# Annual Report
# 1981

Continental

# Continental

## Continental Gummi-Werke AG 1976–1981

| | | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | | |
| Fixed assets | DM million | 504.1 | 513.2 | 558.1 | 601.9 | 670.9 | 704.6 |
| Current assets | DM million | 511.9 | 534.8 | 533.3 | 554.4 | 539.6 | 530.3 |
| Balance sheet total | DM million | 1016.0 | 1048.0 | 1091.4 | 1156.3 | 1210.5 | 1234.9 |
| Equity | DM million | 356.8 | 373.9 | 377.5 | 392.9 | 399.1 | 406.2 |
| Long-term debt | DM million | 468.2 | 431.4 | 446.5 | 474.9 | 469.0 | 448.8 |
| Total investments | DM million | 60.6 | 65.5 | 106.1 | 123.9 | 142.7 | 108.8 |
| Equity ratio | % | 35.1 | 35.7 | 34.6 | 34.0 | 33.0 | 32.9 |
| Equity and long-term debt to fixed assets and inventories | % | 107.9 | 102.4 | 100.6 | 99.1 | 89.6 | 90.5 |
| **Profit and Loss statement** | | | | | | | |
| Sales | DM million | 1439.0 | 1518.9 | 1555.4 | 1692.6 | 1817.2 | 1823.9 |
| Export sales ratio | % | 25.1 | 25.2 | 25.4 | 26.3 | 28.5 | 29.3 |
| Material costs to gross revenues | % | 43.6 | 43.8 | 44.5 | 44.1 | 43.3 | 45.0 |
| Personnel costs to gross revenues | % | 42.3 | 41.7 | 43.4 | 41.6 | 40.6 | 40.5 |
| Depreciation | DM million | 65.8 | 53.8 | 58.1 | 70.8 | 68.8 | 69.5 |
| Net income | DM million | + 8.0 | + 20.2 | + 3.8 | + 10.9 | + 13.5 | + 0.6 |
| Dividends paid | DM million | – | – | – | – | 13.5 | – |
| **Employees** | | | | | | | |
| (annual average) | thousand | 18.7 | 18.1 | 18.1 | 18.1 | 18.3 | 17.4 |

## Continental Group 1979–1981 *)

| | | 1979 | 1980 | 1981 |
|---|---|---|---|---|
| **Balance sheet** | | | | |
| Fixed assets | DM million | 789.4 | 809.3 | 827.2 |
| Current assets | DM million | 1200.7 | 1215.2 | 1145.3 |
| Balance sheet total | DM million | 1990.1 | 2024.5 | 1972.5 |
| Equity | DM million | 369.9 | 418.6 | 401.2 |
| Long-term debt | DM million | 630.3 | 735.4 | 713.4 |
| Total investments | DM million | 113.4 | 150.6 | 159.7 |
| Equity ratio | % | 20.6 | 20.8 | 20.3 |
| Equity and long-term debt to fixed assets and inventories | % | 73.6 | 81.8 | 83.6 |
| **Profit and Loss statement** | | | | |
| Sales | DM million | 2623.4 | 3159.7 | 3229.0 |
| Export sales ratio | % | 34.5 | 37.0 | 38.0 |
| Material costs to gross revenues | % | 42.8 | 41.4 | 41.5 |
| Personnel costs to gross revenues | % | 39.7 | 39.2 | 39.6 |
| Depreciation | DM million | 101.4 | 119.3 | 120.3 |
| Net income | DM million | + 23.1 | + 26.9 | – 17.5 |
| Dividends paid | DM million | – | – | – |
| **Employees** | | | | |
| (annual average) | thousand | 31.1 | 31.3 | 29.6 |

*) The worldwide annual report for the Continental Group was published for the first time in 1979.

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

The cover is made of the book binding material Durabel 306/001, paper laminated, a product of our affiliated company, Vereinigte Göppinger-Bamberger Kaliko GmbH.

# Report on the 110th Business Year 1981

Table of Contents

# Members of the Supervisory Board

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

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

Rudolf Alt*)
Works Council Chairman, Hanover

Siegfried Brauns*)
Works Council Member, Stöcken Plant

Manfred Emcke
Management Consultant

Albert Englebert
Président du Conseil Pneu Uniroyal Englebert

Karl-Wilhelm Graf Finck von Finckenstein
Personally Liable Partner,
Trinkaus & Burkhardt (up to 3. 7. 1981)

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*)
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

Wolfgang Seelig
Member of the Executive Board,
Siemens AG
(as from 3. 7. 1981)

Heinz Tristram*)
Works Council Member, Vahrenwald Plant

Hermann Westerhaus*)
Works Council Chairman,
Korbach Plant

*) Employee representative

# Report of the Supervisory Board

We have 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 oral and written reports, and we have taken counsel with the Executive Board.

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 consonance 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.

These consultations focused especially 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, had to be submitted to us for approval.

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

Dr. Wenderoth left the company on 31. 5. 1981. He had been a member of the Executive Board for seven years and during this time was responsible for Production and later for Manufacturing and Engineering, Technical Products. Our sincere thanks go to Dr. Wenderoth for his valuable contributions to the company.

Dr. Carl H. Hahn left the Executive Board of Continental Gummi-Werke AG on 31. 12. 1981 to take up the position of chairman of the Executive Board at Volkswagenwerk AG with effect from 1. 1. 1982. Dr. Hahn had held the chair since joining Continental's Executive Board on 1. 4. 1973. In a period which was extremely difficult for the rubber industry, he shaped the corporate policy for the Group's positive development and put the company on a new course. This was vital to the company's continued existence and to its current position in a market which is characterized by fierce international competition. The Supervisory Board extends its sincere thanks and acknowledgement to Dr. Hahn for his achievements.

At the Supervisory Board meeting on 14. 12. 1981, Executive Board member Herr Helmut Werner was appointed to chair the Executive Board with effect from 1. 1. 1982.

On 3. 7. 1981 Graf Finck von Finckenstein stepped down from the Supervisory Board, of which he had been a member since 1979. We would like to convey our gratitude to him for his reliable cooperation. The Annual General Meeting elected Herr Wolfgang Seelig, member of the Executive Board of Siemens AG, to replace him on the Supervisory Board.

Hanover, 6th May, 1982
The Supervisory Board

Alfred Herrhausen

Alfred Herrhausen, Chairman

# Members of the Executive Board

Helmut Werner
Chairman
(as from 1. 1. 1982)
Manufacturing and Engineering, Tyres

Carl H. Hahn
Chairman
(up to 31. 12. 1981)

Peter Haverbeck
Marketing Technical Products

Hans Kauth
Director of Personnel

Julius Peter
Manufacturing and Engineering, Technical Products

Wilhelm Schäfer
Marketing Tyres

Horst W. Urban
Finance and Subsidiaries

Hans Georg Wenderoth
Manufacturing and Engineering, Technical Products
(up to 31. 5. 1981)

# Report of the Executive Board

General Review

## Serious slowdown in the rubber industry

If 1981 qualifies as the year of "disappointed hopes" in Germany's more recent economic development, then this is particularly true of the rubber industry. Contrary to trend expectations, the economy did not show signs of recovery in the 2nd half of the year under review. Continuing high interest and inflation rates together with rising unemployment and budgetary deficits characterized the economic situation in all major Western industrialized countries.

The European automobile industry, our key customer segment, reported a decline in production over 1980 of 5% for passenger cars and 16% for commercial vehicles. Japan by contrast was able to almost maintain its already very high level of car production and achieved a further 5% increase in the production of commercial vehicles.

Other important customer segments, such as, e. g., the building industry and mechanical engineering, were also affected by the economic slowdown. Drastic increases in the cost of raw materials and energy plus changes in the consumer behaviour of private households compounded to exacerbate the unstable economic situation. The inevitable outcome was lower capacity utilization and job losses. In the period between 1977 and 1981, the European rubber industry closed production capacities almost equivalent in size to the overall capacity of our Group. Nevertheless, the problem of excess capacities in our industry remains. Virtually every rationalization programme which is needed to absorb at least some of the cost increases will add to capacity. This process has by no means come to an end and will continue to result in the closure of further production facilities in the tyre industry.

Economic development in Belgium and Great Britain faced our production and sales companies in these two countries with special challenges. In France, new sociopolitical developments have made for uncertainties which in turn brought about problems for the economy.

The continued positive development in the export business in the year under review was not sufficient to offset the decline in demand on the domestic market. Although there are increased signs at the beginning of 1982 that the economy has bottomed out, there is little evidence of upward tendencies, and these would not be able to take effect – if at all – until late 1982/early 1983.

## Continental has made provisions

Despite the unsatisfactory economic climate, our company has held its own among its European competitors.

Overall, we are able to report a consolidation in our market position. Timely measures were taken to provide for the future. Specifically, these were as follows:

1. Our major objectives during the year under review were the improvement of productivity and enhancement of our relative cost position. In particular, this involved adjusting staffing levels to lower capacity utilization rates by not replacing leavers, enabling employees to retire early, and by introducing short-time work, which at the parent company averaged 3.7% in the year under review.
2. We continued to capitalize on all possible synergisms by further integrating the two parts of the Group, Continental and Uniroyal Englebert.
3. Continuing our scheduled capital investment in new products, new markets and improved manufacturing processes reinforced our position as technological leader in the rubber processing industry.
4. Further internationalization of our Group to strengthen market presence was supported by a policy of cooperation which extended beyond Europe. In the year under review, focus was in the Far East and South East Asia.

## Quality through modern technology

Our strategy of uncompromising quality has been continued. Continental's quality pledge, which says that every consumer gets the same quality as the automobile industry, is meeting with a good reception. Much has been achieved here through the increased quality awareness of all personnel. The European automotive industry regards us as one of its major R & D partners, both for tyres and technical products.

Today, our range of passenger car tyres has the highest number of technical approvals in the German original equipment business. In France and Great Britain too, we have gained ground in the original equipment sector.

We take it as a mark of distinction that three out of four experimental vehicles at the International

Automobile Exhibition (IAA) in Frankfurt were equipped with tyres manufactured by our Group. And in the so-called UNI-CAR, the experimental passenger car of the joint universities study group, we were represented with a completely new gas-spring-absorber element for the chassis section.

Our presence at the IAA also served to demonstrate our close partnership with the international automobile industry. The technical press gave wide coverage to our truck tyre prototype designed for optimal energy consumption in which oil-based carbon black – large quantities of which are required for tyre production – is replaced by silicic acid.

## Internationally active

The efforts that we have undertaken for many years now to internationalize our Group were intensified with particular emphasis on strengthening our development and production base in Europe. The presence of Continental and Uniroyal Englebert on the European markets has top priority. We are continuing with our policy of two independent autonomous brands.

In the USA our marketing organization was expanded primarily for technical products. Apart from this, the Far East Division, a Continental sales organization for tyres and technical products with headquarters in Hong Kong and a branch office in Bangkok, went into operation.

We are also ready to cooperate with non-European partners in order to gain access to markets which, because of cost or other entry barriers, are otherwise closed to us.

Thus, an agreement was concluded with the Japanese tyre producer Toyo Rubber Ltd., Osaka in the year under review for the production of Continental tyres to our specifications in Japan. This agreement gives us the opportunity to supply to the Japanese original equipment sector and to establish our presence in the Far Eastern and South East Asian markets, which – due to our domestic cost situation – we were unable to enter from our home base. We expect this to have positive implications for the employment situation in our German plants because, by fitting Japanese cars exported to Europe with Continental tyres, replacement demand will be boosted in Europe.

## Profit squeeze in all divisions

The above pressures on the structural and economic conditions in our major markets, which sharpened drastically in the second half of 1981, resulted in a profit squeeze in all divisions – albeit of differing severity – which we had not expected on this scale. With the sales volume declining, it was not possible to pass on the inevitable increases in energy, material, and personnel costs to the market in full.

Although the Continental Tyre Division reported a profit which was lower than that of the previous year, it was satisfactory when we consider the prevailing conditions. Sharper competition, triggered by worldwide excess capacities and waning demand, led to unusually fierce price wars on international markets. Nevertheless, we were able to hold our market position relative to competitors and to improve it in some areas. In terms of volume, however, we were not able to offset the slowdown on the European market by increasing exports to non-European countries.

The Technical Products Division achieved a slight increase both in value and volume terms, but here especially, the cost increases could not be passed on altogether in prices. Despite intensive marketing efforts and further rationalization, the result was again negative.

The Uniroyal Englebert Group likewise recorded a loss whereas it had been profitable in the previous year. Particular difficulties were encountered on the British market due to the strength of the pound sterling and the ensuing export problems. In France, sales suffered from the downward trend in the country's automobile industry. In Belgium too, we had serious structural problems to cope with. Although the restructuring measures that had been initiated in previous years are beginning to show results, they have not yet eased the pressure on profits.

Subsidiaries and affiliated companies again achieved positive results, although here too a deterioration was reported. However, given the prevailing conditions, the profit situation of these companies can be described as satisfactory on the whole. Some of them were able to further reinforce their position on their respective markets.

## No dividend possible in 1981

Whereas the parent company achieved a relatively pleasing result in the first half of 1981, the second half of the year brought a drastic decline in profits due to an unexpectedly severe slump in demand and increased cost pressures. The profit of the first six months was cancelled out entirely.

After the allocation of DM 11.7 million to free reserves in accordance with § 3 of the Foreign Investment Law (Ausl InvG) profit before tax in the parent company amounted to DM 5.1 million. After making allowance for earnings tax of DM 4.5 million, annual net income was DM 0.6 million. Taking into account the profit brought forward of DM 3.0 million, retained income totalled DM 3.6 million.

The Administration's proposal to the Annual General Meeting is to carry forward the retained income plus the amount resulting from the reduction in corporation tax – a total of DM 5.6 million – to next year.

The Group's annual net income before allocation to reserves, which is comparable to the previous year's, dropped from DM 34.4 million to DM 0.7 million. After allowing for the increase of DM 18.2 million in the tax-free reserves of two companies in accordance with §3 of the Foreign Investment Law (Ausl InvG) for losses of foreign subsidiaries, an annual deficit of DM 17.5 million was reported for the Group. Because both the increase of DM 18.2 million in reserves and the relevant foreign losses are shown as expenses on the consolidated profit and loss account, the income statement is burdened twice over. Reserves were formed to take advantage of the tax benefits and also to provide for any possible write-down on the book value of the foreign subsidiaries concerned.

## Consolidated sales only slightly improved

Following the decline in demand, consolidated and parent company sales were up only slightly in 1981. The table below indicates how sales developed on Group and parent company level:

| | 1981 DM million | 1980 DM million | Change in % |
|---|---|---|---|
| Group | 3,229.0 | 3,159.7 | + 2.2 |
| Parent company | 1,823.9 | 1,817.2 | + 0.4 |

70% of Group sales were generated by tyres and 30% by technical products and other products and services. In the case of parent company sales, tyres and technical products accounted for 61% and 39% respectively.

On 31st December 1981, the workforce in the Group totalled 28,640. This is a decrease of 6.8% or 2,087 employees over the previous year.

Additions to fixed assets in the Group totalled DM 158,4 million (DM 149.2 million in the previous year). As in the past, capital investment programmes focused on further quality improvement, rationalization, and productivity enhancement as well as some capacity expansion.

Despite these extensive capital investments and an inflation-related increase in the value of individual items of current assets, the balance sheet total (Group), after eliminating the Group loss, was 2.6% lower.

## Outlook

The company maintained its position in 1981. Despite the problems outlined above, which resulted in a substantial drop in profits, we are altogether in a good strategic position for the future.

We are consistently pursuing our corporate policy and, apart from directing intensive efforts to our domestic markets, are seeking particularly to broaden our customer base abroad. One of our primary tasks as we see it is to safeguard our international competitiveness through continued quality improvements and further rationalization. As long as there continues to be a distinct imbalance between supply and demand, the profitability problems cannot be satisfactorily resolved in the short run: Price increases are needed to offset rising material and production costs. However, these can only partly be achieved in the market because of the competitive situation.

At present, a fast and fundamental recovery does not seem likely. Steps have been taken, however, to ensure that our company will remain competitive even in the event of a weak and delayed recovery.

# Continental Tyre Division

Although the Continental Tyre Division failed to equal the previous year's performance in all major market segments due to the unfavourable economic development, results were nevertheless again positive. Sharper competition in the wake of excess capacities worldwide led to fierce price wars on international markets. Increases in personnel and raw material costs could therefore only be partially recovered. Timely adjustment of the staffing level to the decline in sales and intensified rationalization efforts were the measures taken to support profits. Overall, the Division asserted its market position and in some areas reported an improvement.

Sales totalled DM 1.2 thousand million – DM 1.08 thousand million of which were generated by the parent company. This is a decrease of 2% over the previous year. Some price increases and exchange rate movements in our favour were not sufficient to fully offset the decline in sales. The export ratio rose to 34% in the period under review.

Even under the very unfavourable operating conditions of 1981, our strategy has given us a sound base and will therefore be continued:

- High quality standard of products
- Close cooperation with the European automotive industry and tyre dealers
- Intensification of the commercial vehicle tyre business
- Increased capital investment in foreign markets to gradually reduce dependence on the German market.

Apart from the activities of the parent company, the Continental Tyre Division also comprises production and sales companies in France, Great Britain, Italy, Austria, Sweden, Switzerland, and the USA.

## Original equipment hit by economic slowdown

In the original equipment business, consumer restraint negatively affected vehicle production and thus tyre demand. The most severely hit sectors were trucks and passenger cars and agricultural equipment. Abroad, we were able to win new customers and to strengthen existing ties. For the first time ever, we supplied passenger car tyres to the Japanese original equipment sector. After this first – albeit modest – success we are endeavouring to further increase deliveries to this market segment.

## Replacement business had its ups and downs

The demand for tyres on West Europe's replacement markets did not match up to the previous year's level. This was due primarily to changes in consumer behaviour and to the economic slowdown in the building industry and the haulage business. Also, as interest rates continued high, dealers and institutional customers reduced their stock levels. However, market-orientated products and increasing consumer acceptance enabled us to improve our position. As in the past four years, development was again pleasing in the winter tyre business, where we have traditionally held a substantial share of the market.

In the USA we reinforced our lead in the "prestige" motorcycle class. Towards the end of the year, intensive efforts were made to increase sales of truck tyres in this high-volume market.

## Export efforts in the Near East

On the remaining foreign markets – mainly outside West Europe – our objective was to contain financial risk through careful customer selection, in view of increasing political and economic uncertainties. A further obstacle was the increased shortage of hard currency in countries with centrally planned economies.

In the year under review, we concentrated on the rapidly growing markets of the Near East. We established a sales base in Amman, Jordan to generate and counsel customers. Our newly developed special all-steel tyres are fully in line with the demands on heavy trucks in this region. We started marketing this new product towards the end of 1981.

## R & D for first-class quality

The quality and technical excellence of our tyres are rated very highly on the international level. Intensive product development and ongoing optimization in close cooperation with vehicle manufacturers enable us to maintain this high standard. The concept of the space-saving, low-weight spare tyre has already been accepted by several European vehicle makers. We have done much to establish this trend and have a disproportionately high share of the market segment.

In collaboration with university institutions, the basic research programme to reduce tyre/road noise levels was continued. Lower noise levels combined with quieter engines increase driving comfort and make life easier both for the motorist and for people living close to busy main roads.

The raw material and energy shortage as well as pollution control demands put us under obligation to investigate all opportunities for optimizing energy consumption, in particular, ways of reducing rolling resistance.

Given the substantial increases in energy and transportation costs in recent years, the retreadability of tyres – especially truck tyres – is becoming increasingly significant. Tyres that are worn and thus unserviceable for the transportation of goods and passengers still have about 85% of the material weight of a new tyre. If the tyre body is sound, then it can be retreaded a first and maybe even a second time. And finally, the considerable improvement in quality and the major advances in retreading technology increase the return rate of worn tyres and thus help our customers to reduce their costs.

## New motorcycle tyres: The SuperTwins

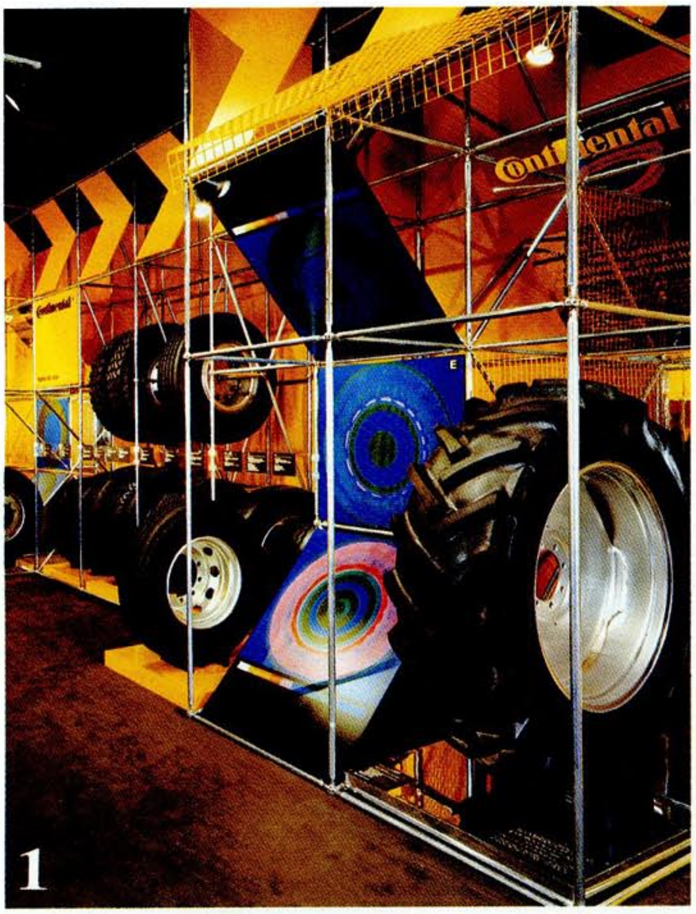
Our range of motorcycle tyres, with which we are strongly positioned both in the European markets and in the USA, saw an important addition. The successful twin-tyre concept was expanded by the so-called SuperTwin. It was launched on four national markets and was given a very positive rating by the technical press in Holland, Switzerland, Austria, and Germany. With efficient power transmission, they give first and foremost more safety through better traction in aquaplaning and greater riding stability. This applies mainly for high-power motorcycles for which the SuperTwin was specially developed. Further additions to the product range were the new Enduro tyres for cross-country and road use, as well as small motorcycle tyres. We are optimistic that these new products will help us to further expand our position in our key markets.

## Market position improved

We are pleased to report that all in all we rank second on the European tyre market. Worldwide we improved our ranking among the leading tyre producers from number 9 to number 7 in the year under review.

Given the current situation, the year 1982 will continue to be characterized by major uncertainties with regard to economic development. Despite a certain degree of skepticism, we expect to see some upward tendencies in the second half of 1982.

# Continental Tyre Division





As a supplier of high-quality, high-technology tyres from the smallest sizes to aircraft tyres for the Jumbo, Continental is one of Europe's market leaders.

**1** Under the motto "Meet Conti", the company presented its entire range of tyres and technical products as a sign of its close partnership with the international automotive industry and diverse customer groupings.

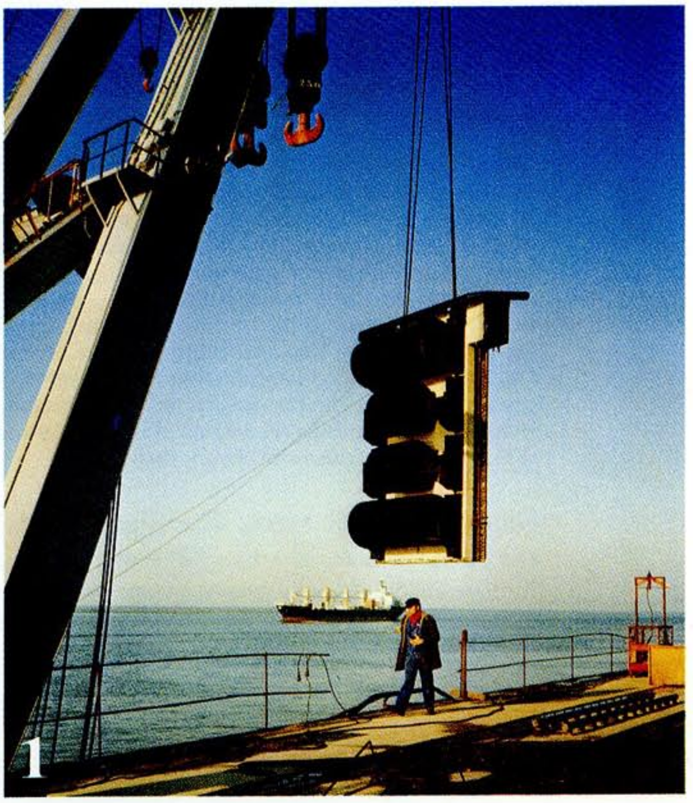
**2** One of the most recent developments in the sector for high-speed motorcycle tyres are Continental's SuperTwins, which give more safety and comfort for high-power machines at speeds of over 180 km/h.

# Technical Products Division

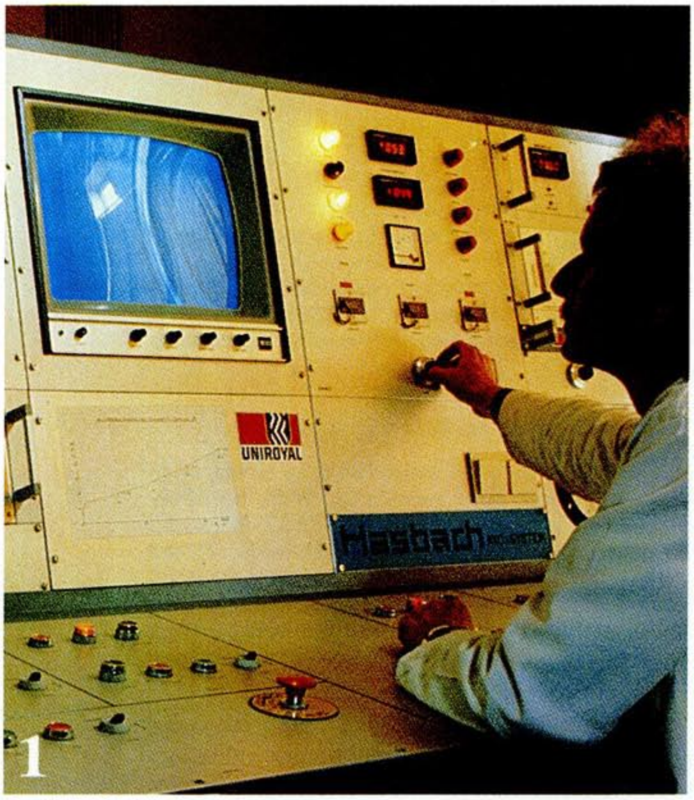
The Technical Products Division manufactures more than 10,000 products, e. g., conveyor belts, transmission elements, industrial hose, moulded products, extruded sections, weatherseals, and many more.

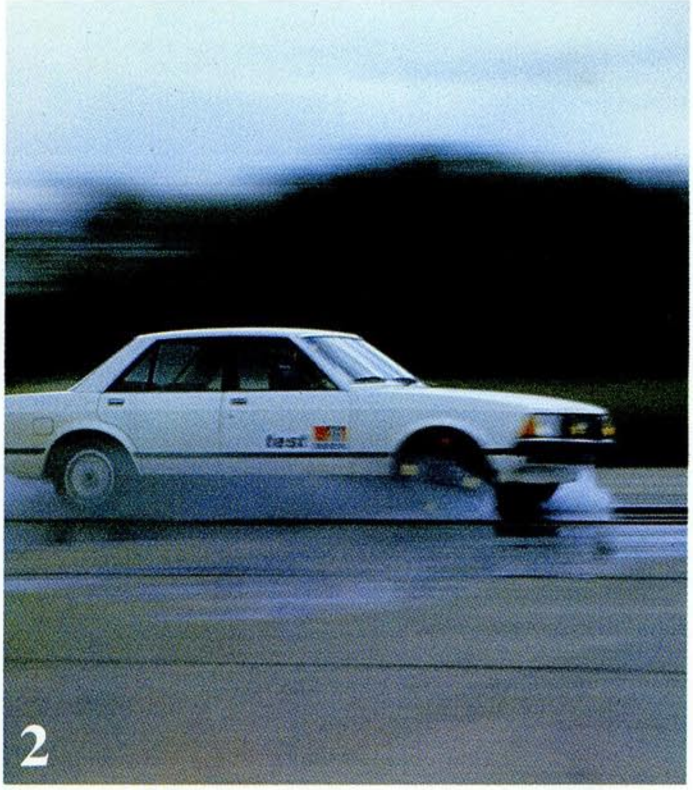
**1** Continental rubber fenders being installed at Bremerhaven's container terminal. The fenders prevent damage both to quay and ship.

**2** Continental holds the lead in the conveyor belting business with a range of products which give the customer a purpose-designed solution to his problem. Extreme widths of 3.20 meters and lengths of up to 100 km, e. g., in the phosphate mines of the Sahara, prove the company's versatility.




# Uniroyal Englebert



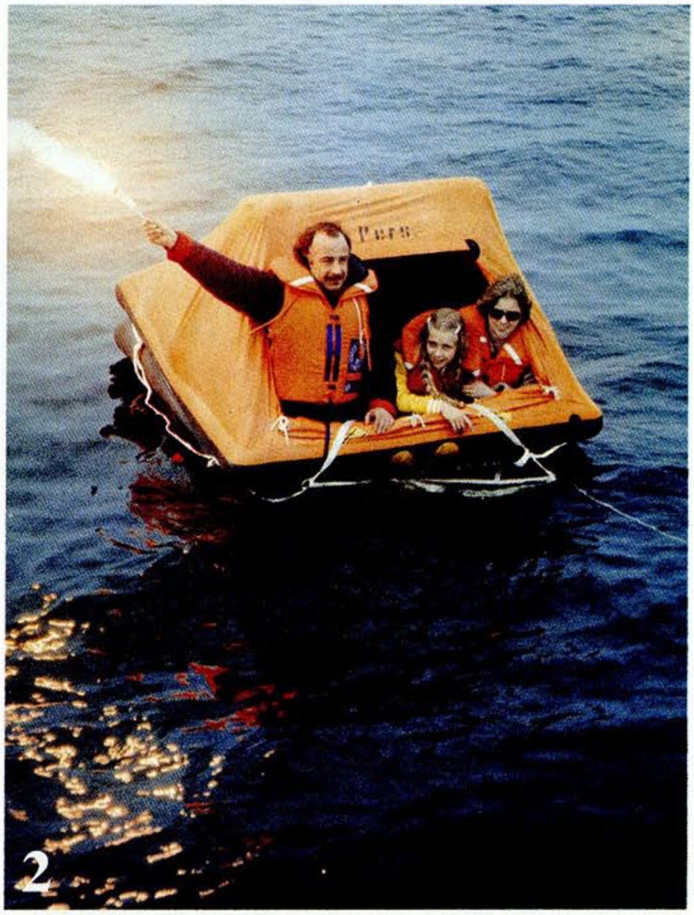



By consistently pursuing the two-brand strategy within the Continental Group, Uniroyal Englebert is playing a valuable part in strengthening the company's European base.

**1** One of the most advanced testing techniques is holography, which involves among other things checking the tyre for trapped air. It thus makes a significant contribution towards increasing the motorist's safety and extending the service life of our tyres.

**2** Long before the tyre comes onto the road, it undergoes rigorous tests under extreme conditions on the company's testing circuits such as this one at Rocroi in France.

# Subsidiaries and Affiliates

Continental has interests in a number of companies worldwide which manufacture innovative products for a wide range of industries.

**1** In Spain too Continental maintains a production plant for manufacturing industrial tyres and retreading all kinds of tyres

**2** Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG. One of many life rafts, specially designed for ocean-going yachts. It requires a minimum of space on board and is ready for use in seconds.

# Technical Products Division

Performance in the Technical Products Division in 1981 reflected the general economic development. Hopes in the early part of the year that the economy would improve were not fulfilled. Continuing slack demand in our major customer segments, the price pressure resulting from excess capacities, and the increased energy and raw material costs limited our market opportunities and thus our chances of profit improvement. We responded to this unsatisfactory development by reducing fixed costs, restructuring and optimizing production processes, and, in general, by tapping rationalization potential.

Sales of technical products reached DM 703 million – of which DM 685 million were generated by the parent company. This is 3.9% higher than in the previous year. By maintaining our efforts to supply domestic and foreign car makers, our major customer segment, we achieved market share gains in some product groups. The result was, however, again negative.

By carrying out a number of major international projects in the conveyor belting business and strengthening our sales companies, we increased our export ratio in the Division from 19 to 21%. For the future we are confident that our special efforts in the USA, South Africa, and the Far East will enable us to make better use of our market opportunities.

## Conveyor belting on the rise

In the wake of major oil price increases during recent years, the coal-mining industry has experienced an upswing worldwide. Order volumes for our business are therefore expected to increase over the next few years. By introducing new types of conveyor belting to our product range, we were able to strengthen our leading position.

We supplied a total of 9,200 meters of steel-cord conveyor belting to Europe's newest mining and coal-fired power plant. A further two major orders from the USSR and Mexico helped to secure employment in our conveyor belting production plant in Northeim.

## Product improvements in the coated fabrics business

New machines for the production of coated fabrics helped us to meet our customers' increasingly sophisticated demands, especially for diaphragms. Thus, we were the first West German company to receive official approval from the Technischer Überwachungsverein (Technical Control Board) in Bavaria for rubberized materials used in the manufacture of diaphragms for pressure equalization purposes. These diaphragms find application in the expansion tanks of pressure-balancing chambers for heating and hot-water systems, where they serve to adjust pressure fluctuations in pipe systems.

The successful introduction of the improved compressible printing blanket "CONTI-AIR SAPHIR GL" on major foreign markets resulted in pleasing growth rates.

## Wide range of industrial hose

Our extensive range of industrial hose covers wide areas of modern hose technology. With the newly developed EHP hoses "4 SP-S" and "2 ST-K", which are lighter weight and thinner walled, we reinforced our position as leading producer of hydraulic hose. Market demands for more flexible and resilient hose are fully met. The new flame-resistant hose "2 ST-K Conti-Kompakt" is used mainly in the mining industry.

Our newly developed polyamide hydraulic minihose, with a diameter of between 1.8 and 4 mm proved effective for use in multiple hose assemblies to transmit control impulses to hydraulic switching valves and cylinders. By considerably improving the design of our concrete pump hose, we were able to increase the service life of this product by 50% despite the most demanding operating conditions.

With international demand on the decline and unusally severe price competition, we were unable to increase sales in this business.

## No consistent development with moulded parts and extrusions

The market sees us as a major and experienced supplier of elastomer extrusions, moulded rubber and plastic parts, and elastic mounts.

Together with our customers, we develop purpose-designed solutions to the problems in question. These products are required wherever parts have to be flexibly sealed, where tolerances have to be accommodated, and where machines – from the heaviest plant to the most sensitive precision equipment – have to be cushioned with vibrations attenuated and noise muffled. Apart from simple elastomer components, combinations of fabric, metal, and plastics are produced for application, e. g., in general mechanical engineering, building, automotive and domestic appliances.

Due to the sharp competition on the market for moulded parts and extrusions, sales in the various sectors developed very differently. The strongest impulses came from the automotive sector and its supplier industries. Because we supply substantial volumes to this market segment, we were able to increase our sales, albeit at prices which were not satisfactory.

## New introductions to range of transmission elements

The launching of our advanced products FO® V-belts, Synchrobelt® HTD timing belts, and CONTI-V belts was successfully followed up. We expect demand to continue increasing during the next few years for our latest product, the multi-rib belt "CONTI-V". This belt is the ideal combination of V and flat belt.

Development in the transmission elements business in the year under review was affected by excess capacities in conventional covered V-belts and the worldwide decline in demand in response to the economic slowdown. Accordingly, sales were slightly lower than in the previous year.

## Market success for air springs and compensators

Volume sales of air springs and compensators developed satisfactorily. Whilst the difficult sales situation for trucks and buses on the West European markets affected our sales of air springs to the original equipment sector, the replacement business continued to develop positively. International interest in our new air springs for passenger cars increased. In collaboration with leading international manufacturers, pilot vehicles were equipped with our air springs. We see this as the recognition of our technological leadership in this sector, which we have held for many years. Apart from improved driving comfort, air springs also guarantee that a constant vehicle height is maintained. The lower air resistance thus achieved makes for lower fuel consumption.

Despite the economic problems in the building sector and tank truck construction and the delay in the construction of new power plants, compensator sales were up on the previous year.

## Other products in a weak market

With other products such as foam, footwear materials, hard rubber, typewriter platen shells, and surgical rubber products, we did not achieve sales targets due to the difficult market situation. Stable order entries from the automotive sector did not compensate for the continued slump in demand from the furniture industry. The foam business was affected both by the high increase in raw material prices and by the price wars that resulted from excess capacities.

Weak demand throughout the market for footwear products, an unexpectedly serious decline in demand for typewriter platen shells from the office equipment industry, and cost cuts in the public health sector inevitably affected our sales opportunities.

Production capacities for hard-rubber battery containers were brought into line with the lower demand level.

The steady reduction in market volume due to longer product life is forcing us to strengthen our development activities. It is only by introducing new products and systems that volume losses can be offset.

The current imbalance between supply and demand does not permit us to introduce urgent price increases on the scale that is needed. A relaxation of this situation could occur in the wake of the economic upswing expected towards the end of the year.

# Uniroyal Englebert

The Uniroyal Englebert Group generated sales of DM 772.5 million in the year under review. This is virtually unchanged from the previous year. Sales performance was strongly affected by exchange rate fluctuations and inflation.

## Profit unsatisfactory

Uniroyal Englebert was also hit by the general market weakness. Although the 1980 sales volume was almost equalled for passenger car tyres and even considerably exceeded for light truck tyres, sales of truck tyres were down following the slump in demand on the European market. Whereas the production volume was relatively satisfactory, profit development was negative.

Efforts to improve productivity on the one hand and to further minimize costs on the other did not suffice to generate a positive result. The rather more favourable volume situation is reflected by the fact that we succeeded in limiting problems of personnel and capacity utilization.

## Measures to secure position

Despite the decline in profits in the year under review, capital investment at DM 41.6 million was unchanged from the previous year's level. Focus was on further improving quality and productivity. Towards this objective, the restructuring programme was continued in the Group according to plan. Further progress was made in the consolidation and integration of production facilities for truck tyres in the Belgian plant at Herstal. At present, a production facility with the most advanced machinery and equipment is under construction there.

By adjusting staffing levels and optimizing the production process, both productivity and sales per employee improved. At the end of the year under review, the total workforce was 7.8% below the 1980 figure. Sales per employee rose by 7.4%

While we were faced with special profitability problems on almost all West European markets, we were able to achieve a positive result on the German market. The already strong position of the Uniroyal brand here was reinforced by increasing market share in the original equipment sector.

In Great Britain, the market problems resulting both from the economic situation and the high value of the pound, which in turn hampered British exports, proved to be major obstacles. With strong pressure from imports, it was not possible to maintain the previous year's price level. In France, we were able to expand market shares in the original equipment sector, whereas performance in the replacement business clearly reflected the general economic slowdown. On the Benelux markets, we sustained a decline in profits as a result of the extremely hard price wars.

## New products

Although profits were down in 1981, Uniroyal Englebert took a further step forward. A restructuring programme was introduced which will enable the Group to operate more efficiently. New sophisticated products were launched and were immediately successful. They meet both the stringent demands of the automotive industry for lower weight and reduced rolling resistance and the wishes of the consumer in terms of safety and cost-effectiveness. With the newly launched tyres Rallye 280/70 and 340/70, Uniroyal has a full range of modern steel radial tyres and is thus well equipped in product terms for the future.

The Rallye MS Plus, which has been successful in Europe for many years, was again Germany's most sold winter tyre in the year under review.
Major sales generator will continue to be the successful Rallye 280, which has volume sales of 20 million and which enjoys an excellent reputation with the automotive industry especially. During the current year, a further wide-based tyre for high speeds is to be launched.

In 1982 we shall continue to take steps to safeguard the position of Uniroyal Englebert. The measures that have already been introduced in close cooperation with the parent company will continue to have a positive effect.

## Production companies of the Uniroyal Englebert Group

UNIROYAL ENGLEBERT REIFEN GMBH,
AACHEN, GERMANY
Employees: 1,966

PNEU UNIROYAL ENGLEBERT S. A.,
COMPIÈGNE, FRANCE
Employees: 1,702

PNEU UNIROYAL ENGLEBERT S. A.,
HERSTAL-LEZ-LIÈGE, BELGIUM
Employees: 1,292

UNIROYAL ENGLEBERT TYRES LTD.,
NEWBRIDGE, GREAT BRITAIN
Employees: 801

Business activity of these four companies: Production and marketing of passenger car, truck, industrial, and agricultural tyres.

UNIROYAL ENGLEBERT TEXTILCORD S. A.,
STEINFORT, LUXEMBOURG
Employees: 210

Business activity: Production and marketing of tyre cord fabrics

## Sales companies of the Uniroyal Englebert Group

UNIROYAL ENGLEBERT DAEK A/S,
COPENHAGEN, DENMARK

UNIROYAL ENGLEBERT BANDEN B. V.,
BOESINGHELIEDE, NETHERLANDS

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

Business activity of these three companies: Marketing of tyres. Employees: 49

UNIROYAL ENGLEBERT TYRE TRADING
GMBH, AACHEN, GERMANY

Business activity: Financing company of the Uniroyal Englebert Group

# Companies in the

**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 GmbH & Co. KG
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 Nachfolger 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
Cologne
DM 12,000,000
50%

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

KG Deutsche Gasrusswerke G.m.b.H. & Co.
Dortmund
DM 8,000,000
22.5%
2.5% Uniroyal Englebert Reifen

Drahtcord Saar Geschäftsführung 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
99.896%
●

- Pneu Uniroyal Englebert S.A.
  Compiègne/France
  FF 46,000,090
  16.908% Uniroyal Englebert SA Herstal
  83.029% 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
£ 10,000,000
50%
50% Uniroyal Englebert Reifen
●

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

# Continental Group

Continental France S.A.R.L.
Sarreguemines/France
FF 130,000,000
74.9992%
25% Export-AG
0.0008% Union-Mittelland ●

Labortex Ltda.
Santo André/São Paulo
Brazil
Cr$ 177,250,500
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 50,000
  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 Britian
£ 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. m.b.H.
    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

# Subsidiaries and Affiliates

(without the Uniroyal Englebert companies)

The decline in economic activity both at home and abroad also affected the development of the subsidiaries and affiliates. In Brazil and Spain especially, the serious economic problems are reflected in performance and have put a strain on operations there. However, most other companies inside and outside West Germany were again able to increase their sales and improve their market position. Taken as a whole, results of subsidiaries and affiliates can be described as satisfactory in the prevailing circumstances.

Group sales of the consolidated majority shareholdings were 5.7 % up on the previous year. At the same time, there was a drop of 291 in the number of employees, so that at the end of the year the workforce totalled 5,945. Capital spending amounted to DM 26.7 million, about the same level as in the previous year (DM 27.0 million) despite higher financing costs. Investment was 22.5 % higher than depreciation.

There was virtually no change from the previous year in the number of subsidiaries and affiliates nor in our holding in these companies. The only change was at Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, where a further payment was made in the framework of the authorized capital.

## Production and sales companies, Domestic

VERGÖLST GMBH, BAD NAUHEIM
Business activity: Sale of new tyres and car accessories, special services in the motor vehicle sector as well as production and marketing of retreaded tyres.
Employees: 1,724

Although 1981 was characterized by restrained buying activity on the part of both industrial and private consumers, domestic and foreign sales again improved. As in previous years, the company generated a satisfactory result.

The Vergölst trading chain is the second largest organization of its kind in Europe, with a wide range of new tyres, retreads, and car accessories. Activities are concentrated in Germany, but exports particularly within Europe are being reinforced. For this reason, we continue to see Vergölst as an important distribution channel for new tyres.

CLOUTH GUMMIWERKE AG, COLOGNE
Business activity: Production and marketing of conveyor belting, moulded rubber parts, rubberized fabrics, tank linings, and hose.
Employees: 1,506

Both the conveyor belting business and the growth-intensive military technology business have developed positively. Because the automotive industry is not one of its major customers, the company was not affected to any degree by the negative developments in this sector. Sales were 15 % up, and the company will increase its dividend from 12 to 16 % as a result of its improved profit performance.

GÖPPINGER KALIKO- UND KUNSTLEDER-WERKE GMBH, EISLINGEN
Business activity: Production and marketing of synthetic leather and sheeting
Employees: 880

With its product groups synthetic leather and sheeting Göppinger Kaliko, as a supplier to the automobile industry, is heavily dependent on activity levels in this sector. Despite a decline in automobile production in Europe, the company achieved its sales and volume targets and again increased its market shares. However, it was not always able to raise prices to compensate for the substantial increases in raw material costs. Also, advance financial commitments for a new product line affected profitability. Nevertheless, the good result only just fell short of last year's figure.

VEREINIGTE GÖPPINGER-BAMBERGER KALIKO GMBH, BAMBERG
WILH. LEO'S NACHF. GMBH, STUTTGART
Business activity: Production and marketing of book binding and Venetian blind materials as well as technical fabrics.
Employees in both companies: 175
The two subsidiaries of Göppinger Kaliko were faced with major economic difficulties in 1981. Bamberger Kaliko had to operate short-time work in some sectors; as a result, the sales target was not met. However, both companies generated a satisfactory profit.

DRAHTCORD SAAR GMBH & CO. KG, MERZIG/SAAR
Business activity: Production of wire and wire cord for the tyre industry.
Employees: 863

Capacity utilization continued to be very good. As a result of further productivity improvements, output was again increased. Intensive pursual of the rationalization programme led to cost and personnel reductions with the same product range. Accordingly, the favourable profit development of recent years was maintained.

TECHNO-CHEMIE KESSLER & CO. GMBH, FRANKFURT/MAIN
Business activity: Production and marketing of hose assemblies, couplings, and fittings
Employees: 444

Despite the difficult situation in its two major customer segments - the automobile and the building machine industry - the company was able to increase both volume and value sales and again to achieve a satisfactory result. The construction project in Karben (near Frankfurt), which was begun in the previous year, was completed and went on stream on schedule. Thus, one of the basic requirements for achieving rationalization and further growth has been fulfilled.

CONTINENTAL-ALSA SCHUHBEDARF GMBH, STEINAU-ÜRZELL
Business activity: Production and marketing of footwear materials and plastic products as well as shoes for leisure wear and sport.
Employees: 294

The company has developed almost to plan. Despite difficult market conditions and sharp competition, activity levels in 1981 were good. The programme to restructure and concentrate all sectors of the company in the Steinau-Ürzell plant, a process begun in the previous year, was almost completed. As a result, a larger percentage of its supply range is now manufactured by the company itself, and the share of bought-in products is accordingly less. Although total sales did not change substantially from last year, results were much improved. Nevertheless, a deficit was again sustained because costs could not always be passed on and because the above restructuring programme involved finanical commitments.

KG DEUTSCHE GASRUSSWERKE G.M.B.H. & CO., DORTMUND
Business activity: Production of furnace and carbon black for the rubber industry
Employees: 192

Competition on the carbon black market continued to be fierce in the year under review, and it was thus not possible to pass on the substantial oil price increases in full to the market. The need for stringent cost-reduction measures therefore continued to be as urgent as ever. Unfortunately, the cost savings which were achieved through technical improvements and further adjustments to the staffing level were offset by lower capacity utilization. The year closed with a balanced result.

DEUTSCHE SCHLAUCHBOOTFABRIK HANS SCHEIBERT GMBH & CO. KG, ESCHERSHAUSEN
Business activity: Production and marketing of rubber dinghies and inflatable life rafts as well as technical products made of rubberized fabric.
Employees: 180

The company was almost able to offset the unexpected falloff in sales, which resulted from government defence cuts, by stepping up its export activities. Nevertheless, some spells of short-time work were unavoidable. As a result of rationalization and cost reduction in all areas, however, profitability was distinctly improved and the result was good under the difficult circumstances.

KA-RI-FIX TRANSPORTBAND-TECHNIK GMBH, BERGHEIM
Business activity: Confectioning, repair, and marketing of conveyor belting and accessories
Employees: 112

The company reported pleasing growth rates and again achieved a positive result. In the year under review, the company moved from its plant in Bergheim to a new building in Kerpen.

## Production and sales companies Foreign

CONTINENTAL FRANCE S. A. R. L., SARREGUEMINES/FRANCE
Business activity: Production of tyres, marketing of tyres and technical products.
Employees: 1,034

The company again closed the year very successfully with a highly satisfactory result, part of which will be distributed to the parent company in the form of a dividend. This is attributable not only to good capacity utilization but also to further rationalization and a relatively high equity ratio – and thus correspondingly low interest expenses. Despite the economic climate, sales were again slightly up.

LABORTEX LTDA., SAO PAULO, BRAZIL
Business activity: Production and marketing of moulded rubber parts, extruded rubber sections, hose, and textile machinery accessories
Employees: 395

As a result of the serious economic crisis in Brazil and the enormous increase in financing costs, many of the industries we supply got into economic difficulties, and Labortex too suffered a substantial decline in volume sales. In these conditions, it was inevitable that our subsidiary should close with a loss. For 1982 we expect some growth and an improvement in results.

In recent years, the company has steadily decreased its participation in the Brazilian automotive industry and has thus reduced its exposure to economic fluctuations in this sector. In parallel, we are endeavouring to sell assets that are not absolutely essential to the company's operation and thus to reduce the high interest costs.

CONTINENTAL INDUSTRIAS DEL CAUCHO S. A., COSLADA/MADRID, SPAIN
Business activity: Production and marketing of retreaded tyres and industrial tyres as well as sale of new tyres.
Employees: 288

Due to the difficult economic situation in Spain, the company did not achieve its sales and profit targets for 1981. After a balanced result in the previous year, the company failed to break even in the year under review. Efforts are being made to adapt staffing levels to the lower volume of business. However, this is extremely difficult because Spanish labour legislation hardly permits such adjustments, and the relevant authorities do not accept urgently needed personnel reductions. At the same time, there is a scarcity of truck tyre carcasses for retreading so that it was not possible to exploit all business opportunities in this area.

## Sales companies

Continental Italia S. p. A., Milan/Italy

Continental Tyre and Rubber Comp. Ltd., Coulsdon/Great Britain

Continental Gummi AB, Solna/Sweden

Continental Caoutchouc (Suisse) S. A., Zurich/Switzerland

Continental Products Corporation, Lyndhurst/USA

Continental Gummi Gesellschaft, Vösendorf/Austria

Vergölst Ges. m.b.H., Vösendorf/Austria

Business activity of these seven companies: Marketing of tyres and technical products.
Employees: 419

All companies have further expanded their market position and, with pleasing sales gains, have made a major contribution to the parent company's improved export earnings. All sales companies generated an adequate profit.

The remaining financing, service, and holding companies (see chart on pages 16 and 17) again fulfilled their assigned tasks and achieved their defined goals in 1981 and made a positive contribution to Group results.

# Employees

The Group had a total workforce of 28,640 at the end of the year. This is 2,087 or 6.8% less than at the end of 1980.

The number of employees in the parent company was down from 17,965 on 31. 12. 1980 to 16,675 on 31. 12. 1981. This is a decrease of 1,290 or 7.2%. On the annual average, the workforce numbered 17,352 (18,281 in 1980). 17.2% of employees were foreign workers.

As in the automotive industry, the difficult employment situation throughout the year could not be counteracted entirely by short-time work. Therefore, employees who left the company were not replaced, and many employees who were 59 or older opted for an early retirement pension. Where gaps occurred as a result of this natural wastage, they were filled mainly in the framework of in-house relocation programmes. The substantial total of 976 such relocations reflects a high measure of mobility and commitment on the part of our employees.

## Personnel costs down

Personnel costs in the parent company were reduced by 2.5% from DM 762.1 million to DM 743.1 million. However, personnel costs per hour worked and per employee increased by 6.2% and 2.7% respectively over the corresponding figures for the previous year.

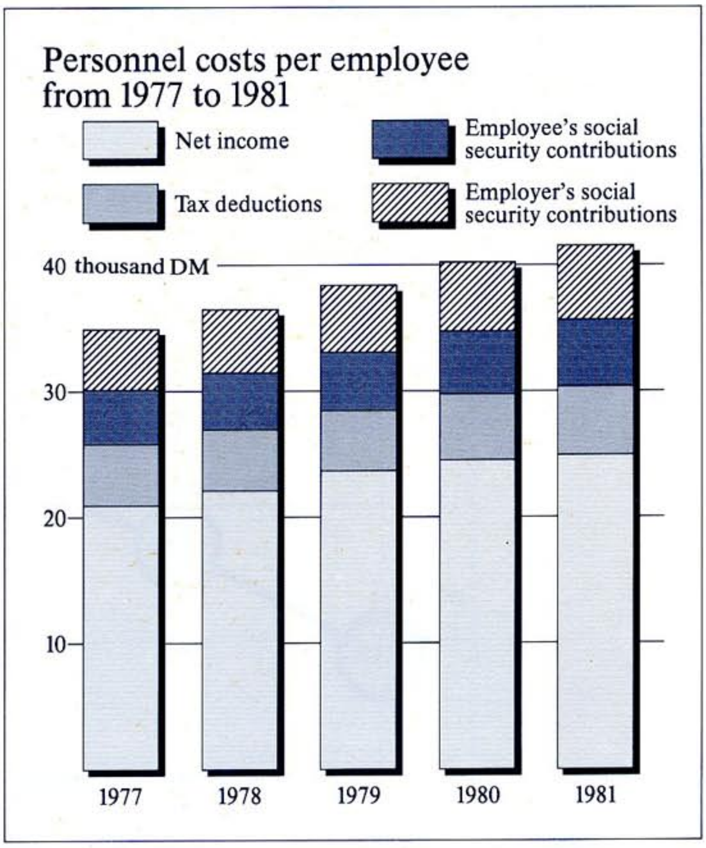
Wage and salary payments accounted for 74.5% of total personnel costs.

| | 1980 | 1981 | Change in % |
|---|---|---|---|
| Personnel costs in million DM | 762.1 | 743.1 | −2.5 |
| Personnel costs per employee in DM | 41,687 | 42,823 | +2.7 |
| Personnel costs per hour worked in DM | 26.68 | 28.33 | +6.2 |
| Hours worked per employee | 1,563 | 1,512 | −3.3 |
| Personnel costs in % of gross revenues | 40.6 | 40.5 | |

Personnel costs account for 40.5% of gross revenues and are thus virtually unchanged from the previous year.

## Absence rates down

The statistics on absence through illness showed a positive development. 7.5% of gross working hours were lost through illness by comparison with 9.1% in 1980. Absence through short-time work averaged 3.7% for the year. The sum of all absences was 27.8%, 0.8 percentage points higher than in the previous year. This increase is attributable primarily to the high ratio of short-time work and the entitlement to longer holidays.




## Industrial training: Key success factor

We shall only be successful on a market which is characterized by excess capacities if we manufacture products of superior quality. Therefore, apart from development programmes for our foremen, marketing personnel, and junior managers, we have given priority to training activities for employees in production-orientated vocations. The objective of these longer-term measures is to secure for the company a pool of skilled workers and foremen and to qualify employees to cope with increasing technological demands.

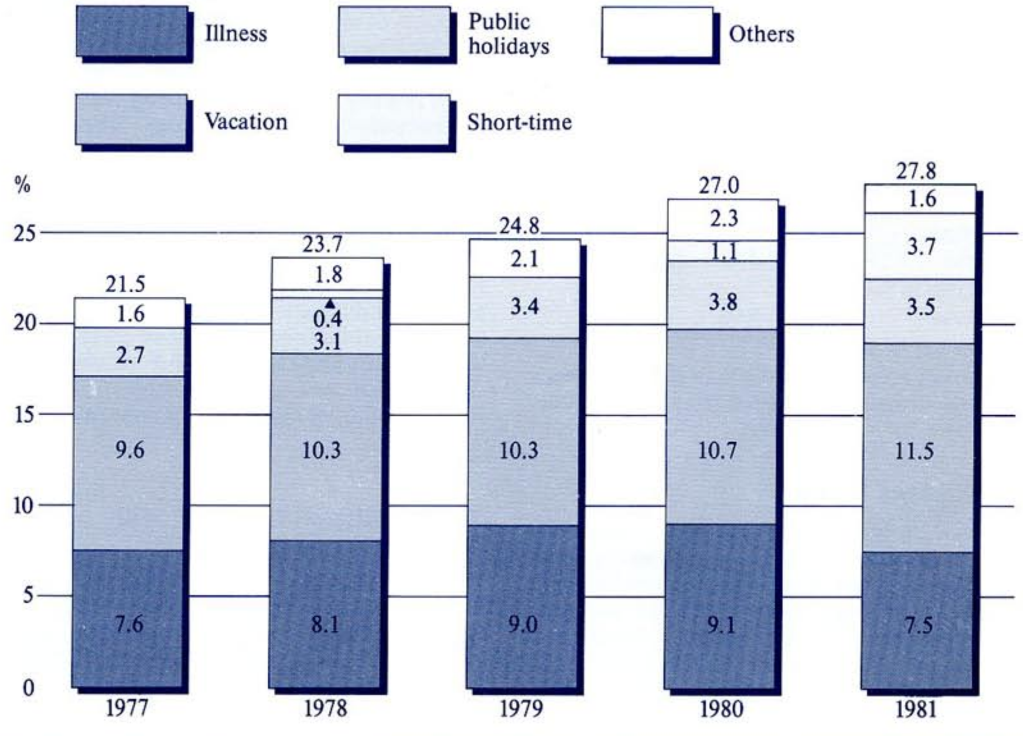
First positive results are beginning to show from projects in different areas of the organization which are aimed at building employees' identification with the company and increasing job satisfaction. In this context, we are giving special priority to the intensification of in-house communication.

## More industrial safety and improvement proposals

We are pleased to report that the number of industrial accidents per 1,000 blue-collar employees decreased from 79 in 1980 to 64 in the year under review. This positive development is attributable not least to greater safety awareness on the part of employees and heads of departments as well as to further improvements to plant and equipment.

## Personnel costs per hour worked


## Absence rates in % of gross working time



Employees submitted a total of 2,143 proposals for improvements (1,877 in 1980), an indication of their interest in and commitment to our company. A variety of activities aimed at improving product quality, production and administration processes encouraged many employees to develop new and creative ideas.

## Our objectives 1982–1984

In the course of this year, personnel objectives have been reviewed and redefined. The new concept places emphasis on the following goals:

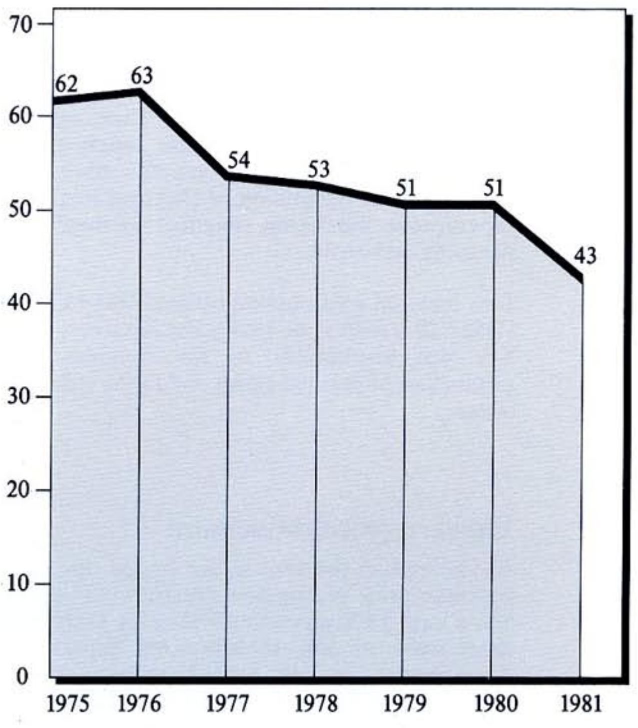
- Internationalization and systematic development of present and prospective managers
- Intensification of training activities for production-orientated vocations and improvement of introduction and initiation, especially for newcomers in the production sector.
- Further measures to strengthen the identification of our employees with the company.

In this way, we hope to cope with the challenges of the future by developing a highly qualified workforce.

## Thanks

Our thanks go to our employees who again showed considerable commitment in a difficult year. These thanks are directed particularly to those who reached retirement age or who retired prematurely in 1981.

Number of accidents per million hours worked




We also thank the members of our Works Councils who were fair partners in fulfilling their not easy tasks.

# Purchasing and Logistics

Our raw materials purchasing volume was down by almost 10% in 1981. This is attributable not only to the decrease in output, but also to our successful efforts to reduce material stocks without jeopardizing the production process and to cut material consumption. By spreading our supply sources internationally, we were able to make further progress with key raw materials. Thus, our supply base was broadened to minimize supply gaps and competitive intensity on supply markets was increased. The integration of Uniroyal Englebert in the corporate purchasing system of raw materials was distinctly successful.

Raw material consumption totalled DM 543 million (DM 570.3 million in 1980); the reduction of some 5% was attributable to the decrease in the production of finished goods and to the reduction in waste.

## Upward price movement

By the end of the year under review, the average purchase price of our raw materials, mix adjusted, was almost 14% up on the 1980 level. Only in some cases were we able to lessen the impact of this development on our overall material costs by changing to different materials and suppliers as well as by modifying our inventory and contract policy. Price increases were particularly severe in the case of petrochemical-based and extremely energy-intensive raw materials. They were caused mainly by the price hikes for crude oil at the beginning of the year, drastic and erratic increases in the price of intermediate petrochemical products, and to the continuing strength of the US dollar.

During the first three quarters of 1981 natural rubber prices persisted on an extremely high level. Not until the end of the year was there any distinct downward movement. This was the market's delayed reaction to the weak demand for natural rubber worldwide.

The price of some synthetic rubber increased by more than 30% in the year under review. This development is mainly the result of unusual increases in the price of synthetic rubber components; thus, for example, the price of butadiene rose by more than 80% in the wake of the world butadiene shortage. There were also substantial increases in the price of rubber chemicals, including carbon black; these averaged 20%, but in some important cases were higher than 40%. They were mainly due to major increases in the price of the corresponding basic products, e. g., aromatics and heavy heating oil.

In the case of reinforcing materials purchase prices developed on different lines. While the price of steel reinforcements such as steel cord, core wire, and hose wire, changed only very slightly, the price of textile reinforcements, especially for rayon fabrics, rose substantially (+15%). Here, the continuing strength of the US dollar and the drastic increase in suppliers' energy costs had a negative impact.

In the current year, too, raw material prices are continuing to move upwards although – compared with the excessive increases of previous years – on a less severe scale. In the medium term, further price rises are likely, for example, for steel-based or energy-intensive materials. This will be the case especially if the demand for raw materials from the international rubber-processing industry revives and the US dollar maintains or indeed reinforces its relatively strong position vis-à-vis the Deutschmark.

# Proposal for the Appropriation of Profits

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

| | |
|---|---|
| Retained income | DM 3,564,440 |
| ● Reduction in corporation tax upon resolution in accordance with this proposal | DM 2,004,998 |
| ● Profit carried forword | DM 5,569,438 |

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

| | | |
|---|---|---|
| Net income | DM 0.6 million | |
| Reduction in corporation tax | DM 2.0 million | |
| | | DM 2.6 million |
| 50% of release of untaxed reserves | | – DM 1.4 million |
| 50 % of allocation to untaxed reserves | | DM 5.8 million |
| Increase in equity | | DM 7.0 million |

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

## Financial position

The balance sheet total increased by DM 24.4 million or 2% to DM 1,234.9 million. Fixed assets (property, plant and equipment and investments) rose by DM 33.7 million, and current assets were DM 9.3 million lower. Because sales were little changed from the previous year (+ 0.4%), the capital turnover rate (ratio of sales to total assets) fell slightly from 1.50 to 1.48.

To be strictly accurate from a financial point of view, investments should be excluded when calculating this ratio, because they do not contribute directly to parent company sales. Thus, the increase in the balance sheet total is only DM 6.2 million or 0.6%, and the capital turnover rate remains unchanged at 1.86. Over the last five years the company's capital commitment has developed very positively. While sales increased in this period by 26.7% total assets (without investments) increased by only 9.1% and the capital turnover rate improved from 1.60 to 1.86 in the same period.

Fixed assets account for 57.0% of total assets (55.4% in 1980). Property, plant and equipment represent two-thirds and investments one-third. The latter relate almost entirely to investments in the subsidiaries.

On the liabilities side of the balance sheet, total debt (all short and long-term liabilities including other accruals) increased by only DM 9.0 million. The remaining capital requirements of DM 15.4 million were financed out of untaxed reserves, accrued pensions, global value adjustments, and equity.

Provided that the Annual General Meeting approves the profit appropriation proposal, the profit to be carried forward of DM 3.6 million will increase by the reduction in corporation tax of DM 2.0 million. Equity capital thus improves by DM 7.0 million and is equivalent to 32.9% of total assets (33.0% in 1980). Equity capital includes 50% of untaxed reserves.

On 31. 12. 1981, 57.6% of fixed assets were financed out of equity (60% in 1980). 90.5% of fixed assets and inventories (90.0% in 1980) were financed out of equity and long-term debt.

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) was 57% and is substantially lower than in the previous year (76%). This is attributable to higher investments despite a decline in profit and a lower net cash flow. The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) is virtually unchanged at 68.2% (67.5% in 1980).

## Profit situation

In a year that was extremely difficult, profitability deteriorated substantially. Gross revenues were DM 44.9 million (−2.4%) lower than in the previous year. The gross margin fell by as much as DM 56.8 million, a disproportionately sharp drop. In the previous year, an increase of DM 81.7 million was reported.

The decline in the ratio of gross revenues to gross margin reflects the substantial increase in raw material and energy prices, which we were not able to pass on entirely to the market. The net operating result (before profit tax but including financing charges and net income from investments) is thus only DM 2.8 million or, in other words, DM 47.9 million less than in the previous year.

The extraordinary result shows a profit of DM 2.3 million. The untaxed reserves which were formed in 1980 in accordance with §6b EStG were released during the current year. Also, accruals of DM 10.4 million became available because the commitments for which they had been earmarked did not materialize. At the same time, however, we made allowance for the losses sustained by the two Uniroyal Englebert companies in Great Britain and Belgium and increased untaxed reserves in accordance with §3 Ausl InvG by DM 11.7 million. Reserves were formed to capitalize on tax benefits and at the same time to provide for the possibility of the book values of these two companies being written down.

Altogether, therefore, profit before tax is DM 5.1 million. After the tax deduction, net income amounted to DM 0.6 million.

Analogous with the decline in profit, the gross cash flow (applying the DVFA formula) dropped to DM 88.5 million (DM 139.4 million in 1980) and is now equivalent to 4.9% of sales (7.7% in 1980). Loss per share, again based on the DVFA formula, is DM 0.26.

## Balance sheet

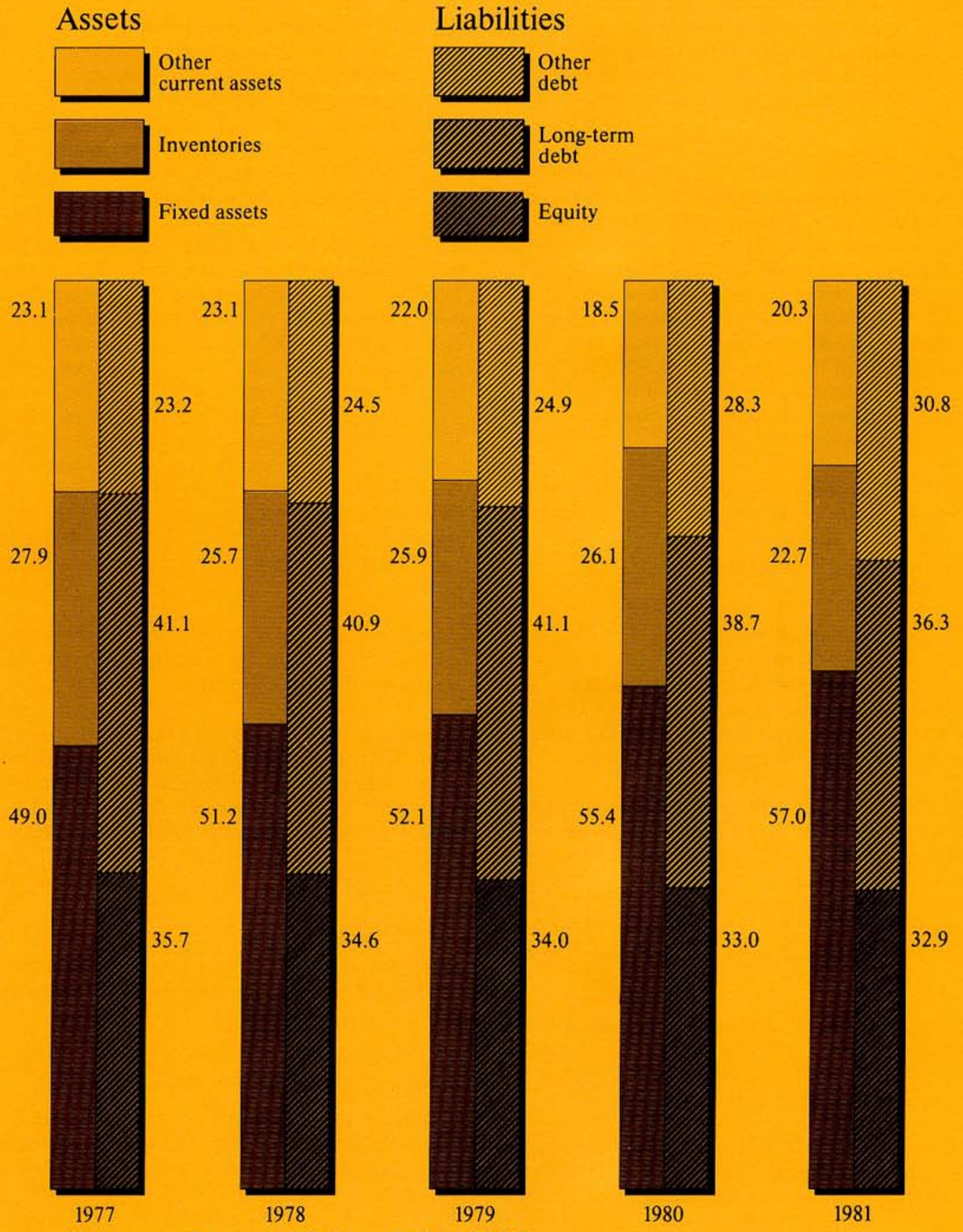
Evaluation and depreciation methods are unchanged. They were explained in last year's annual report.

## Property, plant and equipment

Additions to property, plant and equipment amounted to DM 90.2 million (DM 80.8 million in 1980). Roughly equal amounts were invested in the two divisions Tyres and Technical Products. Apart from some capacity expansion, the focus was mainly on rationalization, productivity improvement as well as further quality assurance measures and adaptation to new technologies.

During the last five years, investment in property, plant and equipment has thus increased to DM 384 million, 25% higher than depreciation. In the same period, we have spent DM 163 million on financial investments, so that gross investments since 1977 total DM 547 million.

## Balance sheet structure




### Balance sheet total (in million DM)

| 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|
| 1048.0 | 1091.4 | 1156.3 | 1210.5 | 1234.9 |
| Change in % | | | | |
| + 3.1 | + 4.1 | + 5.9 | + 4.7 | + 2.0 |

With the increase in investment volume, depreciation in 1981 was likewise higher and amounted to DM 69.5 million (DM 65.2 million in 1980). It accounts for 77.1% of new investments (80.7% in 1980). Details on useful life and method of depreciation are set out in last year's annual report.

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

| | Additions and reclassifications DM million | Depreciation DM million |
|---|---|---|
| Land and buildings | 3.0 | 0.1 |
| Machinery and fixtures | 56.0 | 3.6 |
| Furniture and equipment | 30.1 | 7.6 |
| | 89.1 | 11.3 |

The disposal of fixed assets amounting to DM 4.7 million relates to obsolete machinery as well as to buildings and fixtures no longer required. The sales proceeds were higher than the book value, yielding a profit.

## Investments

The additions to investments derive mainly from changes at Uniroyal Englebert Tyres Ltd. in Newbridge, Great Britain. Following a capital reduction of £ 5 million, capital was increased to £ 10 million, in which Continental Gummi-Werke AG and Uniroyal Englebert Reifen GmbH, Aachen, each have a 50% holding now that we have acquired the shares in the British company from Continental Caoutchouc-Export-AG. Also, there was a capital increase of about DM 2.0 million at Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen, within the framework of the authorized capital.

Disposals derive from a retroactive correction of purchase costs following a change in the tax on stock exchange transactions paid in previous years.

The relationships of the subsidiaries and affiliated companies within the Group can be seen from the chart on pages 16 and 17.

Long-term loans are mainly home-building loans to our employees. 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 increased raw material prices and higher production costs, inventories were DM 35.8 million or 11.3% lower than in the previous year. Apart from the delivery peak in December, this reflects our intensive efforts to reduce and control inventories. Compared with the level on 31. 12. 1976, inventories have increased by only DM 3 million (1%). Despite the increase in sales, therefore, practically no additional capital had to be tied up in inventories.

Raw materials and supplies are stated at the lower of cost or market value, with discounts and rebates deducted. As in previous years, work-in-progress and finished goods were valued at manufacturing cost, including proportionate factory overhead. In evaluating the inventories, proper allowance was made for risks.

## Accounts receivable and other assets

The increase in accounts receivable derives almost entirely from the domestic business, which was characterized by relatively high December sales. Apart from individual value adjustments which were offset from accounts receivable, there is a general bad debt reserve of DM 2.2 million on the liabilities side. Here too, a comparison with the status on 31. 12. 1976 shows only a relatively slight increase of DM 7 million (3.9%). In other words, the additional capital commitment resulting from the increase in sales was disproportionately low.

The largest part of receivables outstanding at the end of the year was due in January 1982 and was paid on schedule. The proportion of long-term accounts receivable is minimal.

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 tax and interest credits, receivables from suppliers and employees, insurance and guarantee claims as well as receivables from short-time work.

## Capital and reserves

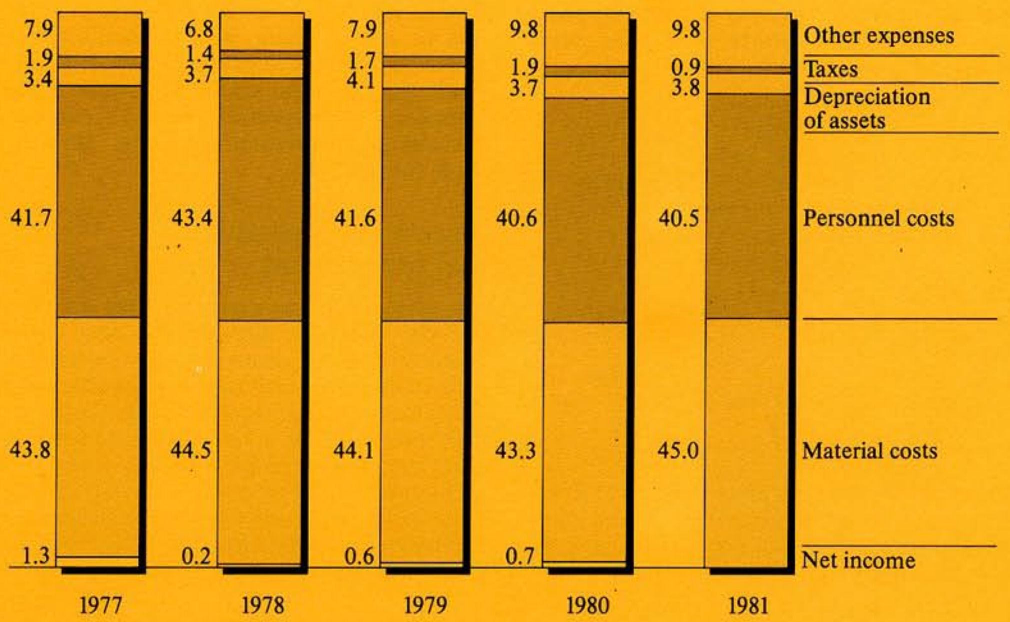
Share capital is unchanged at DM 270 million. There is also conditionally authorized capital of DM 41 million which was approved in 1979 in connection with the acquisition of the Uniroyal Englebert companies. Share capital can be increased up to this amount in instalments up to 1992 by exercising the conversion rights afforded by the convertible loans taken in 1979.

Legal reserves and free reserves are unchanged at DM 66 million and DM 55 million respectively.

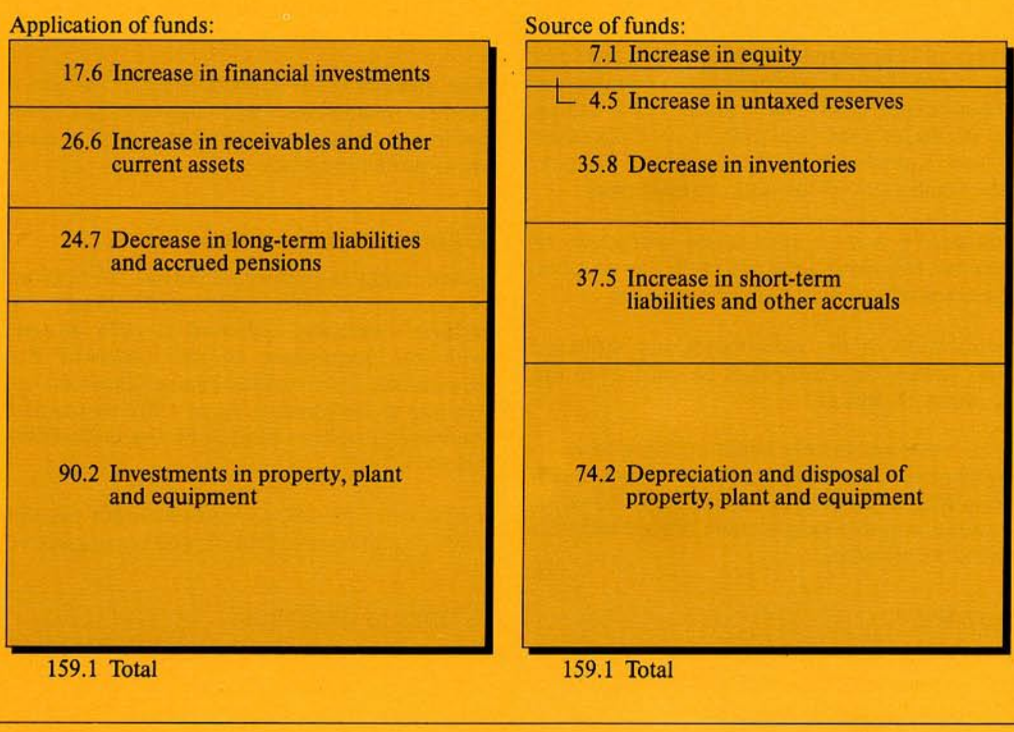
## Untaxed reserves

As already indicated, the reserve for replacement investment which we formed in 1980 in accordance with § 6b EStG was released in the year under

## Breakdown of expenditure
in % of gross revenues




## Financing in 1981
(in million DM)



review. At the same time, untaxed reserves of DM 11.7 million were formed in accordance with § 3 Ausl InvG to provide for the losses sustained in Great Britain and Belgium.

## Accruals

Accrued pensions were computed on actuarial principles. Other accruals include warranties, bonuses and other commitments arising in the ordinary course of business, tax commitments, contributions to the employers' liability insurance association, and risks from contingent liabilities on notes. The decrease from the previous year is partly attributable to the fact that some tax commitments were not required.

In accordance with the Shareholders' resolution of 3rd July, 1981, the corporation tax reserve amounting to DM 1.1 million formed in the previous year was written back and included in the profit carried forward.

For the 1981 retained income, a corporation tax reserve of DM 2.0 million again had to be formed, which, however, will be written back if the Shareholders approve the Administration's proposal for the appropriation of profit.

## Liabilities

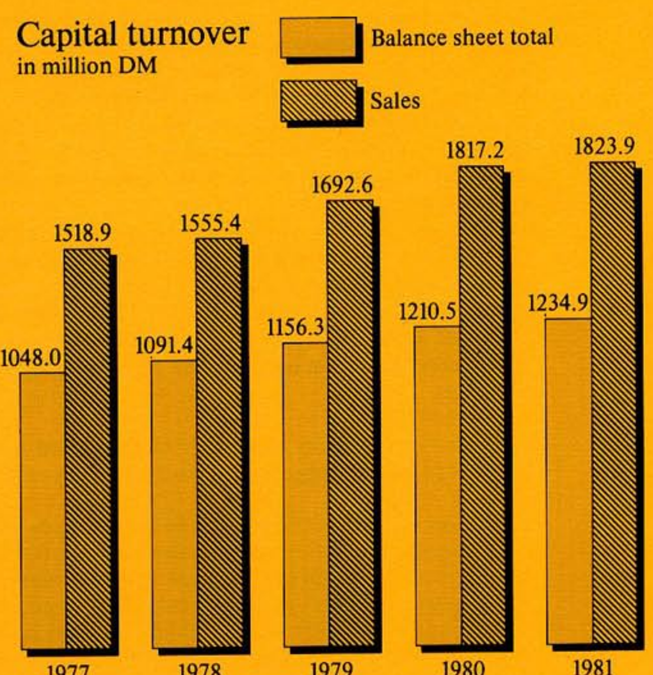
Long-term liabilities with a term of at least four years have been reduced at the planned rate of repayment by DM 28.6 million. Because of the high interest levels on the capital market, no new long-term loans were taken in 1981. For the convertible loan in US dollars we entered a long-term hedging arrangement to minimize the effect of exchange rate fluctuations. This led to a reduction equivalent to DM 0.9 million in loan debt.

Other liabilities have increased by DM 61.8 million. Of this, DM 53.0 million are loans which we negotiated through our subsidiary Intercontinental Rubber Finance B. V., Amsterdam, and which we have included under liabilities due to affiliated companies. Total loans from our Dutch financing company amount to DM 65.0 million. The increase in trade payables is due to the structure and due dates of liabilities outstanding on the closing date. As in previous years, advantage was always taken of all possible discounts.

## Contingent liabilities

Contingent liabilities on notes decreased to DM 144.7 million (DM 185.3 million in 1980).

This sum includes the customer notes of our subsidiaries which are settled by the parent company in the framework of central cash management. Guarantees and warranties amounting to DM 137.0 million (DM 147.3 million in 1980) relate almost entirely to liabilities of our subsidiaries and affiliated companies.




| Capital turnover rate | | | | |
|---|---|---|---|---|
| 1.45 | 1.42 | 1.46 | 1.50 | 1.48 |

Outstanding payments on contributions to the capital of subsidiaries and liabilities due to cooperatives totalled DM 5.8 million (DM 14.8 million in 1980).

## Profit and loss statement

Sales rose only slighty to DM 1,823.9 million, with the Tyre Division generating 61% (63% in 1980) and Technical Products 39% (37% in 1980). The export sales ratio increased to 29.3% (28.5% in 1980). There has been a steady improvement in the export sales ratio from 25.1% five years ago. Following the substantial increase in the previous year, finished goods inventories and work-in-progress were considerably reduced in 1981 and resulted in lower gross revenues amounting to DM 1,832.7 million.

Due to the disproportionately high increase in raw material and energy prices, material costs accounted for 45% of gross revenues. Unlike the equivalent figure for the previous year, this does not include spare parts and repair materials. The comparable ratio for 1980 was 43.3%. Personnel costs totalled DM 743.1 million (DM 762.1 million in 1980), equivalent to 40.5% of gross revenues (40.6% in 1980).

Income from subsidiaries in the form of profit and loss pooling agreements and dividends amounted to DM 21.1 million (DM 17.4 million in 1980). With the exception of the dividend of our French

subsidiary Continental France S.A.R.L., Sarreguemines, all revenues derive from domestic companies and include no extraordinary items. A loss had to be assumed from Continental-Alsa Schuhbedarf GmbH, Steinau-Ürzell. Because untaxed reserves were increased by DM 11.7 million (DM 7.5 million in 1980) in accordance with § 3 Ausl InvG, there is on balance no major change over the previous year.
Due to the loans in transit from central financing to our foreign subsidiaries, interest expenses and income can only be considered on balance. The interest balance increased from DM 52.0 million to DM 60.1 million, roughly in line with the increase in the interest rate, and is equivalent to 3.3% of gross revenues.

Interest-bearing debts were little changed and thus had only a minor impact on the increased expenses.

Other income derives from sales in our kitchens and canteens, cost reimbursements, services, rents and leases etc. Extraordinary income includes mainly investment subsidies and grants as well as items not relating to the period under review and proceeds from released value adjustments.

Tax expenditures relate only to expenses in the period under review. Tax on income, profit and net worth has decreased to DM 16.2 million (DM 34.3 million in 1980), as a result of the decline in profit and considerably lower distribution.

Other expenses include freight charges, rents, insurance premiums, advertising expenditure, and other costs as well as grants to subsidiaries. Also included are repair expenses, including the cost of spare parts and other repair materials. Despite cost increases brought about by external factors, total other expenses have increased only slightly thanks to rationalization programmes and other cost reductions and have had little impact on results.

Concerning our assessment of the action filed to the arbitral tribunal by the company Kléber-Colombes S.A. and others there is no change in the situation mentioned in last year's annual report. Our legal representatives continue to advise us that this action has no chance of succeeding.

The remuneration of Executive Board members totalled DM 3,220,229 , including DM 377,468 at affiliated companies. The corresponding total for 1980 was DM 4,113,084. Pensions to former members of the Executive Board and their dependents amounted to DM 2,186,270 (DM 1,806,570 in 1980). Emoluments to the Supervisory Board totalled DM 215,000 (DM 258,000 in 1980).

Hanover, 13th April, 1982

Continental
Gummi-Werke Aktiengesellschaft

The Executive Board

Helmut Werner    Peter Haverbeck    Hans Kauth

Julius Peter    Wilhelm Schäfer    Horst W. Urban

# Notes on the Consolidated Annual Financial Statements of the Continental Group

## Consolidated Group of companies

The consolidated accounts constitute a worldwide financial statement, so that in accordance with § 329 of the Stock Corporation Law we are not required to draw up separate consolidated accounts for our domestic subsidiaries.

The consolidated accounts cover, in addition to the parent company, sixteen domestic and nineteen foreign subsidiaries, in which we have a direct or indirect financial interest of more than 50%. The companies included in the consolidated accounts are shown in the chart on pages 16 and 17.

The consolidated group of companies is unchanged from the previous year. 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 Group companies 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. As far as possible, we have also conformed 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 legal provisions require.

The annual statements of the foreign 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 on the basis of standard Group rules which conform with German accounting principles. National evaluation methods had to be adjusted in some cases.

## Currency translation

The balance sheets of our foreign subsidiaries were translated at the exchange rates which were valid on 31st December, 1981.

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

## Consolidation method

For companies which have only been included in the Group since 1979, capital consolidation was done according to the modified Anglo-American method. This means that the purchase costs at the time of acquisition are set against the subsidiary's equity capital (including profits or losses). The difference is shown in the difference arising from consolidation.

Companies belonging to the Group before the above date were consolidated according to the so-called German method: The book values on the closing date are offset against the respective percentage held of the subsidiary's equity and reserves and shown in the difference arising from consolidation.

Accounts receivable and payable between the consolidated companies were offset, and intercompany sales and chargeouts have been eliminated from the profit and loss statements. In other words, expenditures and revenues deriving from intercompany transactions have been offset.

## Financial position

The balance sheet total, adjusted to account for the Group loss, decreased from the previous year by 2.6% to DM 1,972.5 million. Sales rose by 2.2% to DM 3,229.0 million (DM 3,159.7 million in 1980), and the capital turnover rate improved from 1.56 to 1.64.

Because fixed assets (including the difference arising from consolidation) increased by DM 17.9 million, while current assets decreased by DM 69.9 million, the proportion of fixed assets to total assets rose from 40.0 to 41.9%.

This is better than the equivalent ratio for the parent company, because consolidated assets are very much lower and the consolidated sales companies by nature have relatively high current assets.

Equity capital, including 50% of untaxed reserves, decreased by DM 17.4 million to DM 401.2 million. This is due both to the net loss and to exchange rate differences from converting the balance sheet in accordance with the Anglo-American method as well as 50% of the change in untaxed reserves. Equity capital represents 20.3% of total assets (20.7% in 1980).
Total debt (all short and long-term liabilities including other accruals) was again down by DM 46.6 million, and on the closing date it amounted to DM 1,366.0 million (DM 1,412.6 million in 1980). Following the substantial decrease in stock levels, 83.6% of fixed assets and inventories are financed out of equity and long-term debt. This is a slight improvement on the previous year (81.8%), although both figures on the liabilities side were lower. New long-term loans were not negotiated in 1981 due to the high interest rates on the European capital markets, but were delayed to a later point in time.

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) dropped in 1981 to 78.0% from 116.2% in the previous year. This is attributable to the continued increase in investments despite a decline in profit and a lower net cash flow.

The equivalent ratio for the parent company is 57% and this development is on the whole unsatisfactory.

By contrast, the liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) has again improved to 70.9% (67.2% in 1980). As in the previous year, this ratio was about the same for both Group and parent company.

## Profit situation

Consolidated profit before tax and additions to reserves amounted to DM 12.2 million (DM 70.8 million in 1980). After the deduction of taxes, annual retained income is DM 0.7 million, thus giving a balanced result. This amount contains all the profits and losses of the consolidated companies. The comparable figure for the parent company (including income from domestic subsidiaries) is considerably better and was cancelled out entirely by the losses of foreign subsidiaries – especially the Uniroyal Englebert companies.

It should be remembered, however, that in the previous year the foreign companies made a very positive contribution to Group results. The turnaround in their profit situation reflects the dramatic deterioration in the market and other environmental factors with which the foreign companies had to cope in 1981.

As already mentioned in the context of the parent company, untaxed reserves of DM 18.2 million were formed in accordance with § 3 Ausl InvG for the losses sustained by the two Uniroyal Englebert companies in Great Britain and Belgium to capitalize on tax advantages. At the same time, we are thereby making provisions for a possible write-down of the book values of these two companies. Because Uniroyal Englebert Reifen GmbH, Aachen, also holds a 50% interest in Uniroyal Englebert Tyres Ltd., Newbridge, Great Britain, additions to reserves on the consolidated accounts are DM 6.5 million higher than at the parent company. In accordance with the evaluation provisions set out in the Stock Corporation Law, this amount has to be included twice over in the consolidated profit and loss account, first as consolidated loss of the two foreign subsidiaries and second, as additions to reserves.

In order to permit a better evaluation of consolidated results, we have shown both the normal net income (before additions to untaxed reserves) and the annual net loss (after additions to untaxed reserves).

The serious decline in profit has automatically led to a lower return on sales and return on equity. Specifically, pre-tax return on sales was 0.4% (2.04% in 1980) and pre-tax return on equity was 3.0% (15.4% in 1980).

The gross cash flow fell from DM 219.5 million to DM 140.0 million and was equivalent to 4.3% of sales (6.9% in 1980).

## Balance sheet

## Property, plant and equipment

Additions to property, plant and equipment amounted to DM 158.4 million. After allowing for depreciation of DM 120.0 million, exchange rate differences resulting from balance sheet translation, and write-ups at our Brazilian subsidiary due to the continued devaluation of the cruzeiro, property, plant and equipment at the closing date was valued at DM 731.1 million. Of this, the parent company accounted for 61% and the domestic and foreign subsidiaries, including the Uniroyal Englebert Group, for 39%. The Group's foreign-based property, plant and equipment amounts to DM 172 million or 23.5%.

Additions and depreciation can be allocated as follows:

| | Additions<br>DM million | Depreciation<br>DM million |
|---|---|---|
| Parent company | 90.2 | 69.5 |
| Consolidated subsidiaries | 68.2 | 50.5 |
| | 158.4 | 120.0 |

Additions investments were some one-third higher than depreciation. Investment programmes focused on machinery and moulds to promote rationalization, productivity improvement, quality assurance, and adaptation to new technologies.

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

## Investments

The non-consolidated subsidiaries can be seen in the chart on pages 16 and 17. Interests in these companies are held mainly by the parent organization. Loans relate primarily to 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 the time these holdings were acquired or subsequent capital increases were made, the value of the DM has appreciated relative to other currencies. The equity capital translated at the rate valid on 31. 12. 1981 therefore gives 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 also be regarded as undisclosed reserves.

## Inventories

Following the reduction in stock levels, inventories decreased by DM 84.9 million to DM 561.4 million.

The breakdown is as follows:

| | DM million |
|---|---|
| Parent company | 279.7 |
| Consolidated subsidiaries | 281.7 |
| | 561.4 |

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

## Accounts receivable and other assets

As at the parent company, accounts receivable in the Group also increased sharply, mainly as a result of high sales in December (DM 38.0 million). Apart from the general bad debt reserve of DM 6.7 million on the liabilities side for the general credit risk, adequate individual adjustments were also made to provide against other possible risks.

Other assets include tax and interest claims, receivables from suppliers and customers, wage prepayments, short-time money, and other claims.

## Accruals

Apart from pension accruals, which have been computed on the basis of actuarial principles, accruals also include the statutory compensation claims of employees in some foreign companies. The pension funds available in the benefit schemes of some subsidiaries are not always sufficient to cover vested rights; the gap is in the order of DM 12.0 million.

Other accruals include mainly bonus and tax commitments, warranties, vacation and similar claims, contributions to the employers' liability insurance association and similar obligations as well as risks from pending transactions.

## Liabilities

Long-term liabilities have decreased by DM 27.8 million to DM 528.6 million. The reduction in debt ensued almost entirely at the parent company.

On the other hand, there has been no change in the item other liabilities. The rise in trade payables is attributable to the increase at the parent company and is determined by production. 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 fell to DM 161.4 million (DM 170.7 million in 1980). Warranties and guarantees totalling DM 12.3 million (DM 13.5 million in 1980) were only little changed and relate primarily to non-consolidated affiliates.

## Profit and loss statement

Consolidated sales on foreign markets increased by 4.0% and on the domestic market by 1.1%. The overall increase is 2.2%. Specifically, sales were generated as follows:

| | 1981 DM million | 1980 DM million |
|---|---|---|
| Parent company | 1,477.9 | 1,461.7 |
| Consolidated subsidiaries | 1,751.1 | 1,698.0 |
| | 3,229.0 | 3,159.7 |

Gross revenues on the other hand fell by 1.3% to DM 3,217.4 million following the substantial reduction in inventories. Material costs accounted for 41.5% of gross revenues (41.4% in 1980), and personnel costs were equivalent to 39.6% (39.2% in 1980). These are lower than the corresponding ratios on parent company level because the consolidated sales companies have relatively low personnel costs and minimal material costs.

Despite a reduction in interest-bearing liabilities, interest expenses after deduction of interest income rose to DM 124.5 million (DM 107.1 million in 1980) in the wake of higher interest rates in all countries. This was equivalent to 3.9% of gross revenues (3.3% in 1980).

Extraordinary income of DM 14.3 million (DM 16.7 million in 1980) includes mainly investment subsidies and grants as well as released value adjustments and income deriving from other periods.

The decrease in taxes is attributable to the drop in profit-related tax due to the lower profit level.

The main items in other expenses are freight charges, advertising expenses, and other distribution costs as well as repairs and rents. The various cost components are defined according to the same criteria throughout the Group.

## Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1981

| Assets | 31st December, 1981 DM | 31st December, 1981 DM | 31st December, 1981 DM | 31st Dec., 1980 DM 1000 |
|---|---|---|---|---|
| **I. Fixed Assets** | | | | |
| A. **Property, Plant and Equipment** | | | | |
| 1. Land | | | | |
| a) with commercial plant and other buildings | 147 373 258 | | | 155 370 |
| b) with residential buildings | 1 428 325 | | | 1 468 |
| c) without buildings | 70 800 | | | 71 |
| 2. Machinery | 218 578 360 | | | 200 162 |
| 3. Furniture and equipment | 44 798 473 | | | 40 119 |
| 4. Assets under construction and prepayments | 33 806 801 | | | 32 810 |
| | | 446 056 017 | | 430 000 |
| B. **Investments** | | | | |
| 1. Investments | 253 516 404 | | | 235 299 |
| 2. Loans with a term of at least four years | 5 002 489 | | | 5 581 |
| thereof secured by mortgages DM 3 748 901 | | 258 518 893 | | 240 880 |
| | | | 704 574 910 | 670 880 |
| **II. Current Assets** | | | | |
| A. **Inventories** | | | | |
| 1. Raw materials and consumables | 62 180 485 | | | 81 243 |
| 2. Work in progress | 46 545 622 | | | 41 927 |
| 3. Finished goods, goods for resale | 171 405 102 | | | 192 804 |
| | | 280 131 209 | | 315 974 |
| B. **Other Current Assets** | | | | |
| 1. Payments on account | | 748 368 | | 638 |
| 2. Accounts receivable | | 176 496 401 | | 154 635 |
| due after one year DM 5 665 902 | | | | |
| 3. Notes receivable | | 383 301 | | 119 |
| rediscountable with the Federal Bank DM 343 888 | | | | |
| 4. Checks | | 3 711 209 | | 7 429 |
| 5. Cash on hand, at Federal Bank and on postal check accounts | | 4 845 266 | | 2 170 |
| 6. Cash at banks | | 4 324 110 | | 11 821 |
| 7. Due from affiliated companies | | 40 421 018 | | 32 653 |
| 8. Other receivables (§ 89 Stock Corp. Law) | | 396 290 | | 326 |
| 9. Other debtors | | 16 339 829 | | 11 235 |
| | | | 527 797 001 | 537 000 |
| **III. Prepaid Expenses** | | | | |
| 1. Loan discounts | | 1 222 650 | | 1 521 |
| 2. Other | | 1 352 500 | | 1 147 |
| | | | 2 575 150 | 2 668 |
| | | | 1 234 947 061 | 1 210 548 |

| Liabilities | | 31st December, 1981 DM | DM | 31st Dec., 1980 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 | | | 66 000 000 | 66 000 |
| 2. Free reserves | | | 55 000 000 | 55 000 |
| III. **Untaxed Reserves** according to tax regulations (§ 3 Auslandsinvestitionsgesetz) | | | 19 200 000 | 10 241 |
| IV. **General bad debt reserve** | | | 2 250 000 | 2 050 |
| V. **Accruals** | | | | |
| 1. Accrued pensions | | 123 991 254 | | 119 321 |
| 2. Accruals for deferred maintenance | | 641 500 | | 1 232 |
| 3. Other accruals | | 88 974 362 | | 98 238 |
| | | | 213 607 116 | 218 791 |
| VI. **Liabilities with Terms of at least four Years** | | | | |
| 1. Bonds and convertible bonds | | 129 026 150 | | 130 206 |
| thereof secured by mortgages | DM 50 000 000 | | | |
| 2. Loans and debentures | | 63 640 235 | | 69 686 |
| thereof secured by mortgages | DM 63 462 575 | | | |
| 3. Due to banks | | 122 500 000 | | 144 750 |
| thereof secured by mortgages | DM — | | 315 166 385 | 344 642 |
| Due within four years | DM 149 263 607 | | | |
| VII. **Other Liabilities** | | | | |
| 1. Trade payables | | 60 233 413 | | 40 481 |
| 2. Notes payable | | 57 418 383 | | 50 578 |
| 3. Due to banks | | 50 241 431 | | 55 805 |
| 4. Payments received on account | | 2 616 098 | | 3 147 |
| 5. Due to affiliated companies | | 69 002 539 | | 17 401 |
| 6. Other liabilities | | 50 647 256 | | 60 987 |
| | | | 290 159 120 | 228 399 |
| VIII. **Retained Income** | | | 3 564 440 | 15 425 |
| Contingent liabilities on notes | DM 144 656 720 | | | |
| Guarantees | DM 114 006 588 | | | |
| Warranties | DM 22 988 043 | | | |
| | | | 1 234 947 061 | 1 210 548 |

## Fixed Assets Schedule 1981

| | 1st January, 1981 DM | Additions DM | Reclassifications DM | Deductions DM | Depreciation DM | 31stDecember, 1981 DM |
|---|---|---|---|---|---|---|
| A. **Property, Plant and Equipment** | | | | | | |
| 1. Land | | | | | | |
| a) with commercial plant and other buildings | 155 369 781 | 2 286 739 | 740 687 | 2 153 455 | 8 870 494 | 147 373 258 |
| b) with residential buildings | 1 468 605 | 13 421 | 13 168 | | 66 869 | 1 428 325 |
| c) without buildings | 70 800 | | | | | 70 800 |
| 2. Machinery | 200 161 822 | 41 835 726 | 14 146 621 | 1 435 609 | 36 130 200 | 218 578 360 |
| 3. Furniture and equipment | 40 118 942 | 25 799 152 | 4 299 264 | 1 067 565 | 24 351 320 | 44 798 473 |
| 4. Assets under construction and prepayments | 32 809 893 | 20 271 852 | – 19 199 740 | | 75 204 | 33 806 801 |
| | 429 999 843 | 90 206 890 | — | 4 656 629 | 69 494 087 | 446 056 017 |
| B. **Investments** | | | | | | |
| 1. Investments | 235 299 102 | 18 225 874 | | 8 572 | | 253 516 404 |
| 2. Loans with a term of at least four years | 5 580 527 | 396 156 | | 974 194 | | 5 002 489 |
| | 240 879 629 | 18 622 030 | — | 982 766 | — | 258 518 893 |
| | 670 879 472 | 108 828 920 | — | 5 639 395 | 69 494 087 | 704 574 910 |

## Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1981

| | | 1981 DM | 1981 DM | 1980 DM 1000 |
|---|---|---|---|---|
| 1. **Sales** | | 1 823 940 476 | | 1 817 233 |
| 2. Change in inventories of products | | – 16 544 893 | | + 36 702 |
| | | | 1 807 395 583 | 1 853 935 |
| 3. Overheads capitalized on construction of fixed assets | | | 25 300 082 | 23 649 |
| 4. **Gross Revenues** | | | 1 832 695 665 | 1 877 584 |
| 5. Raw materials and consumables | | | 825 327 569 | 813 385* |
| 6. **Gross Margin** | | | 1 007 368 096 | 1 064 199 |
| 7. Income from profit and loss pooling agreements | | 16 403 828 | | 16 846 |
| 8. Investment income | | 6 525 812 | | 3 643 |
| 9. Income from long-term loans | | 502 620 | | 270 |
| 0. Interest and similar income | | 17 650 235 | | 22 052 |
| 1. Income from disposal of fixed assets | | 3 795 742 | | 3 354 |
| 2. Income from release of accruals | | 10 367 754 | | 1 895 |
| 3. Income from release of untaxed reserves | | 2 741 205 | | — |
| 4. Other income | | 31 838 277 | | 29 314 |
| thereof extraordinary | DM 3 603 323 | | | |
| | | | 89 825 473 | 77 374 |
| | | | 1 097 193 569 | 1 141 573 |
| 5. Wages and salaries | | 619 075 025 | | 635 776 |
| 6. Social security contributions | | 102 283 513 | | 101 290 |
| 7. Pensions and employees' welfare | | 21 710 143 | | 25 005 |
| 8. Depreciation of property, plant and equipment | | 69 494 087 | | 65 170 |
| 9. Depreciation of investments | | — | | 3 600 |
| 0. Depreciation of current assets (excluding inventories) | | 1 240 492 | | 1 232 |
| 1. Losses from disposal of fixed assets | | 1 180 803 | | 1 557 |
| 2. Interest and similar expenses | | 77 803 436 | | 73 977 |
| 3. Taxes | | | | |
| a) on income profit and net worth | DM 17 679 196 | | | |
| charged to subsidiaries | DM 1 484 535 | | | |
| | DM 16 194 661 | | | |
| b) Other | DM 987 731 | | | |
| | | 17 182 392 | | 35 012 |
| 4. Expenses from profit and loss pooling agreements | | 1 784 126 | | 3 059 |
| 5. Additions to untaxed reserves | | 11 700 000 | | 10 241 |
| 6. Other expenses | | 173 182 924 | | 172 151* |
| | | | 1 096 636 941 | 1 128 070 |
| 7. **Net Income** | | | 556 628 | 13 503 |
| carry forward: | | | 556 628 | 13 503 |

The costs of spare parts and repair materials amounting to DM 23,242,000 have been reallocated to other expenses in line with the procedure adopted in 1981.

| | 1981 DM | 1981 DM | 1980 DM 1000 |
|---|---|---|---|
| carried forward: | | 556 628 | 13 503 |
| 28. Profit brought forward | | 3 007 812 | 7 922 |
| 29. Additions to reserves | | — | 6 000 |
| 30. **Retained Income** | | 3 564 440 | 15 425 |

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, 14th April, 1982

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant

# Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1981

| Assets | 31st December, 1981 DM | 31st December, 1981 DM | 31st Dec., 1980 DM 1000 |
|---|---|---|---|
| **I. Fixed Assets** | | | |
| **A. Property, Plant, Equipment and Intangible Assets** | | | |
| 1. Land | | | |
| a) with commercial plant and other buildings | 228 587 211 | | 236 949 |
| b) with residential buildings | 2 348 867 | | 3 063 |
| c) without buildings | 2 579 768 | | 4 009 |
| 2. Buildings on third parties' land | 4 673 992 | | 4 410 |
| 3. Machinery | 343 721 402 | | 327 884 |
| 4. Furniture and equipment | 82 838 532 | | 79 781 |
| 5. Assets under construction and prepayments | 65 502 331 | | 55 592 |
| 6. Intangible assets | 827 301 | | 949 |
| | 731 079 404 | | 712 637 |
| **B. Investments** | | | |
| 1. Investments | 31 173 717 | | 31 173 |
| 2. Investment securities | 1 951 997 | | 1 908 |
| 3. Loans with a term of at least four years | 6 728 347 | | 8 465 |
| thereof secured by mortgages DM 4 165 088 | | | |
| | 39 854 061 | | 41 546 |
| | | 770 933 465 | 754 183 |
| **II. Difference arising from Consolidation** | | 56 315 194 | 55 109 |
| thereof from consolidation according to Anglo-American method DM 10 955 215 | | | |
| **III. Current Assets** | | | |
| **A. Inventories** | 561 393 788 | | 646 307 |
| **B. Other Current Assets** | | | |
| 1. Payments on account | 834 744 | | 898 |
| 2. Accounts receivable | 501 208 367 | | 463 229 |
| due after one year DM 6 026 000 | | | |
| 3. Notes receivable | 4 928 556 | | 8 473 |
| rediscountable with the Federal Bank DM 2 545 925 | | | |
| 4. Checks | 5 238 493 | | 9 135 |
| 5. Cash on hand, at Federal Bank and on postal check accounts | 8 297 745 | | 5 918 |
| 6. Cash at banks | 10 583 411 | | 21 232 |
| 7. Marketable securities | 125 048 | | 131 |
| 8. Due from affiliated companies | 1 319 235 | | 1 181 |
| 9. Other receivables (§ 89 Stock Corp. Law) | 649 824 | | 740 |
| 10. Other debtors | 44 241 504 | | 51 637 |
| | | 1 138 820 715 | 1 208 881 |
| **IV. Prepaid Expenses** | | | |
| 1. Loan discounts | 1 568 290 | | 1 554 |
| 2. Other | 4 858 141 | | 4 743 |
| | | 6 426 431 | 6 297 |
| **V. Accumulated Deficit** | | 17 155 809 | — |
| | | 1 989 651 614 | 2 024 470 |

## Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1981

| | 1981 DM | 1981 DM | 1980 DM 1000 |
|---|---|---|---|
| 1. **Sales** | 3 229 014 016 | | 3 159 674 |
| 2. Change in inventories of products | – 49 624 932 | | + 69 693 |
| | | 3 179 389 084 | 3 229 367 |
| 3. Overheads capitalized on construction of fixed assets | | 37 990 962 | 30 146 |
| 4. **Gross Revenues** | | 3 217 380 046 | 3 259 513 |
| 5. Raw materials and consumables | | 1 335 022 502 | 1 349 936* |
| 6. **Gross Margin** | | 1 882 357 544 | 1 909 577 |
| 7. Investment income | 1 900 669 | | 2 143 |
| 8. Income from long-term loans | 1 865 241 | | 976 |
| 9. Interest and similar income | 7 626 297 | | 7 810 |
| 10. Income from disposal of fixed assets | 7 815 240 | | 5 394 |
| 11. Income from release of accruals | 17 062 274 | | 7 076 |
| 12. Income from release of untaxed reserves | 4 854 940 | | 548 |
| 13. Other income | 56 406 450 | | 46 523 |
| thereof extraordinary DM 14 326 024 | | 97 531 111 | 70 470 |
| | | 1 979 888 655 | 1 980 047 |
| 14. Wages and salaries | 1 044 767 574 | | 1 045 728 |
| 15. Social security contributions | 198 968 069 | | 193 294 |
| 16. Pensions and employees' welfare | 29 908 033 | | 37 057 |
| 17. Depreciation of property, plant, equipment and intangible assets | 119 998 314 | | 115 418 |
| 18. Depreciation of investments | 346 380 | | 3 871 |
| 19. Depreciation of current assets (excluding inventories) | 10 229 795 | | 6 329 |
| 20. Losses from disposal of fixed assets | 5 995 820 | | 2 360 |
| 21. Interest and similiar expenses | 132 083 378 | | 114 883 |
| 22. Taxes | | | |
| a) on income profit and net worth DM 33 084 804 | | | |
| b) Other DM 4 821 257 | | | |
| | 37 906 061 | | 62 348 |
| 23. Expenses from profit and loss pooling agreements | 14 688 | | 1 |
| 24. Additions to untaxed reserves | 225 257 | | 4 040 |
| 25. Other expenses | 398 729 047 | | 360 333* |
| | | 1 979 172 416 | 1 945 662 |
| 26. **Net Income** before additions to untaxed reserves according to § 3 Auslandsinvestitionsgesetz | | 716 239 | 34 385 |
| carry forward: | | 716 239 | 34 385 |

* The costs of spare parts and repair materials amounting to DM 23,242,000 have been reallocated to other expenses in line with the procedure adopted in 1981.

| | 1981 DM | 1981 DM | 1980 DM 1000 |
|---|---|---|---|
| carried forward: | | 716 239 | 34 385 |
| 27. Additions to untaxed reserves according to § 3 Auslandsinvestitionsgesetz | | 18 200 000 | 7 500 |
| 28. **Net Loss** (1980 Net income) | | 17 483 761 | 26 885 |
| 29. Profit brought forward | | 3 007 812 | 6 523 |
| 30. Additions to reserves | | 1 107 250 | 16 688 |
| 31. Addition to difference arising from consolidation | | 1 536 746 | 1 199 |
| 32. Income attributable to Minority Interest | | 122 607 | 98 |
| 33. Losses attributable to Minority Interest | | 86 743 | 2 |
| 34. **Accumulated Deficit** (1980 Retained Income) | | 17 155 809 | 15 425 |

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, 14th April, 1982

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant