original equippers. Abroad we offer a studdable version of the TS 730 E. Studded tires are permitted in Belgium, Denmark, Finland, France, Great Britain, Italy, Norway, Austria, Switzerland, Sweden, Spain, Yugoslavia, Canada and in some states in the U.S.A. Demands for a relaxation of the ban on studded tires in the Federal Republic of Germany were repeatedly and urgently expressed last winter. Special permission for ambulances of private and public welfare organisations and for doctors' cars was particularly requested. We heavily support these requests. We think a general ban on studded tires in the Federal Republic is no longer justified, as studded tires of the new generation, developed in co-operation with leading European stud manufacturers, have a proven road wear of 75% to 90% lower than their predecessors.

Two-Wheeler Tires

Continental holds a leading market position with its "twin" motorbike tires. This concept is based on the matched tread patterns of front wheel and rear wheel tires for a balanced handling of the motorbike. After the extension of the program in the high speed H categories (up to 210 km/h) and V categories (over 210 km/h) we are offering a product range which was successfully marketed worldwide despite unfavorable currency rates.

In the U.S.A. we are an important supplier of motorbike road tires. The trend towards a tubeless motorbike tire, originating in the American market, was contributed to by us.

Within our tire program for bicycles, motor driven cycles and mopeds, Continental tubular tires are a quality term in international cycling competitions. In 1978 numerous national and world championships were won with these special tires.

Commercial Vehicle Tires

We made considerable production progress in the commercial vehicle tires' sector and increased our share in all-steel belted tires in 5% and 15% tapered constructions favored by the market. Because of their high production qualtiy and running performance these tires are enjoying increasing sales at original equippers and on the replacement markets.

After a two-year test period and approximately ten million test kilometers our all-steel belted tire Transcontinental RS 415-N was introduced on the market in the year under review. This is an economical all-round tire which can be fitted on free-wheel and powered axles. The Transcontinental is especially beneficial to the environment because of reduced tread noises.

The development of new economical bus tires for speeds up to 130 km/h was successfully completed.

In the sector tires for materials handling vehicles we expanded our program and consolidated our existing strong position.

For general purpose vehicles and smaller military vehicles we developed a multi-purpose tire in an all-steel radial version. This is a mean-pressure tire which exerts very low pressure on the ground and has good cross-country mobility.

The trend towards heavier aggregates for agricultural machinery led to the expansion of our radial tire program.

Outlook

We will produce quality without any compromises in the future too. The features of tires will necessarily increasingly be determined by considerations of energy and environmental protection. As far as passenger car tires are concerned, our main aims are the reduction of road resistance and weight and the further improvement of suspension and the decreasing of noise levels. The main goal in the development of commercial vehicle tires is an improvement in economy and a reduction of the rolling noise. With motorbike tires, emphasis has been put on the improvement of directional control at top speeds.

The first months of 1979 were marked by continued keen competition. However in the first quarter we succeeded in increasing sales by 10% mainly in the international original equipment and the domestic replacement business. The considerable recent price increases in raw materials necessitated an increase in our sales' prices.

In accordance with the high quality standards of our products, from March 16, 1979 we were the first tire manufacturer to guarantee the production tolerances of our passenger car tires in the domestic replacement business previously only reserved for the automobile industry.

The new company quality guarantee extends beyond the warranty conditions and explicitly includes the uniformity values. All tires in the category 1 A are now marked with a circular band, showing the tire identification and containing the guarantee conditions card for the customer.

Technical Products

This division produces approximately 10,000 different rubber and plastic products mainly for industrial users, like vehicle manufacturers, machine and equipment manufacturers, and the mining and printing industry.

Despite keen competition in most product groups and the relocation of the production of some items to the subsidiaries, sales increased by 3% to DM 622 million. Technical products made up 41% (40% in the previous year) of sales. The division achieved a positive result, however, under that of the previous year.

We were able to further expand our market position in business with domestic and foreign automobile producers and the automobile ancillary industry. Deliveries to E.C. countries increased slightly, while sales in other markets decreased. The export share remained unchanged at 18%.

To improve the effectiveness of our work, the development, production and marketing divisions were organized into eight product-related groups with decentralized profit responsibility. Modernization of our plants for production processes required considerable funds. The restructuring process has not yet been completed.

The product groups have undergone the following development:

Conveyor Belting

The sales development was again strongly influenced by individual big ticket orders. While brown coal mining invested in the opening up of new open-cut mines, and thus again ordered more conveyor beltings, the German stone coal mining demand decreased due to the economically unfavorable situation of the iron and steel industry. With world-wide unsatisfactorily utilized capacities, prices came under pressure and impaired our profit situation.

With our technically sophisticated steel-cable and textile belts' program we are one of the leading suppliers in the world market. High-tensile PVC belts were recently introduced into our production program for the stone coal mining. Our investments were mainly used for rationalisation, continued quality improvement and the strengthening of our development capacities.

Treated fabrics

We gained a significant increase in sales in printing blankets mainly used by major printers for the production of newspapers, magazines and catalogues in the offset process.

Continental boat materials used for the production of inflatable craft and life-rafts for civil and military use, achieved satisfactory growth rates.

We profited from good employment in the automobile industry in sales of our rubberized diaphragm fabrics for membranes, that is paper-thin, sealing, flexible sheets installed in fuel pumps, carburetors, power pumps and brake boosters.

Our business in dunnage bags and pillow tanks took a satisfactory course as well as other fabricated products made of rubberized textiles for the technical sector. We produce tanks with a capacity up to 18,000 liters for economical transport of fluids in containers.

Industrial Hoses

Our business in motor vehicle and hydraulic hoses was brisk, while product groups like industrial and construction industry hoses were impaired by imports from countries producing at lower costs. All in all we just achieved the figures of the previous year.

The main area of development and investments was in the sector high pressure hoses, which are installed into the hydraulic systems of construction machines, machine tools and the mining industry.

We were able to improve our market position in high and extra high pressure hoses and in brake and refueling hoses by marketing our hoses with couplings and connecting fittings.

Molded goods

This product group has particularly specialized in the requirements of the automotive industry for which sealing and spring elements are manufactured. Molded goods of rubber and plastic in vehicles are especially used as suspension elements and for noise suppression to improve comfort and safety.

The good utilization of capacities in the vehicle manufacturing industry had positive effects on this product group as well. Despite the exchange rate development and the strong cost differential compared to the customer countries, we managed to do business with foreign automobile manufacturers and the vehicle manufacturing ancillary industry as well.

The insufficient investment propensity of the German and West-European industry did not achieve the expected briskness in the machine tooling and appliance production. In contrast, some of the household appliances' lines developed positively. All in all sales decreased due to structural reorganizational measures.

Drive elements

With newly developed and improved products we were able to increase sales, despite keener price competition, and consolidated our position with our customers. The new generation of raw-edge V-belts, introduced onto the market by us, is characterized for low weights by long running times, high temperature resistance, low elongation and smooth running. Not only are they used in vehicle manufacture but also increasingly in the agricultural machinery and machine tooling industries as well.

Sales of rubber toothed belts, manufactured by a new process, developed favorably. These rubber toothed belts are used for driving office machines and overhead camshafts in vehicle engine production.

Our small and efficient drive belts for household appliances, the phono and photo industries also sold well.

Extruded sections

Domestically sales of rubber sealings increased due to brisker demand especially in the vehicle manufacturing industry and commercial trade. Despite currency obstacles we are beginning to supply foreign automobile manufacturers as well.

Besides the vehicle manufacturing industry, the general machine tooling and the construction sector comprise the main customer groups. Our sealings for window and facade construction are of particular importance with regard to energy saving.

Air springs and compensators

Because of its manifold technical applications, air suspension is increasingly being used for road and rail vehicles domestically and abroad. The sales' target was not quite achieved on account of the production cuts by important customers due to the business cycle. We have expanded our development and test facilities in view of the tendency towards an increasing demand.

Sales of compensators developed positively. These bellow-shaped rubber bodies are used for equalization of longditudinal and lateral shifts as well as for noise and vibration damping in pipe systems, and in the construction of plants and in shipbuilding.

Special Products

Flexible foam: This high-grade material made of polyurethane is mainly used for upholstery in the vehicle manufacture and furniture industry and for mattress production. We did not quite reach the sales of the previous year owing to a receding demand – especially in the upholstery industry – and the use of substitute materials.

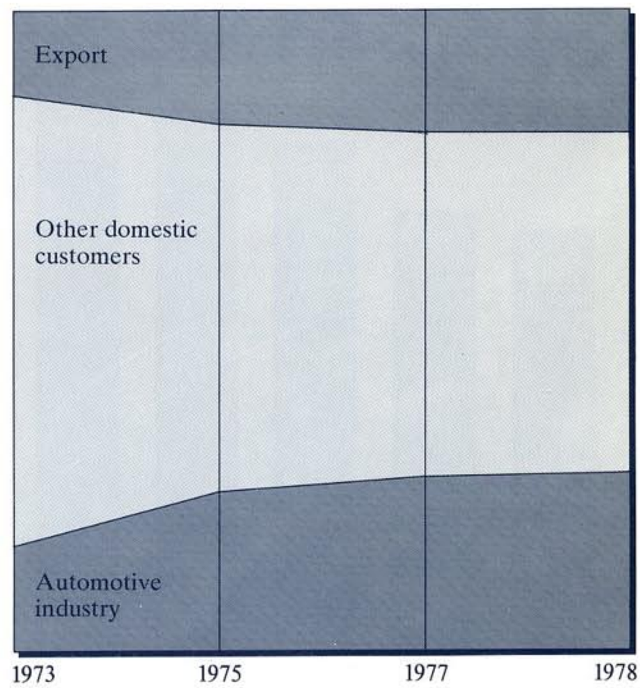
Conticell: We achieved satisfactory sales with this rigid foam produced on a PVC basis. Conticell is used where dynamic stress is important and good lightweight insulation is required like in glider production, aerofoils, refrigerated trucks and surf boards.

Foot wear: We restricted our program to sport shoes, safety footwear and repair material. This program streamlining resulted in a higher market participation in spite of a generally stagnating demand.

Hard Rubber Battery Containers: In this diminishing line we maintained our sales owing to the takeover of the residual productions of some competitors. Hard rubber is increasingly being replaced by plastics in the production of battery containers.

Typewriter Platen Shells: Internationally we are one of the most important suppliers to the typewriter industry and sales increased compared to the previous year.

Development by Groups of Customers
100 %



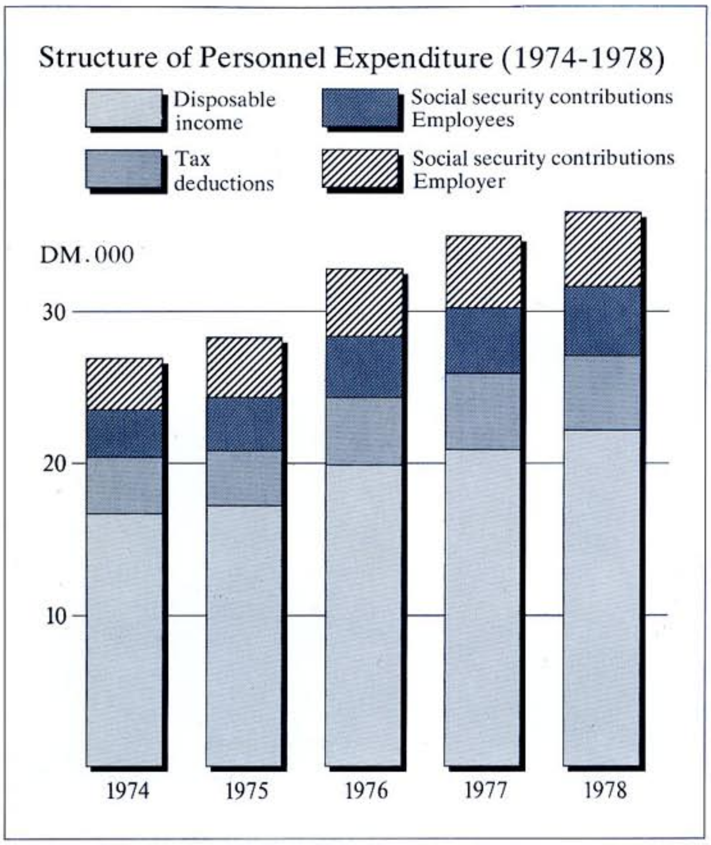
Medical Products: Our Contimed program which includes blood pressure sleeves, ice packs and hot water bottles is well-placed in the market. Sales were increased.

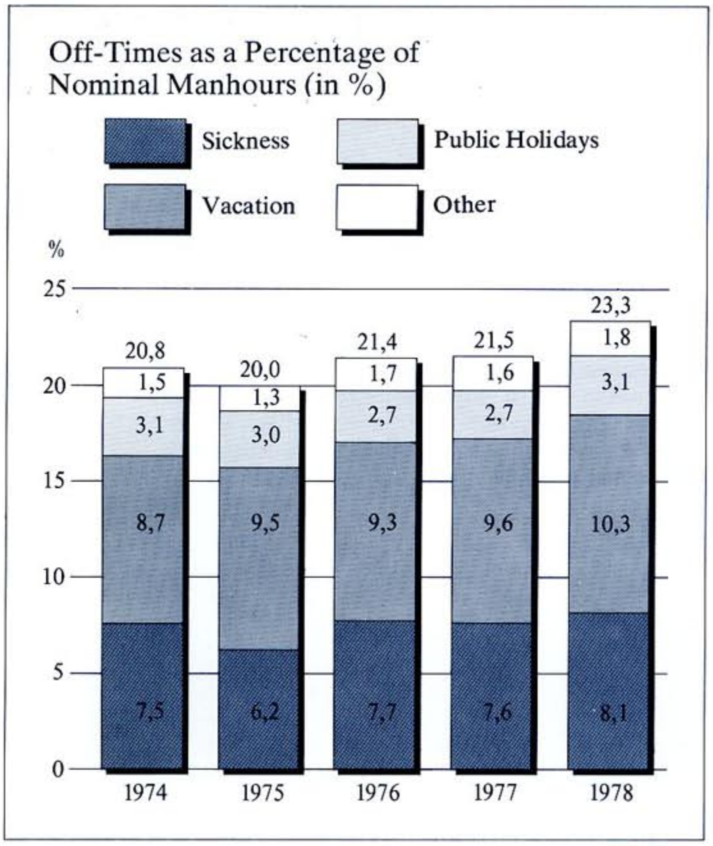
Outlook

Keener price competition especially for standard products can be expected owing to intensified activities of the rubber-processing industry in the technical products' sector. We therefore continued concentrating our development potential on technologically sophisticated product groups.

We improved sales by 4 % in the first quarter of 1979. This growth was gained exclusively in the domestic business. Some considerable price markups in raw materials have forced us to add corresponding materials surcharges to the rates of our technical products.

Employees





With satisfactory utilisation of our plants, the number of employees remained virtually stable. The number of employees who left in the course of the natural turnover of personnel have been replaced by younger employees to counteract the trend of an increasing average age of our workforce.

The number of people employed on annual average decreased by only 0.4 % to 18,059. As of December 31, 17,928 (18,173 in the previous year) people were employed by the company. Compared to the previous year, the number of foreign employees remained practically unchanged at 2,629. The largest foreign contingents are Turks, Greeks and Yugoslavs.

With the inter-plant filling of vacancies, nearly 1,000 people have been transferred to other jobs. These measures demanded a high degree of mobility from the workforce.

Personnel Expenses

In 1978 sales per employee increased from DM 83,800 to 86,100. Personnel expenses increased by 3.9 % to DM 679 million despite the further slight reduction in the number of employees. Personnel expenses per head are 4.3 % higher than the previous year. As a percentage of the total gross revenues of the parent company, the share of personnel expenses amounted to 43.4 % (41.7 % in the previous year).

	1977	1978
Personnel expenses (in DM million)	652.8	678.5
Change (in %)	+ 3.9	+ 3.9
Personnel expenses per employee (in DM)	36,013	37,573
Change (in %)	+ 7.0	+ 4.3

Personnel expenses per head increased in all by 34.9 % from 1974 to 1978. Social security contributions and deductions for wage tax and church tax increased even more in this period. The increase in net income per employee was accordlingly lower.

Total payroll deductions of our employees increased from 29.0 % to 29.9 % of gross income from 1974 to 1978 (see chart).

Pay Rises

As of July 1, 1978, wages and salaries were increased by 4.5 %. Additionally, the pay negotiators agreed on a redrafting of the job-security agreement which especially protects older employees against salary cuts. The negotiations were settled only after an arbitration court ruling. We regret that it was oriented more towards the general going rate than to the particularly difficult situation in our industry.

The pay rise, taken in combination with tax reliefs introduced at the same time, resulted in a significant increase in real income for our employees. The extended vacation rights, also effective for 1978, are based on an agreement between the tariff negotiators previously negotiated in 1977.

Off-times

The share of off-times in relation to the nominal man hours increased further. Time-off due to sickness rose from 7.6 % to 8.1 % and time-off for vacations advanced from 9.6% to 10.3%. Additionally there was a greater number of public holidays. This resulted in an increase in personnel expenses per working hour by 7.5 % which is thus considerably in excess of the increase in the personnel expenses per head.

Due to the labor dispute in the metal industry we had to work short time in some production sectors in spring, losing 0.6 % of nominal man hours.

Development of Off-Times

As shown on the graph on page 12, the share of paid off-times has been steadily increasing since 1975. This trend is mainly due to the policy for longer vacations adopted by successive pay commissions.

Job Training

Approximately 200 young people are being trained in our plants in Hannover, Northeim and Korbach. We offer training facilities in four commercial and eleven technical occupations. Emphasis is placed on training specialists in rubber technology.

For the first time in 1978 28 girls began training in technical apprenticeships. The project, which has gained wide public approval, is being supported by the Federal and State governments. The girls adapted well to the training centres and laboratories and the program has proved a success. We intend to select a second group of girls for this program at the end of 1979 for apprenticeships for fitting and turning, universal milling, steel casting, measuring and regulating mechanics, and rubber processing.

Further Training

Nearly 1,400 employees took part in further training programs. We increased the number of trainees entering for the Chamber of Commerce's master examinations. We also continued the systemization of training procedures. We attach great importance to the further training of our present and future management.

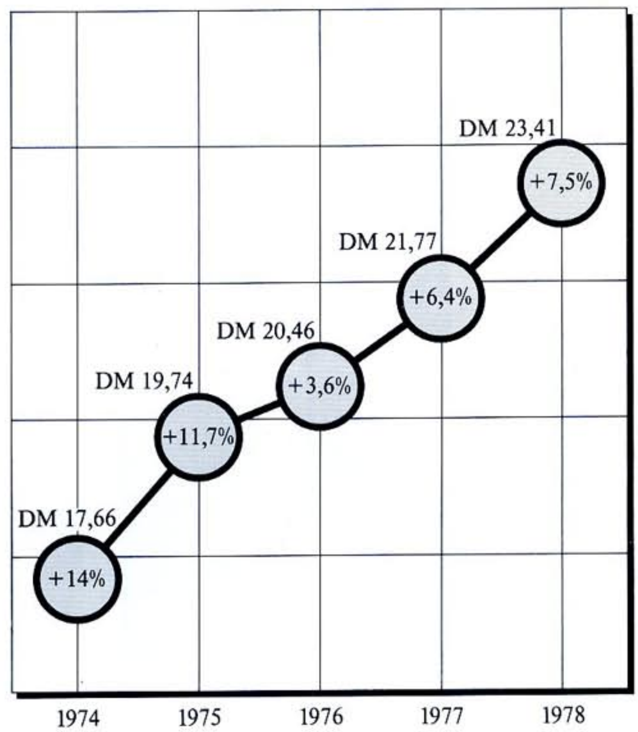
Improvement Suggestions

With more than 1,200 suggestions, our employees again contributed to the improvement of production operations and methods.

Safety at Work

It is gratifying to record that the number of accidents at work which had to be reported continued to decrease, although the number of minor accidents is still too high.

Personnel Expenses per Hour Worked



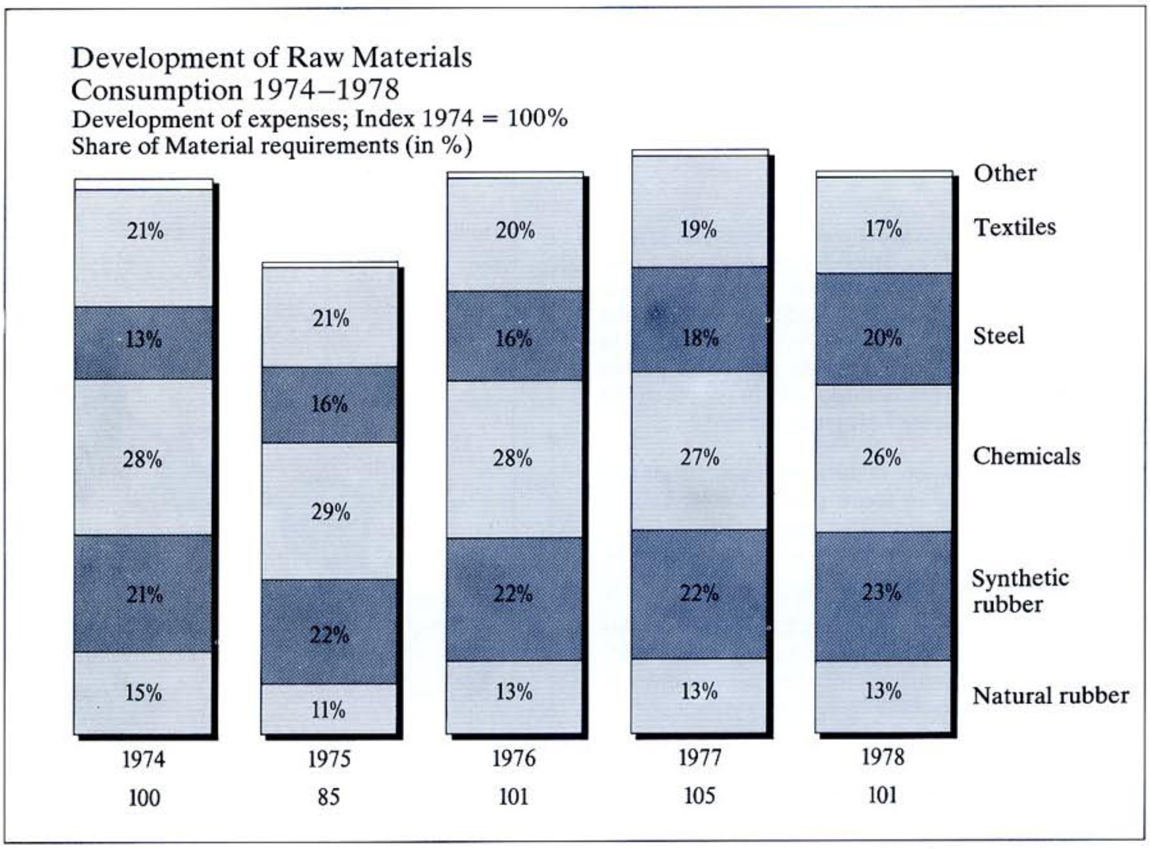
The safety competition, held in agreement with the Labor Council in three plants to prevent industrial accidents, showed outstanding results. There was a reduction in the accident rate by 10%.

Jubilarians

In 1978, more than 500 employees celebrated their twenty-fifth or fortieth anniversary with the company. There was one employee who completed fifty years of working at Continental.

We are much obliged to our employees and the Labor Council for the work they have done which is to be praised all the more, as our industry again had to cope with considerable difficulties.

Purchasing



On account of the restrictive market policies of the producer countries, the supply of rubber was lower than the consumption. This deficit and the current negotiations on a price regulating international agreement stimulated the demand. This resulted in price increases which could not be covered by the high value of the DM.

The prices for steel cord have also risen due to the worldwide production increase of passenger car steel-belted tires and all-steel truck tires. Chemical raw materials and synthetic load carrying elements were affected by a price stabilization trend because of increasing competition on these markets and structural and economic growth rate influences.

Expenses for raw materials, supplies and purchased merchandise rose by 1.5% to DM 696 million in 1978, accounting for 44.5% (43.8% in the previous year) of the total gross revenues. Two thirds of the material expenses were for raw materials and one third for trading stock, services and supplies.

Modifications in requirement composition were only slight. As far as the material consumption is concerned, the one exception to this is that the share of steel cord has surpassed the share of textile plies owing to the steeply increased production of steel-belted tires for passenger cars and all-steel tires for trucks.

We are being faced with a flood of price rises for raw materials similar to the one experienced in 1973. At the present time we anticipate average price markups of 20% for petrochemical primary products, which account for roughly two thirds of our expenses for raw materials and supplies. Solvents will increase in price up to 50% and raw materials for the foam production even up to 80%. The reasons for this are the shortage of naphtha and some aromatics as well as price increases for crude oil resolved by the OPEC countries and meanwhile in force. Besides this, the price for natural rubber rose by nearly 20% compared with the annual average in 1978.

Subsidiaries and Related Companies

The financial position of the related companies improved, although again in 1978 not all companies achieved positive results. Diverse problems have to be overcome in the concern. The same could be said for the parent company. Additionally enormous difficulties exist regarding costs and financing in Spain and Brazil owing to high inflation rates.

Effective July 1, 1978, we took over all the shareholdings of the Techno-Chemie Kessler & Co. GmbH, Mörfelden. This company, one of the most important hose couplers in the Federal Republic of Germany, achieved sales of DM 50.1 million. The acquisition of this company provides new possibilities for us in the field of industrial hose. Increasing automation has led to a world-wide increasing use of hydraulics, an important market sector for our hose business. This market sector provides diverse points of contact in other fields like high-grade precision parts for the braking systems of the automotive industry.

From December 31, 1978, we disposed of our 50% interest in the Rhein-Conti Kunststoff-Technik GmbH, as the production program was outside the strategically important product range of our concern.

In the course of the reorganization of our investments in the Göppinger Kaliko group, we disposed of our interests in the Kötitzer Ledertuch- und Wachstuch-Werke AG at the beginning of 1978. Our participation in Göppinger Kaliko- und Kunstleder-Werke GmbH increased by 5.6 percentage points to 93.8% due to the increase in capital at the beginning of 1979.

We are still concerned about our subsidiaries Continental Caucho España SA in Barcelona, Labortex Ltda. in Santo André/Brazil and Continental-Alsa Schuhbedarf GmbH in Ürzell, all 100% subsidiaries. These companies will require continued substantial efforts to achieve positive results. In 1978 we again had to allocate substantial capital grants to cover losses of the Continental Caucho España SA.

The capital of the Continental Industrias del Caucho SA was raised to Pta. 363.8 million at the beginning of 1979, increasing our interests to 98.3%.

On December 31, 1978, over ten thousand people were employed by our concern's subsidiaries and related companies. Non-consolidated sales of these companies amounted to DM 1,230 million. Sales increased by 2.4% after adjusting Techno-Chemie Kessler & Co. GmbH., Continental Gummi GmbH in Austria and Continental Products Corporation in the USA; they were incorporated into the concern in 1978 and started up operations in the year under review.

Domestic Marketing and Production Companies

CONTINENTAL-ALSA SCHUHBEDARF GMBH, ÜRZELL/SCHLÜCHTERN
formerly: ALSA SCHUHBEDARF GMBH

Common Stock: DM 0.5 million
Interest: 100%
Personnel: 228
Business activity: Production and marketing of footwear and plastic articles and casual and sport shoes.

The production capacities were not fully utilized due to structural changes in the German shoe industry. Consequently sales decreased again compared with the previous year. The company therefore had to suffer a loss again, which was compensated for by the parent company in line with the existing profit and loss absorbtion agreement. To reach a long-term solution of the existing problems, we have centralized the rubber moulded soles' business of Continental in Ürzell, effective January 1, 1979 and thus have streamlined the production sector moulded soles and footwear articles in the concern and put it under one management.

AUTOREIFEN VERGÖLST, NEUGUMMIERUNGSWERKE GMBH, BAD NAUHEIM

Common stock: DM 20.0 million
Interest: 99.125%
Personnel: 1,669
Business activity: tire retreading and marketing of all brands of new tires.

Despite the difficulties in the German tire trade and continuing excess capacities for retreading, the company again achieved profits.

CLOUTH GUMMIWERKE AG, KÖLN

Common stock: DM 12.0 million
Interest: 50%
Personnel: 1,600
Business activity: production and marketing of conveyor belting, rubber and plastic molded goods, rubberized fabrics, tank linings and hoses.

Sales were increased by 3.6%. Intensive rationalization and economy measures improved the cost structure. The former earning power, however, has not yet been reached again as a result of these measures.

DEUTSCHE SCHLAUCHBOOTFABRIK HANS SCHEIBERT, ESCHERSHAUSEN

Capital: DM 3.0 million
Interest: 60%
Personnel: 207
Business activity: production and marketing of inflatable boats and inflatable life rafts.

Due to low sales in some boats' classes, sales decreased, also reducing the net income.

DRAHTCORD SAAR GMBH & CO. KG, MERZIG/SAAR

Capital:	DM 30 million
Interest:	33.33%
Personnel:	803

Business activity: production of wire and wire cords as primary products for the tire industry.

Sales increases, streamlining of the product range and further rationalization measures enabled a good result to be achieved again this year.

GÖPPINGER KALIKO- UND KUNSTLEDER-WERKE GMBH, EISLINGEN

Common stock:	DM 16.0 million
Interest:	93.8%
Personnel:	913

VEREINIGTE GÖPPINGER-BAMBERGER KALIKO GMBH, BAMBERG

Common stock:	DM 3.0 million
Interest:	93.8%
Personnel:	168

Business activity: production and marketing of imitation leather sheeting, plastic films, foam articles, book-binding materials, window shade materials and industrial fabrics.

Despite stagnating sales, the Kaliko Group achieved an increase in profit, resulting from rationalization measures and streamlining of the product program.

Capital budgets have been introduced to extend or modernize the existing production facilities and to extend the product range.

KA-RI-FIX TRANSPORTBAND-TECHNIK GMBH, BERGHEIM

Common stock:	DM 0.02 million
Interest:	100%
Personnel:	63

Business activity: processing, repair and marketing of conveyor beltings and conveyor belting accessories.

The company achieved a balanced result.

KG DEUTSCHE GASRUSSWERKE GMBH & CO, DORTMUND

Capital:	DM 8.0 million
Interest:	22.5%
Personnel:	223

Business activity: production of furnace black and gas black as primary products for the tire industry.

The company again reached a satisfactory result due to productivity improvements.

TECHNO-CHEMIE KESSLER & CO GMBH, MÖRFELDEN

Common stock:	DM 15.0 million
Interest:	100%
Personnel:	440

Business activity: production and marketing of hose assemblies as well as hose fittings and couplings.

The newly acquired company worked with a satisfactory income.

Foreign Production Companies

CONTI-CALAN (PTY.) LTD., JOHANNESBURG/SOUTH AFRICA

Capital:	Rand 0.86 million
Interest:	50%
Personnel:	1,310

Business activity: production and marketing of rubber molded goods, extrusions, work and safety footwear, tank lining and battery boxes.

Despite difficult market conditions and the restricted economic situation, sales and profit developed satisfactorily. Pleasing results are also expected in the future due to continuous capital expenditures for restructuring and rationalization of the production facilities.

CONTINENTAL CAUCHO ESPAÑA SA, BARCELONA/SPAIN
formerly: ESPECIALIDADES DEL CAUCHO SA

Capital:	Pta 706.0 million
Interest:	100%
Personnel:	457

Business activity: production and marketing of rubber molded goods, extrusions and rubber matting.

The company suffered a set back and closed its accounts with a loss. To overcome the existing difficulties, numerous measures were initiated. Despite this, a loss is to be expected again in 1979.

CONTINENTAL INDUSTRIAS DEL CAUCHO SA, MADRID/SPAIN

Capital:	Pta 363.837 million
Interest:	98.3%
Personnel:	290

Business activity: tire retreading, production of solid rubber and super-elastic (CSE) tires.

For the first time in years, the company again showed profits, after completion of rationalization and restructuring measures executed with the assistance of our subsidiary Vergölst. We are confident that we will achieve further progress in the current business year.

LABORTEX LTDA,
SANTO ANDRÉ/BRAZIL

Capital: Cr 40.0 million
Interest: 100%
Personnel: 744
Business activity: production and marketing of rubber molded goods, extrusions, V-belts, hoses and textile machine accessories.

The cumulation of production difficulties, a weak business cycle and extraordinarily high financing costs resulted in a loss. Additionally, a part of the production and storage facilities were destroyed by fire in December 1978 so that the ensuing production interruptions will show their effect in sales and results in 1979, too.

CONTINENTAL FRANCE SARL,
SARREGUEMINES/FRANCE
formerly: USINE FRANÇAISE DES PNEUMATIQUES CONTINENTAL SARL

Capital: FF 57.5 million
Interest: 100%
Personnel: 1,100
Business activity: production of tires, marketing of tires and technical products.

As in the previous year, the production facilities were fully utilized. Sales were further increased. Due to keen price competition on all European tire markets, the cost increases incurred externally could not be fully compensated for and resulted in a slight loss.

Foreign Marketing Companies

CONTINENTAL SPA PNEUMATICI PRODOTTI DI GOMMA E PLASTICI, MILAN/ITALY

Capital: Lire 300.0 million
Interest: 100%
Personnel: 86

CONTINENTAL TYRE AND RUBBER COMPANY LTD, LONDON/GREAT BRITAIN

Capital: £ 0.05 million
Interest: 100%
Personnel: 92

CONTINENTAL GUMMI AB,
SOLNA/SWEDEN

Capital: Skr 0.1 million
Interest: 100%
Personnel: 41

CONTINENTAL CAOUTCHOUC (SUISSE) SA,
ZÜRICH/SWITZERLAND

Capital: Sfr 1.0 million
Interest: 100%
Personnel: 103

CONTINENTAL PRODUCTS CORPORATION,
LYNDHURST/USA

Capital: $ 0.5 million
Interest: 100%
Personnel: 45

CONTINENTAL GUMMI GESELLSCHAFT MBH, VÖSENDORF/AUSTRIA

Capital: öS 3.0 million
Interest: 100%
Personnel: 60

Business activity: marketing of tires and technical products.

All foreign marketing companies achieved sales increases. Because of start-up losses in Austria, the total result of these companies is slightly negative.

General view

1. Consolidated companies

	Stated Capital	Interest in %
Continental-ALSA Schuhbedarf GmbH, Ürzell/Schlüchtern*)	DM 500 000,–	100
Autoreifen Vergölst, Neugummierungswerke GmbH, Bad Nauheim*) .	DM 20 000 000,–	99,125
Continental Caoutchouc-Compagnie GmbH, Hannover*)	DM 250 000,–	100
Continental Caoutchouc-Export-Aktiengesellschaft, Hannover*) . . .	DM 800 000,–	100
Conti Versicherungsdienst GmbH, Hannover*)	DM 20 000,–	100
Deutsche Schlauchbootfabrik Hans Scheibert, Eschershausen	DM 3 000 000,–	60
Formpolster GmbH, Hannover*)	DM 20 000,–	100
Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen*) . . .	DM 8 100 000,–	88,167
Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH., Hannover*)	DM 3 500 000,–	100
Wilh. Leo's Nachf. GmbH, Stuttgart	DM 420 000,–	44,965
Techno-Chemie Kessler & Co GmbH, Mörfelden*)	DM 15 000 000,–	100
Union-Mittelland-Gummi-GmbH, Hannover*)	DM 25 000,–	100
Vereinigte Göppinger-Bamberger Kaliko GmbH, Bamberg	DM 3 000 000,–	88,167

*) Profit and loss absorption agreements exist with these companies.

2. Non-consolidated companies

2.1. Domestic

	Stated Capital		Interest in %
Clouth Gummiwerke AG, Köln	DM	12 000 000,–	50
Deutsche Gasrußwerke GmbH, Dortmund	DM	250 000,–	28,76
Drahtcord Saar Geschäftsführungs-GmbH, Merzig/Saar	DM	60 000,–	33,333
Drahtcord Saar GmbH & Co., KG, Merzig/Saar	DM	30 000 000,–	33,333
KA-RI-FIX Transportband-Technik GmbH, Bergheim**)	DM	20 000,–	100
KG Deutsche Gasrußwerke GmbH & Co., Dortmund	DM	8 000 000,–	22,5
Unterstützungskasse mbH der Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen**)	DM	20 000,–	88,167
Reifen-Friedenburg KG, Troisdorf**)	DM	90 000,–	66,08
Reifen-Stötzel KG, Hüttental-Weidenau**)	DM	60 000,–	66,08
Wohnbau Kaliko GmbH, Eislingen**)	DM	40 000,–	88,167
Wohnungsbau Salach GmbH, Salach**)	DM	20 000,–	52,9

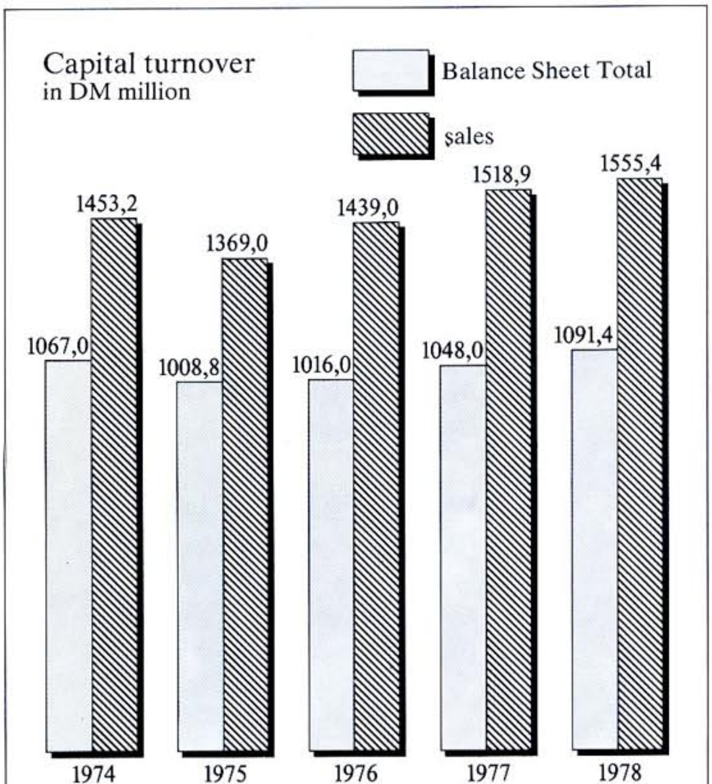
2.2. Foreign

	Currency		Interest in %
Conti-Calan (PTY) Ltd., Johannesburg/South Africa	Rand	860 000	50
Continental Caoutchouc (Suisse) SA, Zürich/Switzerland	sfr	1 000 000	100
Continental Caucho España SA, Gavá/Barcelona/Spain	Pta	706 000 000	100
Continental France SARL, Sarreguemines/France	FF	57 500 000	100
Continental Gummi AB, Solna/Sweden	skr	100 000	100
Continental Gummi Gesellschaft mbH, Vösendorf/Austria	öS	3 000 000	100
Continental Industrias del Caucho SA, Coslada/Madrid/Spain	Pta	253 837 000	97,58
Continental Products Corporation, Lyndhurst/N.J./USA	$	500 000	100
Continental SpA, Pneumatici Prodotti di Gomma e Plastici, Milan/Italy	Lire	300 000 000	100
Continental Tyre and Rubber Company Ltd., London/Great Britain	£	50 000	100
Corrosive Resistant Coatings (CRC) Ltd., Johannesburg/South Africa	Rand	40 000	50
D. I. Fram & Comp. Ltd., Johannesburg/South Africa	Rand	800 000	50
Ferroplastic & Rubber Industries Ltd., Johannesburg/South Africa	Rand	330 000	50
Labortex Ltda., Santo André/São Paulo/Brazil	Cr	40 000 000	100
Tensile Rubber Ltd., Johannesburg/South Africa	Rand	9 000	50
Triple »A« Rubber Co. Ltd., Durban/South Africa	Rand	8 300	50

Additionally we hold interests in three other companies with insignificant volume of business.

**) Not consolidated pursuant sec. 329,2 AktG (Corporation Law)

Notes on the Annual and Consolidated Financial Statements



Capital turnover ratio				
1,36	1,36	1,42	1,45	1,42

Financial Position and Profit Situation

The balance sheet total of the parent company increased by 4.1% to DM 1091.4 million in the past year and thus for the first time again increased faster than sales (2.4%). As a result, the rate of capital turnover (sales to total capital) decreased slightly from 1.45 to 1.42.

Owing to high additions in tangible fixed assets and financial assets, the share of fixed assets as a percentage of the balance sheet total increased to 51.1% (49% in the previous year). There was a shift in the items inventories and receivables within current assets, their total remaining practically unchanged.

We increased long-term funds including accrued pensions by approximately DM 15.1 million on the shareholders' equity and liability side of the balance sheet. Simultaneously, a refinancing in favor of longer maturities took place. Long-term liabilities, due in less than four years thus decreased from DM 141.7 million to DM 92.3 million. The remaining capital need (DM 34.1 million) was covered by short-term funds.

Although equity capital, including balance sheet profit, increased by DM 3.6 million, the ratio of equity capital decreased from 35.7% to 34.6% because of the higher balance sheet total.

Increased fixed assets were financed with equity capital to 67.6% (72.9% in the previous year). Both, equity capital and long-term liabilities cover fixed assets and inventories.

The self-financing ratio decreased to 46.2% (120.6% in the previous year) due to high capital expenditures and a weak profit situation. The liquidity ratio (short-term receivables and liquid assets in relation to short-term liabilities) of 103.7% (107.1% in the previous year), however, indicates that the company is still well-financed.

In 1978, gross cash flow (according to the DVFA method) amounted to DM 69.8 million, that is 4.5% of sales (7.1% in the previous year). Compared with the previous year's net profit per share of DM 2.80, a loss of DM 1.00 was computed in 1978 according to the DVFA method.

Subject to approval at the shareholders' meeting, the net income of DM 3.8 million will be carried forward. A balance sheet profit of DM 1.4 million has been disclosed in the consolidated balance sheet after offsetting the loss carried forward.

A five-year comparison of the balance sheet structure and application and sources of funds for the year 1978 can be seen in the charts on pages 22 and 24.

Consolidated Group of Companies

The thirteen domestic companies (listed on page 18) in which we have direct or indirect interests of more than fifty percent, are included in the consolidated financial statement. Foreign related companies were not included.

As reported in the previous year we took over the shares of the Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen previously held by Kötitzer Ledertuch- und Wachstuch-Werke AG, Düsseldorf.

Meanwhile we disposed of Kötitz shares at the beginning of 1978, consequently this company has not been included in the scope of consolidation. A new addition is the Techno-Chemie Kessler & Co. GmbH, Mörfelden, acquired in mid – 1978. Eight further companies, in which the concern has majority interests, were not consolidated owing to their small business volume and subordinate importance for the evaluation of the financial position and profit situation.

All consolidated companies balanced as of December 31.

As the consolidated financial statements are mainly influenced by the accounts of the parent corporation, we are commenting on the two annual financial statements jointly as in the previous year. When data refers to the consolidated statements, this is expressly stated.

Balance Sheet

Property, Plant and Equipment

Capital expenditures of the parent company compared to the previous year increased by 26% to DM 78.4 million. Of this, over half is accounted for by the tire sector. Capital expenditures at the consolidated subsidiaries amount to DM 18.9 million. In comparison there are depreciations of DM 56.9 million for the parent company and DM 9.8 million for the subsidiaries.

The additions are allocated to the single plants as follows:

	DM million
Hannover	51.7
Korbach	17.3
Northeim	6.5
Dannenberg	1.1
Sales branch offices and administration	1.8
Total	78.4

The major part of capital expenditures was allocated to replacements, rationalization and quality measures as well as the selected expansion of our production plants for truck tires and promising technical products.

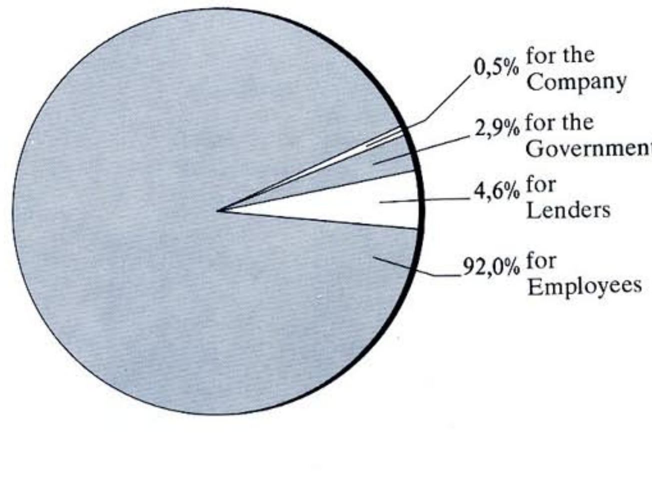
Fixed assets in the consolidated financial statement increased more than for the parent company. Besides Techno-Chemie Kessler & Co. GmbH, Mörfelden, being included for the first time, increased capital expenditures at Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, and at Autoreifen Vergölst, Neugummierungswerke GmbH, Bad Nauheim, were in fact decisive for this.

The methods of depreciation remained unchanged compared to the previous year. Depreciation on movable fixed assets again was calculated according to the straight-line method. The following depreciations were calculated on the additions of the year 1978:

	Additions and transfers DM million	Deprecia-tions DM million
Land and buildings	3.1	0.1
Machinery and equipment	43.3	2.9
Plant and office equipment	27.2	7.3
	73.6	10.3

The revaluation to plants under construction at the parent company refers to a production plant, previously value-adjusted for precautionary reasons, but now fully utilized. Deductions are mainly composed of machinery and land no longer needed. Additionally certain production facilities were transferred to subsidiaries for rationalization purposes and concentration of production at one point. No book profits were entered from these transactions.

Application of Funds 1978
DM 737 000 000 = 100%



Total funds equal gross revenues net of cost of material, depreciation, losses from disposal of fixed assets, losses from profit and loss pooling agreements and other expenses. The amount represents funds originated by the Company. Most of the funds were used for compensating our employees.

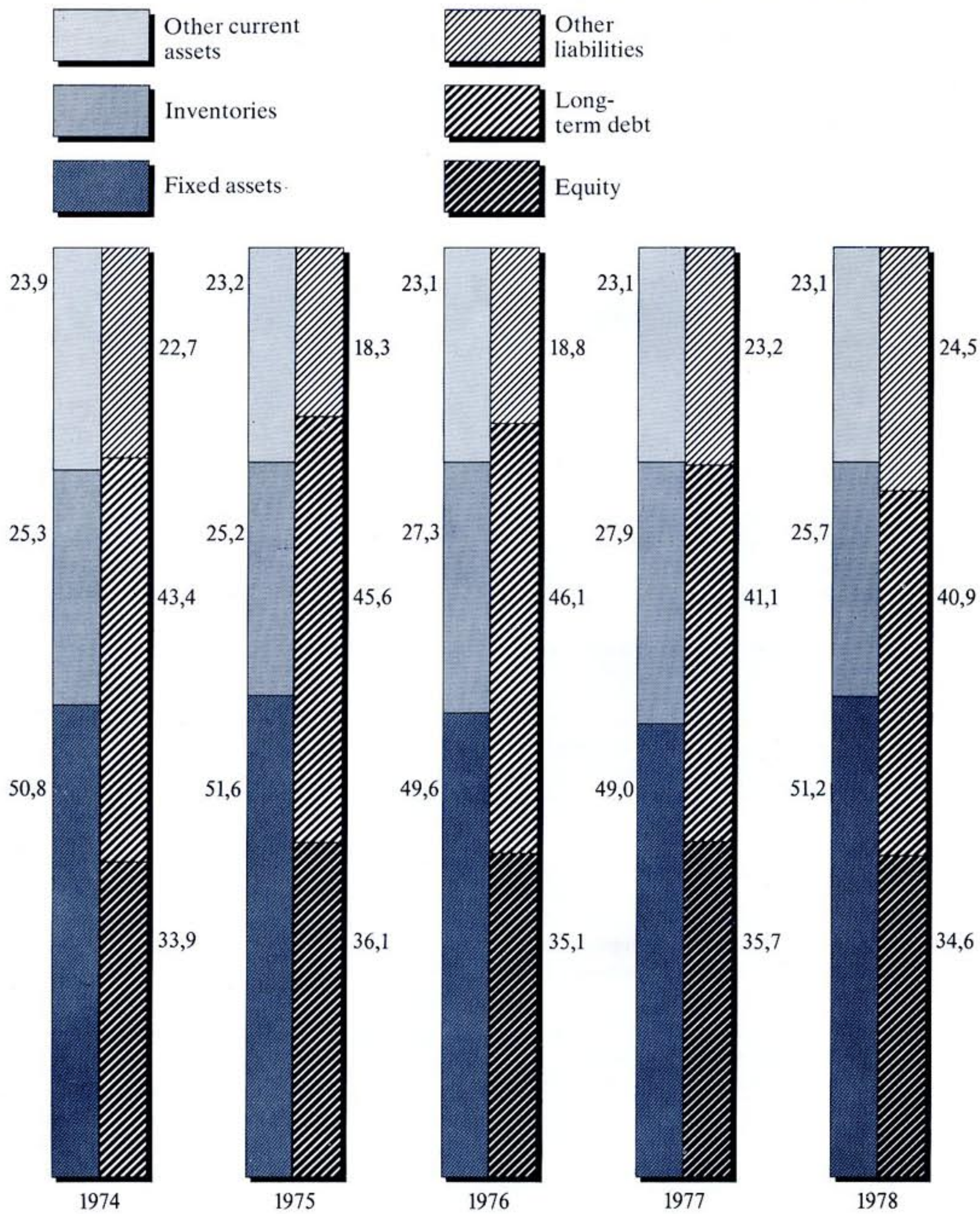
Investments

Net financial assets increased by DM 26.4 million. The following transactions are included: Takeover of the shares in Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, previously held by Kötitzer Ledertuch- und Wachstuch-Werke AG; acquisition of the shares of Techno-Chemie Kessler & Co. GmbH, Mörfelden; sale of participations in Kötitzer Ledertuch- und Wachtuch-Werke AG, Düsseldorf, and Rhein-Conti Kunststoff-Technik GmbH, Heidelberg; write down to investment book value at the Continental Caucho España SA Gava/Barcelona; and the revaluation of housing loans up to their present value.

Development of Balance Sheets

Assets

Liabilities and Shareholders' Equity



Balance Sheet Totals in DM 1.000.000

1974	1975	1976	1977	1978
1067,0*)	1008,8*)	1016,0*)	1048,0	1091,4
Change of %				
−2,6	−5,5	+0,7	+3,1	+4,1

* net of accumulated losses

Difference arising from Consolidation

The difference between the book values of investments (DM 76.5 million) shown in the balance sheet of the parent company and the proportional equity capital of the consolidated subsidiaries (DM 60.2 million) has been entered as a deferred item from consolidation. This mainly refers to acquired latent reserves in the balance sheet of the respective companies. For four consolidated companies the equity capital is above the investment book value, and for six companies below it.

Inventories

After the increase in inventories in the previous year, this item decreased by DM 11.4 million despite further cost increases. In contrast, the inventories in the concern, however, increased by DM 11.3 million, mainly due to the incorporation of the Techno-Chemie Kessler & Co. GmbH, Mörfelden.

The write down of imports pursuant to § 80 EStDV was not taken advantage of in order to utilize the loss carried forward, still existing in tax terms.

Raw materials and supplies were entered at purchase price or the lower reference date prices after deduction of discounts and rebates. Finished goods and work in process were entered unchanged at production cost including proportional production overhead costs. Contingent stock risks resulting from limited realizability or long storage are covered by sufficient adjustments in value.

Receivables

Trade receivables to domestic customers increased owing to high sales in the period before the year's end. The major part of these receivables was due in January and was paid on time. Compared with this, receivables to foreign customers changed only slightly. The increase in receivables in the consolidated balance sheet mainly results from the newly included company.

Merchandise receivables and clearing balances, claims from profit and loss absorption agreements and balances from our central cash management are included in receivables to related companies. This financing procedure in the domestic concern, introduced in 1975 for the short-term sector, proved to be good. The long-term share of these receivables was approximately DM 4.8 million.

The difference pursuant to sec. 160 para. 2 AktG (Corporation Law) is DM 6.7 million (DM 9.2 million in the previous year) having taken into account the tax effects.

Capital and Reserves

Common stock and legal and voluntary reserves remained unchanged compared to the previous year.

Accruals

The pension accrual was based on actuarial calculations using the part value method. The decrease in the other provisions results as the balance from availments of guarantees, dissolution of amounts no longer needed and precautionary additions. The amount disclosed in the balance sheet covers warranties, tax and bonus obligations, contributions to professional associations, risks from contingent liabilities from notes, unsettled contracts as well as other obligations from trade transactions.

Liabilities

Liabilities with a term of at least four years increased by DM 9.5 million. In line with the refinancing started in 1977, we redeemed by drawings three additional series of our fixed interest bearing debentures from 1971 in the year under review, however, at year's end DM 1.75 million had not yet been redeemed. The new credit was taken up on more favorable conditions. Our long-term financing basis has thus been extended.

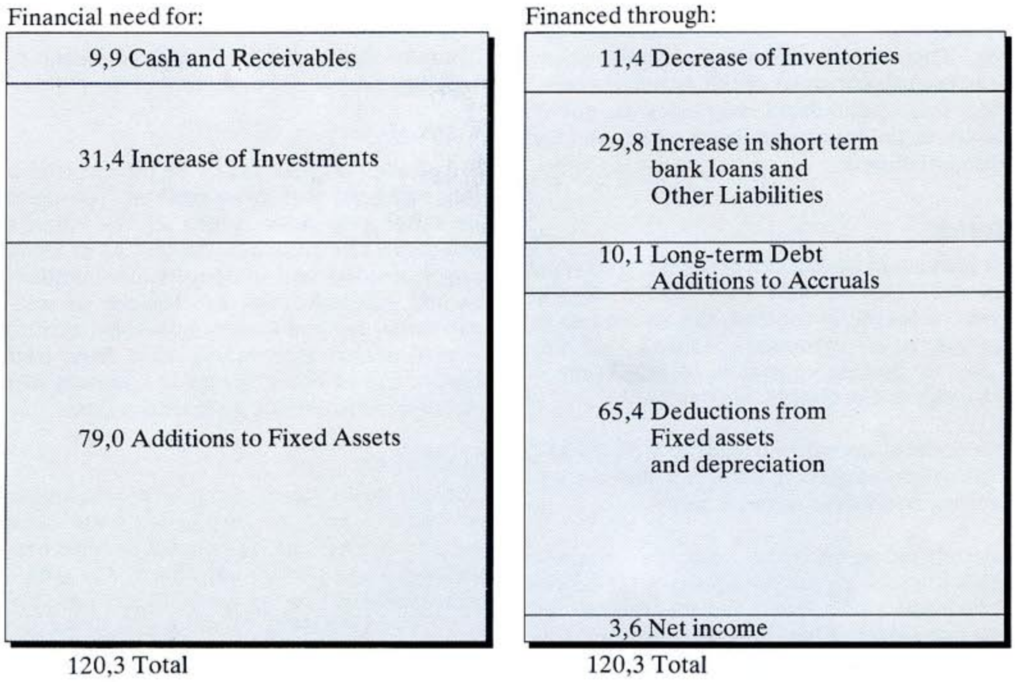
Furthermore we took up additional long-term loans of approximately DM 19 million for the concern and so took into account the growing long-term need for funds.

Within the item current liabilities, the liabilities from notes and the liabilities to banks increased by DM 34.1 million. This item increased less in the consolidated balance sheet than in the balance of the parent company.

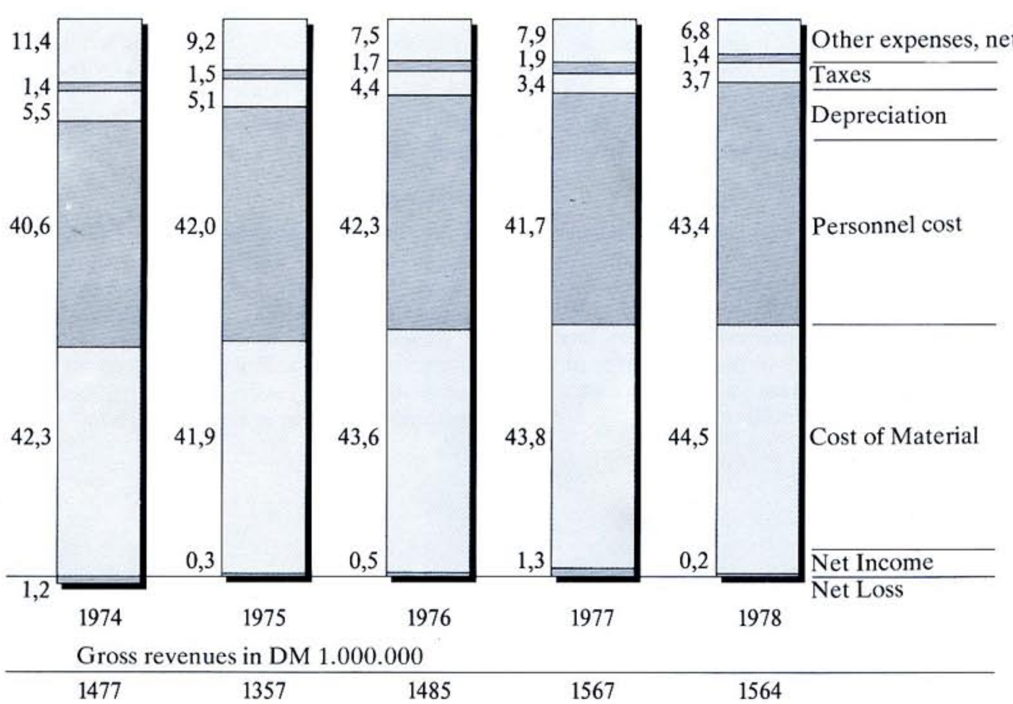
Contingencies

Contingencies from notes amounted to DM 110.5 million (DM 89.0 million in the previous year) at balance sheet date. Guarantees and warranties totalling DM 96.8 million were mainly provided for the financial debts of our subsidiaries and related companies. Outstanding obligations to pay from contributions to capital and obligations towards associations amount to DM 3.1 million.

Financing 1978
DM 1.000.000



Expense Structure
in % of gross revenues



Profit and Loss Statement

Sales (without VAT) increased by 2.4% to DM 1555.4 million. The export share was 25.4% (25.2% in the previous year). Of total sales, the tire sector accounted for 59% and the technical products' sector 41%.

The concern achieved sales of DM 1915 million (+ 3.1%). The newly-acquired company Techno-Chemie Kessler & Co. GmbH, Mörfelden was included in the consolidation pro rata for the last six months.

Because of decreasing inventories, the increase in sales does not achieve the corresponding effect in the total gross revenues. The total gross revenues decreased by 0.2% compared to the previous year. As previously mentioned, the external cost increases could not completely be passed on in the prices again during the year under review. This resulted in increased material expenses of 44.5% of the total gross revenues (43.8% in the previous year) and increased personnel expenses of 43.4% (41.7% in the previous year).

Results for the related companies improved compared to the previous year. This can be said even when including expenses for losses from profit and loss absorption agreements and capital grants to Continental Caucho España SA in Gavá/Barcelona. Expenses for losses from profit and loss absorption agreements include a loss incurred in Continental-Alsa Schuhbedarf GmbH and extraordinary losses from currency conversions for two holding companies.

Profit and loss pooling agreements were made with both Göppinger Kaliko- und Kunstleder-Werke GmbH and Techno-Chemie Kessler & Co. GmbH.

Income from services, reimbursements, rents, leases and other business is included in other income. Extraordinary income includes investment grants, allowances, reimbursed taxes and cancelled value adjustments.

The item "depreciation on current assets" includes precautionary value adjustments for the higher receivables, the previously mentioned write down of receivables to our Spanish subsidiary in Barcelona, as well as smaller losses and exchange rate losses.

Interest expenses increased by DM 1.4 million to DM 30.7 million after balancing with interest income and were 2% (1.9% in the previous year) of the total gross revenues.

Tax expenses were calculated related to the period and above all include net asset-related taxes. This decrease results from lower trade taxes on income. Corporation tax was not incurred due to the corporation tax-related loss carried forward, still existing in 1978.

Costs from production, marketing and administration, for instance repairs, rents, insurance premiums, freight, fees, advertising and agents' costs are included in other expenses. Altogether this item increased only slightly by DM 2.2 million.

The remuneration of the Executive Board amounted to DM 3,158,357 in 1978 and the remuneration of former members of the Executive Board and their surviving dependents amounted to DM 2,108,793. We paid DM 33,000 to the Supervisory Board.

Hannover, March 19, 1979

Continental
Gummi-Werke Aktiengesellschaft

The Executive Board

Carl H. Hahn   Peter Haverbeck   Gerhard Lohaus

Julius Peter   Wilhelm Schäfer   Horst W. Urban   Hans Georg Wenderoth

Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, December 31, 1978

Assets	December 31, 1978 DM	DM	DM	December 31, 1977 DM 1000
I. Fixed Assets				
A. Property, Plant and Equipment				
1. Land				
a) with commercial plant and other buildings	168 565 673			174 641
b) with residential buildings	1 859 455			2 309
c) without buildings	70 800			71
2. Machinery	173 559 793			161 118
3. Furniture and equipment	36 731 958			29 129
4. Assets under construction and prepayments	29 983 342			24 913
		410 771 021		392 181
B. Investments				
1. Investments	141 177 546			118 580
2. Loans with a term of at least 4 years	6 197 049			2 408
thereof secured by mortgages . . . . . DM 5 593 353		147 374 595		120 988
			558 145 616	513 169
II. Current Assets				
A. Inventories				
1. Raw materials and supplies	85 218 418			77 194
2. Work in process	38 333 362			42 561
3. Finished products, goods for resale	157 319 122			172 565
		280 870 902		292 320
B. Other Current Assets				
1. Prepayments		1 172 448		857
2. Accounts receivable		179 520 530		166 333
due after one year . . . . . DM 101 079				
3. Notes receivable		2 710 821		3 176
rediscountable with the Federal Bank . . DM 1 002 659				
4. Checks		6 567 611		5 311
5. Cash on hand, at Federal Bank and on postal checking accounts		1 508 608		2 700
6. Cash at banks		7 894 317		8 199
7. Due from affiliated companies		39 816 191		46 450
8. Other receivables (§ 89 AktG)		352 756		358
9. Other assets		9 090 600		7 003
			529 504 784	532 707
III. Prepaid Expenses				
1. Loan discounts		2 153 994		1 576
2. Other		1 616 463		553
			3 770 457	2 129
			1 091 420 857	1048 005

Liabilities And Shareholders' Equity

		December 31, 1978 DM	December 31, 1978 DM	December 31, 1977 DM 1000
I. **Share Capital** (Common Stock)			270 000 000	270 000
II. **Open Reserves**				
1. Statutory reserve			65 451 393	65 451
2. Reserve for war burden equalization levy		—		5 503
Release		—		5 503
			—	—
3. Free reserves		37 500 000		93 000
Release		—		55 500
			37 500 000	37 500
III. **Untaxed Reserves** according to § 1 section 1,2 Entwicklungsländer-Steuergesetz			779 167	970
IV. **Accruals**				
1. Accrued pensions		104 385 911		98 720
2. Other accruals		77 890 410		83 006
			182 276 321	181 726
V. **Liabilities with Terms of at least 4 Years**				
1. Bonds		51 751 500		90 000
thereof secured by mortgages	DM 51 612 900			
2. Loans and debentures		91 345 494		102 894
thereof secured by mortgages	DM 86 976 944			
3. Due to banks		199 000 000		139 741
thereof secured by mortgages	DM —			
			342 096 994	332 635
Due within four years	DM 92 304 131			
VI. **Other Liabilities**				
1. Trade payables		44 317 141		49 305
2. Notes payable		44 836 640		19 552
3. Due to banks		48 005 185		39 210
4. Advances		4 563 462		3 920
5. Due to affiliated companies		3 011 272		961
6. Other liabilities		44 768 468		46 763
			189 502 168	159 711
VII. **Unappropriated retained Income**			3 814 814	12
Bills discounted with recourse	DM 110 519 755			
Guarantees	DM 45 037 648			
Warranties	DM 51 760 864			
			1 091 420 857	1 048 005

Fixed Assets Schedule

	January 1, 1978 DM	Additions DM	Revaluation DM	Reclassifications DM	Deductions DM	Depreciation DM	December 31, 1978 DM
A. Property, Plant and Equipment							
1. Land							
a) with commercial plant and other buildings	174 640 951	2 500 325		+ 552 849	171 679	8 956 773	168 565 673
b) with residential buildings	2 308 554				367 100	81 999	1 859 455
c) without buildings	70 800						70 800
2. Machinery	161 118 342	31 471 455		+ 11 847 254	2 304 503	28 572 755	173 559 793
3. Furniture and equipment	29 129 546	22 645 560		+ 4 586 499	374 839	19 254 808	36 731 958
4. Assets under construction and prepayments	24 913 137	21 785 050	603 538	− 16 986 602	256 577	75 204	29 983 342
	392 181 330	78 402 390	603 538	—	3 474 698	56 941 539	410 771 021
B. Investments							
1. Investments	118 579 853	27 179 843			3 382 150	1 200 000	141 177 546
2. Loans with a term of at least 4 years	2 408 066	475 584	3 723 895		410 496		6 197 049
	120 987 919	27 655 427	3 723 895	—	3 792 646	1 200 000	147 374 595
	513 169 249	106 057 817	4 327 433	—	7 267 344	58 141 539	558 145 616

Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1978

		1978 DM	1978 DM	1977 DM 1000
1. **Sales**		1 555 381 477		1 518 883
2. Change in inventories of products		– 17 989 971		+ 22 012
			1 537 391 506	1 540 895
3. Overheads capitalized on construction of fixed assets			26 195 834	25 701
4. **Gross Revenues**			1 563 587 340	1 566 596
5. Raw materials and supplies used			696 001 949	685 822
6. **Gross Margin**			867 585 391	880 774
7. Income from profit and loss pooling agreements		13 449 998		7 514
8. Investment income		4 617 231		2 812
9. Income from long-term loans		311 241		298
10. Interest and similiar income		2 818 347		2 961
11. Income from disposal of fixed assets		8 331 074		1 547
12. Income from release accruals		4 012 307		2 155
13. Income from release of untaxed reserves		191 250		2 988
14. Other income		29 522 746		21 955
thereof extraordinary	DM 9 448 322			
			63 254 194	42 230
			930 839 585	923 004
15. Wages and salaries		570 109 581		547 814
16. Social security contributions		90 256 312		87 108
17. Pensions and employees' welfare		18 157 564		17 884
18. Depreciation of fixed assets		56 941 539		53 808
19. Depreciation of investments		1 200 000		—
20. Depreciation on current assets (excluding inventories)		6 008 144		4 360
21. Losses from disposal of fixed assets		1 468 839		461
22. Interest and similiar expenses		33 559 929		32 313
23. Taxes				
a) on income profit and net worth	DM 23 085 011			
charged to subsidiaries	DM – 2 297 712			
	DM 20 787 299			28 834
b) Other	DM 592 938			638
		21 380 237		29 472
24. War burden equalization levy		—		5 606
25. Expenses from profit and loss pooling agreements		3 287 209		1 526
26. Other expenses		124 667 623		122 486
			927 036 977	902 838
27. **Net Income**			+ 3 802 608	+ 20 166
	carry forward:		+ 3 802 608	+ 20 166

	1978 DM	1978 DM	1977 DM 1000
carried forward		+ 3 802 608	+ 20 166
28. Losses brought forward		+ 12 206	− 81 157
29. Release of free reserves		—	55 500
30. Release of reserve for war burden equalization levy		—	5 503
31. **Unappropriated retained Income**		3 814 814	12

Continental
Gummi-Werke Aktiengesellschaft

The Executive Board

According to our audit made in conformity with our professional duties the accounting and the financial statements comply with German law and the Company's statutes.

Berlin/Hannover, March 21, 1979

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Wolff
Wirtschaftsprüfer

Kirste
Wirtschaftsprüfer

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, December 31, 1978

Assets	December 31, 1978 DM	DM	December 31, 1977 DM 1000
I. **Fixed Assets**			
A. **Property, Plant, Equipment and Intangible Assets**			
1. Land			
a) with commercial plant and other buildings	199 873 395		203 738
b) with residential buildings	3 004 093		3 481
c) without buildings	214 205		234
2. Buildings on third parties' land	4 364 173		4 512
3. Machinery	185 680 564		173 533
4. Furniture and equipment	46 431 996		37 405
5. Assets under construction and prepayments	35 922 320		25 918
6. Intangible assets	389 402		483
		475 880 148	449 304
B. **Investments**			
1. Investments	114 478 130		113 399
2. Loans with a term of at least 4 years	6 609 878		3 237
thereof secured by mortgages DM 5 760 869		121 088 008	116 636
		596 968 156	565 940
II. **Difference arising from Consolidation**		16 323 850	8 495
III. **Current Assets**			
A. **Inventories**	367 307 374		356 004
B. **Other Current Assets**			
1. Prepayments	1 205 096		1 025
2. Accounts receivable	241 124 900		223 695
due after one year DM 197 870			
3. Notes receivable	3 039 025		3 543
rediscountable with the Federal Bank DM 1 072 659			
4. Checks	6 568 272		5 336
5. Cash on hand, at Federal Bank and on postal checking accounts	1 969 362		3 340
6. Cash at banks	8 128 584		8 517
7. Due from affiliated companies	17 747 618		19 408
8. Other receivables (§ 89 AktG)	543 321		516
9. Other assets	13 174 601		9 168
		660 808 153	630 552
IV. **Prepaid Expenses**			
1. Loan discounts	2 679 553		1 786
2. Other	2 009 751		1 272
		4 689 304	3 058
V. **Accumulated Deficit**		—	2 043
		1 278 789 463	1 210 088

Liabilities And Shareholders' Equity

Liabilities And Shareholders' Equity	December 31, 1978 DM	December 31, 1978 DM	December 31, 1977 DM 1000
I. **Share Capital**		270 000 000	270 000
II. **Open Reserves**			
1. Statutory reserve	65 451 393		65 451
2. Free reserves	37 500 000		37 500
		102 951 393	102 951
III. **Untaxed Reserves** according to § 1 section 1, 2 Entwicklungsländer-Steuergesetz, § 74 EStDV and § 6 b EStG		783 653	2 457
IV. **General Provision for bad Debts**		672 158	877
V. **Minority Interests**		3 164 489	3 930
VI. **Accruals**			
1. Accrued pensions	135 119 734		124 550
2. Accruals for deferred maintenance	—		88
3. Other accruals	92 959 749		97 765
		228 079 483	222 403
VII. **Liabilities with Terms of at least 4 Years**			
1. Bonds	51 751 500		90 000
thereof secured by mortgages DM 51 612 900			
2. Loans and debentures	91 345 494		102 893
thereof secured by mortgages DM 86 976 944			
3. Due to banks	240 765 091		162 637
thereof secured by mortgages DM 11 600 091			
4. Other liabilities	315 095		285
thereof secured by mortgages DM 243 150		384 177 180	355 815
Due within four years DM 106 608 787			
VIII. **Other Liabilities**			
1. Trade payables	62 885 476		63 612
2. Notes payable	76 037 107		56 629
3. Due to banks	87 551 824		70 314
4. Advances	4 834 366		4 087
5. Due to affiliated companies	27 091		16
6. Other liabilities	55 858 080		56 523
		287 193 944	251 181
IX. **Retained Earnings attributable to Minority Interests**		345 805	474
X. **Unappropriated retained Income**		1 421 358	—
War Burden Equalization Levy			
Present Value DM 35 569			
Quarterly Instalments DM 35 748			
Bills discounted with recourse DM 97 447 440			
Guarantees DM 45 346 106			
Warranties DM 36 220 864			
		1 278 789 463	1 210 088

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1978

		1978 DM	1978 DM	1977 DM 1000
1. Sales		1 914 981 844		1 858 125
2. Expenses not to be disclosed separately and net of change in inventories of products		1 836 469 494		1 736 932
			78 512 350	121 193
3. Investment income		4 192 047		2 173
4. Income from long-term loans		351 414		326
5. Interest and similar income		1 288 724		1 044
6. Reversal of prior years depreciation		5 055 661		114
7. Income from release of accruals		5 573 559		5 542
8. Income from release of untaxed reserves		1 672 864		3 028
9. Other income		36 104 738		25 752
			54 239 007	37 979
			132 751 357	159 172
10. Depreciation of property, plant, equipment and intangible assets		66 660 948		65 318
11. Depreciation of investments		1 200 000		36
12. Interest and similar expenses		35 126 136		33 452
13. Taxes				
a) on income, profit and net worth	DM 24 593 593			
charged to subsidiaries	DM – 20 368			
	DM 24 573 225			32 656
b) Other	DM 1 038 052			1 235
		25 611 277		33 891
14. War burden equalization levy		142 990		6 021
15. Expenses from profit and loss pooling agreements		5 375		5
			128 746 726	138 723
16. Net Income			4 004 631	20 449
17. Accumulated deficit at beginning of year			2 502 501	84 220
			1 502 130	63 771
18. Release of free reserves			—	55 500
19. Release of reserve for war burden equalization levy			—	5 611
20. Decrease in difference arising from consolidation			403 375	1 498
21. Addition to difference arising from consolidation			138 342	407
			1 767 163	1 569
22. Income attributable to Minority Interest			345 805	474
23. Unappropiated retained Income (Accumulated deficit in 1977)			1 421 358	2 043

According to our audit made in conformity with our professional duties the annual consolidated financial statements comply with German law.

Berlin/Hannover, March 21, 1979

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Wirtschaftsprüfer

Wolff
Wirtschaftsprüfer

Continental
Gummi-Werke Aktiengesellschaft

The Executive Board