Report on the Business Year 1979

Continental

Report on the 108th Business Year 1979

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Agenda
of Annual General Meeting

to be held in the Kuppelsaal of the Stadthalle Hanover, Theodor-Heuss-Platz 1–3, Hanover 1, on Wednesday, 16th July, 1980 at 10 a. m.

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1. Presentation of the annual Financial Statements of the Company for the year ended 31st December, 1979, the report of the Supervisory Board, and the annual report of the Executive Board for the Business Year 1979.

   Presentation of the consolidated Financial Statements and consolidated annual report for the Business Year 1979.

   Resolution in respect of the appropriation of profits.

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2. Resolution on the ratification of the Supervisory Board's acts for the Business Year 1979.

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3. Resolution on the ratification of the Executive Board's acts for the Business Year 1979.

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4. Appointment of auditors for the Business Year 1980.

The Agenda of the Annual General Meeting together with the proposed resolutions will be published in Bundesanzeiger, no. 101, on 3rd June, 1980.

Members of the Supervisory Board

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

Benno Adams*),
Deputy Chairman
Trade Union District Manager,
Chemie-Papier-Keramik

Hans L. Merkle
(Deputy Chairman up to 7. 9. 1979)
Chairman of the Management Board,
Robert Bosch GmbH

Rudolf Alt*)
Works Council Chairman, Stöcken Plant
(as from 7. 9. 1979)

Günter Bartilla*)
Formerly Chairman of Joint Works Council
(up to 7. 9. 1979)

Siegfried Brauns*)
Works Council Member
(as from 7. 9. 1979)

Manfred Emcke
Management Consultant

Albert Englebert
President Uniroyal-Englebert
(as from 7. 9. 1979)

Karl-Wilhelm Graf Finck
von Finckenstein
Personally Liable Partner,
Trinkaus & Burkhardt
(as from 7. 9. 1979)

Ernst Fuhrmann
Chairman of the Executive Board,
Dr.-Ing. h. c. F. Porsche AG
(as from 7. 9. 1979)

Willi Goldschald*)
Works Council Chairman, Vahrenwald Plant
(as from 7. 9. 1979)

Rudolf Groth
Retired Banker
(up to 7. 9. 1979)

Rudolf Häßler*)
Works Council Chairman, Limmer Plant
(as from 7. 9. 1979)

Wilhelm Helms
Executive Director, Deutsche Schutzvereinigung
für Wertpapierbesitz, Lower Saxony Division
(as from 7. 9. 1979)

Joachim Kost*)
Manager, Technical Products 3
and Plant Manager, Vahrenwald
(as from 7. 9. 1979)

Wilhelm Meyerheim
Member of the Supervisory Board,Bayer AG

Ernst Pieper
Chairman of the Executive Board, Salzgitter AG
(as from 7. 9. 1979)

Klaus Piltz
Member of the Executive Board, Veba AG
(as from 7. 9. 1979)

Eberhard Schlesies*)
Trade Union Manager, Hanover Branch,
Chemie-Papier-Keramik
(as from 7. 9. 1979)

Wolfgang Schultze*)
Member of the Board, Deutscher Gewerkschaftsbund, Lower Saxony
(as from 7. 9. 1979)

Bernhard Timm
Chairman of the Supervisory Board, BASF AG
(up to 7. 9. 1979)

Heinz Tristram*)
Works Council Member
(as from 7. 9. 1979)

Wilhelm Wessel*)
Works Council Member
(up to 7. 9. 1979)

Hermann Westerhaus*)
Works Council Chairman, Korbach Plant
(as from 7. 9. 1979)

*) Employee Representatives

Report of the Supervisory Board

The Supervisory Board has been kept regularly and closely informed of the status and development of the company in Supervisory Board meetings, numerous separate discussions, and by written and oral reports and has taken counsel with the Executive Board.

The primary focus of our joint consultations was on the budget, long-range corporate planning, including investment policy, and fundamental issues relating to business policy and corporate structure. We have also discussed key business transactions and taken decisions on issues which, in accordance with legal provisions or company statutes, were submitted to us for approval. Furthermore, special meetings as well as group and individual discussions were required in the framework of the Uniroyal negotiations.

The Supervisory Board has examined the annual statements, the annual report, and the proposal for the appropriation of retained income and raises no objections. The Board agrees with the result of the audit which has been carried out by Deutsche Treuhand-Gesellschaft, Certified Public Accountants, Berlin/Hanover, who have confirmed that accounting, annual financial statements, and annual report are in accordance with the law and company statutes. The Supervisory Board has approved the annual financial statements prepared by the Executive Board, and these are now adopted. The Supervisory Board concurs with the Executive Board's proposal for the appropriation of retained income.

The consolidated financial statements, the consolidated annual report, which forms part of the annual report of the parent company, and the auditor's report on the consolidated financial statements have also been submitted to us.

With effect from 1st May, 1979, Dr. Peter Haverbeck, who until then had been deputy member of the Executive Board, was elected full member of the Executive Board. As from 1st August, 1979, Dipl.-Kaufmann Helmut Werner was appointed to the Executive Board; he is in charge of the newly formed division "Uniroyal-Englebert", comprising the operations of the group of companies acquired in 1979.

Dr. Gerhard Lohauß, who heads the corporate function "Personnel and Legal", will retire in Autumn 1980 after serving the company for 28 years, 10 of these as member of the Executive Board. Dr. Lohauß has made invaluable contributions to our company in difficult times, especially for the Personnel function, and we would like to take this opportunity of thanking him again. Beyond his term of office with the parent company, Dr. Lohauß will continue to be managing director, Executive Board member, and Supervisory Board member in several subsidiaries and social organizations and will continue to represent the company in associations and in honorary functions.

In the Supervisory Board meeting on 31st January, 1980, the Board appointed Dipl.-Volkswirt Hans Kauth, formerly with Ford AG, Cologne, to the Executive Board in accordance with § 31 sections 1 and 4 Codetermination Law and § 84 Stock Corporation Law. With effect from 1st April, 1980, Herr Kauth will assume the responsibilities of Director of Personnel.

At the Shareholders' Meeting on 7th September, 1979, the Supervisory Board was formed for the first time in accordance with the provisions of the Codetermination Law of 1976; the Board is now made up of ten shareholders' representatives and ten employee representatives.

For reasons of age, Messrs. Günter Bartilla, Rudolf Groth, Prof. Dr. Bernhard Timm, and Wilhelm Wessel have advised that they will not stand for reelection to the Supervisory Board. All four gentlemen have served on the Supervisory Board for many years, and we would like to extend our gratitude to them for their valuable advice and counsel.

Hanover, 8th May, 1980
The Supervisory Board

Alfred Herrhausen

Alfred Herrhausen, Chairman

Members of the Executive Board

Carl H. Hahn
Chairman

Peter Haverbeck
Marketing Technical Products

Hans Kauth
Director of Personnel
(as from 1. 4. 1980)

Gerhard Lohauß
Personnel and Legal
(Personnel up to 31. 3. 1980)

Julius Peter
Manufacturing and Engineering, Tyres

Wilhelm Schäfer
Marketing Tyres

Horst W. Urban
Finance

Hans Georg Wenderoth
Manufacturing and Engineering, Technical Products

Helmut Werner
Uniroyal-Englebert
(as from 1. 8. 1979)

Report of the Executive Board

General Survey

Sustained Competition in the Rubber Industry

Economic development in West Europe was on the whole favourable in 1979. With the exception of Great Britain, where the economy almost stagnated, the pace of economic growth quickened over 1978 in all West European countries. Growth stemmed chiefly from capital spending in the corporate sector in response to high capacity utilization levels in many areas and the need to rationalize and conserve energy. At the same time, there was a marked increase in stock levels in anticipation of a continued upward trend in raw material prices.

The substantial increase in inflation rates in the wake of higher raw material prices – especially for crude oil – led to a restrictive monetary and fiscal policy, which brought a slowdown in economic growth during the last few months of the year. This trend is expected to continue in 1980.

The European automotive industry, our major customer, went through the latter phase of a distinctly buoyant development in 1979. This had a positive impact on the level of activity in the rubber industry. Although the closing of serveral tyre factories in Europe and the U.S.A. led to a further reduction in excess capacities, competition remained fierce. And as new production capacities for technical products were established and foreign competitors gained ground, competition in this sector became still sharper.

In the wake of raw material price increases, the industry had no alternative but to adjust prices, although only a part of the cost increases could be passed on to the market.

Our industry reported growth rates for tyres and technical products, both in the automobile original equipment business and in other customer segments. The tyre replacement business was positively influenced by the large number of new registrations in the past five years. Since 1975, the number of cars registered in Germany has risen from 17.3 to 21.6 million.

Imports continue to account for more than one-third of the domestic market for tyres and technical products. But at the same time, German manufacturers recorded a substantial increase in demand from some foreign markets in the year under review.

Upswing Continues for Continental

1979 was a year of continued upswing for our company. For the first time since 1971, the tyre division passed the break-even point. Both divisions therefore achieved positive net operating results, which we regard as an encouraging step forward compared to last year, but still by no means satisfactory.

Production was considerably higher in some sections of the company – partly as a result of voluntary overtime. The factors contributing to improved results were price increases, a further advance in productivity, and a better product mix as well as good capacity utilization levels. For the first time in several years, the staff hired exceeded the number of employees leaving.

Taking into account the contributions of the subsidiaries and affiliated companies, Continental AG achieved a net income of DM 10.9 million in the year under review. The profit generated by the Uniroyal-Englebert Group in the second half of the year is not included in the net income of the parent company.

DM 5.5 million of the net income was allocated to free reserves, so that, taking into account the profit brought forward of DM 3.8 million, retained income totalled DM 9.3 million.

It is extremely hard for us to present the Shareholders with a profit appropriation proposal which again means their foregoing a dividend; however, in the light of the tax benefits still to be derived from the loss carry-forward, we consider this procedure to be justified.

The Administration's proposal to the Shareholders is therefore to allocate DM 6.6 million of the DM 9.3 million retained income to open reserves, thereby increasing legal reserves by DM 0.55 million to DM 66.0 million and free reserves by DM 6.04 million to DM 49.0 million.

Our intention of paying a dividend as soon as possible is reflected in our proposal to carry forward the remaining retained income plus the reduction in corporation tax, totalling DM 7.9 million.

No. 3 in Europe with Uniroyal-Englebert

One of the outstanding features of the business year was the acquisition of the European tyre operations of the American company Uniroyal, Inc., Middlebury (Connecticut/U.S.A.). This followed several years of fruitful technical cooperation between the two companies.

As we reported in detail at the last Annual General Meeting, we purchased four tyre companies in Belgium, Germany, France, and Great Britain, a plant for the production of tyre cord in Luxembourg, and four marketing organizations in Denmark, Italy, the Netherlands, and Switzerland, all with effect from 1st July, 1979. These companies are grouped under central management in Belgium.

Relationships with the American company Uniroyal, Inc. are determined by elaborate contracts. One of the terms gives Continental the right to use the name "Uniroyal" for tyres in Europe. For reasons of better identity, the name "Englebert", which has a strong tradition in the European tyre industry, has been added to the firm name of the acquired Uniroyal companies.

This acquisition gives us a more effective base in Europe to meet the challenges of continued fierce competition in the 1980s, and we have now moved up from 7th to 3rd position in the European tyre market.

The objective of our corporate strategy is to operate expansively in the market, keeping the Continental and Uniroyal product lines strictly separate. The basis which exists in both companies to accomplish this objective will be maintained and indeed reinforced. At the same time, however, all the synergistic effects arising from the association will be fully exploited.

Cooperation between the two companies within the broader framework needed to cope effectively with the challenges of the future has already proved successful. Thanks to the confidence that our employees have placed in us, there have been no frictional losses either in the company or in the market. The two-brand strategy, which secures the autonomy of both companies in terms of product and marketing concept, is being well-received by the market.

To accomplish the transaction, the Shareholders' Meeting of 7th September, 1979 authorized the Executive Board to obtain two convertible loans up to a total value of DM 82 million, at 6 % interest. Of this, DM 77.9 million have actually been used to finance the purchase and capital investment for integration. Despite the not inconsiderable magnitude of the project for Continental, our financial flexibility has not been impaired.

Further Streamlining in Subsidiaries

Techno-Chemie Kessler & Co GmbH, Frankfurt, which we acquired in 1978 in our efforts to enhance the structure of our subsidiaries, has developed in line with our expectations and has produced a good result.

The corporate results generated by Continental AG were impaired by an extraordinary loss in the subsidiaries. Our efforts to restore the Spanish subsidiary Continental Caucho España, Barcelona, to health failed as a result of the operating conditions there. The company ceased to do business at the end of the year.

In our continued efforts to streamline subsidiary operations, we sold our 50 per cent interest in Conti-Calan (Pty) Ltd. in South Africa to General Tire & Rubber Co. (South Africa) Ltd. in Johannesburg as of 1st July, 1979. We shall continue to be associated with our former subsidiary in the framework of a licence agreement.

World Sales now DM 2.6 Thousand Million

The addition of the European tyre operations of the Uniroyal-Englebert Group to our Group has induced us to present our first worldwide consolidated statement for 1979. The consolidated worldwide statement gives considerably better insight into the financial position and profit situation of the Group than did the previous consolidated statement covering domestic companies only.

The table below indicates the development of sales worldwide, in the domestic Group, and in the parent company:

	1979 DM mill.	1978 DM mill.	Change in %
World	2,623.4	2,031.6	+ 29.1
Domestic Group	2,317.9	1,915.0	+ 21.0
Parent	1,692.6	1,555.4	+ 8.8

The 1979 figures for world and domestic Group only include second-half year sales of Uniroyal-Englebert. Some 65 % of world sales were generated by tyres and some 35 % by technical products. On 31st December, 1979, the workforce in the Continental Group totalled 31,340.

In the case of parent company sales, tyres and technical products generated 60 % and 40 % respectively. In both divisions, additions to property, plant, and equipment, which totalled DM 72.6 million, served not only to replace old facilities, but also to improve productivity, to increase capacities in some sectors, to secure quality, and to make increased use of future-orientated technologies.

Balance Sheet Structure Looks Promising

Even after the acquisition of the Uniroyal-Englebert companies, the balance sheet structure of the parent company shows a balanced picture in terms of equity, liquidity, and long-term financing. Despite the acquisition of Uniroyal-Englebert and the sales growth of 8.8 %, the balance-sheet total increased by only 5.9 % to DM 1,156 million, while fixed assets rose 8 % to DM 602 million.

Taking our proposal for the appropriation of retained income into account, equity of the parent company will represent 34 % of the balance-sheet total. The company's liquidity continues to be pleasing.

Continental 1970–79

		1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Balance sheet											
Fixed assets	DM million	514.8	587.3	607.8	568.0	542.0	520.6	504.1	513.2	558.1	601.9
Current assets	DM million	566.2	526.0	480.9	527.5	525.0	488.2	511.9	534.8	533.3	554.4
Balance sheet total	DM million	1081.0	1113.3	1088.7	1095.5	1067.0	1008.8	1016.0	1048.0	1091.4	1156.3
Equity	DM million	453.3	464.2	422.2	381.4	361.5	364.2	356.8	373.9	377.5	392.9
Long-term debt	DM million	237.0	371.3	370.3	430.7	463.8	460.3	468.2	431.4	446.5	474.9
Total investments	DM million	134.0	154.8	102.3	60.5	58.9	50.7	60.6	65.5	106.1	123.9
Equity ratio	%	41.9	41.7	38.8	34.8	33.9	36.1	35.1	35.7	34.6	34.0
Equity and long-term debt to fixed assets and inventories	%	87.4	96.9	91.0	98.1	101.7	106.4	107.9	102.4	100.6	99.1
Profit and Loss statement											
Sales	DM million	1311.7	1301.7	1174.2	1264.0	1453.2	1369.0	1439.0	1518.9	1555.4	1692.6
Export sales ratio	%	15.9	17.4	16.4	19.0	25.6	22.4	25.1	25.2	25.4	26.3
Material costs to gross revenues	%	40.8	38.9	39.5	39.8	42.3	41.9	43.6	43.8	44.5	44.1
Personnel costs to gross revenues	%	39.7	42.7	47.2	47.4	40.6	42.0	42.3	41.7	43.4	41.6
Depreciation	DM million	68.6	77.4	76.7	78.7	81.1	68.7	65.8	53.8	58.1	70.8
Net income	DM million	+ 39.9	+ 21.0	– 42.1	– 40.6	– 19.6	+ 3.5	+ 8.0	+ 20.2	+ 3.8	+ 10.9
Dividends paid	DM million	31.9	16.0	–	–	–	–	–	–	–	–
Employees											
(annual average)	thousand	28.1	26.5	24.3	23.4	21.5	19.6	18.7	18.1	18.1	18.1

By contrast to the parent company balance sheet, the worldwide balance sheet reflects particularly the acquisition of the Uniroyal-Englebert companies. In order to repay partially still existing losses brought forward and to improve the equity structure, the profits generated by Uniroyal-Englebert will initially be retained by these companies.

Development in the First Months of 1980

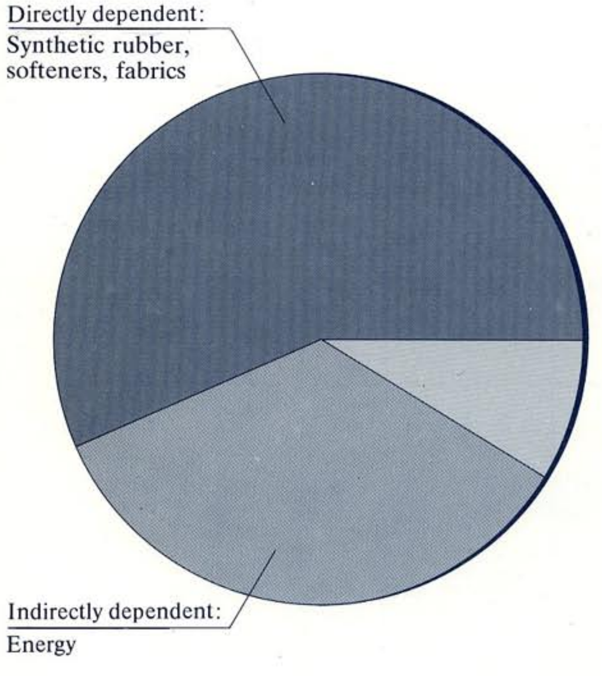
Sales development in the first months of this year has been pleasing, and all plants have been working to capacity. However, sustained competitive pressure prevented us from passing on the raw material price increases in all segments of the market. We have nevertheless achieved a positive result, not least due to further productivity improvements.

During the current business year we will again, however, be exposed to serious material price risks as costs for crude oil and other raw materials continue to increase.

If the opportunities for selling our products to the automotive industry and to other customer industries deteriorate during the year, the possibility of repercussions in our own industry cannot be ruled out.

Tyres

Dependence of passenger car tyres on crude oil



For the first time since 1971, the Tyre division has reported a positive net operating result, although the cost increases deriving primarily from higher oil prices could only be partially recovered in product prices. The key factors contributing to this profit improvement are therefore further productivity advances, better capacity utilization, and an improved product mix.

A further major reason for the progress achieved in the tyre business was our sustained effort to pursue a quality assurance policy and to implement this policy in the market in which our products take a leading position. Improvements in design and further advances in manufacturing precision, in conjunction with a close-meshed network of quality controls, will enable us to maintain the extremely high standard that we have achieved in our motor vehicle tyres. More than two-thirds of today's product range was developed during the last five years.

Tyre sales in the parent company were increased by 11.8 % to more than DM 1 thousand million. Although we expanded and fully utilized production capacity for our sophisticated steel radial tyres throughout the year, we were unable to exploit all market potential.

The increase in sales during the year under review was attributable chiefly to the international original equipment sector for cars and the domestic replacement business. We were again able to increase our market share in the European automotive industry. Pursuing a policy of close cooperation with the automobile industry, our tyres are developed, tested, and produced to meet the design requirements of specific car models.

In the replacement business, we are the first and so far only tyre supplier to guarantee that the entire "grade Ia" range of passenger car tyres meets the original equipment manufacturers' approval standards on all technical criteria. Since March 1979, we guarantee every buyer – over and above the general terms of liability – adherence to production tolerances which in the past was as a rule reserved for automobile manufacturers. This quality standard is indicated to the customer by a banderole and a guarantee card.

Passenger Car Tyres

More and more international car manufacturers are changing to tyres in the 70 series. The larger contact surface of this type of tyre, with a diameter/width ratio of 70 to 100, makes for improved safety, tracking reliability, steering precision, driving comfort, and mileage. Demand for these tyres in the replacement business is also increasing. Continental's tyre range in the 70 series segment of the market provides individually tailored solutions for virtually all car models.

With the M+S tyre TS 730 Conti Contact, we achieved sales figures which gave us the lead in Europe in this market segment. As an M+S tyre for use at extremely high speeds, Continental introduced the TS 730 Super Contact for the Winter season of 1979/80; this HR version is designed for a maximum permissible speed of 190 km/h.

In 1979, we developed new types of spare tyres for international automobile manufacturers, the objective being to reduce vehicle weight and thus cut fuel consumption.

Two-wheeler Tyres

The Continental range includes more than 20 types of two-wheeler tyres for children's scooters, bicycles, mopeds, and motorcycles.

Our "twin-tyre" concept for motorcycle tyres has helped us to reinforce our market position, both in the U.S.A., where we are one of the leading suppliers of motorcycle tyres for road use, and in Europe.

Demand from the international cycle racing sector was again strong in 1979 for hand-sewn tubular tyres, and numerous national and international championships were won on these extra-light tyres.

Industrial Tyres

Industrial tyres or mechanical handling tyres are used chiefly on forklift trucks, lifting trucks, and heavy-duty trailers for in-plant handling. Depending on the use for which they are intended, they are either solid rubber or pneumatic. Their key properties are a high load carrying capacity and a long service life.

Continental holds a leading position in the European market for industrial tyres. Several new products have been introduced to our wide product range to meet the rising requirements of the market.

In the pneumatic industrial tyre segment, we have launched two new products: IC 11 and IC 40. These tyres have a wider contact surface, are less prone to sidewall damage, give more hours of use, and provide less rolling resistance.

The new solid-rubber industrial tyre CSE-S is a top-grade product with the rolling resistance reduced by as much as 60 %. At the same time, the cushioning – a key factor in safeguarding both driver and load – has been increased by 70 % and the contact surface by some 25 %.

Truck and Bus Tyres

In the early part of the year, we launched our new truck road tyre RS 415-N onto European markets. This extremely economical tyre has been well-received by the market, both for driven and idle axles, and we were not always able to cope with the rising demand in both original equipment and replacement sectors.

Some trucks are designed for a maximum speed of 120 km/h, so that as the legally permissible speed is lower, the economic engine range can be used and fuel consumption reduced. These vehicles have to be equipped with tyres with corresponding reference speeds. Continental is the first manufacturer to go into series production of tyres with the "L" speed index. Sophisticated control techniques, using X-ray and laser beams, ensure manufacturing precision of the highest standard.

Agricultural Tyres

Excess capacities in Europe and imports of agricultural tyres from countries with low labour costs made for increasing price competition. We supply a comprehensive range of agricultural tyres for almost every use. In the year under review, we developed the largest radial tyre in this sector in Europe for use on heavy-duty farm tractors.

Aircraft Tyres

Continental manufactures aircraft tyres for both civil and military use, supplying leading international airline companies and the airforces of many countries. Because of the extreme pressures during take-off and landing, these tyres have to meet the highest quality standards.

Outlook

We will sustain our uncompromising efforts to develop, produce, and sell high-quality products at a fair price.

Apart from the quality and safety aspects, our tyre concept will also be directed increasingly at energy conservation and environmental protection. Special emphasis will be on reducing rolling resistance and achieving further cuts in noise levels.

In the current business year, we are introducing an augmented truck tyre range, with several new products – the TransConti System. This System has been at the centre of our development efforts over the last few years. With its diverse combination possibilities, it provides economic solutions for almost every use and will be the core concept of our truck tyre business in the next few years.

During the first months of the current year, we have achieved altogether satisfactory sales growth. But as raw material costs continued to move upward, we were forced to increase our prices yet again.

Technical Products

Sales in the Technical Products division increased by 5 % to DM 654 million in the year under review, although we continued our efforts to selectively prune the product range. The key source of growth was the automotive industry, which accounts for approximately one-third of the sales generated by the Technical Products division. The export ratio was unchanged at 18 %.

On the whole, the order situation was satisfactory and made for a high level of capacity utilization. In some areas, temporary bottlenecks occurred as a result of increased volume requirements, although new capacities came on stream and voluntary overtime was worked where possible.

The rapid succession of price increases for raw materials had a major impact on the price structure of technical rubber and plastic products. In many cases, the price adjustments required to offset these higher costs could not be made in full or only subject to a considerable time lag. Although the division generated a positive result, it was lower than last year's level and can by no means be deemed satisfactory.

In the case of conveyor belting, the fabric and steelcord belting presses worked to capacity throughout the year. Once again, sales development hinged on single large-scale orders.

Satisfactory growth rates can also be reported for printing blankets, rubberized materials, and fabricated products, such as transport and storage containers. With the high-quality printing blanket "Conti Air Saphir", we were able to further strengthen our position in the important offset market.

We were involved in the extension of the Bremerhaven container terminal, supplying 100 dock fenders, each weighing 3.6 tons.

Sales of industrial hose were increased substantially. Awareness of the quality of our hydraulic hose is extremely high both at home and abroad. The demand for fuel hose was particularly buoyant. In the year under review, we began to produce methanol-proof hose which is now being used to an increasing degree in the automotive industry.

Our company is one of Europe's leading manufacturers of hydraulic and pneumatic brake hose and with these products is making a major contribution to improved safety in the motor car.

The pleasing activity level in the automotive industry also had a positive impact on our rubber and plastic moulded parts as well as all rubber-to-metal bonded components. In some cases, overtime had to be worked to cope with the increased demand, especially for components used in vibration insulation and for suspension.

Our rubber and plastic precision parts, such as seals, sleeves, and protecting caps, meet the requirements of the automobile industry for materials which can withstand high temperatures.

Our consistent technological development work has enabled us to improve our market position with F–O cut edge fanbelts and timing belts in the European automotive industry. Production capacities were expanded to cope with the increase in demand.

Capacity utilization for extrusions and weatherseals was good throughout the year, and sales were increased both at home and abroad.

We expanded our range of air springs for road and rail vehicles, and sales were higher than last year. This meant that we were again able to assert our leading market position both in Europe and overseas.

The polyether foam business was affected by extremely high increases in raw material prices. Another major strain on the business derived from the continued slack demand from the furniture industry, one of its largest customers. However, by taking up production of foam products for soundproofing and new kinds of foam for high-quality upholstered furniture as well as closed-cell PVC foam, sales were held at last year's level.

Satisfactory sales were achieved with the streamlined range of footwear products, with soling materials especially registering good growth rates.

Despite a decline in domestic demand for hard rubber battery containers, the capacity utilization level was high as a result of orders from countries whose climatic conditions do not suit plastic battery containers.

We are one of the few manufacturers of typewriter platen shells, and were able to assert our leading position on the international level.

With our range of surgical rubber products, we held our market position despite an overall slackening in demand.

Outlook

The change in the raw material situation is having an increasing impact on our product development. The special requirements of customers and the processing industry in terms of materials, design, and tolerances are met by a variety of Continental products such as, for example, noise and vibration insulation elements, hose for high-pressure applications, and V-belts for economical power transmission.

Sales have developed positively in the first few months of 1980, but rising costs for raw materials have forced us to increase our prices further.

Uniroyal-Englebert

The Uniroyal-Englebert companies generated a positive result in the second half of 1979, i. e. since their acquisition by Continental, although material price increases in the various markets could not always be absorbed and passed on to the customer. The capacity utilization level in all four production facilities in Belgium, Germany, France, and Great Britain was high due to the continued strong demand from the automotive industry and the increase in demand on the replacement market. By consistently pursuing the two brand strategy, it has been possible to strengthen the companies' position in Europe and to gain market share.

The Uniroyal-Englebert Group has been able to improve its overall stance on the German market. An increase in volume sales in the original equipment sector was reported, a reflection on the good position that Uniroyal-Englebert has with the German automobile industry. In the German replacement market, Uniroyal-Englebert achieved higher volume sales in all product lines.

In France, the second-largest market, the company gained considerable ground in the original equipment sector, with some very strong growth rates, while sales in the replacement sector did not entirely meet expectations. The market in Great Britain, especially the original equipment sector, again proved to hold considerable potential, and growth rates were achieved, particularly with truck tyres. The Uniroyal-Englebert Group also reported marked sales increases in the remaining European and non-European export markets.

The results which the Uniroyal-Englebert companies achieved in Germany, France, and Great Britain in the second half of 1979 were satisfactory. As in previous years, the Belgian company sustained heavy losses. For this reason, a restructuring programme has been introduced, with the Belgian government and the trade unions participating. The closing of the Italian marketing organization is also to be seen in this context. We expect these measures to result in a major profit improvement for the Belgian company.

The textile cord production facility in Luxembourg, mainly a supplier to the tyre industry, reported full capacity utilization and closed with a good result.

Passenger Car Tyres

Results in the passenger car tyre business reflected the volume increases in the original equipment sector. In the replacement sector, the overall market share was improved.

With regard to third-generation SR tyres, Uniroyal-Englebert's know-how meets all the demands of the automobile industry for reduction of weight and rolling resistance and the consumers' demands for safety, comfort, and low noise levels. This generation of tyres includes the Uniroyal rain tyres Rallye 280 and Rallye MS Plus.

The initial difficulties encountered when launching new tyres on the market have been overcome in the case of the Rallye 280, resulting in a substantial increase in sales in 1979.

Pleasing growth rates were again achieved with the Rallye MS Plus, Germany's best-selling winter tyre. Despite substantial increases in production, it was not always possible to meet demand. The range of winter tyres was rounded off by the HR tyre MS Super Plus for speeds of up to 190 km/h.

Truck Tyres

The Uniroyal-Englebert Group continued to improve its position in the growing market for light truck tyres. A distinct market position is held by a specialized range of the new all-steel tubeless truck tyres for 15° tapered bead seat rims, and further expansion in this sector will be aimed for in the future.

In the case of large truck tyres, our consistent development work to improve economy is beginning to bear fruit. The new monoply product range has been technically approved by all leading vehicle manufacturers.

Outlook

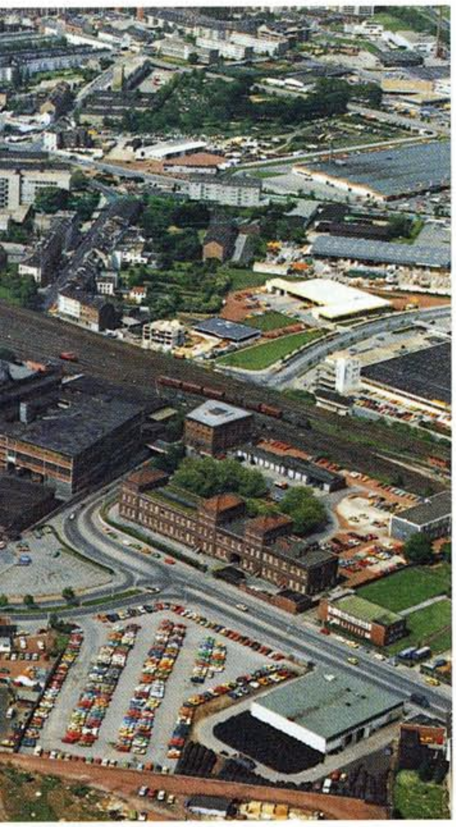
By closely aligning Research and Development efforts to the technical requirements of the international automobile industry, Uniroyal-Englebert has established a sound base for further successful marketing with products which enjoy outstanding consumer acceptance. The Group therefore expects sales increases and, in the wake of the restructuring project in Belgium, further profit improvement.

Uniroyal-Englebert

Pneu Uniroyal Englebert S. A., Herstal, Belgium

Uniroyal Englebert Reifen GmbH Aachen,

Uniroyal Englebert Textilcord S. A. Steinfort, Luxembourg



Germany

Pneu Uniroyal Englebert S. A., Compiègne, France

Uniroyal Englebert Tyres Ltd, Newbridge, Great Britain

Production Companies of the Uniroyal-Englebert Group

UNIROYAL ENGLEBERT REIFEN GMBH, AACHEN, GERMANY

Capital:	DM 30.0 million
Interest:	100 %
Employees:	2,044

PNEU UNIROYAL ENGLEBERT S. A., HERSTAL, BELGIUM

Capital:	bfrs. 500.65 million
Interest:	98.1 %
Employees:	1,595

PNEU UNIROYAL ENGLEBERT S. A., COMPIÈGNE, FRANCE

Capital:	FF 46.0 million
Interest:	99.7 %
Employees:	1,777

UNIROYAL ENGLEBERT TYRES LTD., NEWBRIDGE, GREAT BRITAIN

Capital:	£ 3.25 million
Interest:	100 %
Employees:	1,046
Business activity:	Production and sales of passenger car tyres, truck tyres, industrial tyres, and agricultural tyres and tubes

UNIROYAL ENGLEBERT TEXTILCORD S.A., STEINFORT, LUXEMBOURG

Capital:	luxfrs. 50.0 million
Interest:	100 %
Employees:	227
Business activity:	Production and sales of tyre cord fabrics

Sales Companies of the Uniroyal-Englebert Group

UNIROYAL ENGLEBERT DAEK A/S, COPENHAGEN, DENMARK

Capital:	dkr. 0.1 million
Interest:	98.1 %
Employees:	21

UNIROYAL ENGLEBERT BANDEN B. V., AMSTERDAM, NETHERLANDS

Capital:	hfl. 0.02 million
Interest:	98.1 %
Employees:	16

PNEU UNIROYAL-ENGLEBERT S. A., GENEVA, SWITZERLAND

Capital:	sfrs. 0.5 million
Interest:	100 %
Employees:	19
Business activity:	Marketing of tyres and tubes

Purchasing

The markets for oil-based materials, which account for approximately two-thirds of our expenditures on raw materials and consumables, were characterized throughout 1979 by exceptional price increases and a tendency towards supply bottlenecks, leading to feverish activity. This development was partly attributable to the political upheavals in the Middle East and to the ensuing economic uncertainties.

Despite this critical situation, we were able to secure an adequate supply of petrochemical materials for our company. Since the beginning of 1979, however, prices increased on the average by 20 to 30 % and for some materials, e. g. raw materials for foam production, by more than 80 %.

Development of Raw Material Costs

Expenditure on raw materials and consumables rose by 8.7 % to DM 756.5 million. This is equivalent to 44.1 % of gross revenues (44.5 % in 1978). The value of raw materials used in production amounts to DM 551 million (DM 498 million in 1978). This increase is attributable primarily to the substantial rises in material prices. Compared with 1975, the cost of raw materials increased by 32 %. The change in our raw material mix, however, was minimal (See chart on page 16).

Price Development

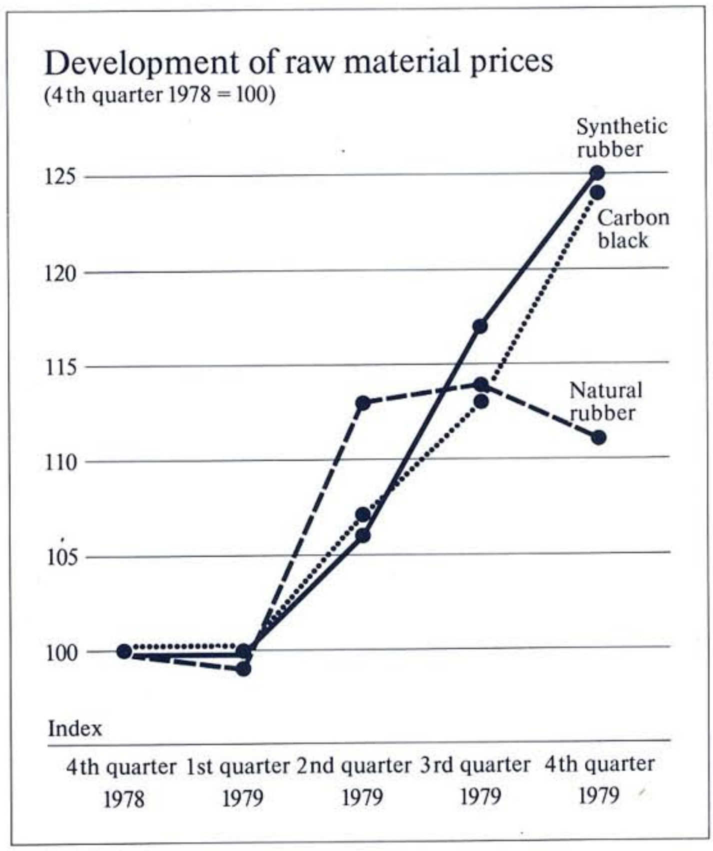
The dramatic price development in 1979 for petrochemical materials was attributable mainly to the following factors:

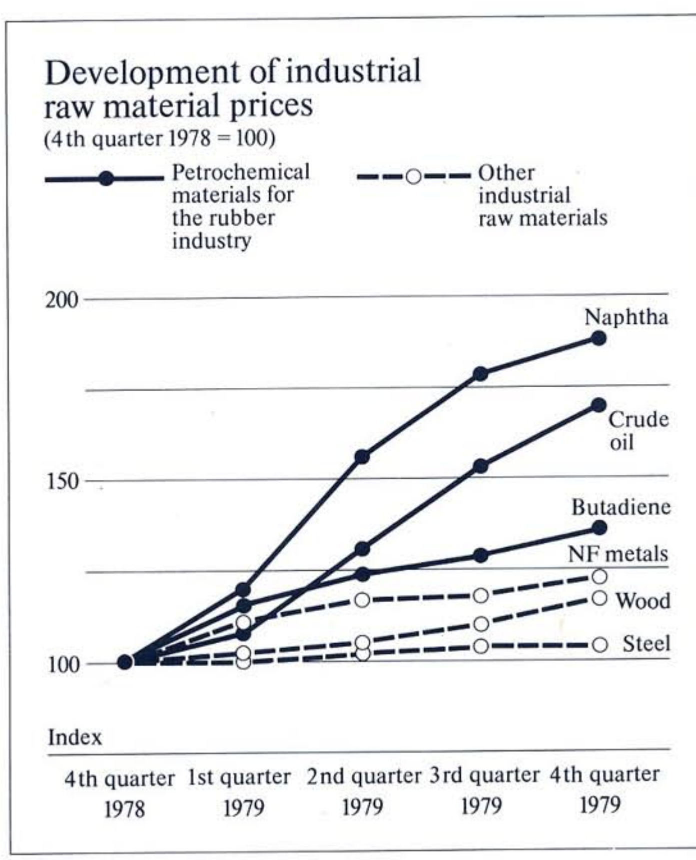
- Shortage of naphtha and aromatics in Europe due to mounting demand in the U.S.A.
- Crude oil price increases by the OPEC countries
- The crisis in Iran, with speculative and psychological repercussions, and the cutback of oil production in Iran.

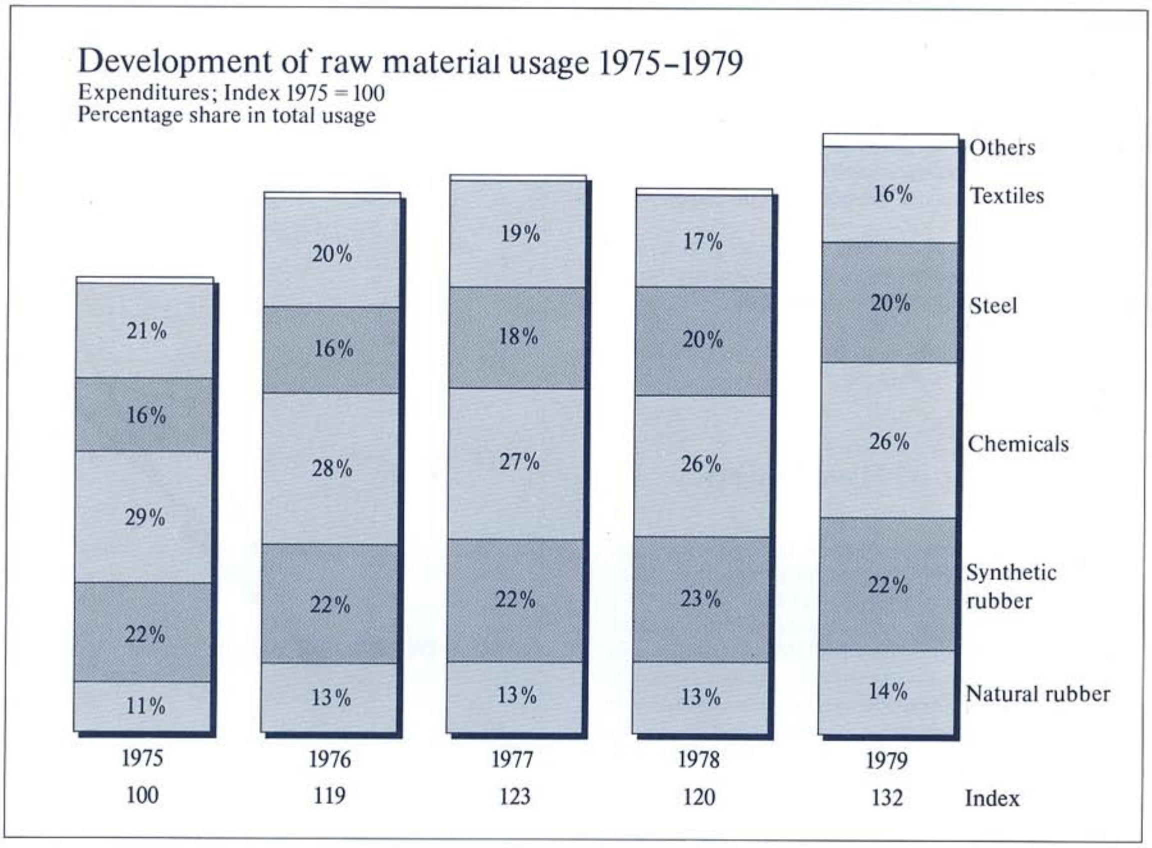
These factors have led to a rapid succession of price hikes for crude oil, naphtha, and butadiene, as the diagram opposite shows. Naphtha, as a crude oil derivate, and butadiene, as a naphtha derivate, are the basic material or a key component in almost all the synthetic rubbers and rubber chemicals used by our company.

The price developments relating to these basic materials had an impact on the prices of the corollary products. Thus, in the year under review, the cost of synthetic rubber was up by 25 %, of rubber chemicals by 16 %, and of carbon black by 25 %.

The price of natural rubber was 18 % higher than in 1978, and at times the increase was as much as 30 %. This development is the result of the continued restrained supply policy of the producing countries; it is also attributable to the increases in the price of synthetic rubber, which in some areas of application is a substitute.







Outlook

The upward movement in crude oil prices and the continued crisis in the Middle East have already resulted in a further price increase for our key raw materials in the first part of 1980. From an already high level, synthetic rubber, natural rubber, rubber chemicals, and carbon black especially increased further in price. Looking ahead, we can expect to see further price rises for these products throughout the year.

Employees

Following the acquisition of the Uniroyal-Englebert group of companies, we had a total of 31,340 employees in the Group at the end of 1979, compared to 26,634 in the Continental companies at the end of 1978.

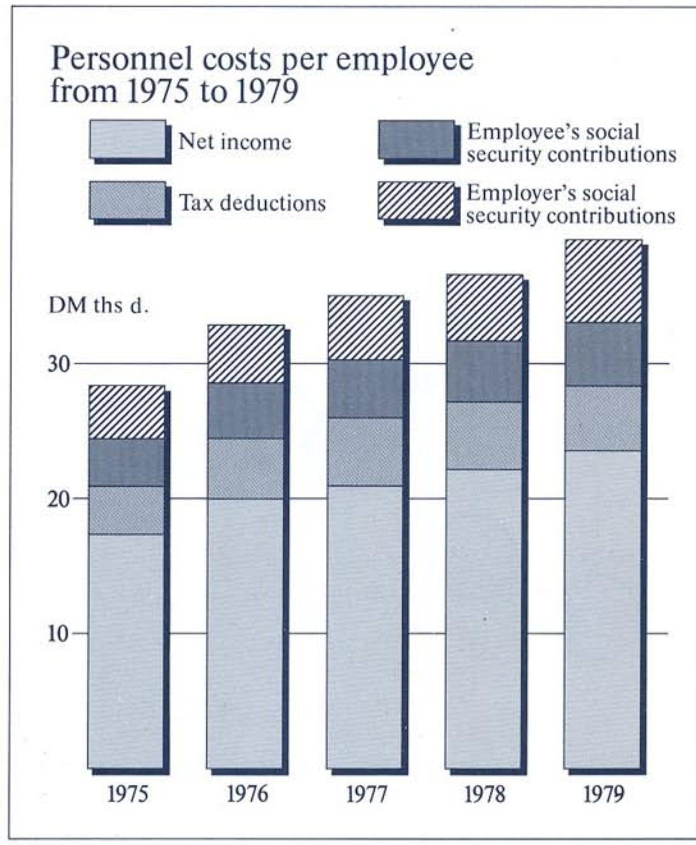
Good utilization levels in our plants enabled us not only to replace employees who left, but also to increase our workforce slightly for the first time in some years. However, we pursued a cautious recruiting policy and have tried to cope with peaks in demand through voluntary overtime, which was not entirely possible.

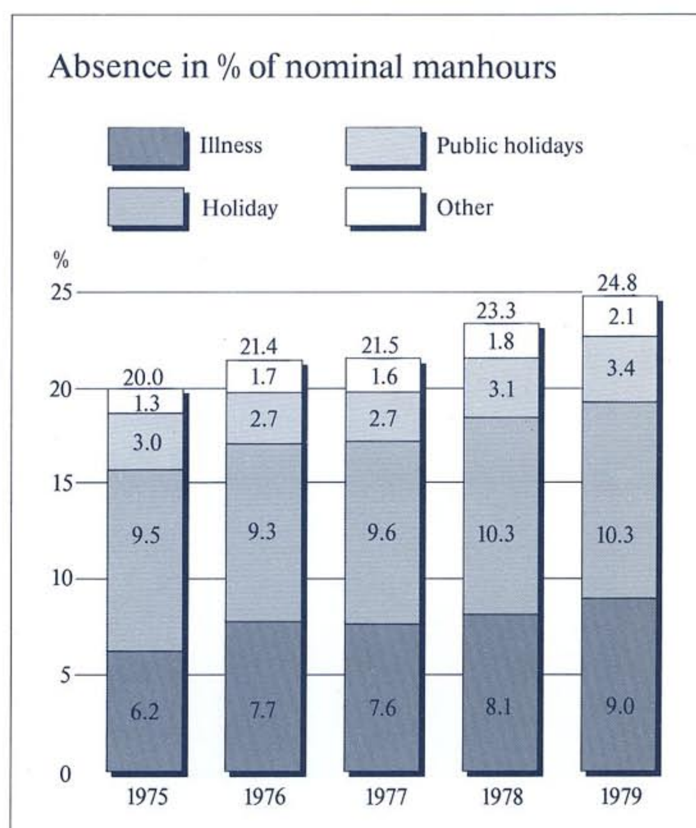
On 31st December, 1979 the parent company had 18,313 employees on the payroll (17,928 in 1978). On the annual average, the workforce numbered 18,087 (18,059 in 1978). Of the year-end total, 13,752 employees were wage earners (13,315 in 1978) and 4,561 were salaried staff (4,613 in 1978). The number of foreign employees rose to 3,138 at the end of the year (2,629 in 1978). It is becoming more and more difficult to find employees on the German labour market. For this reason, we again recruited more foreign labour.

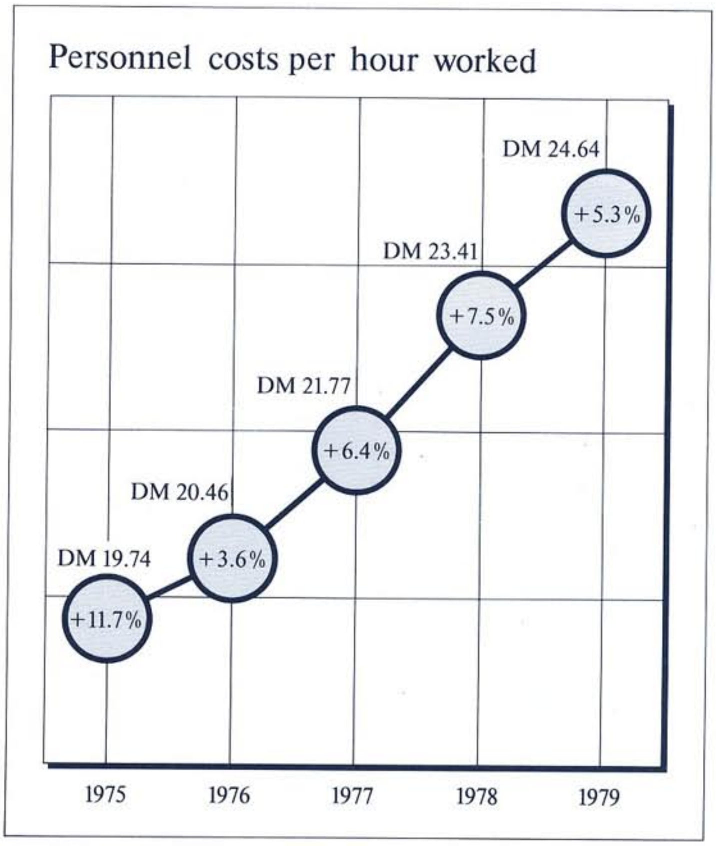
Despite the only minor increase in the workforce on the annual average, personnel costs (see table) rose by 5.1 % (3.9 % in 1978). This is attributable primarily to the 4.2 % labour contract wage increase which became effective on 1st July, 1979, higher social security contributions, and overtime.

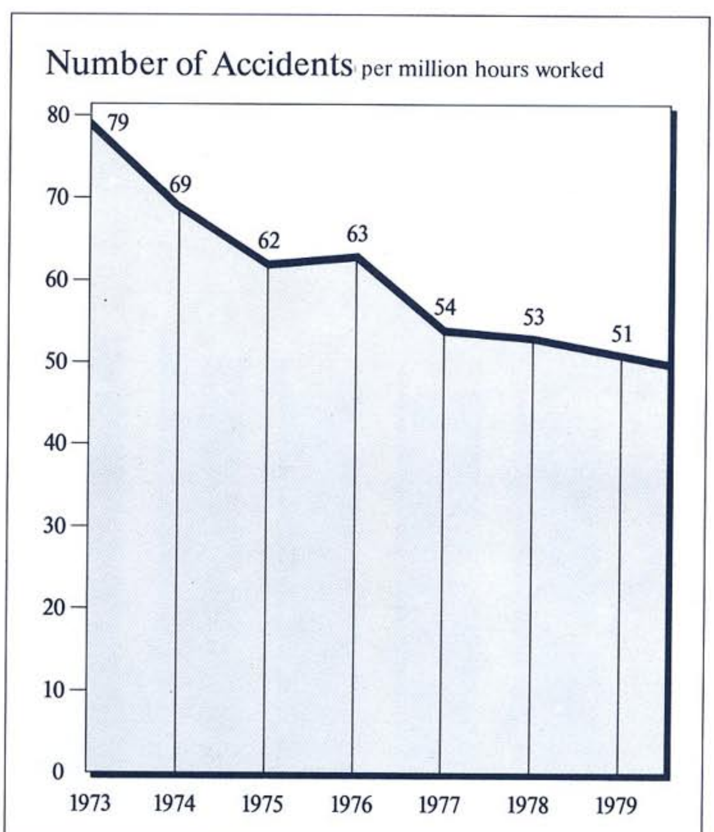
Personnel costs per employee and per hour worked rose by 5.0 % and 5.3 % respectively over the corresponding figures for the previous year. Our employees worked an average of 1,601 hours in 1979, compared to 1,605 in 1978. Sales per employee increased by 8.7 %.

	1979	1978
Personnel costs (in million DM)	713.4	678.5
Change (in %)	+ 5.1	
Personnel costs per employee (in DM)	39,441	37,573
Change (in %)	+ 5.0	
Personnel costs per hour worked (in DM)	24.64	23.41
Change (in %)	+ 5.3	
Hours worked per employee	1,601	1,605
Change (in %)	− 0.2	









Personnel costs per hour worked reflect the high social security contributions and the cost of paid absence. With the introduction of a phased plan to increase the holiday allowance of employees in the rubber-processing industry to 30 days, this trend will be reinforced. In terms of personnel costs per employee, we rank high among our international competitors.

9.0 % of nominal manhours was lost through illness (8.1 % in 1978) and 10.3 % through holidays (10.3 % in 1978). The further increase in the rate of absence, especially among wage earners, is causing us serious concern. Not only does it result in high costs for short-term disability benefits and company health insurance benefits, but it also makes it increasingly difficult for us to assign manpower in such a way as to ensure adherence to delivery schedules and to maintain good capacity utilization.

There was no change over last year in the number of trainees recruited in the commercial and technical sectors. In 1980, the number will be increased in order to secure an adequate reserve of skilled personnel for the future. A total of 250 young people are currently being trained in our training centres, laboratories, and commercial departments. The training of girls in technical professions, a project which we launched in 1978, has proved successful and will be continued.

Our intensive personnel training efforts were sustained in the year under review, with focus on the development of a new generation of foremen and courses for our marketing staff.

There was hardly any change from last year in the number of suggestions for improvement. These ideas again enabled us to upgrade production operations and methods, and we would like to thank all those employees who contributed improvement proposals. The highest bonus awarded in this connection in the year under review was DM 16,450.

We are pleased to report a further decrease in the number of industrial accidents. As a result of our efforts to improve industrial safety, this downward trend has now been sustained for several years. Our safety competitions, which provide incentive bonuses for an accident-free work record, showed good results.

In 1979, a total of 650 employees completed 25 years of service with the company, and 50 employees completed 40 years. More than 9,500 former employees or their dependents receive retirement benefits from the company's pension scheme.

We would like to extend our thanks to all members of the Group for their contributions to the success of our company in a year of major challenges. We would also like to thank the Joint Works Council, the members of the Works Councils in the plants, and the other employees' representatives for their support in resolving our common tasks.

Subsidiaries and Affiliates

(without the Uniroyal-Englebert Group)

Subsidiary operations continued to develop positively, although burdened by a major structural change – the closing of the subsidiary Continental Caucho España S. A., Barcelona, Spain. This company ceased production in December 1979.

Our Brazilian subsidiary Labortex Ltda. also has profitability problems. For this reason, we have introduced measures to prune the product range and restructure operations with the aim of concentrating the three separate production facilities in one location. Once these actions have been implemented, we expect results to improve.

For strategic reasons, we relinquished our 50 % interest in Conti-Calan (Pty) Ltd., South Africa, with effect from 1st July, 1979, and sold our shares to the General Tire & Rubber Co. (South Africa) Ltd., Johannesburg. We have entered into licence agreements with this group and will supply know-how on tyres and technical products.

If we exclude the losses arising from the closing of Continental Caucho España S. A., subsidiary results again showed a pleasing improvement over the previous year.

All production companies worked at capacity in 1979, and this trend has continued during the first months of the current year.

Sales and Production Companies Domestic

CONTINENTAL-ALSA SCHUHBEDARF GMBH, STEINAU-ÜRZELL

Capital:	DM 0.5 million
Interest:	100 %
Employees:	269
Business activity:	Production and marketing of footwear materials and plastic products as well as shoes for leisure wear and sport

The product lines moulded rubber soles, moulded plastic soles, and footwear products, which in the past have been spread over parent company and subsidiaries, were concentrated as from 1st January, 1979 in Continental-ALSA Schuhbedarf GmbH. After closing the last few years with a loss, the company reached break-even in the year under review.

AUTOREIFEN VERGÖLST, NEUGUMMIERUNGSWERKE GMBH, BAD NAUHEIM

Capital:	DM 20.0 million
Interest:	99.1 %
Employees:	1,735
Business activity:	Tyre retreading and sale of all brands of new tyres and car accessories

Although the price increases in the tyre industry could not be passed on in full to the consumer, the company reported a pleasing development in sales and profits. In order to capitalize on better financing opportunities, the company sold a part of its real estate and subsequently rented it on long-term lease. The resulting gains are included in the profit transferred to the parent company.

CLOUTH GUMMIWERKE AG, COLOGNE

Capital:	DM 12.0 million
Interest:	50 %
Employees:	1,558
Business activity:	Production and marketing of conveyor belting, moulded rubber and plastic parts, rubberized fabrics, tank linings, and hose

Although sales stagnated, the company reported a much improved result over the previous year, which will permit a higher dividend.

DEUTSCHE SCHLAUCHBOOTFABRIK HANS SCHEIBERT, ESCHERSHAUSEN

Capital:	DM 3.0 million
Interest:	60 %
Employees:	223
Business activity:	Production and marketing of rubber dinghies and inflatable life rafts

Although sales increased, profit expectations were not met.

DRAHTCORD SAAR GMBH & CO. KG., MERZIG/SAAR

Capital:	DM 30.0 million
Interest:	33.3 %
Employees:	935
Business activity:	Production of wire and wire cord for the tyre industry

The company again generated a satisfactory result and contributed to an uninterrupted supply of raw materials.

GÖPPINGER KALIKO- UND KUNSTLEDER-WERKE GMBH, EISLINGEN

Capital:	DM 16.0 million
Interest:	93.8 %
Employees:	901

VEREINIGTE GÖPPINGER-BAMBERGER KALIKO GMBH, BAMBERG

Capital:	DM 3.0 million
Interest:	93.8 %
Employees:	165
Business activity of the Kaliko Group:	Production and marketing of synthetic leather, foils, foam parts, book covers, and Venetian blind material as well as technical products

The KALIKO companies again reported a satisfactory result following an increase in sales. Apart from the strong demand in the automobile industry, this is also attributable to the company's increased capital investment to modernize its machinery and its efforts to prune the product range and reduce costs.

KA-RI-FIX TRANSPORTBAND-TECHNIK GMBH, BERGHEIM

Capital:	DM 0.02 million
Interest:	100 %
Employees:	73
Business activity:	Treatment and processing, confectioning, repair and marketing of conveyor belting and accessories

This company reported a positive result.

KG DEUTSCHE GASRUSSWERKE GMBH & CO., DORTMUND

Capital:	DM 8.0 million
Interest:	25 %
Employees:	217
Business activity:	Production of furnace and carbon black for the rubber industry

Despite substantial increases in the price of oil and gas, the company again achieved a satisfactory result.

TECHNO-CHEMIE KESSLER & CO. GMBH, FRANKFURT

Capital:	DM 15.0 million
Interest:	100 %
Employees:	415
Business activity:	Production and marketing of hose assemblies, couplings, and fittings

This company, which we acquired in 1978, developed in line with our expectations and reported a good result.

Production Companies Foreign

CONTINENTAL CAUCHO ESPAÑA S. A., BARCELONA, SPAIN

Capital:	Ptas. 706.0 million
Interest:	100 %

At the end of 1979, the orderly closing of the company was initiated because despite our intensive efforts, an economically acceptable result could not be achieved. This is attributable especially to the excess capacities in Spain's rubber-processing industry and to the soaring unit wage costs, reaching levels which were no longer tenable, given the wholly inadequate productivity gains.

Our export business with Spain has now been concentrated in our Madrid-based company Continental Industrias del Caucho S. A. The depreciation and accruals required in connection with the closing are contained in the annual statement of the parent company. Further expenditure is not expected for 1980.

CONTINENTAL INDUSTRIAS DEL CAUCHO S. A., MADRID, SPAIN

Capital:	Ptas. 363.837 million
Interest:	100 %
Employees:	303
Business activity:	Tyre retreading, production of solid rubber and cushion-type (CSE) tyres, sale of new tyres and technical products

Due to the difficult situation in the retreading market, a slight deficit was reported. Efforts to stabilize the company are therefore being intensified.

LABORTEX LTDA.,
SANTO ANDRÉ/SAO PAULO, BRAZIL

Capital:	Cr$. 159.088 million
Interest:	100 %
Employees:	700
Business activity:	Production and marketing of moulded rubber parts, extruded rubber sections, V-belts, hose, and textile machinery accessories.

With inflation soaring above all forecast levels and seriously straining the company's financial situation, a loss was sustained. Due to the government's price control policy, the substantial increases in manufacturing costs and material prices could only be recovered partially and subject to a time lag.

We have initiated the necessary steps to consolidate the company.

CONTINENTAL FRANCE S. A. R. L.,
SARREGUEMINES, FRANCE

Capital:	FF 80.8 million
Interest:	100 %
Employees:	1,110
Business activity:	Production of tyres, marketing of tyres and technical products

With full capacity utilization, the company achieved a substantial increase in sales and reported a satisfactory result. After completion of a capital investment programme, the company has achieved a major productivity improvement.

Sales Companies Foreign

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

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

CONTINENTAL TYRE AND RUBBER CO.
LTD., LONDON, GREAT BRITAIN

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

CONTINENTAL GUMMI AB,
SOLNA, SWEDEN

Capital:	skr. 0.1 million
Interest:	100 %
Employees:	45

CONTINENTAL CAOUTCHOUC (SUISSE)
S. A., ZURICH, SWITZERLAND

Capital:	sfrs. 1.0 million
Interest:	100 %
Employees:	100

CONTINENTAL PRODUCTS
CORPORATION, LYNDHURST, USA

Capital:	$ 2.0 million
Interest:	100 %
Employees:	38

CONTINENTAL GUMMI GESELLSCHAFT
MBH, VÖSENDORF, AUSTRIA

Capital:	öS 13.0 million
Interest:	100 %
Employees:	56

VERGÖLST GESELLSCHAFT MBH,
VÖSENDORF, AUSTRIA

Capital:	öS 1.5 million
Interest:	99.1 %
Employees:	14
Business activity:	Marketing of tyres and technical products

Six of the seven sales companies closed with a positive result, in some cases after a substantial increase in sales. Continental Gummi Gesellschaft mbH, Austria just broke even in its second year of operation.

Continental Gummi-Werke Aktiengesellschaft, Hanover

Share capital: DM 270000000.-

Continental-ALSA Schuhbedarf GmbH
Steinau-Uerzell
DM 500000.-
100%
*** ●

Deutsche Schlauchbootfabrik Hans Scheibert
Eschershausen
DM 3000000.-
59.17%
0.83% Union-Mittelland
●

Techno-Chemie Kessler & Co. GmbH
Frankfurt/M.
DM 15000000.-
100%
*** ●

Göppinger Kaliko- und Kunstleder-Werke GmbH
Eislingen
DM 16000000.-
93.791%
*** ●

- Vereinigte Göppinger-Bamberger Kaliko GmbH
  Bamberg
  DM 3000000.-
  100%
  *** ●

- Wilh. Leo's Nachf. GmbH
  Stuttgart
  DM 420000.-
  51%
  ●

- Unterstützungskasse mbH der Göppinger Kaliko- und Kunstleder-Werke GmbH
  Eislingen
  DM 20000.-
  100%
  **

- Wohnbau Kaliko GmbH
  Eislingen
  DM 40000.-
  100%
  **

- Wohnungsbau Salach GmbH
  Salach
  DM 20000.-
  60%
  **

Conti Versicherungsdienst GmbH
Hanover
DM 20000.-
75%
25% Iroplastics
*** ●

Formpolster GmbH
Hanover
DM 20000.-
100%
*** ●

Union-Mittelland-Gummi-GmbH
Hanover
DM 25000.-
100%
*** ●

Intercontinental Rubber Finance B.V.
Amsterdam/Netherlands
hfl 1000000.-
100%
●

Clouth Gummiwerke AG
Cologne
DM 12000000.-
50%

Deutsche Gasrußwerke GmbH
Dortmund
DM 250000.-
28.76%
2.16% Uniroyal Englebert Reifen

KG Deutsche Gasrußwerke GmbH & Co.
Dortmund
DM 8000000.-
22.5%
2.5% Uniroyal Englebert Reifen

Drahtcord Saar Geschäftsführungs-GmbH
Merzig/Saar
DM 60000.-
33.333%

Drahtcord Saar GmbH & Co. KG
Merzig/Saar
DM 30000000.-
33.333%

Pneu Uniroyal Englebert S.A.
Herstal-lez-Liège/Belgium
bfrs 500650000.-
98.1135%
●

- Uniroyal Englebert Daek A/S
  Copenhagen/Denmark
  dkr 100000.-
  100%
  ●

- Uniroyal Englebert Banden B.V.
  Amsterdam-Sloterdijk
  Netherlands
  hfl 20000.-
  100%
  ●

- Pneu Uniroyal Englebert S.A.
  Compiègne/France
  FF 46000090.-
  16.946% Uniroyal Englebert SA Herstal
  83.054% Continental France
  ●

Uniroyal Englebert Reifen GmbH, Aachen
DM 30000000.-
98.1833%
1.8167% Uniroyal Englebert SA Herstal
●

- Pneu Uniroyal-Englebert S.A.
  Geneva/Switzerland
  sfrs 500000.-
  100%
  ●

Uniroyal Englebert Textilcord, S.A.
Steinfort/Luxembourg
luxfrs 50000000.-
100%
●

Uniroyal Englebert Tyres Ltd.
Newbridge/Great Britain
£ 3250100.-
61.540%
28.845% Export-AG
9.615% Caoutchouc-Compagnie
●

Continental Group

Continental France SARL
Sarreguemines/France
FF 80800000.-
74.9988%
25% Export-AG
0.0012% Union-Mittelland ●

Labortex Ltda.
Santo André/São Paulo
Brazil
Cr$ 159088000.-
100% ●

Continental Industrias
del Caucho SA, Coslada/Madrid
Spain
Ptas 363837000.-
100% ●

Continental
Caucho España S.A.,
Gavá/Barcelona/Spain
Ptas 706000000
100%

Continental
Caoutchouc-Compagnie GmbH
Hanover
DM 250000.-
100% *** ●

Continental Caoutchouc
(Suisse) SA
Geneva/Switzerland
sfrs 1000000.-
100% ●

Continental
Gummi Gesellschaft mbH
Vösendorf/Austria
öS 13000000.-
100% ●

Continental Caoutchouc-Export-
Aktiengesellschaft
Hanover
DM 800000.-
100% *** ●

Continental Italia S.p.A.
Pneumatici Prodotti di Gomma e
Plastici, Milan/Italy
Lire 300000000.-
75%
25% Caoutchouc-Compagnie ●

AB Continental
Caoutchouc-Compagnie
Sundbyberg/Sweden
skr 5000.-
100% ●

Continental Gummi AB
Solna/Sweden
skr 100000.-
100% ●

Continental Products
Corporation
Lyndhurst/N.J./USA
$ 2000000.-
100% ●

Continental Tyre and Rubber
Company Ltd.
Coulsdon/Great Britain
£ 50000.-
100% Uniroyal Englebert Tyres
Newbridge ●

Iroplastics Kunststoff- und
Kautschukvertriebsgesellschaft
mbH
Hanover
DM 3500000.-
100% *** ●

KA-RI-FIX
Transportband-Technik GmbH
Bergheim
DM 20000.-
100% **

Autoreifen Vergölst,
Neugummierungswerke GmbH
Bad Nauheim
DM 20000000.-
99.125% Iroplastics *** ●

Reifen-Friedenburg KG
Troisdorf
DM 90000.-
66.67% **

Reifen-Stötzel KG
Hüttental-Weidenau
DM 60000.-
66.67% **

Vergölst Ges. mbH
Vösendorf/Austria
öS 1500000.-
100% ●

Production companies

Sales companies

Other companies

● Companies included in the consolidated accounts

** Companies not included pursuant to § 329,2 Stock Corporation Law

*** Companies with which profit and loss pooling agreements exist

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

Proposal for the Appropriation of Profits

The Supervisory Board and Executive Board propose distributing retained income as follows:

1. Allocation to open reserves			
• to increase legal reserves to DM 66,000,000	DM 548,607		
• to increase free reserves to DM 49,000,000	DM 6,035,000		DM 6,583,607
2. Profit carried forward			DM 7,921,738
3. Reduction in corporation tax		–	DM 5,221,924
Retained income			DM 9,283,421

Subject to agreement on this proposal, the company's equity will be increased as follows:

Allocation to free reserves			
• In accordance with § 58, section 2, Stock Corporation Law	DM 5,465,000		
• In accordance with the profit appropriation decision	DM 6,035,000		DM 11,500,000
Allocation to legal reserves			DM 548,607
Release of untaxed reserves		–	DM 779,167
Increase in profit carried forward			DM 4,106,924
Increase in equity			DM 15,376,364

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

Financial Position and Profit Situation

Although sales were up by 8.8 % and capital investment exceeded depreciation, the balance sheet total was only 5.9 % higher than in the previous year. On 31st December, 1979 it amounted to DM 1,156.3 million. The capital turnover rate (ratio of sales to total assets) again improved from 1.43 to 1.46.

If we calculate this ratio excluding investments, because sales too are related only to the parent company, the capital turnover rate has increased from 1.64 to 1.73. In the last five years, the capital turnover rate has changed from 1.36 to 1.46 or from 1.52 to 1.73 (excluding investments).

Apart from the marginal increase in property, plant, and equipment, the major change in fixed assets has been the increase in investments due to the acquisition of the Uniroyal-Englebert Group. Again, the proportion of fixed assets to total assets has risen and on the closing date was 52.1 % (51.1 % in 1978). Current assets are also higher as a result of the expansion of business activities and the cost and price increases. Relative to sales, however, this increase was very limited.

Despite the convertible loans of DM 77.9 million, which were taken in the second half of 1979 to fund the acquisition of the Uniroyal-Englebert companies, both short and long-term liabilities have increased by only DM 36.8 million. This is because long-term loans were paid up and, given the adequate liquidity position, did not have to be renewed. However, it should be noted that the acquisition of the Uniroyal-Englebert companies is only partly reflected in the balance sheet of the parent company, because some of the companies were taken over by Continental subsidiaries.

If the Shareholders approve the Administration's proposed profit appropriation, equity will increase by DM 15.4 million. The equity ratio will then reach 34.0 % (34.6 % in 1978). As shown in the table on page 24, this amount comprises the allocation to open reserves, the remaining retained income and the reduction in corporation tax to be carried forward.

Consequently, 65.3 % of fixed assets are financed out of equity (67.6 % in 1978). Fixed assets and inventories are financed almost 100 % out of equity and long-term debt (95.2 % in 1978).

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) improved considerably over the previous year despite the increase in investments and was 78.7 % (46.2 % in 1978). The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) dropped slightly from 95.2 % to 93.5 %.

The acquisition of the Uniroyal-Englebert companies did not therefore have a negative impact on the balance sheet and financial ratios of the parent company and did not result in any particular financial strain, although the profit generated by the Uniroyal-Englebert Group was not transferred to the parent company but rather left with the individual companies to offset any losses carried forward or to improve their equity structure.

These ratios are a reflection on the company's continued sound financial position.

Last year also saw a substantial improvement in profitability, the main contributing factor being an increase of DM 92 million in the gross margin. The net operating result before profit tax (after deduction of financing charges and including income from investments) is DM 32.1 million (− DM 11.5 million in 1978). The extraordinary result (before profit tax) is negatively affected by the closing of the Spanish subsidiary Continental Caucho España S. A., Barcelona, Spain, and is minus DM 12.4 million. Because of the expiry of the 5-year term, 1979 was the last year in which the loss carry-forward could be offset against taxable income in full.

The gross cash flow (computed according to the DVFA formula) increased from DM 69.8 million to DM 117.9 million and represented 7 % of sales (4.5 % in 1978).

Earnings per share, again computed on the basis of the DVFA formula, were DM 4.90 (after a loss of DM 1.00 in 1978).

Balance Sheet

The annual statements are based on the same evaluation and depreciation principles as in previous years and were explained in detail in the annual reports for 1976 and 1977.

Property, Plant, and Equipment

Investment in property, plant, and equipment totalled DM 72.6 million, DM 5.8 million less than in the previous year. This decrease is not however attributable to the curtailment of investment activity, but to the time delay in the completion or delivery of some equipment.

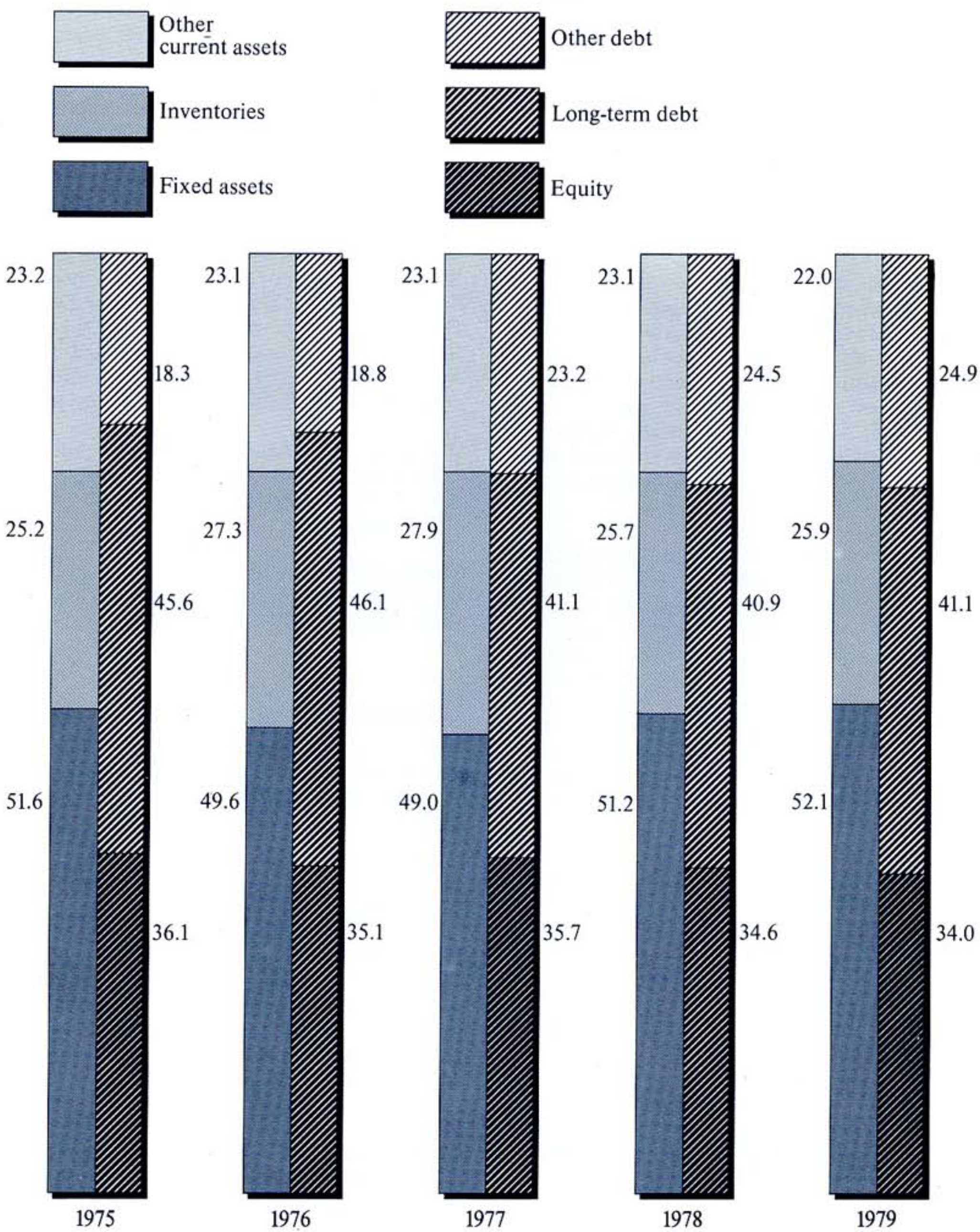
Investment focus is on rationalization − always hand-in-hand with an improvement in working conditions − as well as on quality assurance, and capacity expansion for moulded products and rubber-to-metal bonded parts, extruded parts, hose and plastic products as well as truck and passenger car tyres.

Depreciation, computed according to the straight-line method, was DM 62.7 million (DM 56.9 million in 1978) and has financed 86.4 % of investment in property, plant, and equipment (72.6 % in 1978). Additions to property, plant, and equipment and reclassifications to the current year have been depreciated as follows:

Balance sheet structure

Assets

Liabilities



Balance sheet total (in million DM)

1975	1976	1977	1978	1979
1008.8*)	1016.0*)	1048.0	1091.4	1156.3
Change in %				
−5.5	+0.7	+3.1	+4.1	+5.9

*net of accumulated losses

	Additions and reclassifications DM million	Depreciation DM million
Land and buildings	2.2	0.1
Machinery	47.2	3.2
Furniture and equipment	24.6	7.2
	74.0	10.5

The disposal of fixed assets amounting to DM 2.3 million relates to obsolete machinery and to two residential buildings which had previously been on lease. Income from the disposal of these assets totalled approximately DM 1.0 million.

Investments

Investments increased by DM 35.6 million to DM 176.8 million. The increase is due mainly to the acquisition of the Uniroyal-Englebert companies. Specifically, the acquisition was handled as follows:

	Interest	Acquiring company
Pneu Uniroyal Englebert S. A., Herstal, Belgium	98 %	Continental Gummi-Werke AG
Uniroyal Englebert Textilcord S. A., Steinfort, Luxembourg	100 %	Continental Gummi-Werke AG
Uniroyal Englebert Reifen GmbH, Aachen	98 %	Continental Gummi-Werke AG
Uniroyal Englebert Tyres Ltd., Newbridge, Great Britain	100 %	Continental Gummi-Werke AG
Pneu Uniroyal Englebert S. A., Compiègne, France	83 %	Continental France S.A.R.L., Sarreguemines, France
Pneu Uniroyal-Englebert S. A., Geneva, Switzerland	100 %	Uniroyal Englebert Reifen GmbH, Aachen

Uniroyal Englebert Tyres Ltd., Newbridge, and Pneu Uniroyal-Englebert S. A., Geneva, acquired only the fixed and current assets of the tyre division from the British and Swiss Uniroyal companies and for this reason were provided initially with a capital of £ 2 million and sfrs. 0.5 million respectively.

The remaining shares of the German and French companies are held by Pneu Uniroyal Englebert S. A., Herstal, Belgium. The same is true of the shares in Uniroyal Englebert Daek A/S, Copenhagen, Denmark, and Uniroyal Englebert Banden B. V., Amsterdam, Netherlands. The Belgian company also operated a branch office in Italy which, however, was closed at the end of 1979.

In order to finance the acquisition of Pneu Uniroyal Englebert S. A., France, and a subsequent capital increase at this company, we increased the capital of Continental France S. A. R. L., Sarreguemines, France, by FF 23.3 million.

Further capital increases were made at Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, Labortex Ltda., Santo André/Sao Paulo, Brazil, and Continental Industrias del Caucho S. A., Madrid, Spain, as well as at the sales companies in the U.S.A. and Austria. The new shares were assumed by Continental Gummi-Werke AG and by holding companies.

During the course of the year, we sold our interest in Conti-Calan (Pty) Ltd., Johannesburg, South Africa. Following the closing of Continental Caucho España S. A., Barcelona, Spain, we wrote off the net book value of our interest in that company. The book value of Labortex Ltda., Santo André/Sao Paulo, Brazil, was written down in the light of the company's poor profit situation.

The relationships of the subsidiaries and affiliated companies within the Group can be seen from the chart on pages 22 and 23.

Long-term loans are mainly housing loans to our employees. Interest-free loans have been adjusted to their present value. The difference between the present value and last year's value is included in the increase in investments.

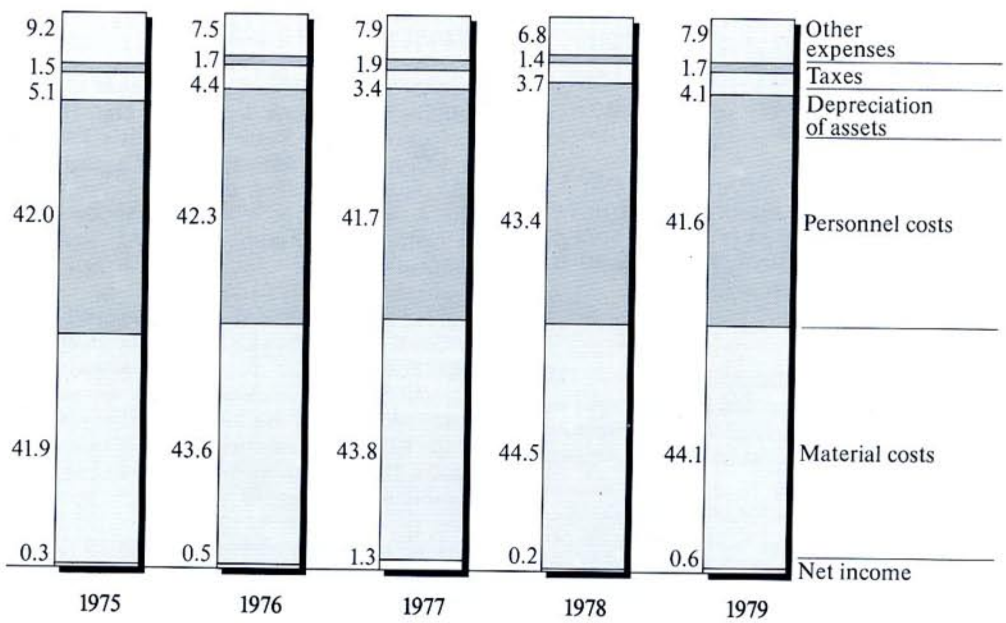
Inventories

The increase in inventories of raw materials and consumables is the result of substantial price rises and a volume increase in material stocks. The increase in work-in-progress is attributable to the fact that production was not interrupted between Christmas and the New Year. During the same period last year, we had stopped operations because of the very few number of workdays, which meant that less semi-finished products were in stock. The decrease in finished goods results from substantial deliveries at the end of the year. The strained supply situation led to minimum stock levels being understepped in some products, and bottlenecks were reported.

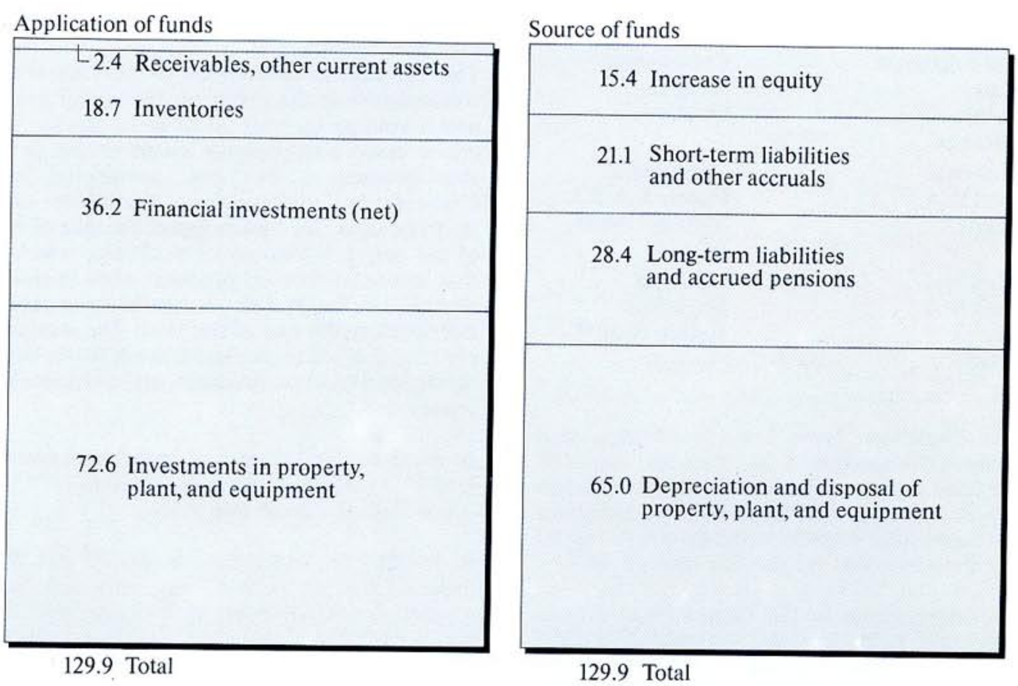
In all, the value increase of inventories amounts to DM 18.7 million. In percentage terms (6.7 %), this is less than the growth in sales.

Raw materials and consumables are stated at the lower of cost or market value, with discounts and rebates deducted. Work-in-progress and finished goods were again valued at manufacturing cost, including proportionate factory overhead. In evaluating the inventories, proper allowance was made for obsolete and slow-moving goods.

Breakdown of expenditure
in % of gross revenues



Financing in 1979
(in mill. DM)



Accounts Receivable and Other Assets

After an increase at the end of 1978, accounts receivable have again dropped. Of the total amount, some 70 % are due from domestic customers. The largest part was due in January 1980 and was paid on time.

Accounts receivable from affiliated companies relate not only to the delivery of goods but also to claims from profit-transfer agreements and clearing accounts in the framework of central cash management.

The position other debtors includes clearing accounts due from Uniroyal as well as receivables from suppliers, employees, tax authorities, and other items arising in the ordinary course of business.

Capital and Reserves

Share capital is unchanged at DM 270 million. On 7th September, 1979 the Shareholders approved a conditional authorized capital increase of DM 41 million. Share capital can be increased up to this level during the period 30th June, 1981 and the end of the term by exercising the conversion rights afforded by the convertible loans taken in 1979.

DM 5,465,000 was allocated from net income to free reserves in accordance with § 58, section 2 of the Stock Corporation Law.

Accruals

Accrued pensions are computed on actuarial principles. Other accruals include warranties, tax and bonus commitments, contributions to the employers liability insurance association, risks from contingent liabilities on notes, and other commitments arising in the ordinary course of business.

The increase over 1978 is partly attributable to the fact that expenses will be incurred in the current year as a result of the closing of Continental Caucho España S. A., Barcelona, Spain, for which provisions have to be made. Moreover, other accruals also include a corporation tax reserve of DM 5.2 million, providing for the event that the Shareholders resolve to distribute the entire retained income. If the Shareholders approve the Administration's proposal, however, this expenditure will not be incurred. In this context, we refer you to page 24.

Liabilities

Long-term liabilities increased by DM 77.9 million as a result of the convertible loans taken in 1979. At the same time, however, there was a decrease of DM 53.7 million, resulting from scheduled repayments and refinancing, so that on balance the increase is only DM 24.2 million. The increase in liabilities due to affiliated companies and the decrease in borrowings is also to be seen in this context.

Contingent Liabilities

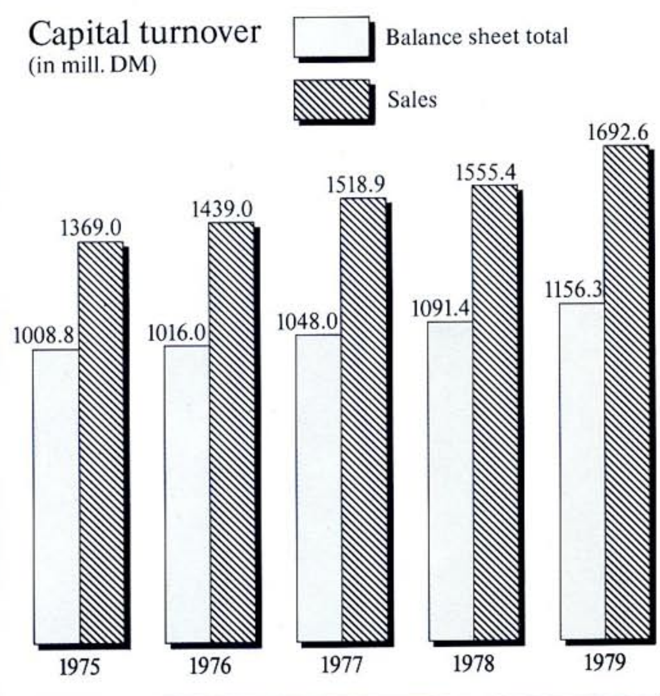
The increase in contingent liabilities on notes to DM 150 million (110.5 million in 1978) is attributable to customer notes of our subsidiaries, which are settled via the parent company in the framework of central cash management. Guarantees and warranties amounting to DM 116.2 million relate primarily to liabilities of affiliated companies. Outstanding payments on contributions to the capital of subsidiaries and liabilities due to cooperatives totalled DM 20.3 million.

Profit and Loss Statement

Sales rose by 8.8 % to DM 1,692.6 million, with the Tyre division generating 60 % and the Technical Products division 40 %. The export sales ratio was 26.3 % (25.4 % in 1978).

Gross revenues increased by 9.7 % to DM 1,715.9 million.

Material costs, which rose by 8.7 %, accounted for 44.1 % of gross revenues (44.5 % in 1978). The decrease here is attributable to the unchanged level of expenditure for merchandise and other services rendered, despite a disproportionately high increase in raw material and energy costs. Personnel costs amounted to DM 713.4 million and, at 41.6 % of gross revenues (43.4 % in 1978), were again down to the 1977 level.



Capital turnover rate

1975	1976	1977	1978	1979
1.36	1.42	1.45	1.42	1.46

Income from profit and loss pooling agreements includes extraordinary earnings. Depreciation of investments and accounts receivable as well as other expenses include extraordinary expenditures relating to the closing of Continental Caucho España S. A., Barcelona, Spain, and the write down of our interest in Labortex Ltda., Santo André/Sao Paulo, Brazil. In this context, we have also released the untaxed reserve for the Brazilian company.

Income from disposal of fixed assets is down on last year by DM 6.4 million and amounted to DM 1.9 million.

Other income includes proceeds from rents and leases, sales in our kitchens and canteens, and charged-out services, cost reimbursements, and other auxiliary business activities. Extraordinary other income derives from investment subsidies and grants, released value adjustments, and tax refunds for previous years.

Depreciation of current assets includes value adjustments to our foreign receivables. Bad debts in the ordinary course of business were minor.

The balance of interest income and expenses increased over 1978 by DM 7.5 million to DM 38.3 million. Interest thus represented 2.2 % of gross revenues (2.0 % in 1978). Apart from the general increase in interest rates, it should be borne in mind that additional interest expenses were incurred to finance the acquisition of the Uniroyal-Englebert companies. The substantial increase in interest income over the previous year is almost entirely attributable to the short-term financing of our subsidiaries in the framework of the central cash pool.

Other expenses include freight charges, rents, insurance premiums, commission, advertising expenditure, repairs, and other costs arising in the ordinary course of business.

In 1979, the remuneration of the Executive Board, including DM 138,138.50 at affiliated companies, totalled DM 2,946,439.82. Pensions to retired officers and their dependents amounted to DM 1,667,250. Emoluments to the Supervisory Board totalled DM 93,600.

Hanover, 3rd April, 1980

Continental
Gummi-Werke Aktiengesellschaft

The Executive Board

Carl H. Hahn · Peter Haverbeck · Hans Kauth · Gerhard Lohauß

Julius Peter · Wilhelm Schäfer · Horst W. Urban · Hans Georg Wenderoth · Helmut Werner

Notes on the Consolidated Annual Financial Statements of the Continental Group

Consolidated Group of Companies

In the past, we have included only the domestic subsidiaries in the consolidated financial statements. Following the acquisition of the Uniroyal-Englebert companies, however, the foreign-based subsidiaries have assumed such an important role that we are publishing, for the first time, a worldwide financial statement to give a clearer picture of the Group's financial position and profit situation. According to § 329 of the Stock Corporation Law, this exempts us from drawing up consolidated accounts for the domestic companies.

The consolidated accounts cover, in addition to the parent company, fourteen domestic and nineteen foreign subsidiaries, in which we had a direct or indirect financial interest of more than 50 % on 31st December, 1979.

The subsidiaries belonging to the Continental Group and included in the consolidated accounts are set out on pages 22 and 23.

Continental Caucho España S. A., Barcelona, Spain, was not included in the consolidated accounts because it ceased to do business in the year under review. A further ten domestic and three foreign companies have not been included because they are either inactive or have only a low business volume. These omissions do not detract from the overall presentation of the Group's financial position and profit situation.

All companies of the Group close their accounts on 31st December.

Because there has been a major change in the consolidated group of companies, a comparison with last year is not meaningful. For this reason, we have not attempted to relate this year's figures with those of 1978.

Structure and Evaluation

The consolidated accounts have been drawn up in accordance with the provisions of the German Stock Corporation Law. We have also conformed as far as possible with the accounting and consolidation principles likely to be prescribed by the 4th and 7th Directives of the EEC. The profit and loss statement is set out in more detail than the minimum required level stipulated in § 333 of the Stock Corporation Law.

The national accounts of the consolidated foreign-based companies have been adjusted to conform with the structure required by the German Stock Corporation Law. Evaluation has been done according to proper German accounting principles. In countries where different evaluation methods were used, we have made the necessary adjustments according to standard Group rules.

The individual accounts of all consolidated companies have been examined and verified by our auditors in accordance with German law. The annual accounts of our foreign subsidiaries have also been examined and confirmed in accordance with the legal requirements in their respective country of domicile.

Currency Translation

Assets and liabilities on the individual balance sheets were translated into DM at year-end exchange rates.

Items on the profit and loss statement are converted at average exchange rates for the year. Gains or losses arising from changes in exchange rates are included in other income or other expenses.

Consolidation Method

With the exception of the Uniroyal-Englebert companies, capital consolidation was done according to the so-called German method, i. e. the book values on the closing date are offset against the respective percentage held of the subsidiary's equity and reserves.

The newly acquired Uniroyal-Englebert companies on the other hand have been consolidated according to the modified Anglo-American method. By contrast to the German method of consolidation, the purchase costs at the time of acquisition are related to the subsidiary's equity. The devaluation of inventories within the Uniroyal-Englebert Group to the Group's cost of manufacture at the time of acquisition was included in the difference arising from consolidation. This different method of consolidation for the Uniroyal-Englebert companies gives a more accurate consolidated result and is in line with the procedure envisaged in the 7th Directive of the EEC.

Accounts receivable and payable between the consolidated companies were offset.

Adjustments have been made on the profit and loss statement to account for intercompany sales and chargeouts.

The profit and loss statements of the Uniroyal-Englebert companies which were acquired on 1st July, 1979 were consolidated for the second half of the year only.

In the following notes, the figures in brackets are the equivalent figures for the parent company.

Financial Position and Profit Situation

The consolidated balance sheet total is DM 1,990.1 million (DM 1,156.3 million). Of this, domestic companies account for 72.5 % and foreign companies for 27.5 %.

Taking the entire annual sales of the Uniroyal-Englebert Group into account, the capital turnover rate of 1.50 would be comparable with that of the parent company (1.73).

Including the difference arising from consolidation, the proportion of fixed assets in the balance sheet is 39.7 % (52.1 %). The main reason for this much lower value at Group level is that the consolidated sales companies need to have relatively higher current assets than the producing parent company and that the position investments decreases substantially through consolidation.

The equity ratio of 20 % is certainly not yet satisfactory. A comparison with that of the parent company is scarcely possible owing to consolidation. In this context, it should be noted that the earnings of subsidiaries in recent years have been largely distributed to the parent company, and for this reason equity has not been built up at subsidiary level. The equity ratio of the Group has also been negatively affected by the acquisition of the Uniroyal-Englebert Group. The balance sheet total has increased substantially, while equity has only increased by the amount of profit retained in the second half of the year.

Equity and long-term debt cover 73.6 % (99.1 %) of fixed assets, including the difference arising from consolidation and inventories.

At 61.8 % (93.5 %), the liquidity ratio (short-term receivables and liquid assets to short-term liabilities) is considerably lower than that of the parent company. This is because the parent company's long-term financing is higher than that of the subsidiaries, especially of the newly acquired Uniroyal-Englebert companies. A change in the financing structure will improve this ratio in the future.

Because domestic company earnings are largely included in the net income of the parent company in the framework of existing profit and loss pooling agreements, the higher consolidated net income derives from the foreign subsidiaries, and especially from the second half-year profit of the Uniroyal-Englebert Group. After offsetting the DM 9.9 million loss carried forward and after the allocation to the parent company's free reserves, the consolidated retained income is DM 7.4 million.

The gross cash flow of DM 162.3 million is equivalent to 6.2 % (7 %) of sales.

Balance Sheet

Property, Plant, and Equipment

Property, plant, and equipment was valued at purchase or manufacturing cost, minus depreciation. Of the total DM 689.7 million, the parent company accounts for DM 418.4 million, the Uniroyal-Englebert Group for DM 158.2 million, other foreign companies for DM 58.4 million, and the remaining domestic companies for DM 54.7 million.

Capital investments in property, plant, and equipment, including minor re-evaluations in conformity with Brazilian law, and consolidated depreciation can be allocated to the individual companies as follows:

	Capital Investments DM million	Depreciation DM million
Parent company	72.6	62.7
Uniroyal-Englebert companies (2nd half-year)	14.5	12.4
Other subsidiaries	26.2	20.9
	113.3	96.0

Capital investments were 18.0 % higher than depreciation; they were chiefly made for rationalization, capacity expansion, and quality assurance.

Depreciation is done according to standard Group principles, using the straight-line method.

Investments

The companies not included in the consolidated accounts are indicated in the chart on pages 22 and 23. Interests in these companies are held mainly by the parent company. While the investment securities relate almost entirely to our Brazilian subsidiary, the loans involve several companies. Apart from housing loans to employees, they also include funds to finance local energy supply. Interest-free loans have been discounted to their present value.

Difference arising from Consolidation

Apart from the amounts relating to the initial consolidation of the Uniroyal-Englebert companies, additional undisclosed reserves resulting from acquisitions have been included in this item. A substantial sum is also accounted for by the foreign companies, because exchange rates have changed since they were acquired/established or since capital increases were made. The pro rata equity, which was converted into DM at the rates valid on the closing date, indicates a lower value than the book value expressed in DM. However, this part of the difference arising from consolidation can be regarded as undisclosed reserves, because the fixed assets of the foreign companies were also converted at closing-date exchange rates, resulting in lower DM values than the original purchase cost.

Inventories

Inventories have been adjusted to make allowance for intercompany profit. They are allocated as follows:

	DM million
Parent company	298.7
Uniroyal-Englebert companies	139.2
Other subsidiaries	164.6
	602.5

73 % of inventories are located in production companies and 27 % in sales companies.

Inventories are stated at the lower of cost or market value. Finished goods and work-in-progress are valued at manufacturing cost, including proportionate factory overhead. Intercompany profit has been eliminated. In evaluating the inventories, proper allowance was made for obsolete and slow-moving goods.

Accounts Receivable and Other Assets

Trade accounts receivable are split almost equally between the parent company, the Uniroyal-Englebert companies, and other subsidiaries. Adequate adjustments have been made to allow for possible risks and expected discounts.

Other debtors include mainly claims against tax authorities, receivables from the sale of real estate, and receivables from clearing transactions with suppliers and customers.

Accruals

Pension accruals have been computed on the basis of actuarial principles. Accruals also include statutory personnel indemnities in some of the foreign companies. These indemnities are not payable until separation and are therefore tantamount to pension promises. The value of vested rights exceeded the pension funds available in the various Group companies by some DM 13 million.

Other accruals include bonus and tax liabilities, warranties, and other commitments arising in the ordinary course of business.

Liabilities

Long-term liabilities plus short-term bank loans and bills payable total DM 953.5 million. They can be broken down as follows:

	DM million
Parent company	436.7
Uniroyal-Englebert companies	229.7
Other subsidiaries	287.1
	953.5

Long-term liabilities account for just under 50 % of these liabilities.

Trade payables relate chiefly to the production companies. The main items included in other liabilities are outstanding social security contributions and payroll tax, wages and salaries, customer balances, tax liabilities, and outstanding payments of affiliated companies in connection with the acquisition of the European tyre operations of Uniroyal, Inc.

Contingent Liabilities

The Group's contingent liabilities on notes amount to DM 143.6 million (DM 150 million). This is slightly lower than the parent company's contingent liabilities on notes, because intercompany bills have been eliminated in consolidation.

Profit and Loss Statement

Consolidated sales totalled DM 2,623.4 million. They can be broken down as follows:

	DM million
Parent company	1,390.9
Uniroyal-Englebert companies (2nd half-year)	386.3
Other subsidiaries	846.2
	2,623.4

Gross revenues amounted to DM 2,631.7 million; of this, material costs accounted for 42.8 % (44.1 %) and personnel costs for 39.7 % (41.6 %). The lower proportion of personnel costs relative to the parent company is due to the inclusion of the sales companies in the consolidated accounts and to the high wage level in Germany.

Income from the disposal of fixed assets derives mainly from the sale of two parcels of real estate. Income from the release of untaxed reserves concerns mainly our sales companies in Great Britain, Sweden and Switzerland. Other income also includes foreign exchange gains arising from consolidation.

Depreciation of investments contains the write-off of the net book value of our interest in Continental Caucho España, S. A., Barcelona, Spain, as well as the discounting of long-term receivables.

Depreciation of current assets includes individual adjustments and standard Group-wide adjustments to allow for the overall credit risk.

Interest expenses after deduction of interest income totalled DM 76 million (DM 38.3 million). This is equivalent to 2.9 % (2.2 %) of gross revenues.

Other expenses cover the same cost components as for the parent company and accounted for 10.4 % (8.8 %) of gross revenues.

Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1979

Assets	31st December, 1979 DM	DM	DM	31st Dec., 1978 DM 1000
I. Fixed Assets				
A. Property, Plant and Equipment				
1. Land				
a) with commercial plant and other buildings	161 554 086			168 566
b) with residential buildings	1 548 380			1 859
c) without buildings	70 800			71
2. Machinery	188 231 804			173 560
3. Furniture and equipment	38 504 293			36 732
4. Assets under construction and prepayments	28 447 578			29 983
		418 356 941		410 771
B. Investments				
1. Investments	176 785 090			141 178
2. Loans with a term of at least four years	6 802 681			6 197
thereof secured by mortgages DM 5 736 796		183 587 771		147 375
			601 944 712	558 146
II. Current Assets				
A. Inventories				
1. Raw materials and consumables	102 444 002			85 219
2. Work in progress	49 103 694			38 333
3. Finished goods, goods for resale	148 048 493			157 319
		299 596 189		280 871
B. Other Current Assets				
1. Payments on account		546 148		1 172
2. Accounts receivable		163 292 795		179 520
due after one year DM 5 833 846				
3. Notes receivable		405 197		2 711
rediscountable with the Federal Bank DM 323 984				
4. Checks		6 161 145		6 568
5. Cash on hand, at Federal Bank and on postal checking accounts		2 296 730		1 509
6. Cash at banks		8 651 804		7 894
7. Due from affiliated companies		57 232 555		39 816
8. Other receivables (§ 89 Stock Corp. Law)		277 302		353
9. Other debtors		12 952 739		9 091
			551 412 604	529 505
III. Prepaid Expenses				
1. Loan discounts		1 832 910		2 154
2. Other		1 085 442		1 616
			2 918 352	3 770
			1 156 275 668	1 091 421

Liabilities

Liabilities		31st December, 1979 DM	DM	31st Dec., 1978 DM 1000
I. **Share Capital** (Common Stock)			270 000 000	270 000
Conditionally authorized capital	DM 41 000 000			
II. **Open Reserves**				
1. Legal reserves			65 451 393	65 451
2. Free reserves		37 500 000		37 500
Additions to reserves		5 465 000		—
			42 965 000	37 500
III. **Untaxed Reserves** according to tax regulations (Entwicklungsländer-Steuergesetz § 1 section 1.2)			—	779
IV. **Accruals**				
1. Accrued pensions		108 504 020		104 386
2. Other accruals		91 591 061		77 891
			200 095 081	182 277
V. **Liabilities with Terms of at least four Years**				
1. Bonds and convertible bonds		128 793 600		51 752
thereof secured by mortgages	DM 50 000 000			
2. Loans and debentures		80 555 933		91 345
thereof secured by mortgages	DM 78 222 438			
3. Due to banks		157 000 000		199 000
thereof secured by mortgages	DM —			
			366 349 533	342 097
Due within four years	DM 134 884 275			
VI. **Other Liabilities**				
1. Trade payables		50 465 019		44 317
2. Notes payable		40 043 522		44 837
3. Due to banks		30 335 198		48 005
4. Payments received on account		3 447 725		4 563
5. Due to affiliated companies		30 157 962		3 011
6. Other liabilities		47 681 814		44 769
			202 131 240	189 502
VII. **Retained Income**			9 283 421	3 815
Contingent liabilities on notes	DM 150 037 170			
Guarantees	DM 95 177 323			
Warranties	DM 21 002 750			
			1 156 275 668	1 091 421

Fixed Assets Schedule 1979

	1st January, 1979 DM	Additions DM	Reclassifications DM	Deductions DM	Depreciation DM	31st December, 1979 DM
A. **Property, Plant and Equipment**						
1. Land						
a) with commercial plant and other buildings	168 565 673	1 659 456	+ 531 314	255 346	8 947 011	161 554 086
b) with residential buildings	1 859 455	12 849		255 265	68 659	1 548 380
c) without buildings	70 800					70 800
2. Machinery	173 559 793	30 496 431	+ 16 655 056	1 497 459	30 982 017	188 231 804
3. Furniture and equipment	36 731 958	20 934 948	+ 3 736 986	274 872	22 624 727	38 504 293
4. Assets under construction and prepayments	29 983 342	19 462 796	− 20 923 356		75 204	28 447 578
	410 771 021	72 566 480	—	2 282 942	62 697 618	418 356 941
B. **Investments**						
1. Investments	141 177 546	50 049 478		6 385 967	8 055 967	176 785 090
2. Loans with a term of at least four years	6 197 049	1 289 941		684 309		6 802 681
	147 374 595	51 339 419	—	7 070 276	8 055 967	183 587 771
	558 145 616	123 905 899	—	9 353 218	70 753 585	601 944 712

Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1979

		1979 DM	1979 DM	1978 DM 1000
1. **Sales**		1 692 571 192		1 555 382
2. Change in inventories of products		+ 1 160 451		– 17 990
			1 693 731 643	1 537 392
3. Overheads capitalized on construction of fixed assets			22 151 906	26 196
4. **Gross Revenues**			1 715 883 549	1 563 588
5. Raw materials and consumables			756 536 230	696 002
6. **Gross Margin**			959 347 319	867 586
7. Income from profit and loss pooling agreements		22 919 496		13 450
8. Investment income		1 870 874		4 617
9. Income from long-term loans		287 569		311
10. Interest and similar income		8 081 825		2 819
11. Income from disposal of fixed assets		1 873 958		8 331
12. Income from release of accruals		4 447 700		4 012
13. Income from release of untaxed reserves		779 167		191
14. Other income		27 813 815		29 523
thereof extraordinary	DM 3 599 213			
			68 074 404	63 254
			1 027 421 723	930 840
15. Wages and salaries		600 023 730		570 110
16. Social security contributions		95 857 110		90 256
17. Pensions and employees' welfare		17 496 947		18 158
18. Depreciation of fixed assets		62 697 618		56 941
19. Depreciation of investments		8 055 967		1 200
20. Depreciation of current assets (excluding inventories)		5 719 604		6 008
21. Losses from disposal of fixed assets		398 916		1 469
22. Interest and similar expenses		46 366 891		33 560
23. Taxes				
a) on income profit and				
net worth	DM 31 549 804			
charged to subsidiaries	DM – 3 713 081			
	DM 27 836 723			
b) Other	DM 742 388			
		28 579 111		21 380
24. Expenses from profit and loss pooling agreements		—		3 287
25. Other expenses		151 292 222		124 668
			1 016 488 116	927 037
26. **Net Income**			10 933 607	3 803
carry forward:			10 933 607	3 803

	1979 DM	1979 DM	1978 DM 1000
carried forward:		10 933 607	3 803
27. Profit brought forward		3 814 814	12
28. Additions to reserves		5 465 000	—
29. **Retained Income**		9 283 421	3 815

Continental
Gummi-Werke Aktiengesellschaft
The Executive Board

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

Berlin/Hanover, 8th April, 1980

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Wirtschaftsprüfer

Kirste
Wirtschaftsprüfer

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1979

Assets		31st December, 1979 DM	DM
I. Fixed Assets			
A. Property, Plant, Equipment and Intangible Assets			
1. Land			
a) with commercial plant and other buildings		245 498 522	
b) with residential buildings		2 814 940	
c) without buildings		4 775 979	
2. Buildings on third parties' land		4 358 869	
3. Machinery		312 257 502	
4. Furniture and equipment		75 320 884	
5. Assets under construction and prepayments		43 585 436	
6. Intangible assets		1 119 166	
			689 731 298
B. Investments			
1. Investments		31 199 194	
2. Investment securities		1 582 088	
3. Loans with a term of at least four years		9 600 909	
thereof secured by mortgages	DM 6 300 892		
			42 382 191
			732 113 489
II. Difference arising from Consolidation			57 306 558
thereof from consolidation according to Anglo-American method	DM 10 129 569		
III. Current Assets			
A. Inventories		602 526 133	
B. Other Current Assets			
1. Payments on account		720 462	
2. Accounts receivable		480 267 271	
due after one year	DM 7 118 936		
3. Notes receivable		7 519 118	
rediscountable with the Federal Bank	DM 1 423 293		
4. Checks		10 610 660	
5. Cash on hand, at Federal Bank and on postal checking accounts		5 097 075	
6. Cash at banks		26 328 766	
7. Marketable securities		500 780	
8. Due from affiliated companies		1 709 810	
9. Other receivables (§ 89 Stock Corp. Law)		648 043	
10. Other debtors		58 136 228	
			1 194 064 346
IV. Prepaid Expenses			
1. Loan discounts		2 237 417	
2. Other		4 361 448	
			6 598 865
			1 990 083 258

Liabilities

		31st December, 1979 DM	DM
I. **Share Capital**			270 000 000
Conditionally authorized capital	DM 41 000 000		
II. **Open Reserves**			
1. Legal reserves		65 451 393	
2. Free reserves		43 186 253	
			108 637 646
III. **Untaxed Reserves** according to foreign tax regulations			6 684 468
IV. **Minority Interests**			2 290 098
including interests in net income	DM 155 253		
including interests in losses	DM 128 833		
V. **Accruals**			
1. Accrued pensions and similar accruals		161 459 878	
2. Accruals for deferred maintenance		344 073	
3. Other accruals		165 037 732	
			326 841 683
VI. **Liabilities with Terms of at least four Years**			
1. Bonds and convertible bonds		128 793 600	
thereof secured by mortgages	DM 50 000 000		
2. Loans and debentures		80 555 933	
thereof secured by mortgages	DM 78 222 438		
3. Due to banks		254 276 440	
thereof secured by mortgages	DM 10 251 336		
4. Other liabilities		1 893 505	
thereof secured by mortgages	DM 219 156		
			465 519 478
Due within four years	DM 182 194 205		
VII. **Other Liabilities**			
1. Trade payables		151 400 495	
2. Notes payable		118 437 487	
3. Due to banks		369 611 028	
4. Payments received on account		7 301 473	
5. Other liabilities		155 958 868	
			802 709 351
VIII. **Retained Income**			7 400 534
Contingent liabilities on notes	DM 143 582 426		
Guarantees	DM 4 249 691		
Warranties	DM 6 238 882		
			1 990 083 258

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1979

		1979 DM	1979 DM
1. **Sales**		2 623 369 078	
2. Change in inventories of products		– 17 760 452	
			2 605 608 626
3. Overheads capitalized on construction of fixed assets			26 075 303
4. **Gross Revenues**			2 631 683 929
5. Raw materials and consumables			1 125 497 242
6. **Gross Margin**			1 506 186 687
7. Investment income		1 427 215	
8. Income from long-term loans		349 564	
9. Interest and similar income		3 730 655	
10. Income from disposal of fixed assets		14 069 662	
11. Income from release of accruals		6 966 405	
12. Income from release of untaxed reserves		3 632 736	
13. Other income		43 424 536	
thereof extraordinary	DM 12 638 130		73 600 773
			1 579 787 460
14. Wages and salaries		868 692 355	
15. Social security contributions		155 125 987	
16. Pensions and employees'welfare		22 829 320	
17. Depreciation of property, plant, equipment and intangible assets		96 019 274	
18. Depreciation of investments		5 383 821	
19. Depreciation of current assets (excluding inventories)		10 227 655	
20. Losses from disposal of fixed assets		1 324 570	
21. Interest and similar expenses		79 694 048	
22. Taxes			
a) on income profit and net worth	DM 39 498 821		
charged to subsidiaries	DM – 742 388		
	DM 38 756 433		
b) Other	DM 4 863 331		
		43 619 764	
23. Expenses from profit and loss pooling agreements		19 351	
24. Additions to untaxed reserves		949 546	
25. Other expenses		272 820 150	
			1 556 705 841
26. **Net Income**			23 081 619
carry forward:			23 081 619

	1979 DM	DM
carried forward:		23 081 619
27. Accumulated deficit at beginning of year		9 855 570
28. Additions to reserves		5 465 000
29. Decrease in difference arising from consolidation		34 213
30. Addition to difference arising from consolidation		368 308
31. Income attributable to Minority Interest		155 253
32. Losses attributable to Minority Interest		128 833
33. **Retained Income**		7 400 534

Continental
Gummi-Werke Aktiengesellschaft

The Executive Board

The accounting and the annual financial statements, which we have examined with due care, comply with German Law.

Berlin/Hanover, 17th April, 1980.

Deutsche Treuhand-Gesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Wirtschaftsprüfer

Kirste
Wirtschaftsprüfer