Annual Report 1980

Continental

Continental 1971–80

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Balance sheet											
Fixed assets	DM million	587.3	607.8	568.0	542.0	520.6	504.1	513.2	558.1	601.9	670.9
Current assets	DM million	526.0	480.9	527.5	525.0	488.2	511.9	534.8	533.3	554.4	539.6
Balance sheet total	DM million	1113.3	1088.7	1095.5	1067.0	1008.8	1016.0	1048.0	1091.4	1156.3	1210.5
Equity	DM million	464.2	422.2	381.4	361.5	364.2	356.8	373.9	377.5	392.9	399.1
Long-term debt	DM million	371.3	370.3	430.7	463.8	460.3	468.2	431.4	446.5	474.9	469.0
Total investments	DM million	154.8	102.3	60.5	58.9	50.7	60.6	65.5	106.1	123.9	142.7
Equity ratio	%	41.7	38.8	34.8	33.9	36.1	35.1	35.7	34.6	34.0	33.0
Equity and long-term debt to fixed assets and inventories	%	96.9	91.0	98.1	101.7	106.4	107.9	102.4	100.6	99.1	89.6
Profit and Loss statement											
Sales	DM million	1301.7	1174.2	1264.0	1453.2	1369.0	1439.0	1518.9	1555.4	1692.6	1817.2
Export sales ratio	%	17.4	16.4	19.0	25.6	22.4	25.1	25.2	25.4	26.3	28.5
Material costs to gross revenues	%	38.9	39.5	39.8	42.3	41.9	43.6	43.8	44.5	44.1	44.6
Personnel costs to gross revenues	%	42.7	47.2	47.4	40.6	42.0	42.3	41.7	43.4	41.6	40.6
Depreciation	DM million	77.4	76.7	78.7	81.1	68.7	65.8	53.8	58.1	70.8	68.8
Net income	DM million	+ 21.0	– 42.1	– 40.6	– 19.6	+ 3.5	+ 8.0	+ 20.2	+ 3.8	+ 10.9	+ 13.5
Dividends paid	DM million	16.0	–	–	–	–	–	–	–	–	13.5
Employees											
(annual average)	thousand	26.5	24.3	23.4	21.5	19.6	18.7	18.1	18.1	18.1	18.3

This annual report was printed using the offset process with Conti AIR SAPHIR printing blankets manufactured by our company.

The cover was produced from the bookcover material Fein-canvas 130/416, a product of our affiliated company, Vereinigte Göppinger-Bamberger Kaliko GmbH.

Report on the 109th Business Year 1980

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

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

Rudolf Alt*)
Works Council Chairman, Stöcken Plant

Siegfried Brauns*)
Works Council Member, Stöcken Plant

Manfred Emcke
Management Consultant

Albert Englebert
President, Uniroyal Englebert

Karl-Wilhelm Graf Finck
von Finckenstein
Personally Liable Partner,
Trinkaus & Burkhardt

Ernst Fuhrmann
Honorary Professor
Technical University of Vienna

Willi Goldschald*)
Works Council Chairman, Vahrenwald Plant

Rudolf Häßler*)
Works Council Chairman, Limmer Plant

Wilhelm Helms
Executive Director, Deutsche Schutzvereinigung
für Wertpapierbesitz, Lower Saxony Division

Joachim Kost*)
Manager, Technical Products 3
and Plant Manager, Vahrenwald

Hans L. Merkle
Chairman of the Management Board,
Robert Bosch GmbH

Wilhelm Meyerheim
Member of the Supervisory Board,
Bayer AG

Ernst Pieper
Chairman of the Executive Board,
Salzgitter AG

Klaus Piltz
Member of the Executive Board,
Veba AG

Eberhard Schlesies*)
Trade Union Manager, Hanover Branch,
Chemie-Papier-Keramik

Wolfgang Schultze*)
Member of the Union Executive,
Chemie-Papier-Keramik

Heinz Tristram*)
Works Council Member, Vahrenwald Plant

Hermann Westerhaus*)
Works Council Chairman, Korbach Plant

*) 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, as well as 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 capital investment policy, and fundamental questions of 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 of the Supervisory Board were required in connection with the Kléber-Colombes 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 concurs with the result of the audit carried out by the certified public accountants Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, 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 endorses the Executive Board's proposal for the appropriation of retained income.

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

Hanover, 7th May, 1981
The Supervisory Board

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
(up to 30.9.1980)

Julius Peter
Manufacturing and Engineering, Tyres

Wilhelm Schäfer
Marketing Tyres

Horst W. Urban
Finance and Subsidiaries

Hans Georg Wenderoth
Manufacturing and Engineering, Technical Products

Helmut Werner
Uniroyal Englebert

Report of the Executive Board

General Review

Economic Slowdown in the Rubber Industry

After a continuation of the favourable economic climate in the early part of 1980, demand weakened substantially in most Western industrialized countries as the year went on. This led to cut-backs in production, coupled with lower capacity utilization and declining employment levels. These developments are attributable to dramatic increases in the price of raw materials and energy, government measures to stem inflation, and downward cyclical tendencies.

After many years of extraordinary growth, this fall-off in demand had a particularly negative effect on our major customer, the European automobile industry, which was also faced with ever-increasing competitive pressure from Japanese car makers. Whereas automobile production in Japan rose by 15%, it was down 6% in West Europe, 9% in Germany, and by as much as 30% in the United States of America.

This development had direct repercussions on the rubber industry, which in turn was forced to close tyre production capacities. The restructuring process in our industry, which has now been extended to technical products, has still not brought about a balance between supply and demand. It is still difficult, therefore, to pass on cost increases to the market.

The German rubber industry had no option but to lower its already less than optimistic expectations for the year 1980. The tyre business was affected particularly and reported a substantial sales drop in the original equipment sector and in export markets. The German rubber industry's sales of technical products were virtually unchanged from the previous year.

Continental Closes the Gap to International Leaders

The continued positive development of our company in 1980 is seen as a confirmation of our long-range corporate policy: uncompromising quality, focus of resources on the development and production of sophisticated products, and strengthening of our production and marketing base in Europe.

Although the situation in our industry continued difficult, we were able to close the gap to international leaders and to achieve a result which enables us to propose the distribution of a dividend for our Shareholders for the first time since 1971.

The main contributor to these pleasing results was the Tyre Division, where we were able to further improve our market position both at home and abroad. Contrary to the industry trend, we were able to more than offset the decline in demand from the German automobile industry by increasing our exports. However, we could not always pass on the sharp cost increases to the market, especially in the automobile original equipment sector.

With Technical Products, we sustained negative operating results in two segments. This is attributable both to the price pressure from fiercer competition and to the cost of restructuring programmes. Accordingly, we were unable to equal last year's results in this division.

The Uniroyal Englebert Group, which was acquired in mid-1979 and which enabled us to expand our European tyre business decisively, again closed with a profit. However, results in the individual Uniroyal Englebert companies varied, reflecting the economic development in each particular country.

Our other domestic and foreign subsidiaries and affiliated companies were able to reinforce their positions and improve results. This is also true of our Brazilian subsidiary Labortex Ltda., where we have carried out a restructuring programme.

Continental Pays Dividend Again

The Group, for which consolidated financial statements have been drawn up since 1979, achieved a profit before tax of DM 63.3 million. After making allowance for earnings tax of DM 36.4 million, annual net income was DM 26.9 million.

Continental AG reports a profit before tax of DM 35.0 million. After subtracting earnings tax of DM 21.5 million, annual net income was DM 13.5 million. Of this, DM 6.0 million was allocated to free reserves, so that, taking into account the profit brought forward of DM 7.9 million, retained income totalled DM 15.4 million.

The Administration's proposal to the Annual General Meeting is to distribute a dividend of DM 2.50 per DM 50 share on the stock capital of DM 270 million and to carry forward the remaining retained income plus the reduction in corporation tax, a total of DM 3.0 million.

In this context, we would like to mention the substantial tax commitments involved in this profit appropriation proposal. Contrary to the prevailing rule, whereby distributed profit is taxed at a lower rate than retained profit, the distributed profit in our case is taxed double. Specifically, this part of the profit is subjected to a corporation tax rate of 71.8%* vis-à-vis the normal rate of only 36%. The reason for this substantially higher tax load is that companies first have to pay back-tax on their non-deductible operating expenses of earlier years, which had led to a so-called negative "EK 56". At the same time, they also have to pay tax on the distributed profit in such a way that the shareholder is entitled to the tax credit of 56.25%.

This special tax burden, resulting from the new corporation tax law introduced in 1977, particularly affects companies which return to profitability after years of deficit. But these companies more than others urgently need to replenish lost equity capital and start paying dividends again as quickly as possible so as to provide shareholders with an adequate rate of return and to be attractive for new capital injections. The legislature appears to have given this aspect inadequate consideration in its corporation tax reform of 1977 and thus brought about a competitive disadvantage for the affected German stock corporations.

At this juncture, we should also record that in the period 1972 to 1979, when the company sustained a total deficit of DM 51 million and thus our shareholders had to forgo a dividend, tax on income, profit, and net worth of DM 171 million had to be paid, quite apart from the back-tax that still remains to be paid as a result of the negative "EK 56".

In other words, tax payments during this 8-year period have not only completely absorbed the already low profit before tax of DM 120 million, but they have also undermined assets to the tune of DM 51 million. Asset taxation of this magnitude is unknown in most industrialized countries and adds to the location disadvantages and thus the employment risks in Germany.

*) 56% plus 36% of
(100 ./. 56) = 71.8% corporation tax

Consolidated Sales Exceed DM 3 billion

Despite the decline in demand, which led to short-time work in some areas of the Group during the last quarter of 1980, we were again able to achieve an increase in sales. The table below indicates how sales developed in the Group and in the parent company:

	1980 DM million	1979 DM million	Change in %
Group	3,159.7	2,623.4	+ 20.4
Parent company	1,817.2	1,692.6	+ 7.4

The Group figures for 1979 include only the second-half year sales of Uniroyal Englebert. Taking total 1979 sales of this Group into account, the rate of increase is 5.8%.

69% of Group sales were generated by tyres and 31% by technical products and others. In the case of parent company sales, tyres and technical products accounted for 63% and 37% respectively.

Gross revenues at DM 3,259.5 million were 8.2% up on the previous year. The 1979 figure is based on a full year for the Uniroyal Englebert Group.

On 31st December, 1980 the workforce in the Continental companies worldwide totalled 30,727. This is slightly less than in the previous year. In the parent company, the number of employees decreased by 1.9% to 17,965.

The progress that we were able to make is attributable not least to the commitment and cooperation of all the employees in the Group. To them we would like to extend our thanks and at the same time ask them to sustain their efforts so that we can cope with the special challenges of the years to come.

Additions to fixed assets in the Group totalled DM 149.2 million in 1980. As in the past, capital investment programmes continued to focus on assuring quality, making increased use of future-orientated technology, enhancing productivity, and expanding capacities in some areas.

The structure of the Group balance sheet shows a slight improvement over last year. With the balance sheet total only 1.7% higher, equity capital increased from 20.0% to 20.7% and capital turnover from 1.50 to 1.56.

The 4.7% increase in the parent company's balance sheet total is mainly attributable to capital increases in the subsidiaries. Without these capital investments, the balance sheet total of the parent company actually decreased by DM 4.3 million, despite the fact that sales rose by 7.4%. Capital turnover (without investments) is 1.86.

As we reported at the Annual General Meeting on 16th July, 1980, we had planned to expand the Group's European base by acquiring a majority interest in the French rubber processor Kléber-Colombes S.A. In our letter to Shareholders of November 1980, we informed you that this project unfortunately could not be implemented.

In this context, we report in accordance with § 160, section 1, period 2 of the Stock Corporation Law, the action that was filed to the arbitral tribunal on March 27, 1981, which under the circumstances had no longer been anticipated. As we see it, and on the basis of the legal advice we have received, this action has no chance of succeeding. For this reason, we did not consider it necessary to provide for a litigation risk in the balance sheet as of 31st December, 1980.

Outlook

Given the present situation, it is to be feared that 1981 will bring a further slowdown in economic activity in Europe. At the same time, we are faced with increasing pressure from Japanese and US competitors both on domestic markets and in the export field. The continued viability of our economy will hinge on our not only preventing the gap between ourselves and our foreign competitors from widening, but rather on narrowing it and regaining our competitiveness.

With this objective in mind, our company will focus on reinforcing its position in Europe. In line with this policy, we will further increase capital expenditures in the Group in 1981 to improve productivity and to intensify research and development.

Tyre Division

In 1980 the Tyre Division reported a further improvement in profit level, although from the middle of the year on, the effect of the economic slowdown was noticeable. Substantial increases in raw material costs could only be partially recovered in market prices. This profit improvement in the period under review was attributable primarily to our targeted optimization of the product mix by concentrating on a more profitable range.

Further success will continue to hinge on the consistent pursual of our strategy:

- Product quality
- Close cooperation with the European automotive industry
- Intensification of the commercial vehicle tyre business, and
- Increased investment both in production and in the marketing organization, especially in foreign markets, to reduce our dependence on the home market.

Sales in the Tyre Division totalled DM 1,120 million, an increase of 11% over 1979. The contribution made by foreign business was disproportionately high, with the export ratio increasing to 33.4% in the year under review. This was due especially to our selective marketing investments in foreign markets during recent years.

Capacity utilization was good in the radial tyre sector, with some production bottlenecks up to the mid-year mark. However, the fall-off in overall demand led to some short-time work in the second half, following the trend in the automobile industry.

Original Equipment

Development in the original equipment business reflected the decline in sales of many automotive companies, especially in the passenger car sector and for agricultural machines and equipment. By concentrating on customer and product segments which were less severely hit by the decline in demand, we were able to reinforce our market position overall, although we could not prevent an absolute decline in unit sales in many areas. We achieved disproportionately high growth abroad, where our efforts to win new customers proved successful. Here, we benefited from the quality of our products and our reputation as a competent and efficient partner to the automotive industry.

Replacement Business

In the replacement business, we were able to further strengthen our market position, both at home and abroad.

Our activities focused on the commercial vehicle segment, where, after the introduction of the Trans-Continental tyre system, we now supply the most comprehensive range of truck tyres in Europe.

At the same time, Continental introduced the truck tyre test guarantee. This gives the customer the assurance that all Continental radial truck tyres have not only undergone our normal controls, but have also been tested in accordance with our stringent specifications for radial and lateral runout as well as for radial and lateral force variations. This means they guarantee an extremely high quality standard. Careful material inspection, constant monitoring of production at all stages of the manufacturing process, and final control of tyres using holography enable us to give this guarantee.

In the case of passenger car tyres, we were the first and are still the only tyre producer to guarantee that the entire range of replacement tyres meets the original equipment manufacturers' approval standards on all technical criteria. This quality standard is indicated to the consumer by a yellow banderole and a guarantee card.

Outside Europe, we were able to achieve satisfactory sales increases by tailoring our approach to each specific country.

Passenger Car Tyres

Intensive product development and efforts to optimize rolling resistance and noise levels put our passenger car tyres at the top in terms of technological excellence. This has led to further technical approvals from international motor vehicle manufacturers.

In the fast car segment, we supplemented our range of summer tyres with wide-base tyres in the 60 series (aspect ratio of 60%). Consumer acceptance exceeded our expectations.

In the case of winter tyres, we broadened the range of high-speed TS 730 Super-Contact HR tyres. In this market segment, which evolved only in 1979/80, we were able to secure a significant position.

Continental has done much to establish the trend towards space- and weight-saving spare tyres. More and more car manufacturers are using this type of tyre, which is available in several technical variants and which is designed for limited mileage and speed.

Truck and Bus Tyres

In the truck tyres segment, the rapid technological advances of recent years have continued. Apart from the tubeless truck tyres for 15° tapered bead seat rims, the low cross-section tyres are gaining increasing importance. Parallel to the development of new products, we are also witnessing a rapid change in production technology, which has called for substantial investment to sustain high quality standards.

Development efforts focused on further increasing service life, reducing rolling resistance, and ensuring that our tyres are capable of being retreaded.

Product development concentrated on the Trans-Continental tyre system. This system comprises seventeen different tyre categories, six of which were developed during the last two years. With more than one hundred possible combinations, the system provides cost-effective solutions for almost every operating application. We were able to prove the effectiveness of this system to more than four thousand major customers from all over Europe in large-scale demonstrations on our Contidrom test circuit.

We introduced low cross-section tyres in the 70 series for use on city buses, which, due to their reduced aspect ratio, permit lower entrance heights for the passenger entering and leaving the vehicle.

We expanded our multi-purpose tyre series by adding a new all-steel radial tyre for both on and off-road use. The improved economics and performance characteristics of this tyre have safeguarded Continental's leading position in this segment.

Industrial Tyres

Industrial tyres or mechanical handling tyres are solid rubber or pneumatic tyres and are used chiefly on forklift trucks, lifting trucks, and heavy-duty trailers for in-plant handling. We achieved notable product improvements by introducing new materials and production processes. New developments were added to bring the product range into line with market requirements. We were able to consolidate our strong market position in West Europe.

Two-wheeler Tyres

The entire two-wheeler tyre business reported an upward development in 1980, which was reflected in good growth rates for Continental.

Our cooperation with Japanese motorcycle producers led to our tyres being technically approved for numerous models. With our "twin-tyre" concept, we have been able to further reinforce our position in key markets, especially in the USA, where we are one of the leading suppliers of motorcycle tyres for road use. For track racing and cross-country motor cycles, we developed the Enduro tyre with tight-grip tread in the year under review. In the moped sector, we introduced the KKS 10. The special features of this new type of tyre are high mileage, outstanding traction values, and excellent riding qualities.

Our extremely light racing-cycle tyres – hand-sewn tubular tyres – were developed further. They are first choice at international cycle racing events.

Agricultural Tyres

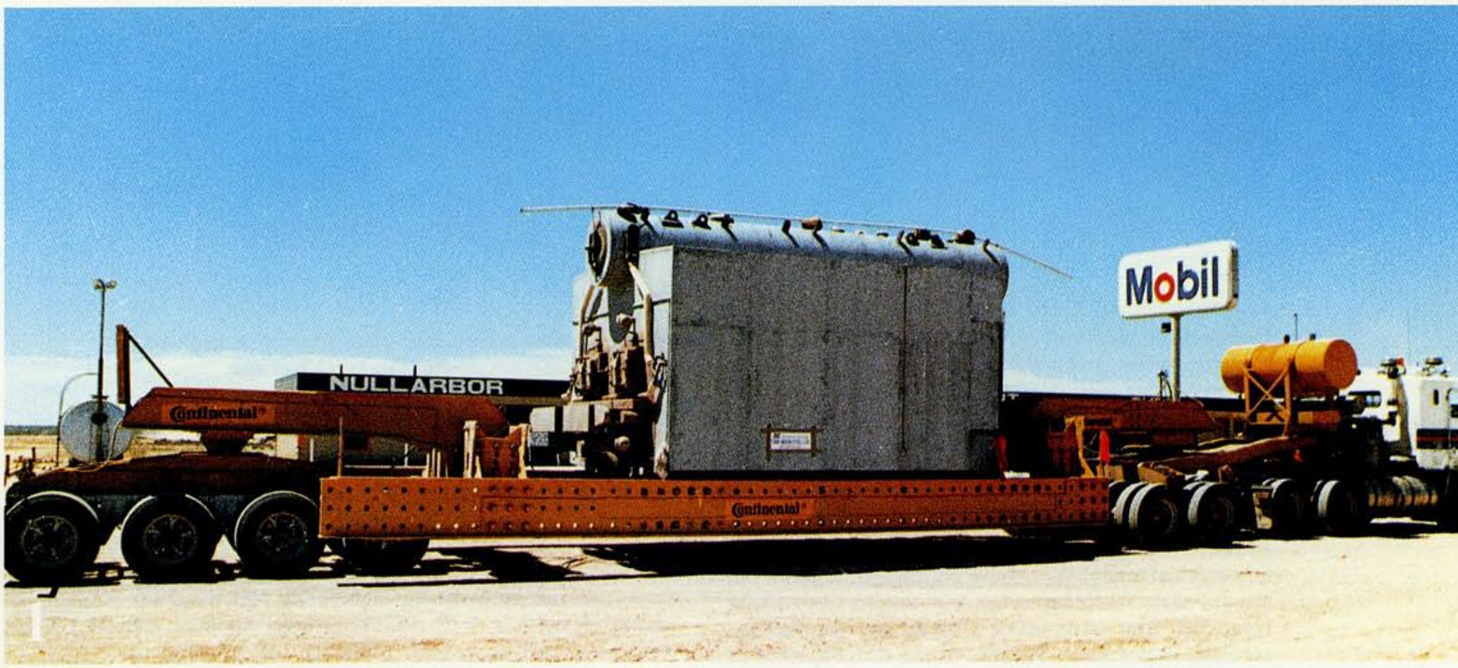
Following some reduction of excess capacities in Europe, the market has become somewhat calmer, although we feel this will not be long-lasting. Continental was able to improve its market position.

Radial tyres for the drive axle of tractors have come to be accepted by the European original equipment sector. Our agricultural radial tyre, a good product in terms of operating features and economics, was further improved.

Outlook

We will consistently pursue our strategy and reinforce our efforts to expand our sales base, especially abroad. In the area of product development, the key issues will continue to be energy and the environment. Apart from reducing weight, rolling resistance, and noise levels, we are working intensively to lengthen the life cycle of tyres by means of retreading.

The first few months of the current business year have been marked by a slack economy and sharp increases in raw material prices. Sales were down on last year's level; the substantial cost increases for raw materials again forced us to adjust our prices.



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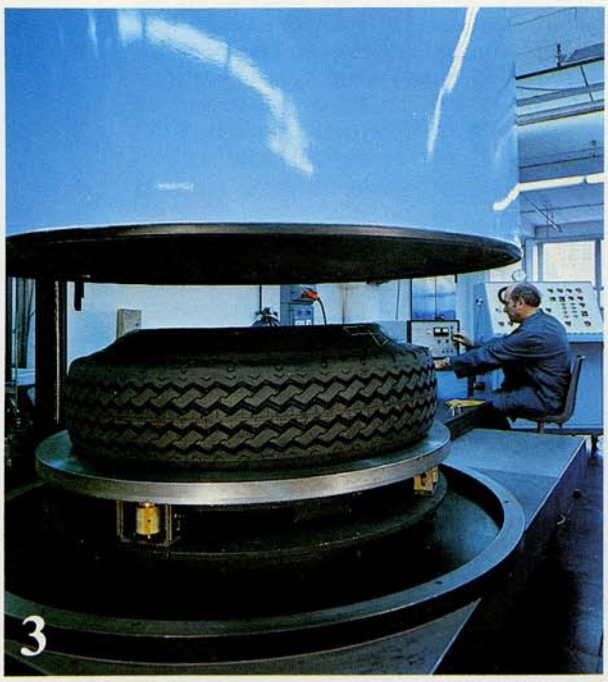
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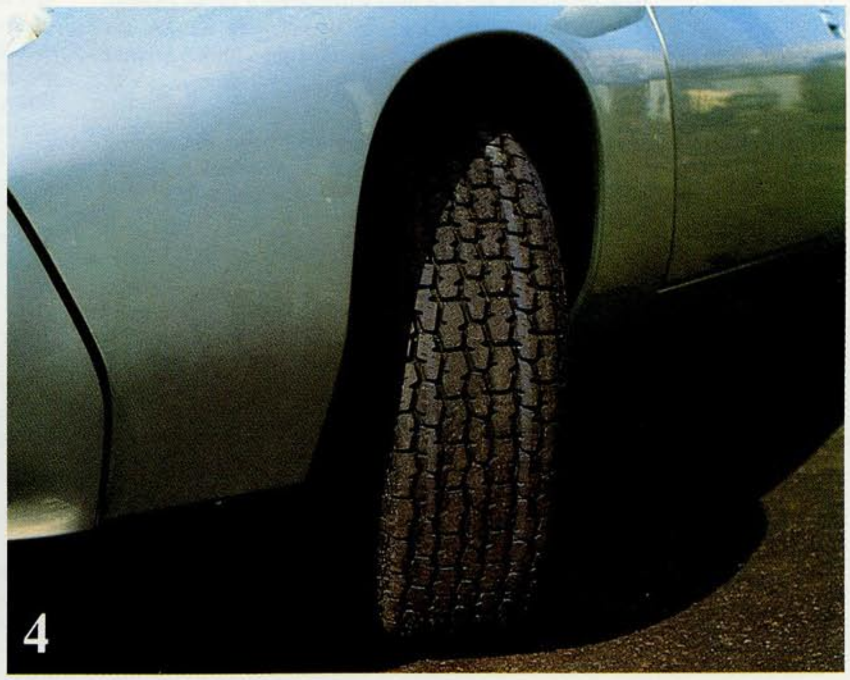
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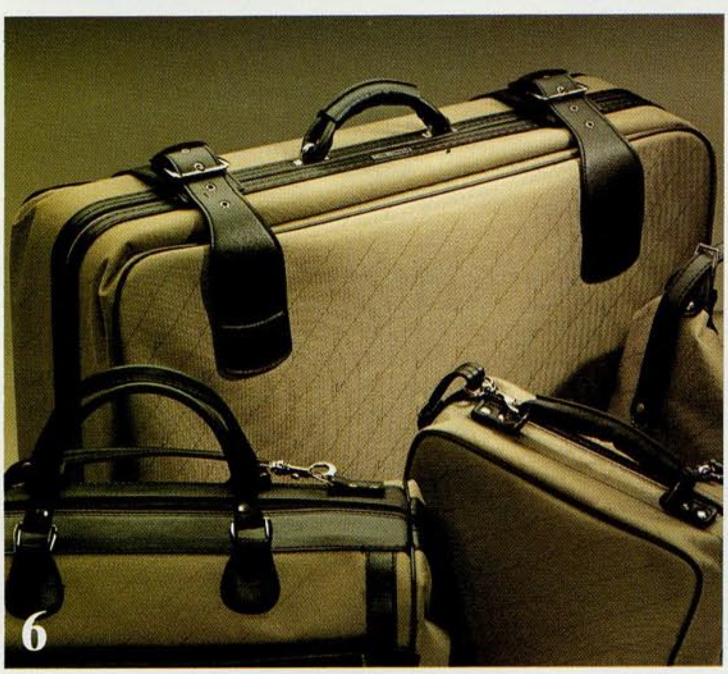
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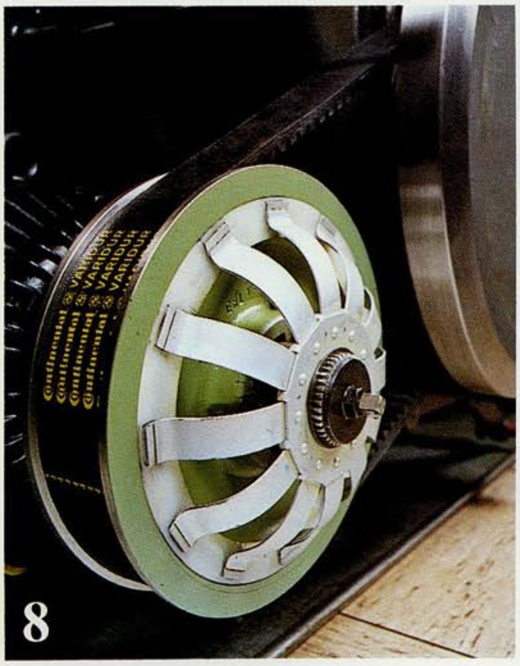
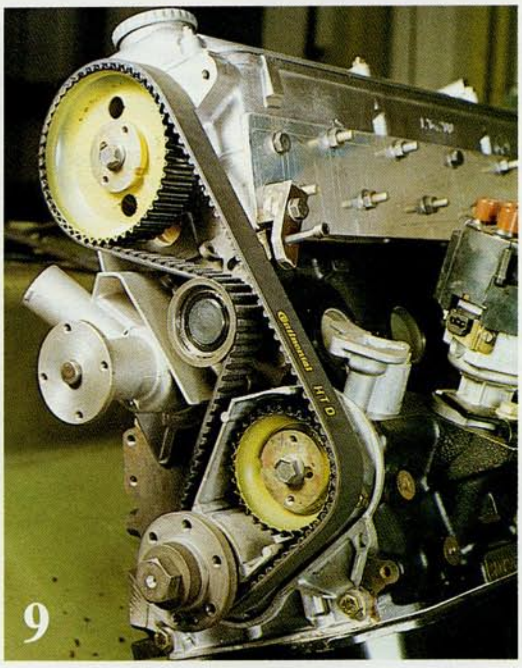




1 Continental Tyres
A heavy American transporter en route across the Australian desert. All wheels are fitted with heavy-duty Continental tyres RS 415.

2 Continental Technical Products
Conticell® lightweight material used as supporting elements in extremely light constructions demonstrates its great loading capacity and high structural strength in wind energy systems and in helicopter rotor blades subjected to very high dynamic stress.

3 Continental Tyres
Modern equipment tests truck tyres for air pockets in the rubber. A Conti contribution to guaranteeing excellent quality.

4 Continental Tyres
Continental produces tyres for fast and slow vehicles. Here a Porsche fitted with the Conti wide base CS 41, a tyre with low rolling friction for fast cars.

5 Continental Technical Products
Railway bogie with Continental air springs. Load-adjustable elements incorporating advanced suspension technology in vehicle construction and machine building ensure invariably good cushioning and noise isolation.

6 Göppinger Kaliko- und Kunstleder-Werke
Fashionable travelling bags are made from the attractive and strong luggage material "Göppinger Can".

7 Göppinger Kaliko- und Kunstleder-Werke
A new-style product. Complete car headlining on a modified polystyrene basis.

8 Continental Technical Products
Varidur raw edge wide section V-belts for intensively used and stressed drives with infinitely variable speed adjustment.

9 Continental Technical Products
Continental Synchrobelt® HTD timing belts meet the requirements of modern drive systems. Their ability to withstand high dynamic stress and temperatures coupled with their smooth running ensure efficient power transmission and low energy consumption with a long service life.

Technical Products Division

Whereas we were able to increase sales by 7% in the first half of 1980, the decline in demand, especially from the automobile industry, led to a substantial drop in domestic sales in the second half. Foreign sales by contrast were 10% higher than in 1979, which meant that the export ratio rose from 18% to 19%. All in all, sales at DM 660 million were slightly up on the previous year.

Conveyor Belting

Apart from steel cable and fabric ply belting, we also supply a full range of belting accessories as well as the necessary installation and repair service. In the conveyor belting business, we are among the world leaders. Despite continued fierce competition on the world market, our capacity utilization level was good in the year under review.

Coated Fabrics

With printing blankets, rubberized materials, and fabricated products, the positive development of recent years continued, and growth rates were high in 1980. Business was particularly pleasing with diaphragms which are used for example in automatic control systems.

Hose

Up to mid-year, good growth rates were achieved in the areas of hydraulic, fueling and automotive hose. As supplies to the automotive industry decreased however, our sales dropped back to the 1979 level in the second half. Further developments in materials and design, enabled us to enter new markets.

Moulded Parts

The moulded parts business was able to compensate the second-half decline in demand from the automobile industry by increasing sales to other domestic customer segments and by increasing exports – although profits were unsatisfactory.

Transmission Elements

Our advanced technology again enabled us to improve our market position with raw edge narrow and wide section V-belts as well as with rubber and polyurethane timing belts. We further increased our share of supplies of these products to the automobile industry and the mechanical engineering sector. In this business, we are particularly optimistic about the new generation of transmission elements, such as the multi-rib belt CONTI-V and Synchrobelt® HTD timing belt. Both these drive belts meet the demands of sophisticated power transmission and open up new high performance applications. The negative development which set in after mid-year led to short-time work in this sector in the fourth quarter.

Extruded Sections

Sales of extrusions and weather strips were affected by the declining activity levels in the automotive sector. This resulted in short-time work in some areas and a sharp fall in sales. We were able to increase sales to other branches of industry and to the trading sector. Profits were not satisfactory.

Air Springs and Compensators

Development of the business with air springs and compensators mirrored the general economy. All in all, sales improved over the previous year.

In the air springs business, a series of major new product developments for foreign commercial vehicle manufacturers was completed. This puts us in a position to increase our exports.

Special Products

Sales levels with polyurethane foam, footwear products, hard-rubber battery containers, typewriter platen shells, and surgical rubber products were held at last year's levels.

In the foam business, we were able to compensate the slackening demand from the furniture and automobile industry by supplying more products to other customer segments, e.g. the packaging and soundproofing sectors.

The "sporty look" in shoe fashions, which was especially popular last year with the younger age groups, led to a decline in activity levels in the shoe-repairing trade and thus a slowdown in the business with repair materials. Business with the footwear industry and sales of Continental "shoe spikes" for icy conditions contributed to higher sales.

Whereas the demand for hard-rubber battery containers declined as expected, sales of hard-rubber products for technical applications and battery accessories increased.

We convincingly asserted our leading market position with typewriter platen shells and surgical rubber products.

Outlook

We will sustain our policy of concentrating resources on high-technology products which meet current-day energy conservation, safety, and environmental requirements. It is also our objective to increase our export sales, especially within Europe.

Negative economic developments in the first few months of the current year have forced us to introduce more short-time work in some areas. Nevertheless, it is planned to increase sales in this division.

Uniroyal Englebert

The Uniroyal Englebert Group generated consolidated sales of DM 770 million in 1980, with a workforce of 6,622 employees (annual average). Capital investment totalled DM 41 million.

Development in the year under review was characterized by a decline in the demand for tyres, which was more marked in the Benelux countries and Great Britain than in Germany and France. The set-back was particularly severe in the original equipment sector, whilst sales cuts in the replacement business were almost offset by the increase in overseas exports. The Group was able to sustain market shares in individual countries and to expand on them in some product segments. As a result of the slowdown in demand, however, periods of short-time work had to be introduced in all Uniroyal Englebert plants, with the exception of Luxembourg.

Nevertheless, positive results were achieved because volume losses could be offset to some extent through price adjustments. Group profits were used to strengthen the equity base as were also the capital increases in the Belgian and British companies.

Although a slight drop in volume sales was sustained in the German original equipment business, Uniroyal Englebert was able to increase its market share, as overall demand declined. This development is attributable to specialization on small-size tyres. The business with winter tyres again did well.

In France, the Group increased its volume sales in the replacement sector despite a substantial decline in market volume, by tapping new sales channels. Despite lower activity levels in the automobile industry, market shares in the original equipment business were increased.

High inflation and interest rates and the over-valuation of the pound sterling led to a decline in the UK market in 1980 and at the same time increasing pressure was exerted from imports. Accordingly, it was not possible to achieve sales targets. Nevertheless, Uniroyal Englebert managed to reinforce its market position here too.

In Belgium, the consolidation programme which had been launched in 1979 was continued according to plan. As a result of the depressed economic situation, volume sales were down on the previous year.

The worldwide business of the textile cord plant in Luxembourg was unaffected by the negative development of the European tyre business.

Passenger Car Tyres

In 1980, the Group developed a new series of "Englebert" brand tyres with the aim of tapping new opportunities in overseas markets. Efforts to reduce tyre weight and to minimize rolling resistance were sustained with good results, especially in the area of small-size tyres. The attractiveness of the winter tyre range, with which Uniroyal Englebert is market leader in Europe, again contributed to sales successes, particularly with MS-Plus tyres.

Truck Tyres

Production of light truck tyres went on stream in the plant in Aachen, and first market successes have already been scored. With heavy truck tyres, further progress was achieved in production by concentrating manufacturing.

Outlook

The year 1981 will again call for special efforts. The new products envisaged for the year and sustained pursual of synergistic concepts will help Uniroyal Englebert in coping with the challenges faced.

Production Companies of the Uniroyal Englebert Group

UNIROYAL ENGLEBERT REIFEN GMBH,
AACHEN, GERMANY

Capital:	DM 30.0 million
Interest:	100%
Employees:	2,072

PNEU UNIROYAL ENGLEBERT S.A.,
HERSTAL – LEZ – LIÈGE, BELGIUM

Capital:	bfrs. 360.0 million
Interest:	99.9%
Employees:	1,489

PNEU UNIROYAL ENGLEBERT S.A.,
COMPIÈGNE, FRANCE

Capital:	FF 46.0 million
Interest:	100%
Employees:	1,746

UNIROYAL ENGLEBERT TYRES LTD.,
NEWBRIDGE, GREAT BRITAIN

Capital:	£ 8.5 million
Interest:	100%
Employees:	949

Business activity:	Production and marketing of passenger car, truck, industrial, and agricultural tyres and tubes.

UNIROYAL ENGLEBERT TEXTILCORD S.A.,
STEINFORT, LUXEMBOURG

Capital:	luxfrs. 50.0 million
Interest:	100%
Employees:	219

Business activity:	Production and marketing of tyre cord fabrics

Sales Companies of the Uniroyal Englebert Group

UNIROYAL ENGLEBERT DAEK A/S,
COPENHAGEN, DENMARK

Capital:	dkr 1.5 million
Interest:	100%
Employees:	17

UNIROYAL ENGLEBERT BANDEN B.V.,
BOESINGHELIEDE, NETHERLANDS

Capital:	hfl. 0.2 million
Interest:	100%
Employees:	15

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

Capital:	sfrs. 0.5 million
Interest:	100%
Employees:	19

Business activity:	Marketing of tyres and tubes

Employees

The companies included in the worldwide financial statements had a total workforce of 30,727 employees at the end of 1980, compared to 31,340 in the previous year.

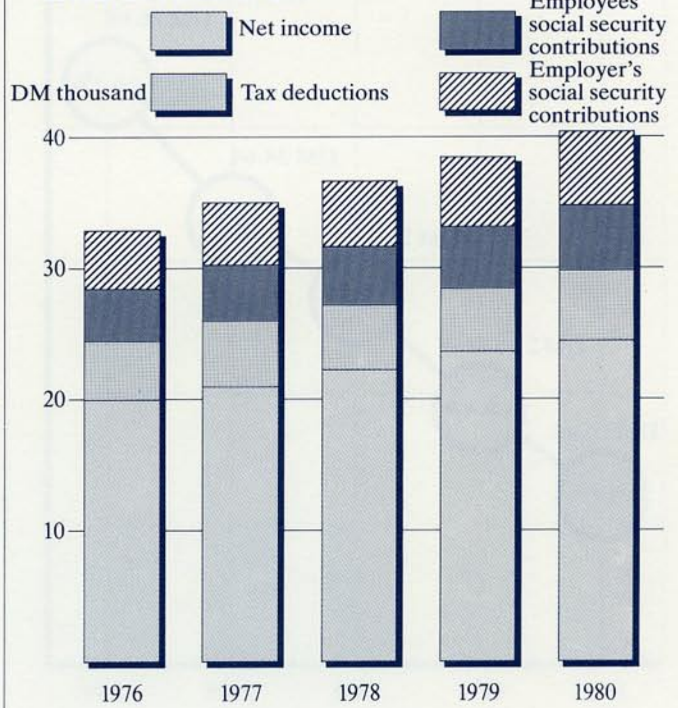
As expected, utilization in our plants was good up to late summer. Indeed, voluntary overtime had to be worked to cope with peaks in demand. However, at the end of the year, short-time work – following developments in the automotive industry – was unavoidable, especially in the Technical Products division, but also in tyre production plants. Again, we very consciously pursued a cautious recruiting policy in 1980, which alleviated the employment difficulties towards the end of the year.

On the annual average, the parent company had 18,281 employees on the payroll (18,087 in 1979). On December 31st, 1980 the workforce numbered 17,965 (18,313 in 1979). The number of foreign workers was almost unchanged at 3,132 (3,138 in 1979), this is equivalent to 17.4% of the total workforce. A comparison with the year 1975, when foreign workers accounted for only 14.1% of total employees, indicates how difficult it is to find suitable German recruits. The largest contingents of foreign workers are Greek, Jugoslavian, and Turkish.

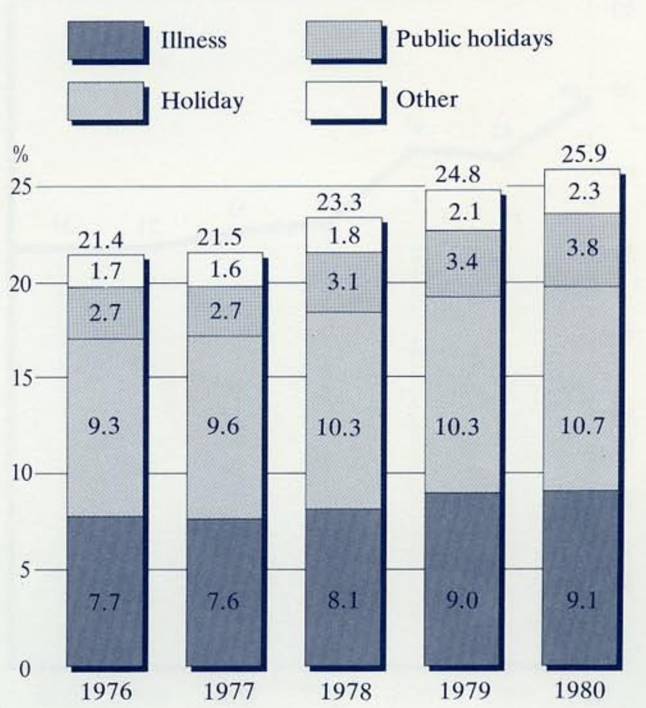
Personnel costs rose further by 6.8% (see table). This is attributable mainly to the 7% contractual wage and salary increase which became effective on July 1st, 1980. Personnel costs account for the equivalent of 40.6% of gross revenues (41.6% in 1979). Personnel costs per employee and per hour worked rose by 5.7% and 8.3% respectively over the corresponding figures for the previous year.

	1980	1979
Personnel costs (in million DM)	762.1	713.4
Change (in %)	+ 6.8	
Personnel costs per employee (in DM)	41,687	39,441
Change (in %)	+ 5.7	
Personnel costs per hour worked (in DM)	26.68	24.64
Change (in %)	+ 8.3	
Hours worked per employee	1,563	1,601
Change (in %)	– 2.4	
Personnel costs in % of gross revenues	40.6	41.6

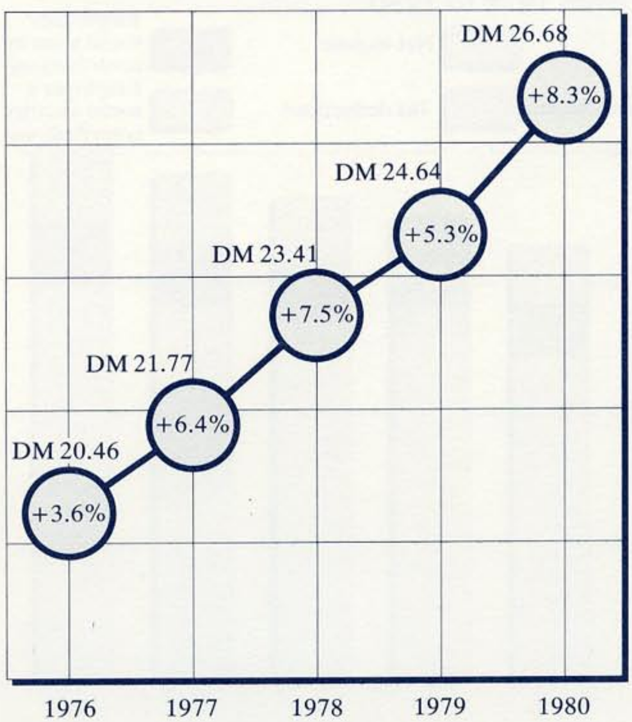
Personnel costs per employee from 1976 to 1980



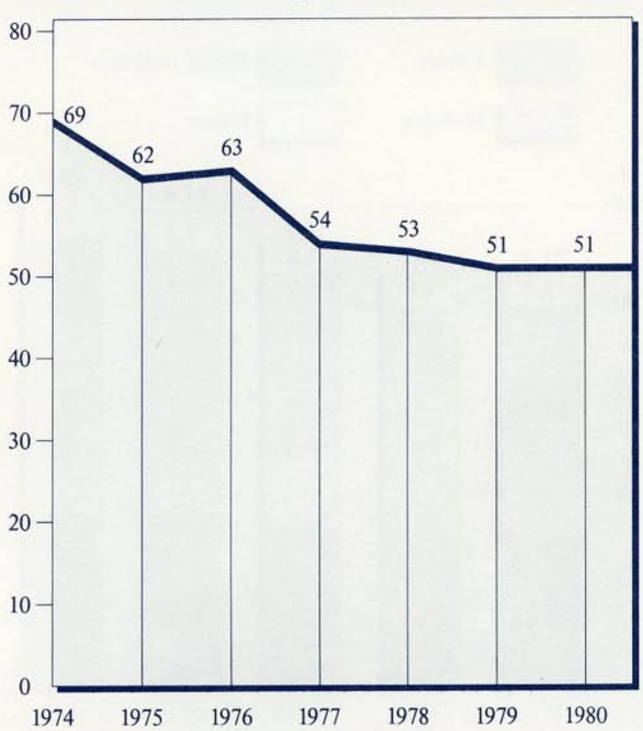
Absence in % of nominal manhours



Personnel costs per hour worked



Number of accidents per million hours worked



9.1% of nominal manhours were lost through illness (9.0% in 1979) and 10.7% through holidays (10.3% in 1979). Short-time work accounted for 1.1%.

The further rise in absence through illness, already at a high level, continues to be a cause of major concern to us. All the measures we have taken, e.g. ongoing improvement of working conditions have as yet failed to contain the trend towards rising absenteeism. Short-term disability compensation alone cost us DM 46.6 million in 1980.

Special priority was again given to employee training and development in 1980. Focus was on intensive training programmes for foremen, building of language skills, and development of marketing personnel.

We increased the number of positions available to trainees in the year under review. More than 260 young people were receiving vocational training in 1980 in our training workshops, laboratories, and in our administration departments. Training centers are located in Hanover, Northeim, and Korbach. For the first time, we are now training young people in what is for us a new vocation – "rubber and plastics moulder" – to secure future availability of skilled personnel for more sophisticated production technologies.

Again, there was a slight decrease in the number of industrial accidents in the year under review. We attribute this development not least to the safety competitions held in our plants.

In 1980, a total of 703 employees completed 25 years of service with the company, and 37 employees completed 40 years. More than 9,000 former employees or their dependents receive retirement benefits from the company's pension scheme.

Our thanks go to all employees for their commitment and their contributions to the success of our company. We also extend our thanks to 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 companies)

Despite the decline in economic activity both inside and outside the Federal Republic of Germany, most of our subsidiaries and affiliates were able to further reinforce their positions. Taken as a whole, therefore, development was indeed positive.

Sales of our majority shareholdings were 9.4% up on the previous year. Equally pleasing was the development on the profit side.

There was a slight drop in the number of employees in the consolidated companies, and at the end of the year the workforce totalled 6,236. Capital spending amounted to DM 27.0 million, about the same level as in 1979. Again, investment was higher than depreciation.

Part of the restructuring programme in our Brazilian subsidiary Labortex Ltda., which we mentioned in the previous year, has been completed and already contributed to improved results in 1980.

In mid-1980 we acquired a further 35% holding in Deutsche Schlauchbootfabrik Hans Scheibert, Eschershausen, bringing our interest to 95%. The company is a key customer of rubberized boat materials from our production plant in Northeim.

At our subsidiaries Continental France S.A.R.L., Sarreguemines, France, Continental Tyre and Rubber Company Ltd., Coulsdon, Great Britain, and Continental Italia SpA, Milan, Italy we increased capital in the year under review to give the companies the financial resources to carry out their growth plans. At Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, a further payment was made in the framework of the authorized capital.

Sales and Production Companies Domestic

CONTINENTAL-ALSA SCHUHBEDARF GMBH, STEINAU-ÜRZELL

Capital:	DM 0.5 million
Interest:	100%
Employees:	317
Business activity:	Production and marketing of footwear materials and plastic products as well as shoes for leisure wear and sport

The company is operating in a stagnant market and is currently passing through a difficult restructuring phase. The targets which had been set for 1980 were not met.

VERGÖLST GMBH, BAD NAUHEIM

Capital:	DM 20.0 million
Interest:	99.1%
Employees:	1,683
Business activity:	Tyre retreading as well as sale of all brands of new tyres and car accessories

The company has again developed well and has exceeded its profit target. This achievement is all the more remarkable as production of tyre retreads was limited by the scarcity of high-quality carcasses.

CLOUTH GUMMIWERKE AG, COLOGNE

Capital:	DM 12.0 million
Interest:	50%
Employees:	1,563
Business activity:	Production and marketing of conveyor belting, moulded rubber and plastic parts, rubberized fabrics, tank linings, and hose

The not altogether satisfactory situation in the conveyor belting business was more than offset by expansion of the military technology business. Both sales and results improved over the previous year. The company will again pay a dividend of 12%.

DEUTSCHE SCHLAUCHBOOTFABRIK HANS SCHEIBERT, ESCHERSHAUSEN

Capital:	DM 3.0 million
Interest:	95%
Employees:	237
Business activity:	Production and marketing of rubber dinghies and inflatable life rafts

Although the company has undertaken a major effort to improve its production and cost structure, it was unable to meet the targets that had been set for 1980.

DRAHTCORD SAAR GMBH & CO. KG, MERZIG/SAAR

Capital:	DM 30.0 million
Interest:	33.3%
Employees:	929
Business activity:	Production of wire and wire cord for the tyre industry

The company developed in line with expectations, and good results were achieved.

GÖPPINGER KALIKO- UND KUNSTLEDER-WERKE GMBH, EISLINGEN

Capital:	DM 16.0 million
Interest:	93.8%
Employees:	869

VEREINIGTE GÖPPINGER-BAMBERGER KALIKO GMBH, BAMBERG

Capital:	DM 3.0 million
Interest:	93.8%
Employees:	156

WILH. LEO'S NACHF. GMBH, STUTTGART

Capital:	DM 0.42 million
Interest:	93.8%
Employees:	31
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.

Despite the slackening economy in the second half of the year, particularly in the automobile industry, the three companies of the Kaliko Group increased their sales and reported satisfactory results.

KA-RI-FIX TRANSPORTBAND-TECHNIK GMBH, BERGHEIM

Capital:	DM 0.02 million
Interest:	100%
Employees:	96
Business activity:	Treatment and processing, confectioning, repair and marketing of conveyor belting and accessories

With improved sales levels, the company again closed with a profit.

KG DEUTSCHE GASRUSSWERKE GMBH & CO., DORTMUND

Capital:	DM 8.0 million
Interest:	25%
Employees:	212
Business activity:	Production of furnace and carbon black for the rubber industry

Results were hit badly by the extremely high increases in gas and oil prices, but were still positive.

TECHNO-CHEMIE KESSLER & CO. GMBH, FRANKFURT

Capital:	DM 15.0 million
Interest:	100%
Employees:	417
Business activity:	Production and marketing of hose assemblies, couplings, and fittings

The company continued to develop well in 1980. Again, results were satisfactory, and expectations were met.

Construction of a new plant near Frankfurt (Karben) got under way to enable the company to exploit future market opportunities and capitalize fully on rationalization potential.

Production Companies Foreign

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

Capital:	Ptas. 363.837 million
Interest:	100%
Employees:	295
Business activity:	Tyre retreading, production of solid-rubber and cushion-type (CSE) industrial tyres, sale of new tyres and technical products.

Despite a continuation of the depressed economic climate in Spain and a persistent scarcity of carcasses, targets were achieved. The company closed 1980 with a profit.

LABORTEX LTDA., SANTO ANDRÉ/SAO PAULO, BRAZIL

Capital:	CR$ 159.088 million
Interest:	100%
Employees:	630
Business activity:	Production and marketing of moulded rubber parts, extruded rubber sections, hose, and textile machinery accessories

The difficult economic climate in Brazil and soaring inflation rates coupled with high financing costs hampered the company's return to profitability. However, encouraging progress was achieved in 1980 towards regaining black figures.

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

Capital:	FF 130.0 million
Interest:	100%
Employees:	1,070
Business activity:	Production of tyres, marketing of tyres and technical products

The company continued to develop positively in the year under review. Excellent capacity utilization and comprehensive rationalization efforts helped to bring about pleasing results.

Sales Companies Foreign

CONTINENTAL ITALIA SPA.
MILAN, ITALY

Capital:	Lire 1.700 thousand million
Interest:	100%
Employees:	87

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

Capital:	£ 1.3 million
Interest:	100%
Employees:	93

CONTINENTAL GUMMI AB,
SOLNA, SWEDEN

Capital:	skr. 0.1 million
Interest:	100%
Employees:	48

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

Capital:	sfrs. 1.0 million
Interest:	100%
Employees:	94

CONTINENTAL PRODUCTS
CORPORATION, LYNDHURST, USA

Capital:	$ 2.0 million
Interest:	100%
Employees:	43

CONTINENTAL GUMMI GESELLSCHAFT
MBH, VÖSENDORF, AUSTRIA

Capital:	öS 13.0 million
Interest:	100%
Employees:	54

VERGÖLST GESELLSCHAFT MBH,
VÖSENDORF, AUSTRIA

Capital:	öS 1.5 million
Interest:	99.1%
Employees:	16
Business activity of sales companies:	Marketing of tyres and technical products

All seven sales companies increased their sales in 1980 and closed with a profit.

Continental Gummi-Werke Aktiengesellschaft, Hanover

Share capital: DM 270,000,000

Continental-ALSA Schuhbedarf GmbH
Steinau-Uerzell
DM 500,000
100%
*** ●

Deutsche Schlauchbootfabrik Hans Scheibert
Eschershausen
DM 3,000,000
94.167%
0.833% Union-Mittelland
●

Techno-Chemie Kessler & Co. GmbH
Frankfurt/M.
DM 15,000,000
100%
*** ●

Göppinger Kaliko- und Kunstleder-Werke GmbH
Eislingen
DM 16,000,000
93.791%
*** ●

- Vereinigte Göppinger-Bamberger Kaliko GmbH
  Bamberg
  DM 3,000,000
  100%
  *** ●

- Wilh. Leo's Nachf. GmbH
  Stuttgart
  DM 420,000
  100%
  ●

- Unterstützungskasse mbH der Göppinger Kaliko- und Kunstleder-Werke GmbH
  Eislingen
  DM 20,000
  100%
  **

- Wohnbau Kaliko GmbH
  Eislingen
  DM 40,000
  100%
  **

- Wohnungsbau Salach GmbH
  Eislingen
  DM 20,000
  60%
  **

Conti Versicherungsdienst GmbH
Hanover
DM 20,000
75%
25% Iroplastics
*** ●

Formpolster GmbH
Hanover
DM 20,000
100%
*** ●

Union-Mittelland-Gummi-GmbH
Hanover
DM 25,000
100%
*** ●

Intercontinental Rubber Finance B. V.
Amsterdam/Netherlands
hfl 1,000,000
100%
●

Clouth Gummiwerke AG
Köln
DM 12,000,000
50%

Deutsche Gasrußwerke GmbH
Dortmund
DM 250,000
28.76%
2.16% Uniroyal Englebert Reifen

KG Deutsche Gasrußwerke GmbH & Co.
Dortmund
DM 8,000,000
22.5%
2.5% Uniroyal Englebert Reifen

Drahtcord Saar Geschäftsführungs-GmbH
Merzig/Saar
DM 60,000
33.333%

Drahtcord Saar GmbH & Co. KG
Merzig/Saar
DM 30,000,000
33.333%

Pneu Uniroyal Englebert S.A.
Herstal-lez-Liège/Belgium
bfrs 360,000,000
99.8958%
●

- Pneu Uniroyal Englebert S.A.
  Compiègne/France
  FF 46,000,090
  16.9283% Uniroyal Englebert SA Herstal
  83.054% Continental France
  ●

Uniroyal Englebert Reifen GmbH, Aachen
DM 30,000,000
98.1833%
1.8167% Uniroyal Englebert SA Herstal
●

- Uniroyal Englebert Daek A/S
  Copenhagen/Denmark
  dkr 1,500,000
  100%
  ●

- Uniroyal Englebert Banden B. V.
  Boesingheliede
  Netherlands
  hfl 200,000
  100%
  ●

- Pneu Uniroyal-Englebert S.A.
  Geneva/Switzerland
  sfrs 500,000
  100%
  ●

Uniroyal Englebert Textilcord, S.A.
Steinfort/Luxembourg
luxfrs 50,000,000
100%
●

Uniroyal Englebert Tyres Ltd.
Newbridge/Great Britain
£ 8,500,100
70.589%
29.411% Export-AG
●

Uniroyal Englebert Tyre Trading GmbH, Aachen
DM 20,000
100%
●

Continental Group

- Continental France SARL
  Sarreguemines/France
  FF 130,000,000
  74.9992%
  25% Export-AG
  0.0008% Union-Mittelland ●

- Labortex Ltda.
  Santo André/São Paulo
  Brazil
  Cr$ 159,088,000
  100% ●

- Continental Industrias
  del Caucho SA, Coslada/Madrid
  Spain
  Ptas 363,837,000
  100% ●

- Continental
  Caoutchouc-Compagnie GmbH
  Hanover
  DM 250,000
  100% *** ●
  - Continental Caoutchouc
    (Suisse) SA
    Zurich/Switzerland
    sfrs 1,000,000
    100% ●
  - Continental
    Gummi Gesellschaft mbH
    Vösendorf/Austria
    öS 13,000,000
    100% ●

- Continental Caoutchouc-Export-
  Aktiengesellschaft
  Hanover
  DM 800,000
  100% *** ●
  - Continental Italia S.p.A.
    Milan/Italy
    Lire 1,700,000,000
    75%
    25% Caoutchouc-Compagnie ●
  - AB Continental
    Caoutchouc-Compagnie
    Solna/Sweden
    skr 5,000
    100% ●
  - Continental Gummi AB
    Solna/Sweden
    skr 100,000
    100% ●
  - Continental Products
    Corporation
    Lyndhurst/N.J./USA
    $ 2,000,000
    100% ●

- Continental Tyre and Rubber
  Company Ltd.
  Coulsdon/Great Britain
  £ 1,300,000
  100% Uniroyal Englebert Tyres
  Newbridge ●

- Iroplastics Kunststoff- und
  Kautschukvertriebsgesellschaft
  mbH
  Hanover
  DM 3,500,000
  100% *** ●
  - KA-RI-FIX
    Transportband-Technik GmbH
    Bergheim
    DM 20,000
    100% ●
  - Vergölst GmbH
    Bad Nauheim
    DM 20,000,000
    99.125% Iroplastics *** ●
    - Reifen-Friedenburg KG
      Troisdorf
      DM 90,000
      66.67% **
    - Reifen-Stötzel KG
      Hüttental-Weidenau
      DM 60,000
      66.67% **
    - Vergölst Ges. mbH
      Vösendorf/Austria
      öS 1,500,000
      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 6 other companies with minor or no business activities

Proposal for the Appropriation of Profits

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

● Distribution of a dividend of DM 2.50 (5%) per share of DM 50 nominal value		DM 13,500,000.00
● Profit carried forward	DM 3,007,812.50	
Of this, reduction in corporation tax upon resolution in accordance with this proposal	DM 1,082,812.50	DM 1,925,000.00
Retained income		DM 15,425,000.00

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

Allocation to free reserves in accordance with § 58 section 2, Stock Corporation Law	DM 6.0 million
Allocation to untaxed reserves	DM 5.1 million
Decrease in profit carried forward	– DM 4.9 million
Increase in equity	DM 6.2 million

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

Financial Position and Profit Situation

Although sales were up by 7.4%, the balance sheet total increased by only 4.7% to DM 1,210.5 million. While fixed assets rose by DM 69.0 million, current assets were DM 14.7 million lower. The capital turnover rate (ratio of sales to total assets) improved from 1.46 to 1.50.

If we exclude investments in the year under review, because they do not contribute directly to parent company sales, the balance sheet total of the parent company actually decreased by DM 4.3 million, while the capital turnover rate improved to 1.86 (1.73 in 1979). Over the last five years, sales have risen by 32.7% compared with an increase in the balance sheet total (without investments) of only 8.4%. In the same period, the capital turnover rate (without investments) increased from 1.52 to 1.86.

The proportion of fixed assets to total assets was 55.4% on the closing date (52.1% in 1979), this marked increase in fixed assets is mainly attributable to the substantial investments in the subsidiaries, particularly within the Uniroyal Englebert Group, where the equity capital base was reinforced in the Belgian and British companies.

On the liabilities side of the balance sheet, short and long-term liabilities increased by DM 4.6 million. Taking the envisaged dividend commitment and the short-term contingency reserves into account, total debt is only DM 26.0 million above the previous year's level, although the balance sheet total increased by DM 54.3 million. The remaining capital requirements of DM 28.3 million were financed out of equity, untaxed reserves, and accrued pensions.

If the Shareholders approve the Administration's proposed profit appropriation, the profit to be carried forward of DM 1.9 million will increase by the reduction in corporation tax to DM 3.0 million. As shown in the table on page 22, equity capital thus increases by DM 6.2 million.

Equity capital is equivalent to 33.0% of the balance sheet total (34.0% in 1979).This includes 50% of untaxed reserves.

60% of fixed assets were financed out of equity on the closing date (65% in 1979). Fixed assets and inventories are financed 90% out of equity and long-term debt (100% in 1979). In this context, however, it should be noted that although the substantial investments in subsidiaries resulted in higher fixed assets at the parent company, they constitute only a refinancing for the Group as a whole.

On the other hand, the profit generated by the companies of the Uniroyal Englebert Group was again not transferred to the parent company, but used to reinforce the companies' equity base.

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) was little changed at 76% (79% in 1979), despite the increase in investments of DM 23.3 million. Following the reduction in current assets and the slight increase in short-term notes payable and liabilities due to banks, the liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) dropped from 93.0% to 67.5%.

Last year saw a further substantial improvement in profitability. Despite high rates of increase in material prices, the gross margin rose by DM 81.7 million (DM 92.0 million in 1979).

The net operating result (before profit tax but including both financing charges and net income from investments) improved to DM 50.7 million. The comparable figure for 1979 was DM 32.1 million and for 1978 was DM 11.5 million in the red.

Because we took advantage of tax deductions on imports according to § 80 EStDV and formed untaxed reserves according to § 3 Ausl. InvG and § 6b EStG, the extraordinary result (before profit tax) shows, together with some other items, a deficit of DM 15.7 million. This is roughly equal to the differential according to § 160, section 2 of the Stock Corporation Law. The low levels of economic activity in Great Britain led to a loss at Uniroyal Englebert Tyres Ltd., which we have covered with the untaxed reserve in accordance with Ausl. InvG.

Despite the balance of the loss carry-forward, the business year 1980 was severely affected by the substantial back-payments of corporation tax as indicated on page 6.

The gross cash flow (computed according to the DVFA formula) increased to DM 139.4 million (DM 117.9 million in 1979) and accounts for 7.7% of sales (7.0% in 1979). Earnings per share, again computed with the DVFA formula, were DM 5.75 (DM 4.90 in 1979).

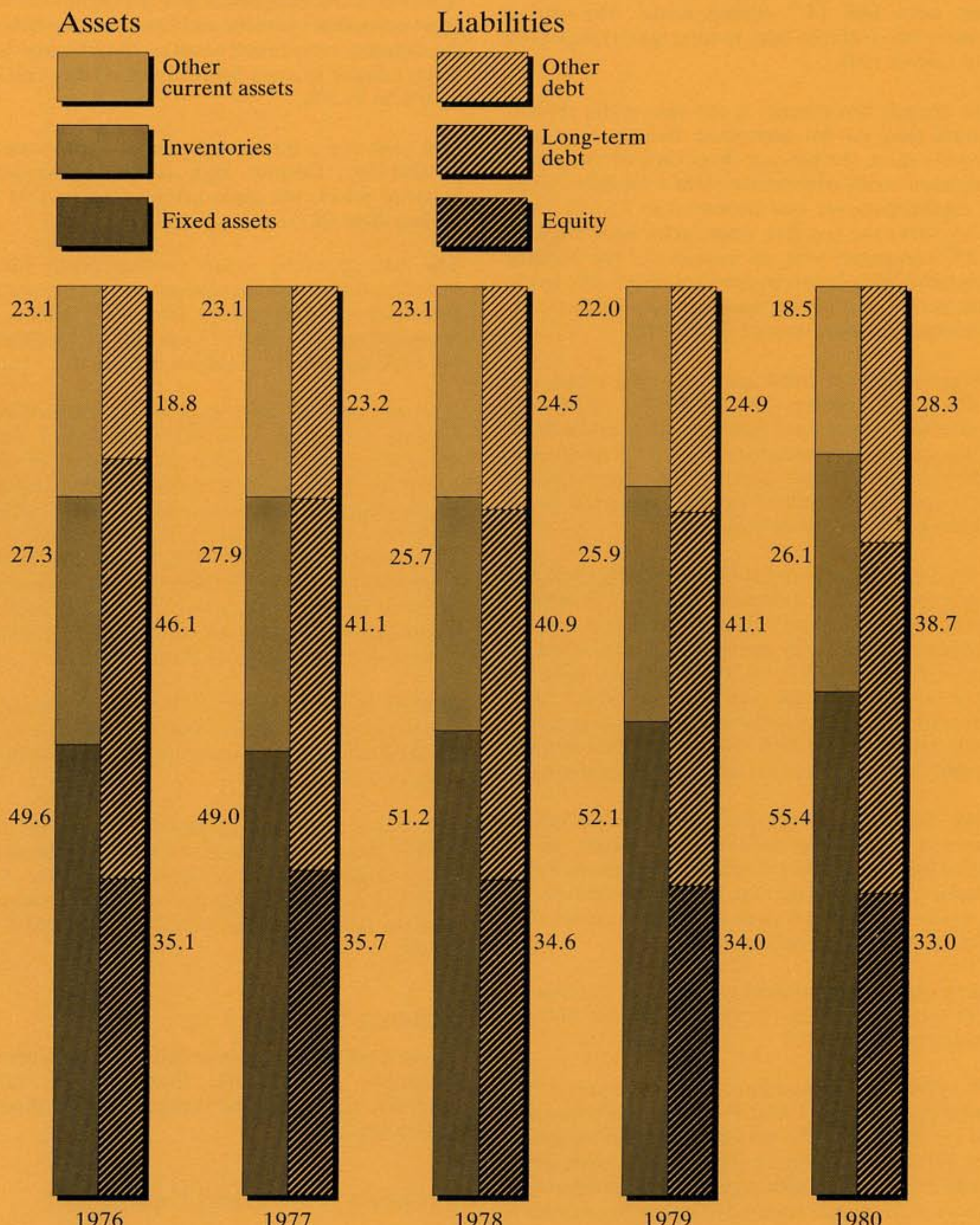
Balance Sheet

Apart from the above-mentioned tax measures (tax deduction on imports, formation of untaxed reserve), evaluation and depreciation methods are unchanged.

Property, Plant, and Equipment

Investment in property, plant, and equipment totalled DM 80.8 million (DM 72.6 million in 1979). Roughly equal amounts were invested in the two divisions Tyres and Technical Products, and the focus was mainly on rationalization and quality assurance, increased utilization of future-orientated technologies, and, in some areas, capacity expansion.

Balance sheet structure



Balance sheet total (in million DM)

1016.0*)	1048.0	1091.4	1156.3	1210.5
Change in %				
+0.7	+3.1	+4.1	+5.9	+4.7

* net of accumulated losses

Depreciation increased to DM 65.2 million (DM 62.7 million in 1979) and accounts for 85.3% of new investments. Depreciation is computed according to the straight-line method and is based on an economic life of up to 33 years for buildings, 10–12.5 years for machinery, up to 20 years for supply lines and various operating fixtures and 4–7 years for furniture and equipment. Low-value items are depreciated in full in the year of purchase.

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

	Additions and reclassifications DM million	Depreciation DM million
Land and buildings	4.1	0.1
Machinery and fixtures	46.4	3.2
Furniture and equipment	25.9	6.9
	76.4	10.2

The disposal of fixed assets amounting to DM 4.0 million relates to obsolete machinery and two buildings which were no longer required. A reserve was formed for the profit from the disposal of these assets in accordance with § 6b EStG.

Investments

The book value of investments increased over the previous year by DM 58.5 million to DM 235.3 million.

In the year under review, the capital of Uniroyal Englebert Tyres Ltd., Newbridge, Great Britain was increased. The parent company contributed £ 4.0 million and the holding company Continental Caoutchouc-Export-Aktiengesellschaft, Hanover, £ 1.25 million. The British company used this, together with further long-term debt, to finance the fixed and current assets acquired from Uniroyal in the previous year. At Pneu Uniroyal Englebert S.A., Herstal-lez-Liège, Belgium, equity capital was reduced in the framework of a restructuring programme and set off against the accumulated losses carried forward. At the same time, there was a capital increase of bfrs. 360 million, which we assumed in full. Our interest in the company has thus increased from 98.1% to 99.9%.

At Continental France S.A.R.L., Sarreguemines, France, and Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, capital was increased and paid in respectively. We have acquired further shares in Deutsche Schlauchbootfabrik Hans Scheibert, Eschershausen, bringing our interest in this company to 95%.

The book value of Labortex Ltda., Santo André/Sao Paulo, Brazil, was written down to reflect the continuing devaluation and the difficult economic situation in Brazil.

The relationships of the subsidiaries and affiliated companies within the Group can be seen from the chart on pages 20 and 21.

Long-term loans are mainly home-building loans to our employees. As a precautionary measure, we have depreciated a customer loan by DM 0.6 million. Interest-free loans have been adjusted to their present value. Differences between present value and last year's value are included in additions to investments.

Inventories

Despite the increase in raw material prices, we were able to substantially reduce our inventories of raw materials and consumables. The same is true of work-in-progress. Taken together, these inventories were DM 28.3 million or 18.7% lower than in the previous year. By contrast, finished goods inventories increased by DM 44.7 million or 30.2%. Although this rise is due in part to material price and cost increases, it also reflects a volume increase.

All in all, inventories rose by DM 16.4 million or 5.5%.

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

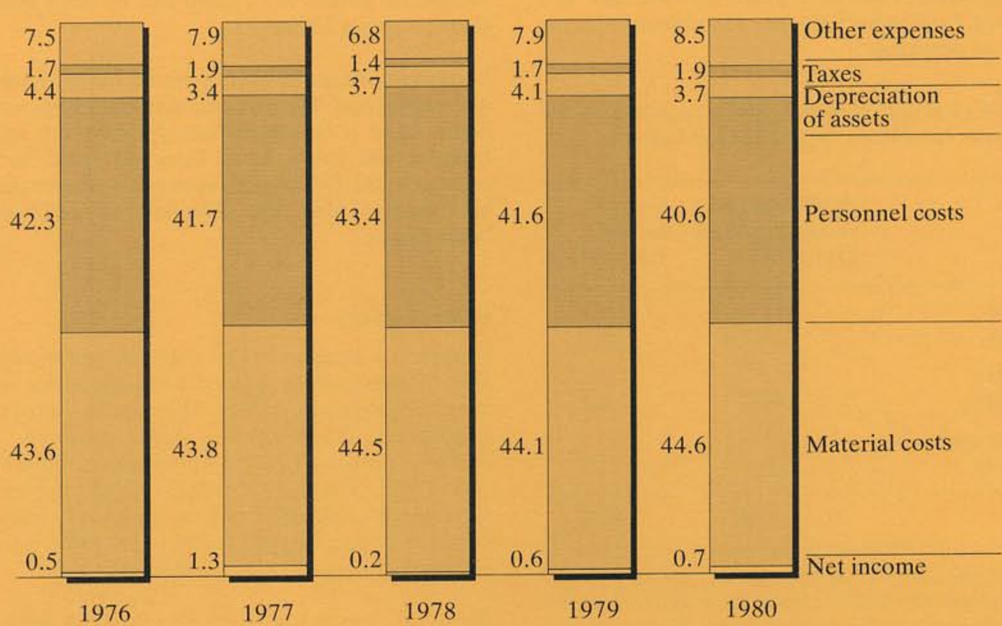
Accounts Receivable and Other Assets

The global value adjustment (DM 2.0 million), up to now offset from accounts receivable, has for the first time been shown separately on the liabilities side of the balance sheet. Despite this, receivables due from customers decreased by DM 8.7 million. This decrease relates to domestic customers only. Receivables from foreign customers increased only slightly, despite higher sales in the last quarter. The largest part of receivables was due at the beginning of 1981 and was paid on schedule.

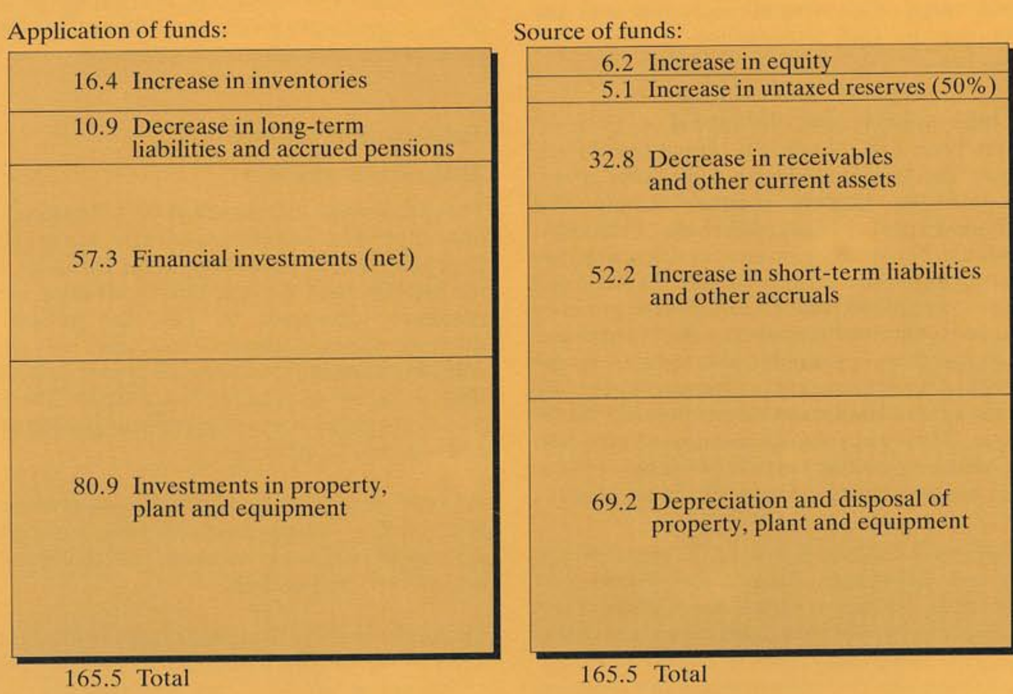
Accounts receivable from affiliated companies relate to the delivery of goods, claims from profit-transfer agreements, clearing accounts, and balances from central cash management.

The position other debtors includes not only receivables from suppliers and employees but also tax credits and receivables from short-time work and the sale of property.

Breakdown of expenditure
in % of gross revenues



Financing in 1980
(in million DM)



Capital and Reserves

Share capital is unchanged at DM 270 million. There is also conditionally authorized capital of DM 41 million. Share capital can be increased up to this amount with effect from 30th June, 1981 by exercising the conversion rights afforded by the convertible loans taken in 1979.

In accordance with the Shareholders' resolution of 16th July, 1980, DM 6,583,607 was allocated to legal reserves and free reserves. In accordance with § 58, section 2 of the Stock Corporation Law, a further DM 6.0 million was allocated to free reserves from the 1980 net income.

Untaxed Reserve

We have taken the opportunity to form an untaxed reserve of DM 10.2 million. Of this, DM 2.7 million is for replacement investment in accordance with § 6b EStG and DM 7.5 million is in accordance with § 3 of the law governing the tax implications of foreign investments by German industry.

Accruals

Accrued pensions are computed on actuarial principles. The relatively high additions in the year 1980 are due primarily to the increase in the long-service bonus for our blue-collar employees. Other accruals include warranties, bonus and other commitments arising in the ordinary course of business, contributions to the employers' liability insurance association, risks from contingent liabilities on notes, and tax commitments.

Following the Shareholders' resolution of 16th July, 1980, the corporation tax reserve formed in the previous year was written back and included in the profit carry-forward of the previous year. For the business year 1980, this position also includes a corporation tax reserve (DM 1.1 million), which will be written back if the Shareholders approve the Administration's proposal for the appropriation of profit.

Liabilities

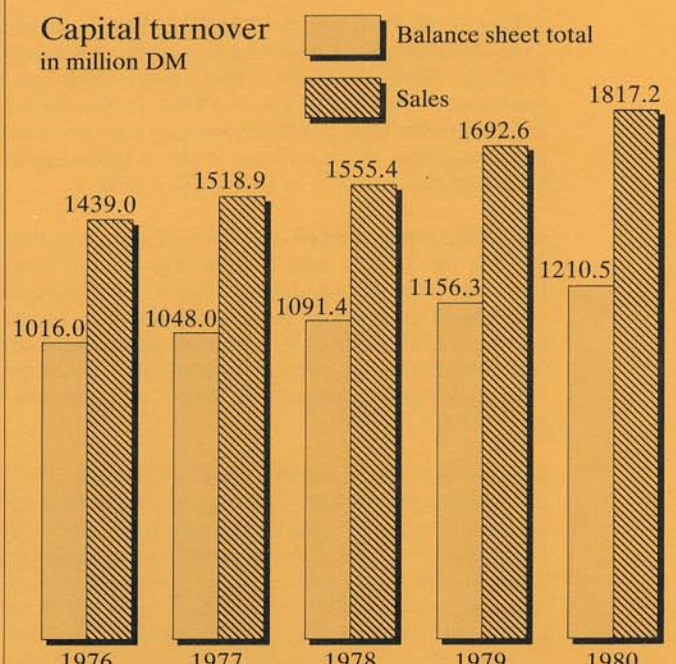
Scheduled repayments of long-term liabilities amounted to DM 23.4 million. New loans were not taken in the light of the high interest rates. For that part of the 1979 convertible loan issued in US dollars, a write-up of DM 1.7 million was necessary as a result of the increase in the exchange rate. On balance, long-term liabilities have decreased by DM 21.7 million, whilst short-term bank loans and bills payable rose by DM 36.0 million.

The decrease of DM 10.0 million in trade payables is attributable to lower purchase volumes. The increase in other liabilities is due mainly to tax liabilities, customer balances, and wages and salaries.

Contingent Liabilities

The increase of DM 185.3 million in contingent liabilities on notes (DM 150 million in 1979) reflects the further centralization of payment transactions for our subsidiaries. In the framework of central cash management, the customer notes of our subsidiaries are settled via the parent company.

Guarantees and warranties amounting to DM 147.3 million relate almost entirely to liabilities of our subsidiaries and affiliated companies. Outstanding payments on contributions to the capital of subsidiaries and liabilities due to cooperatives totalled DM 14.8 million.



Capital turnover rate

1976	1977	1978	1979	1980
1.42	1.45	1.42	1.46	1.50

Profit and Loss Statement

Sales rose by 7.4% to DM 1,817.2 million, with the Tyre Division generating 63.0% and the Technical Products Division 37.0%. The export sales ratio increased to 28.5% (26.3% in 1979). Following the increase in finished goods inventories and work-in-progress, gross revenues rose at the disproportionately high rate of 9.4% to DM 1,877.6 million.

Material costs accounted for 44.6% of gross revenues (44.1% in 1979). Apart from the higher costs resulting from the substantial rises in raw material and energy prices, this increase is also due to the growth in the volume of merchandise purchased from our subsidiaries. In contrast, personnel costs were again down and accounted for 40.6% of gross revenues (41.6% in 1979).

Income from profit and loss pooling agreements and investments derives mainly from domestic subsidiaries and does not include extraordinary earnings. Depreciation of investments included among other things the above-mentioned write-down of the book value of our Brazilian subsidiary. Expenses from profit and loss pooling agreements relate to Continental-ALSA Schuhbedarf GmbH and the deficit incurred by a holding company for the write-down of its interest in Uniroyal Englebert Tyres Ltd., Newbridge, Great Britain.

The substantial increase in interest income is due mainly to the higher degree of central financing and central cash management for our domestic and foreign subsidiaries and is therefore closely in line with the equally substantial increase in interest expenses. Interest expenses also reflect the higher interest rate and the additional capital requirements for the investment programmes that were carried out in the year under review. The interest balance is DM 52.0 million (DM 38.3 million in 1979) and represents 2.8% of gross revenues (2.2% in 1979).

Other income derives from sales in our kitchens and canteens, proceeds from rents and leases, subsidies, cost reimbursements, earnings from licence contracts and so forth. Extraordinary income includes mainly investment subsidies and grants. Also included are minor proceeds from released value adjustments and earnings from written-off receivables.

Despite the elimination of payroll tax, tax on income, profit, and net worth increased by DM 6.4 million over the previous year and relates almost without exception to expenses in the period under review. The profit and loss position is also influenced by the additional tax burden mentioned on page 6, because a dividend payment is envisaged despite the negative "EK 56". The remaining loss carry-forward was set off in full against taxable income.

Other expenses include repairs, freight charges, rents, insurance premiums, fees, advertising expenditure, and other costs.

In 1980, the remuneration of the Executive Board totalled DM 4,113,084.03, including DM 331,855.76 at affiliated companies. Pensions to former members of the Executive Board and their dependents amounted to DM 1,806,570. Emoluments to the Supervisory Board totalled DM 258,000. For those amounts that are dividend-linked it was assumed that Shareholders will approve the profit appropriation proposal.

Hanover, 2nd April, 1981

Continental
Gummi-Werke Aktiengesellschaft

The Executive Board

Carl H. Hahn   Peter Haverbeck   Hans Kauth   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

The consolidated accounts constitute a worldwide financial statement, so that in accordance with § 329 of the Stock Corporation Law we are exempted from drawing up separate consolidated accounts for the domestic subsidiaries.

The consolidated accounts cover, in addition to the parent company, sixteen domestic and nineteen foreign subsidiaries, in which we had a direct or indirect financial interest of more than 50% on 31st December, 1980. The companies included in the consolidated accounts are shown in the chart on pages 20 and 21.

There were two additions to the consolidated group of companies in the year under review:

KA-RI-FIX Transportband-Technik GmbH, Bergheim and
Uniroyal Englebert Tyre Trading GmbH, Aachen.

KA-RI-FIX Transportband-Technik GmbH has belonged to the Group for several years. However, it was not included in the consolidated accounts in the past because it had only a low business volume and had only minor impact on the assessment of the Group's financial position and profit situation. Uniroyal Englebert Tyre Trading GmbH assumed its activities as the financial and monetary centre for the Uniroyal Englebert Group in 1980.

Eight domestic and three foreign companies have not been included because they either have only a low business volume or are inactive. 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.

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 that are likely to be stipulated in 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 annual statements of the foreign Group companies, which were drawn up to conform with national law, have been adjusted to comply with the structure required by the German Stock Corporation Law. Evaluation has been done according to proper German accounting principles in conformity with standard Group rules. National evaluation methods were adjusted where necessary.

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

The balance sheets of our foreign subsidiaries were translated into DM at the exchange rate valid on 31st December 1980.

Items on the profit and loss statements were converted at average exchange rates for the year. Differences resulting from the use of year-average exchange rates (profit and loss statement) and year-end rates (balance sheet) are included in other income or other expenses.

Consolidation Method

Capital consolidation for member companies of the Uniroyal Englebert Group and for other companies which have only been included in the Group since 1979 was done according to the modified Anglo-American method. This means that the purchase costs at the time of acquisition are related to the subsidiary's equity. Companies belonging to the Group before 1979 were consolidated according to the so-called German method.

Accounts receivable and payable between the consolidated companies were offset. Intercompany sales and chargeouts have been eliminated from the profit and loss statement.

In comparing profit and loss figures with those of the previous year, it should be remembered that the companies of the Uniroyal Englebert Group were consolidated for the second half of 1979 only.

Financial Position and Profit Situation

The consolidated balance sheet total increased over the previous year only by 1.7% to DM 2,024.5 million, although sales, computed on a comparable basis, i.e. including the sales of the Uniroyal Englebert Group for the first half of 1979, rose by 5.8%. The capital turnover rate, computed on the same basis, improved from 1.50 to 1.56.

Allowing for the difference arising from consolidation, fixed assets account for 40.0% of total assets (39.7% in 1979), and current assets plus prepaid expenses for 60.0% (60.3% in 1979). Domestic companies account for 79.4% and foreign companies for 20.6% of total assets.

Short and long-term Group liabilities decreased by DM 44.5 million on the previous year's level. Similarly, total debt, including the envisaged dividend commitment and short-term provisions, was down by DM 21.0 million to DM 1,412.6 million. In this context, there was a shift in the pattern of debt distribution towards long-term debt, so that now 81.8% of fixed assets and the difference arising from consolidation as well as inventories are financed out of equity and long-term debt (73.6% in 1979).

Equity capital increased by DM 21.7 million to DM 418.6 million and now represents 20.7% of the balance sheet total (20.0% in 1979).

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) improved to 116.2% (90.5% in 1979), although additions for new investments rose by DM 149.2 million. Self-financing is therefore considerably more favourable in the Group than in the parent company, where the ratio is only 76.2%.

The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) has improved likewise from 61.8% to 67.2% and is thus on the same level as in the parent company. This is a reflection on the improved financing structure in our subsidiaries, where long-term loans have been taken during the year to reduce short-term debt.

The net income of the Group is almost double that of the parent company. Because the profits of the domestic companies are largely included in the net income of the parent company in the framework of profit and loss pooling agreements, the higher consolidated net income derives exclusively from the foreign subsidiaries and the Uniroyal Englebert Group.

Pre-tax return on sales (2.04%) and pre-tax return on equity (15.42%) have again improved over the previous year and are better than in the parent company, where the comparable figures are 1.93% and 8.77% respectively.

The profit carried forward from the previous year (DM 7.4 million) decreases by a total of DM 0.9 million. On the one hand, DM 6.6 million was allocated to the legal and free reserves of the parent company in accordance with the Shareholders' resolution of 16th July, 1980, and on the other hand, there was a decrease in taxes of DM 5.2 million. Also, an adjustment of DM 0.5 million had to be made to cover exchange rate fluctuations affecting the profit carried forward by foreign companies and other differences arising from consolidation.

DM 16.7 million was allocated to Group reserves. Of this, DM 6.0 million came from the parent company. The remainder derives from the profit retained by the foreign subsidiaries and the Uniroyal Englebert Group. Group retained income is therefore identical with the retained income of the parent company.

The gross cash flow increased to DM 219.5 million and is equivalent to 6.9% of sales (6.2% in 1979).

Balance Sheet

Property, Plant, and Equipment

Property, plant, and equipment was valued at purchase or manufacturing cost, minus depreciation. Of the total DM 712.6 million, the parent company accounts for DM 430.0 million, the Uniroyal Englebert Group for DM 166.0 million, and the remaining domestic and foreign companies for DM 116.6 million.

Additions to property, plant, and equipment and depreciation can be allocated to the individual Group companies as follows:

	Capital Investments DM million	Depreciation DM million
Parent company	80.8	65.2
Uniroyal Englebert companies	41.3	27.9
Other subsidiaries	27.1	22.3
	149.2	115.4

Capital investments are 29.3% higher than depreciation and relate primarily to machinery, moulds, and equipment for rationalization and quality assurance. Capacity expansion was minor.

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

Investments

Interests in the non-consolidated companies (see pages 20 and 21) are held mainly by the parent company. Loans include home-building loans to employees and funds to help finance local energy supply. Interest-free loans have been discounted to their present value.

Difference arising from Consolidation

Apart from undisclosed reserves from acquisitions, this item also includes exchange rate differences resulting from the equity capital translation of foreign subsidiaries, in so far as they were consolidated according to the German method. Since these holdings were acquired or subsequent capital increases were made, the DM has strengthened relative to other currencies. The equity capital translated at the rate valid on 31.12.1980 therefore gave a lower DM value than the corresponding book value at the parent company. However, because the fixed assets of the foreign companies were also converted at the same closing-date exchange rate, thus resulting in DM values that are lower than the original – unadjusted –

purchase costs, this part of the difference arising from consolidation can be regarded as undisclosed reserves.

Inventories

Inventories, which have been adjusted to allow for intercompany profit, are DM 43.8 million higher than in the previous year. Although raw material inventories were down, there was an increase in finished goods in terms of both costs and volume.

The breakdown of inventories is as follows:

	DM million
Parent company	315.6
Uniroyal Englebert companies	154.2
Other subsidiaries	176.5
	646.3

Inventories are stated at purchase or manufacturing cost, according to the lower of cost or market value, including proportionate factory overhead. Proper allowance was made for slow-moving goods and items with restricted usability.

Accounts Receivable and Other Assets

The decrease in accounts receivable was mainly in the production companies. In the foreign sales companies by contrast, receivables increased in line with the growth in sales. All in all, accounts receivable were down by DM 17.0 million. Individual adjustments and, on the liabilities side, a global adjustment of DM 6.5 million have been made to allow for possible risks.

Other assets include tax and interest claims, receivables from clearing transactions with suppliers, loans to employees, and claims from short-time work.

Accruals

Pension accruals have been computed on the basis of actuarial principles. Also included in accruals are the statutory compensation claims in some of the foreign companies, because they are similar in nature. The pension funds available in the benefit schemes of some Group companies are not always sufficient to cover vested rights; the gap is some DM 13.5 million.

Other accruals include mainly warranties as well as bonus and tax liabilities.

Liabilities

Long and short-term liabilities have decreased and can be broken down as follows:

	DM million
Parent company	540.6
Uniroyal Englebert companies	297.9
Other subsidiaries	385.2
	1,223.7

Long-term liabilities have increased from 36.7% to 45.5% of total liabilities following the shift in debt distribution already referred to. As a result, Group financing is now on a sounder basis.

The main items in other liabilities are wages and salaries, including outstanding social security contributions and payroll tax, as well as other tax commitments. Also included are interest charges, customer balances from bonuses and commission, and other liabilities arising in the ordinary course of business.

Contingent Liabilities

Contingent liabilities on notes amount to DM 170.7 million (DM 143.6 million in 1979). This increase results partly from the drop in trade receivables. Warranties and guarantees of DM 13.5 million are rather higher than in the previous year (DM 10.5 million) and relate primarily to non-consolidated affiliates.

Profit and Loss Statement

Consolidated sales have developed as follows:

	1980 DM million	1979 DM million
Parent company	1,461.7	1,390.9
Uniroyal Englebert companies (for 1979 second half only)	771.9	386.3
Other subsidiaries	926.1	846.2
	3,159.7	2,623.4

This is equivalent to an increase of 20.4%. Without the companies of the Uniroyal Englebert Group, sales would have risen by 6.7%. Gross revenues improved by 23.9% to DM 3,259.5 million (10% without the Uniroyal Englebert Group). Of this, material costs account for 42.1% (42.8% in 1979) and personnel costs for 39.2% (39.7% in 1979). As in the previous year, the proportion of personnel costs at Group level is somewhat lower than in the parent company (40.6%), because the sales companies are included.

Interest expenses after deduction of interest income increased from DM 76.0 million in 1979 to DM 107.1 million and represented 3.3% of gross revenues (2.9% in 1979). This increase is mainly attributable to the considerably higher interest levels in all countries.

The extraordinary part of other income includes public sector subsidies, including investment subsidies and grants. Other, minor, extraordinary income derives from the release of value adjustments, as well as from tax reimbursements and aperiodic items.

The considerable increase in taxes by comparison with the previous year is attributable to the higher profit tax. A major factor here, as already mentioned on page 6, is the back-tax that has to be paid in the Federal Republic of Germany to cover the negative "EK 56".

Other expenses cover the same cost components as for the parent company. The main items are freight charges, advertising expenses, insurance premiums, other distribution costs, repairs, and rents.

Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1980

Assets	31st December, 1980 DM	DM	DM	31st Dec., 1979 DM 1000
I. Fixed Assets				
A. Property, Plant and Equipment				
1. Land				
a) with commercial plant and other buildings	155 369 781			161 554
b) with residential buildings	1 468 605			1 548
c) without buildings	70 800			71
2. Machinery	200 161 822			188 232
3. Furniture and equipment	40 118 942			38 504
4. Assets under construction and prepayments	32 809 893			28 448
		429 999 843		418 357
B. Investments				
1. Investments	235 299 102			176 785
2. Loans with a term of at least four years	5 580 527			6 803
thereof secured by mortgages . . . DM 4 433 513		240 879 629		183 588
			670 879 472	601 945
II. Current Assets				
A. Inventories				
1. Raw materials and consumables	81 243 382			102 444
2. Work in progress	41 926 908			49 104
3. Finished goods, goods for resale	192 803 457			148 048
		315 973 747		299 596
B. Other Current Assets				
1. Payments on account		637 534		546
2. Accounts receivable		154 635 103		163 293
due after one year . . . DM 5 723 416				
3. Notes receivable		119 440		405
rediscountable with the Federal Bank . . . DM 53 297				
4. Checks		7 429 167		6 161
5. Cash on hand, at Federal Bank and on postal check accounts		2 170 042		2 297
6. Cash at banks		11 821 067		8 652
7. Due from affiliated companies		32 653 394		57 233
8. Other receivables (§ 89 Stock Corp. Law)		325 616		277
9. Other debtors		11 235 113		12 953
			537 000 223	551 413
III. Prepaid Expenses				
1. Loan discounts		1 521 449		1 833
2. Other		1 146 958		1 085
			2 668 407	2 918
			1 210 548 102	1 156 276

Liabilities		31st December, 1980 DM	DM	31st Dec., 1979 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	DM 65 451 393			
Addition according to shareholders' meeting of 16th July, 1980	DM 548 607			
			66 000 000	65 451
2. Free reserves	DM 42 965 000			37 500
Addition according to shareholders' meeting of 16th July, 1980	DM 6 035 000			
		49 000 000		–
Transfer from retained earnings		6 000 000		5 465
			55 000 000	42 965
III. **Untaxed Reserves** according to tax regulations (§ 3 Auslandsinvestitionsgesetz, § 6 b EStG).			10 241 205	—
IV. **General bad debt reserve**			2 050 000	—
V. **Accruals**				
1. Accrued pensions		119 321 048		108 504
2. Accruals for deferred maintenance		1 231 500		—
3. Other accruals		98 238 081		91 591
			218 790 629	200 095
VI. **Liabilities with Terms of at least four Years**				
1. Bonds and convertible bonds		130 206 300		128 794
thereof secured by mortgages	DM 50 000 000			
2. Loans and debentures		69 686 094		80 556
thereof secured by mortgages	DM 69 467 654			
3. Due to banks		144 750 000		157 000
thereof secured by mortgages	DM —			
			344 642 394	366 350
Due within four years	DM 147 798 694			
VII. **Other Liabilities**				
1. Trade payables		40 480 680		50 465
2. Notes payable		50 578 088		40 044
3. Due to banks		55 805 472		30 335
4. Payments received on account		3 146 499		3 448
5. Due to affiliated companies		17 401 095		30 158
6. Other liabilities		60 987 040		47 682
			228 398 874	202 132
VIII. **Retained Income**			15 425 000	9 283
Contingent liabilities on notes	DM 185 288 726			
Guarantees	DM 121 271 366			
Warranties	DM 26 039 950			
			1 210 548 102	1 156 276

Fixed Assets Schedule 1980

	1st January, 1980 DM	Additions DM	Reclassifications DM	Deductions DM	Depreciation DM	31stDecember, 1980 DM
A. **Property, Plant and Equipment**						
1. Land						
a) with commercial plant and other buildings	161 554 086	2 631 995	+ 1 437 116	1 188 223	9 065 193	155 369 781
b) with residential buildings	1 548 380	29 548		43 707	65 616	1 468 605
c) without buildings	70 800					70 800
2. Machinery	188 231 804	33 768 194	+ 12 584 956	1 610 803	32 812 329	200 161 822
3. Furniture and equipment	38 504 293	22 500 090	+ 3 408 243	1 142 377	23 151 307	40 118 942
4. Assets under construction and prepayments	28 447 578	21 867 834	− 17 430 315		75 204	32 809 893
	418 356 941	80 797 661	—	3 985 110	65 169 649	429 999 843
B. **Investments**						
1. Investments	176 785 090	61 514 112		100	3 000 000	235 299 102
2. Loans with a term of at least four years	6 802 681	361 425		983 579	600 000	5 580 527
	183 587 771	61 875 537	—	983 679	3 600 000	240 879 629
	601 944 712	142 673 198	—	4 968 789	68 769 649	670 879 472

Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1980

	1980 DM	1980 DM	1979 DM 1000
1. **Sales**	1 817 232 898		1 692 571
2. Change in inventories of products	+ 36 702 437		+ 1 160
		1 853 935 335	1 693 731
3. Overheads capitalized on construction of fixed assets		23 648 825	22 152
4. **Gross Revenues**		1 877 584 160	1 715 883
5. Raw materials and consumables		836 626 855	756 536
6. **Gross Margin**		1 040 957 305	959 347
7. Income from profit and loss pooling agreements	16 845 944		22 919
8. Investment income	3 643 468		1 871
9. Income from long-term loans	269 712		288
10. Interest and similar income	22 051 714		8 082
11. Income from disposal of fixed assets	3 354 283		1 874
12. Income from release of accruals	1 894 645		4 448
13. Income from release of untaxed reserves	—		779
14. Other income	29 314 524		27 814
thereof extraordinary DM 3 658 449			
		77 374 290	68 075
		1 118 331 595	1 027 422
15. Wages and salaries	635 776 245		600 024
16. Social security contributions	101 289 911		95 857
17. Pensions and employees' welfare	25 005 070		17 497
18. Depreciation of property, plant and equipment	65 169 649		62 698
19. Depreciation of investments	3 600 000		8 056
20. Depreciation of current assets (excluding inventories)	1 231 929		5 720
21. Losses from disposal of fixed assets	1 557 023		399
22. Interest and similar expenses	73 977 280		46 367
23. Taxes			
a) on income profit and net worth DM 38 391 476			
charged to subsidiaries DM 4 122 406			
DM 34 269 070			
b) Other DM 742 986			
	35 012 056		28 579
24. Expenses from profit and loss pooling agreements	3 058 491		—
25. Additions to untaxed reserves	10 241 205		—
26. Other expenses	148 909 474		151 292
		1 104 828 333	1 016 489
27. **Net Income**		13 503 262	10 933
carry forward:		13 503 262	10 933

	1980 DM	1980 DM	1979 DM 1000
carried forward:		13 503 262	10 933
28. Profit brought forward		7 921 738	3 815
29. Additions to reserves		6 000 000	5 465
30. **Retained Income**		15 425 000	9 283

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, 2nd April, 1981

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Wirtschaftsprüfer

Kirste
Wirtschaftsprüfer

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1980

Assets	31st December, 1980 DM	31st December, 1980 DM	31st Dec., 1979 DM 1000
I. Fixed Assets			
A. Property, Plant, Equipment and Intangible Assets			
1. Land			
a) with commercial plant and other buildings	236 949 336		245 499
b) with residential buildings	3 063 337		2 815
c) without buildings	4 008 373		4 776
2. Buildings on third parties' land	4 409 838		4 359
3. Machinery	327 884 177		312 257
4. Furniture and equipment	79 780 834		75 321
5. Assets under construction and prepayments	55 591 792		43 585
6. Intangible assets	949 070		1 119
		712 636 757	689 731
B. Investments			
1. Investments	31 173 417		31 199
2. Investment securities	1 907 892		1 582
3. Loans with a term of at least four years	8 465 175		9 601
thereof secured by mortgages DM 5 039 768			
		41 546 484	42 382
		754 183 241	732 113
II. Difference arising from Consolidation		55 109 324	57 307
thereof from consolidation according to Anglo-American method DM 10 761 849			
III. Current Assets			
A. Inventories	646 307 094		602 526
B. Other Current Assets			
1. Payments on account	897 980		720
2. Accounts receivable	463 228 324		480 267
due after one year DM 6 258 227			
3. Notes receivable	8 473 235		7 519
rediscountable with the Federal Bank DM 927 866			
4. Checks	9 135 011		10 611
5. Cash on hand, at Federal Bank and on postal check accounts	5 918 401		5 097
6. Cash at banks	21 232 215		26 329
7. Marketable securities	130 515		501
8. Due from affiliated companies	1 180 574		1 710
9. Other receivables (§ 89 Stock Corp. Law)	740 058		648
10. Other debtors	51 637 121		58 136
		1 208 880 528	1 194 064
IV. Prepaid Expenses			
1. Loan discounts	1 554 253		2 237
2. Other	4 742 327		4 362
		6 296 580	6 599
		2 024 469 673	1 990 083

Liabilities		31st December, 1980 DM	31st December, 1980 DM	31st Dec., 1979 DM 1000
I. **Share Capital**			270 000 000	270 000
Conditionally authorized capital	DM 41 000 000			
II. **Open Reserves**				
1. Legal reserves		66 000 000		65 452
2. Free reserves		69 235 716		43 186
			135 235 716	108 638
III. **Minority Interests**			1 507 821	2 290
including interests in net income	DM 98 191			
including interests in losses	DM 2 235			
IV. **Untaxed Reserves** according to § 3 Auslandsinvestitionsgesetz, § 6 b EStG and other foreign tax regulations			17 722 502	6 684
V. **General bad debt reserve**			6 535 471	—
VI. **Accruals**				
1. Accrued pensions and similar accruals		178 972 606		161 460
2. Accruals for deferred maintenance		1 835 099		344
3. Other accruals		173 558 894		165 038
			354 366 599	326 842
VII. **Liabilities with Terms of at least four Years**				
1. Bonds and convertible bonds		130 206 300		128 794
thereof secured by mortgages	DM 50 000 000			
2. Loans and debentures		69 686 094		80 556
thereof secured by mortgages	DM 69 467 654			
3. Due to banks		333 285 226		254 276
thereof secured by mortgages	DM 12 891 588			
4. Other liabilities		23 233 614		1 893
thereof secured by mortgages	DM 193 337			
			556 411 234	465 519
Due within four years	DM 212 988 839			
VIII. **Other Liabilities**				
1. Trade payables		117 723 055		151 401
2. Notes payable		119 423 707		118 437
3. Due to banks		284 739 181		369 611
4. Payments received on account		7 102 450		7 301
5. Due to affiliated companies		4 183		—
6. Other liabilities		138 272 754		155 959
			667 265 330	802 709
IX. **Retained Income**			15 425 000	7 401
Contingent liabilities on notes	DM 170 702 172			
Guarantees	DM 2 261 344			
Warranties	DM 11 209 580			
			2 024 469 673	1 990 083

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1980

	1980 DM	1980 DM	1979 DM 1000
1. **Sales**	3 159 673 443		2 623 369
2. Change in inventories of products	+ 69 693 319		– 17 760
		3 229 366 762	2 605 609
3. Overheads capitalized on construction of fixed assets		30 145 605	26 075
4. **Gross Revenues**		3 259 512 367	2 631 684
5. Raw materials and consumables		1 373 177 623	1 125 497
6. **Gross Margin**		1 886 334 744	1 506 187
7. Investment income	2 142 617		1 427
8. Income from long-term loans	976 169		349
9. Interest and similar income	7 810 364		3 731
10. Income from disposal of fixed assets	5 393 889		14 070
11. Income from release of accruals	7 076 576		6 966
12. Income from release of untaxed reserves	547 586		3 633
13. Other income	46 523 308		43 424
thereof extraordinary DM 16 760 044		70 470 509	73 600
		1 956 805 253	1 579 787
14. Wages and salaries	1 045 728 158		868 692
15. Social security contributions	193 293 959		155 126
16. Pensions and employees'welfare	37 056 966		22 829
17. Depreciation of property, plant, equipment and intangible assets	115 418 094		96 019
18. Depreciation of investments	3 871 045		5 384
19. Depreciation of current assets (excluding inventories)	6 328 929		10 228
20. Losses from disposal of fixed assets	2 359 534		1 325
21. Interest and similiar expenses	114 882 965		79 694
22. Taxes			
a) on income profit and net worth DM 58 439 278			
b) Other DM 3 908 828			
	62 348 106		43 619
23. Expenses from profit and loss pooling agreements	1 260		19
24. Additions to untaxed reserves	11 540 042		950
25. Other expenses	337 091 315		272 820
		1 929 920 373	1 556 705
26. **Net Income**		26 884 880	23 082
carry forward:		26 884 880	23 082

	1980 DM	1980 DM	1979 DM 1000
carried forward:		26 884 880	23 082
27. Profit/Loss brought forward	+ 7 400 534		
Decrease according to Shareholders' meeting of 16th July, 1980	− 1 361 683		
Other changes	+ 483 909		
		+ 6 522 760	− 9 856
28. Additions to reserves		16 688 198	5 465
29. Decrease in difference arising from consolidation		—	34
30. Addition to difference arising from consolidation		1 198 486	368
31. Income attributable to Minority Interest		98 191	155
32. Losses attributable to Minority Interest		2 235	129
33. **Retained Income**		15 425 000	7 401

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, 16th April, 1981

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