Annual Report 1982

Continental

Continental

Continental
Gummi-Werke AG
1977–1982

		1977	1978	1979	1980	1981	1982
Balance sheet							
Fixed assets	DM million	513.2	558.1	601.9	670.9	704.6	701.4
Current assets	DM million	534.8	533.3	554.4	539.6	530.3	513.1
Balance sheet total	DM million	1048.0	1091.4	1156.3	1210.5	1234.9	1214.5
Equity	DM million	373.9	377.5	392.9	399.1	406.2	420.5
Long-term debt	DM million	431.4	446.5	474.9	469.0	448.8	426.9
Total investments	DM million	65.5	106.1	123.9	142.7	108.8	78.7
Equity ratio	%	35.7	34.6	34.0	33.0	32.9	34.6
Equity and long-term debt to fixed assets and inventories	%	102.4	100.6	99.1	89.6	90.5	88.6
Profit and Loss statement							
Sales	DM million	1518.9	1555.4	1692.6	1817.2	1823.9	1866.3
Export sales ratio	%	25.2	25.4	26.3	28.5	29.3	28.6
Material costs to gross revenues	%	43.8	44.5	44.1	43.3	45.0	44.3
Personnel costs to gross revenues	%	41.7	43.4	41.6	40.6	40.5	39.7
Depreciation	DM million	53.8	58.1	70.8	68.8	69.5	78.5
Net income	DM million	+ 20.2	+ 3.8	+ 10.9	+ 13.5	+ 0.6	+ 5.7
Dividends paid	DM million	–	–	–	13.5	–	–
Employees							
(annual average) thousand		18.1	18.1	18.1	18.3	17.4	16.3

Continental
Group
1979–1982*)

	1979	1980	1981	1982
Balance sheet				
Fixed assets	789.4	809.3	827.2	815.7
Current assets	1200.7	1215.2	1145.3	1103.0
Balance sheet total	1990.1	2024.5	1972.5	1918.7
Equity	369.9	418.6	401.2	422.8
Long-term debt	630.3	735.4	713.4	670.0
Total investments	113.4	150.6	159.7	134.8
Equity ratio	20.6	20.8	20.3	22.0
Equity and long-term debt to fixed assets and inventories	73.6	81.8	83.6	84.8
Profit and Loss statement				
Sales	2623.4	3159.7	3229.0	3248.8
Export sales ratio	34.5	37.0	38.0	37.3
Material costs to gross revenues	42.8	41.4	41.5	41.6
Personnel costs to gross revenues	39.7	39.2	39.6	39.1
Depreciation	101.4	119.3	120.3	126.2
Net income	+ 23.1	+ 26.9	– 17.5	+ 20.0
Dividends paid	–	–	–	–
Employees				
(annual average) thousand	31.1	31.3	29.6	28.2

*) 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 WEB 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 111th Business Year 1982

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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*)
Chairman
Hanover Works Council

Manfred Emcke
Management Consultant

Siegfried Brauns*)
Works Council Member,
Stöcken Plant

Baron Albert Englebert
Président du Conseil Pneu Uniroyal Englebert

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

Heinz Tristram*)
Works Council Member,
Vahrenwald Plant

Hermann Westerhaus*)
Works Council Chairman,
Korbach Plant

*) Employee representative

Report of the Supervisory Board

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

These consultations focused especially on the budget, long-range planning, including capital investment policy, and fundamental questions of business policy and corporate structure. We have also discussed key business transactions. Finally, the Supervisory Board has taken decisions on issues which, in accordance with legal provisions or company statutes, were submitted to us for approval.

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 the 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 Executive Board's proposal for the appropriation of retained income has been endorsed.

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

Hanover, 6th May, 1983

The Supervisory Board

Alfred Herrhausen

Alfred Herrhausen, Chairman

Members of the Executive Board

Helmut Werner
Chairman

Peter Haverbeck
Marketing Technical Products

Hans Kauth
Director of Personnel

Julius Peter
Manufacturing and Engineering, Technical Products

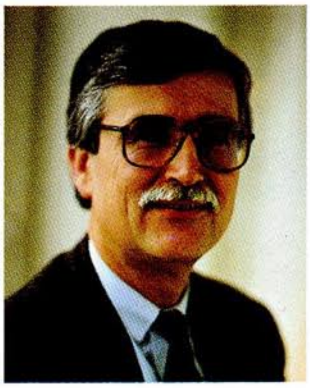
Wilhelm Schäfer
Marketing Tyres

Horst W. Urban
Finance and Affiliates

Vice Presidents

Wilhelm Borgmann
Manufacturing and Engineering, Tyres

Bernd Frangenberg
Purchasing and Logistics



Jens P. Howaldt
General Counsel and Corporate Planning

Report of the Executive Board

In 1982, our company further strengthened its position and standing. We are now seeing the results of the many years of effort: New products, processes and production techniques which will shape the results and repute of our company now and in years to come. Strict adherence to Continental's quality policy on all levels is proving its value more than ever in times of difficult markets; and our strategic concepts are beginning to show results. Thus, for example, many new Continental and Uniroyal products have been launched in rapid succession, with the aim of securing and strengthening our market position and improving results.

Our new M+S ContiContact tyres met with exceptionally high praise and acknowledgement from both customers and the motoring press. In the field of commercial vehicles, new products are providing more safety and greater economy for the transportation sector. With its newly developed tyre programmes for two-wheelers, Continental is underlining its claim in this market too. Uniroyal Englebert went into the technological lead with a new family of summer tyres Rallye 340. This apart, innovations in the field of light truck tyres also reached the production stage. For both tyre brands – Continental and Uniroyal – 1983 and successive years will continue to be a period of new products and technologies.

Continental Technical Products cover a broad range of modern rubber technologies which are being successfully applied. They extend from air springs, refrigerant hose and the most up-to-date transmission elements to car roof weatherstrips, which have been specially designed for the new models in the automotive industry. With these efforts, we aim to reduce vehicle weight and noise levels and provide greater comfort. In addition there are those new products not destined for the automotive industry: Of particular interest in this context are conveyor belting, printing blankets and coated fabrics for large flexible storage tanks.

Our affiliated companies too have come forward with new and improved products which are aimed at challenging goals in the boat, footwear and bookbinding markets. Again, however, product innovations centered primarily on products for the automotive industry.

In the Group, therefore, we have replaced or significantly improved the majority of all our products in recent years.

1982: Still no economic recovery

The year 1982 still saw no bottoming out of the protracted recession. The effect of stimulating factors such as lower inflation and falling interest rates was undermined by real, financial and psychological investment barriers. Until these are removed, a lasting positive turnaround worldwide cannot be expected.

Business development in our industry in the year 1982 shows distinct parallels to the previous year: A relatively good first half was followed by a mid-year slump with a severe fall-off in results; only towards the end of the year did sales and profitability recover slightly.

Again, the economic situation in the European automotive industry determined employment levels and results in our own sector. While production in the European passenger car industry rose 4.4 %, the volatile situation on the market for trucks led to a decrease in production of 2.6 %.

In the Federal Republic of Germany, passenger car output increased by a further 5.1 % thanks to a flourishing export business, while truck production was 5.6 % lower. By contrast, new registrations of passenger cars and commercial vehicles on the German market were down by a considerable 7.5 % and 8.1 % respectively.

We are pleased to report that despite the difficult situation, Continental improved both market shares and profits. The basis for this development was the business with the European automotive industry, where we were able to gain further ground.

Position in the industry asserted

In the troubled industry situation, the Tyre Divisions of both Continental and Uniroyal Englebert were able to improve results in 1982 – counter to the general trend. Continental tyres were notably more successful than in 1981. And in contrast to the previous year, Uniroyal Englebert again reported a profit. We have been able to assert our second position on the European tyre market.

This was due not least to our continued policy of being a leading R&D partner to the European automotive industry with two independent tyre brands. Both Continental and Uniroyal received tyre technical approvals for all major new passenger cars in 1982. We expect to see our strong position in the original equipment sector continuing to reflect on the replacement business, which in 1982 was subject to even more intense price competition. The pleasing results for passenger car tyres more than compensated for the problems caused by the national and international sluggish demand for trucks. During the year under review, our position in Great Britain improved significantly, whilst developments in France varied. Exports to non-European countries were affected in some cases by a foreign exchange shortage and limited receptivity. Here, we were unable to match the sales levels of 1981.

The performance in our Technical Products Division improved both in terms of sales and results.

Despite the considerable progress of the Division in 1982, it too was affected by the severe fall-off in demand at the mid-year point so that no profit was achieved. In an attempt to improve capacity utilization, there was an unparalleled price war. In many cases, government subsidies led to a distortion of international competition – similar to the situation for tyres – and this hampered our market opportunities still more.

The Division is well prepared for economic recovery, although we recognize that there are still many problems to overcome.

Again, results in the Affiliated Companies Division were positive. However, the cyclical weaknesses which beset the key customer industries made a fall in profits unavoidable for some of them.

Summing up the development of the four Divisions, we can say that the Group strengthened both internally and externally. 1982 has shown very clearly indeed that we are able to act positively and to initiate and implement the right measures in time to counter negative trends.

Continental: A much sought-after technology partner

In 1982, our company took a further major step forward in pursuing its strategic concept: A long-term cooperation agreement was concluded with the North American rubber processing company, The General Tire & Rubber Company, Akron, Ohio. The aim of this is the exchange of tyre technology. Moreover, General Tire will manufacture Continental brand tyres for the American market, which in the long run cannot be supplied reliably from German production due to cost and foreign exchange constraints. The tyres will be distributed via the Continental dealer organization in the U.S.A., which will thus have a significantly broader range of products for this important market. Similar to the extension of existing cooperation arrangements with Toyo (Japan), Modi (India), and General Tire (South Africa), the agreement will help us to increase our worldwide market presence. This policy enables us to provide our partners in the European automotive industry with commercial and technical services also in markets which are normally closed to us. It moreover ensures that we have direct access to developments in the fields of technology and work organization in the U.S.A. and Japan. However, now as before, the basis is our original market: Europe. And for this reason, we have continued our efforts to "europeanize" our company in terms of production and marketing.

Need for and capability of structural adjustment

Unsatisfactory capacity utilization together with high infrastructure costs in the plants and the constant pressure from competitors to reduce costs make it necessary for us to change existing structures. In the year under review, we pressed ahead with the structural adjustment process in the tyre plants. Our goal is to standardize the production structure and to achieve higher unit volumes per plant and product. Thus, for example, our Aachen plant now only manufactures passenger car tyres and light truck tyres in the main. The production of all truck tyres in the Uniroyal Englebert Division is being concentrated in the Belgian plant Herstal. In Great Britain, the plant at Newbridge, which produces only passenger car tyres, came an important step forward in 1982.

In the year under review, the French plant Clairoix switched over completely to the production of passenger car tyres. We have also agreed upon a concept to consolidate Continental's tyre production in Hanover.

In the Group's Tyre Division, a new marketing organization has been developed, which should make for better market penetration. Benefits have derived from healthy competition among the individual divisions. This is true especially of our two tyre operations Continental and Uniroyal Englebert.

In the case of Technical Products, the focus was on optimizing production processes. Each of the divisional units was given greater organizational autonomy; the reason for this move is that the vast differences in our products and the wide variety of customer-tailored problem solutions require decentralized organizational structures in order to accommodate features specific to product and market.

Stronger equity base

Despite the bleak climate on our markets, with a fall-off in demand and sharper competition, and despite high year-average interest rates and increased costs for energy, materials and personnel, we were able to achieve a positive result in 1982.

Tight cost discipline and resolute financial management have considerably improved the company's balance sheet structure. We were able to hold inventory levels at the previous year's low level despite the value increases caused by inflation. Particularly pleasing, however, is the substantial reduction in accounts receivable from customers and affiliated companies; this contributed significantly to the lower current asset level.

Despite all our efforts, however, the payment of a dividend for the financial year 1982 is not possible.

Although distributed earnings from affiliates have decreased, the parent company's profit before profit tax – after the allocation of DM 7.8 million to untaxed reserves – amounted to DM 19.8 million. Allowing for profit tax of DM 14.1 million, annual net income was DM 5.7 million. Subtracting the DM 2.9 million allocated to free reserves and taking into account the profit brought forward of DM 5.6 million, retained income amounted to DM 8.4 million.

By retaining this income, we shall be strengthening the company's financial resources in the form of higher equity capital. An added complication in the event of a dividend payment would be the double tax burden resulting from the so-called negative "EK 56".

The Administration's proposal to the Annual General Meeting is therefore to allocate to free reserves a sum of DM 9.1 million from the retained income of DM 8.4 million and the reduction in corporation tax of DM 4.7 million and to carry forward the remaining DM 4.0 million.

The consolidated financial statement (worldwide), with a surplus of DM 20.0 million, shows a much improved result over the previous year (DM 0.7 million).

Sales slightly improved

With the market continuing to be weak and price competition extremely sharp, Group and parent company sales were up only slightly in 1982. The table below shows how sales developed on Group and parent company level:

	1982 DM million	1981 DM million	Change in %
Group	3,248.8	3,229.0	+ 0.6
Parent company	1,866.3	1,823.9	+ 2.3

68 % of Group sales were generated by tyres and 32 % by technical products and other products and services. In the parent company, tyres and technical products plus other products and services accounted for 61 % and 39 % respectively. On 31st December, 1982 the workforce in the Group numbered 27,631. This is a decrease of 3.5 % or 1,009 employees vis-à-vis the previous year-end level.

Additions to fixed assets in the Group totalled DM 131.9 million (DM 158.4 million in the previous year). Again, capital investment programmes focused primarily on new product development, quality enhancement, efficiency improvement through higher productivity and cost reduction.

There has been a pleasing improvement in the structure of the consolidated balance sheet over the previous year. With a 2.7 % decrease in the balance sheet total, the equity capital ratio increased from 20.3 % to 22.0 % and the capital turnover rate improved from 1.64 to 1.69. At the same time, we were able to reduce the overall debt level quite substantially by DM 79.5 million. In the parent company too, the balance sheet total was down by 1.7 %, while sales were 2.3 % higher. The equity ratio improved from 32.9 % to 34.6 % (provided the Annual General Meeting accepts the Administration's proposal for the appropriation of retained income), and capital turnover was up from 1.48 to 1.54.

In a period which has been far from easy, our employees have demonstrated both commitment and flexibility. This has involved personal sacrifices in past years. Success is now evident, but still further efforts will be required. We extend our thanks to all our employees, Works Council members and other employee representatives for their commitment.

Outlook

Looking forward to 1983, our situation is such that we can tackle the problems which face us with confidence. This optimism is based on our reinforced position in Europe and the great many new products which have good market chances.

We expect to see a slight recovery in demand, because, for example, replacement needs can no longer be deferred in some sectors. Also, the first, albeit faint, signs of a recovery on the domestic market are in evidence.

We anticipate results to be at least as good as those in 1982. Much has already been done and more measures are planned to see the company emerges from the current business year even stronger.

Continental Tyre Division

In many markets, the year 1982 was characterized by the continuing worldwide recession. With capacities under-utilized and employment levels falling, competitors frequently engaged in ruinous price wars. This applied especially to truck tyres. Despite this disagreeable climate, the Tyre Division reported a positive development in terms of sales and profitability. The German market particularly, which is vital from the volume and profitability perspective, has increasingly acknowledged our policy of quality in development, production and marketing. All in all, the year 1982 was in line with the trend of recent years which has seen our position steadily strengthening.

Sales totalled DM 1.25 thousand million, an increase of 4.8 % over the previous year. It was not always possible to compensate for increased labour and material costs by cost discipline and rationalization. Opportunities for introducing price increases were limited. Our business policy proved to be right for the year under review and promising for the future. The main features are:

- Product innovations
- Better market penetration
- Strong position in the original equipment market
- Reinforced position with tyre dealers
- Increased presence on markets outside Europe.

Market success: M+S ContiContact TS 740

In a short space of time, the tyre operations of our company have brought many new developments to the production stage; this trend will continue throughout 1983 and in successive years.

The most notable example was the immediate and all-out success of our new winter tyres: M+S ContiContact TS 740 (for speeds of up to 160 km/h) and M+S Conti SuperContact TS 740 (for speeds of up to 190 km/h). They were both given a very positive verdict by the international motoring press, and the ADAC winter tyre testers put them in top place.

In their efforts to reduce vehicle weight, automotive manufacturers are beginning to introduce special lightweight spare tyres. From the outset, Continental has strongly supported the industry in this field, and we are already supplying the international original equipment sector.

The TransConti system for the light truck, truck and bus segments has proved a success. Further quality development, especially in the areas of tubeless tyres and special tyres, had a positive response from the market. The truck and bus tyre range was supplemented with new low section tyres.

In the case of industrial tyres, we broadened our range with a new product line which gives longer service life and better traction. We were able to complete the development of a solid tyre on a single-piece rim based on a new concept.

In the area of two-wheeler tyres, a number of new bicycle products met with the keen interest of the public at the IFMA (International Bicycle and Motorcycle Fair) in Cologne. They included a tubular tyre with a zipper seam, an unspliced bicycle tube, the first tubeless bicycle tyre and a tyre with luminous safety strips. The introduction on an international scale of the new generation of motorcycle tyres SuperTwin TK 22/TK 44 for high-power motorcycles is continuing according to plan.

Capital investment for new products and quality improvements

Going ahead with the manufacturing of new products demanded substantial capital investment. This apart, we have continued with the capital spending programme that was introduced in 1981 to achieve cost reduction. These measures have centered on the reduction of energy and production costs.

Our customers have come to recognize the high quality of our products. This is achieved, inter alia, by the use of the most up-to-date machinery developed in-house. Collaboration with our overseas cooperation partners has also been an asset in this context. Moreover, the individual employee, his qualifications and motivation are playing an increasingly important role. A special training programme "Quality assurance through self-accountability" is hoped to further the quality consciousness of the labour force and their supervisors. In this context, the increased automation of routine checks and the development of new testing processes are proving beneficial.

Stronger position in the original equipment sector

In the year under review, we won a pleasingly high share of the European original equipment market. We take it as a tribute to our development work that Germany's car manufacturers equipped all their models launched in 1982 also with tyres made by our Group.

The German passenger car sector experienced a fall-off in both domestic and foreign demand during the second half of 1982. With overall vehicle production nevertheless up over 1981, an increase in sales was reported. We were also able to expand our share of the market.

In the case of truck tyres, there has been a distinct weakening, caused especially by purchasing reticence on the domestic market and slacker demand for vehicles from the oil-producing countries. Nonetheless, we managed to defend our position in this market segment.

In West European markets outside Germany, we were able to increase sales quite considerably despite some severe sales problems in some sectors of the automotive industry. For both passenger car tyres and truck tyres we have increased our share of the original equipment market.

Satisfactory results on the replacement markets

Due to both weak economic activity and longer service life of tyres, the demand on replacement markets has either stagnated or declined. All major product groups were affected by fierce and in some cases even ruinous competition. The quality of our original equipment and its high acceptance level on replacement markets with both dealers and customers have helped us to achieve satisfactory results and to assert our position on the market; in some major segments, we were even able to expand our market shares. In the case of truck tyres, our concerted efforts in Great Britain, France, Switzerland and the U.S.A. brought pleasing sales results. The new winter tyre M+S ContiContact TS 740 has proved particularly successful on European replacement markets. Indeed, we were not always able to meet the demand. With this product, we have become market leader in Europe.

Continental's tyre business is based not only on parent company operations but also on our production and sales company in France and our sales companies in other key markets in Europe and the U.S.A. Continental France S.A.R.L., Sarreguemines/France closed the year under review very successfully with an improved result. The other sales companies have asserted their market positions, in some cases even improving on the previous year, and have achieved a reasonable profit.

Difficult business in our markets outside West Europe and the U.S.A.

These markets were characterized by low receptivity and a foreign exchange shortage in key countries so that we were unable to match the results of the previous year. Business with East European countries could not be continued to the full extent in 1982 due to the increasingly strained financial and credit situation. In other European countries, such as Finland, Greece and Portugal, we had a successful year with passenger car tyres. The establishment of a sales office in Jordan has had a positive effect on our coverage of neighbouring markets, and we were able to attract new customers. Towards the end of the year under review, the economic situation in the oil-exporting countries deteriorated further and led to reduced purchasing activity. If crude oil prices continue to fall, we shall have to take the resulting changes in the economic situation into account.

Production Companies of the Tyre Division

CONTINENTAL GUMMI-WERKE
AKTIENGESELLSCHAFT, HANOVER
Vahrenwald Plant, Hanover,
Stöcken Plant, Hanover
Korbach Plant

CONTINENTAL FRANCE S.A.R.L.
SARREGUEMINES, FRANCE
(Production and Sales)

Sales Companies of the Tyre Division

CONTINENTAL GUMMI-WERKE
AKTIENGESELLSCHAFT, HANOVER
Head Office and Regional Sales Offices

CONTINENTAL GUMMI AB,
SOLNA, SWEDEN

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

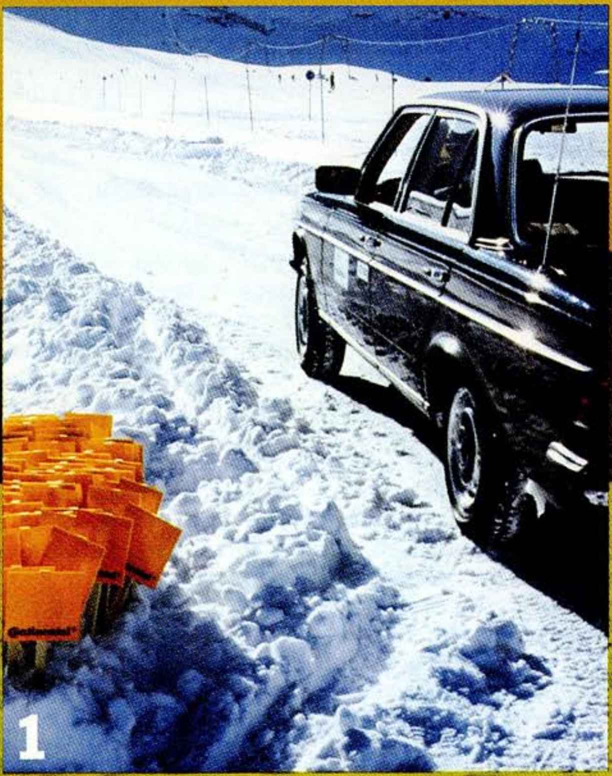
CONTINENTAL ITALIA S.P.A.,
MILAN, ITALY

CONTINENTAL CAOUTCHOUC (SUISSE) SA,
ZURICH, SWITZERLAND

CONTINENTAL PRODUCTS CORPORATION,
LYNDHURST, N.J., USA

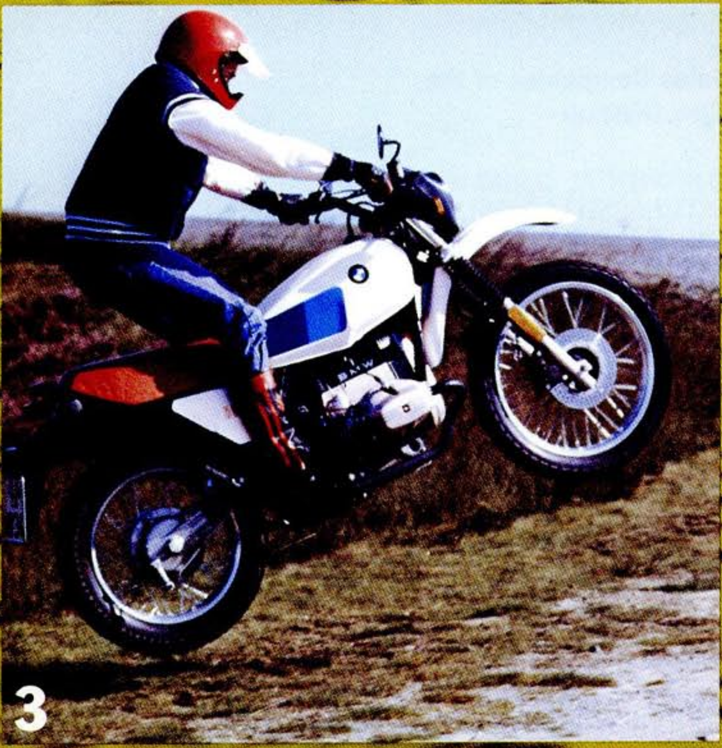
CONTINENTAL GUMMI GESELLSCHAFT MBH,
VÖSENDORF, AUSTRIA

Continental Tyre Division



1 New technology: As soon as it was launched the TS 740 became the best selling winter tyre in Germany. It is a third-generation winter tyre with an anti-skid tread compound and is finely siped.

2 A Conti invention: The unspliced bicycle tube Conti-Rapid makes removing the wheel unnecessary. Changing a tube becomes easy work.



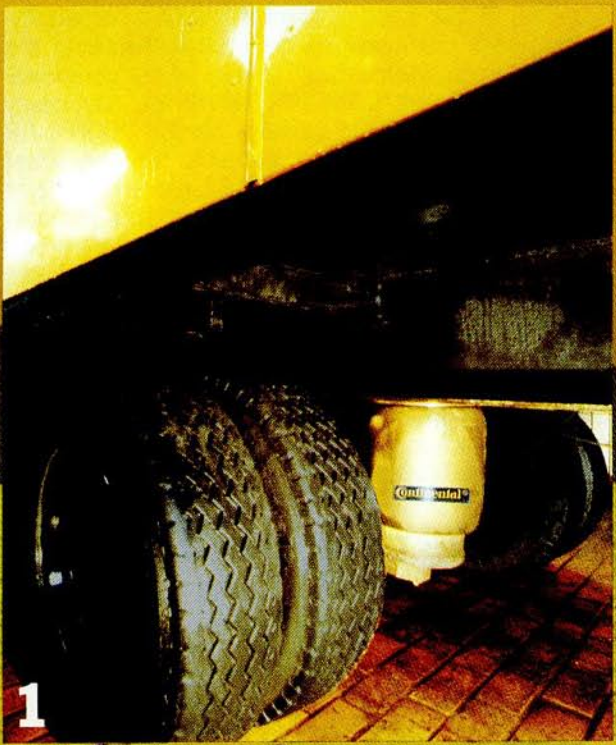
3 Winner off the road: The new Twinduro for cross-country machines masters the roughest conditions. Intrepid motorcyclists set great store by it.

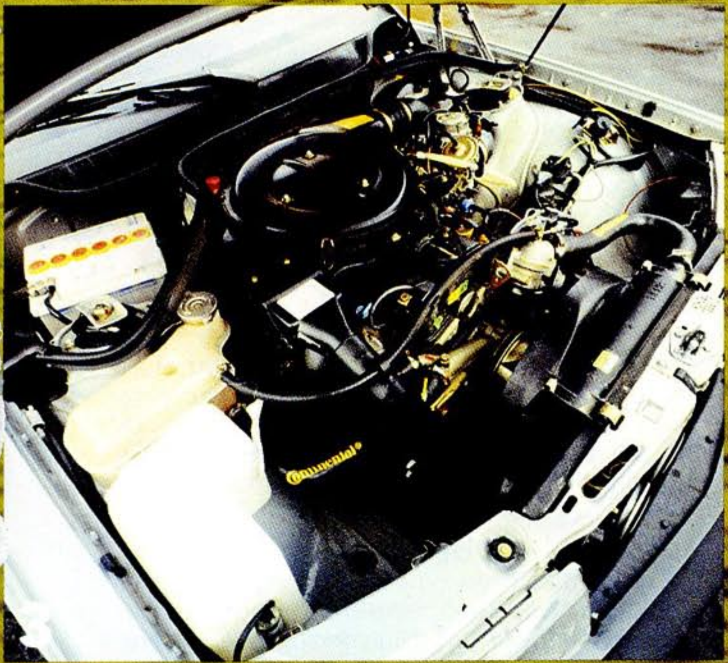
4 Champion in impassable terrain: Virtually nothing stops the MPT 80. It is one of the most successful tyres for off-the-road vehicles.

Technical Products Division

1 Advantages that are in the air: Conti air springs. Continental is Europe's leading supplier of air springs for passenger cars, buses, trucks, truck tractors and rolling stock.
Air springs, unlike steel springs, are adjustable and so a specified vehicle position can be maintained. This means: More comfort, consistently good suspension and constant vehicle height.

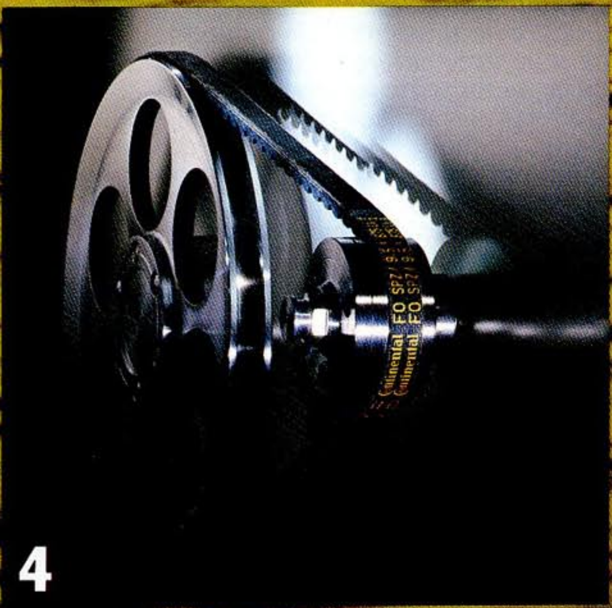
2 CONTI's new generation of printing blankets shows its superiority under the most exacting demands for top-class printing quality – especially with high-speed printing – in sheet and web offset.





3 Conti technology brand quality in automobile construction. CONTI precision products made of elastomers and thermoplastics are developed and produced to meet the demands of contemporary motor vehicle design. An example is the CONTI FO-Z heavy-duty V-belt in the Mercedes-Benz 190.

4 The CONTI FO-Z heavy-duty V-belt is a made-to-measure solution to the problems of compact transmission design in mechanical engineering and plant construction. Its features make it a saver on space, weight and energy, whilst giving maximum efficiency and reliability.



Technical Products Division

The Technical Products Division continued to develop positively in 1982. Even so, results are still not satisfactory. The market was affected by the overall bad economic situation in all customer sectors. Despite this, sales in the year under review improved by 2.6 % to DM 721 million.

A series of new and further developments helped us to reinforce our position in key segments such as the West European automotive industry. In South Africa and the Far East, we were able to expand our business relations which led to increased sales in areas such as conveyor belting, hose, printing blankets, and transmission elements. On the other hand, we failed to meet our sales expectations due to the continued recession in various customer segments. For this reason, production capacities were not always fully utilized, which meant that the relevant departments had to introduce spells of short-time work.

We expect the profit situation to improve as we continue to implement an extensive programme of internal measures. Apart from pruning the product range, the programme will focus on optimizing production control and making systematic cost reductions in all areas.

Fierce competition for conveyor belting

Business in this area was affected by a foreign exchange shortage in key customer countries and the worldwide economic slowdown with its negative implications for the extraction of raw materials in the Third World. Added to this was a disproportionately severe fall in demand, e. g., from the building sector and the steel industry, which had a major influence on the investment climate and the replacement business. The resulting price cutting in some segments of the market has reached the state of cutthroat competition.

The fact that we were nevertheless able to match the 1981 sales level is attributable primarily to a major order for steel-cord conveyor belting for the German lignite mining sector and to our winning an internationally hotly contested contract from abroad for conveyor belting.

In the final analysis, we were able to assert our position as leading producer of top-quality conveyor belting through our product innovations, ingenious solutions to technical problems and keen cost consciousness.

Printing blankets and engineered products successful

The markets for printing blankets, rubberized materials and engineered products developed very unevenly, especially in the second six months of the year. We could not always achieve our ambitious sales targets, and the market reacted extremely sensitively to unavoidable price increases.

However, in the printing blanket business especially, development continued to be positive following the introduction on international markets of our compressible printing blanket "CONTI-AIR SAPHIR GL". Our newly developed compressible printing blanket "CONTI-AIR WEB", a top-quality product primarily for web offset printing, was launched at DRUPA 82 and was brought onto the market in the course of the year. New contacts to potential customers for printing blankets were established in South America, the Far East and in the Middle East. We expect these to be the source of further growth in 1983. The heterogeneous market for engineered products called for a differentiated approach, with sophisticated products such as flexible containers for transportation and storage, large tarpaulins to cover aluminium quick-assembly storage tanks and pressure-equalizing diaphragms.

Conti produces 150 km of hose daily

The broad and versatile hose range was adapted to market requirements and extended as a result of intensive product development efforts to include items such as branched hose and hose for higher impulse levels and temperatures. With these, we were able to assert our position as leading supplier of high-grade hose.

All in all, our production capacities were well utilized in the year under review, and the divisional unit reported a substantial improvement in sales. The generally slack demand on the domestic market was largely offset by strong growth rates in the export of hydraulic hose and special types of automotive hose for export to Eastern Europe, Great Britain, France and South Africa.

Improved position and earnings with moulded parts and extrusions

For the product groups moulded parts and extrusions, 1982 saw a decisive improvement in the unsatisfactory profit situation and the implementation of measures to secure our market position. Altogether, we were able to assert our position despite continued fierce attacks from competitors with generally underutilized capacities.

In order to secure future employment levels, we focused on product development, especially in areas of supporting machinery and complex moulded parts with various cross-sections and incorporating several materials. Also, we worked on many new products for domestic and foreign motor vehicles which will soon be coming onto the market.

However, in the prevailing competitive situation we did not have adequate opportunities for passing on costs, and this hampered us in our goal of achieving sustained earnings improvement. In the foreign business especially, devaluations in the European monetary system and a temporary price freeze in France added to the difficulties. Despite these obstacles, however, we managed to achieve distinct progress in terms of sales and earnings in this product sector over the previous year.

Energy saving with modern Conti V-belts

The raw-edge Conti FO®-Z V-belt with moulded teeth as well as the Synchrobelt® HTD timing belt have long proved successful in the automotive industry. Leading European vehicle manufacturers use these transmission elements both for passenger cars and trucks.

However, these new Conti V-belts also provide the mechanical engineering sector with further opportunities for resolving transmission problems: They are efficient in the smallest area of space. For our customers this means lower costs for drive pulleys, mounts, and protective devices, hence combining high performance with lower energy consumption. Despite the strained economic situation, we were able to achieve satisfactory sales with these sophisticated transmission elements.

On the domestic market we were particularly successful with the multi-rib belt CONTI-V, a combination of the V and flat belts with the good features of both types of transmission element. A general decline in demand for conventional covered V-belts and the resulting excess capacities led to sharper competition, which meant that prices were substantially lower than in the previous year.

Conti technology sets the pace with air springs

The product group air springs and compensators achieved an above-average increase in sales despite more difficult operating conditions in all sectors. Demand from abroad especially was buoyant, and growth rates were well above those of the previous year.

Our strong position as an internationally reputed developer of air springs has given us further access to the original equipment sector of leading European vehicle manufacturers. We supply an almost complete range of air springs for the buses and trucks produced in Europe. We were able to strengthen our position on the international market for air springs for rolling stock. Sales of compensators were affected by the slump in plant and tank truck construction.

Special products affected by slack demand

The foam business was subject to unusually drastic price increases for raw materials. With demand continuing to be volatile almost throughout the year, we were not always able to pass on the necessary price increases for our products.

The footwear materials business did not equal the previous year's result and sustained a slight drop in sales. Here, the trend towards simple, low-cost footwear weakened the demand for our high-grade materials.

All in all, we are consistently pursuing our strategy of specializing in certain product/market segments and further decentralizing the relevant organization units. In selected export markets we plan to reinforce our position with a range of high-technology products.

Production Companies of the Technical Products Division

CONTINENTAL GUMMI-WERKE
AKTIENGESELLSCHAFT, HANOVER
Limmer Plant, Hanover
Stöcken Plant, Hanover
Vahrenwald Plant, Hanover
Korbach Plant
Northeim Plant
Dannenberg Plant

Sales Companies of the Technical Products Division

CONTINENTAL GUMMI-WERKE
AKTIENGESELLSCHAFT, HANOVER
Head Office and Regional Sales Offices

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

CONTINENTAL GUMMI AB
SOLNA, SWEDEN

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

CONTINENTAL ITALIA S.P.A.,
MILAN, ITALY

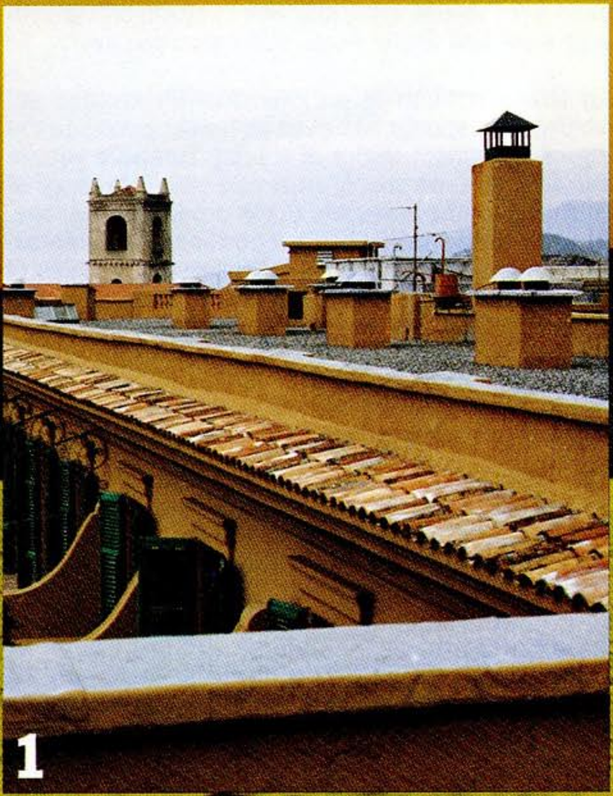
CONTINENTAL CAOUTCHOUC (SUISSE) SA,
ZURICH, SWITZERLAND

CONTINENTAL PRODUCTS CORPORATION,
LYNDHURST, N.J., USA

CONTINENTAL GUMMI GESELLSCHAFT MBH,
VÖSENDORF, AUSTRIA

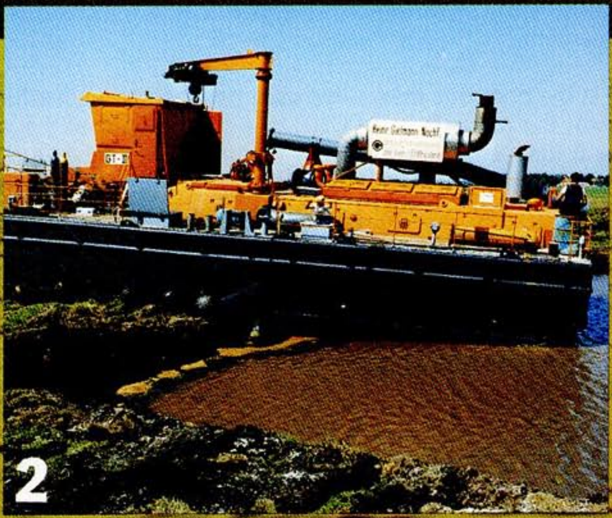
KA-RI-FIX TRANSPORTBAND-TECHNIK GMBH,
KERPEN-SINDORF
(Services and Sales)

Affiliated Companies Division



1 Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen.
Göppinger Kaliko's weather-resistant insulating sheets for flat roofs are proving their worth throughout Europe: From Gatwick Airport to the world-famous San Domenico hotel in Taormina (photo).

2 Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen.
The transportation of a 170-ton hydraulic dredger with the aid of DSB heavy-duty rollers. The rollers are inflated with compressed air on location. In the space of 6 hours, the dredger was pulled 2 kilometers on the rollers until it was lowered into the water.



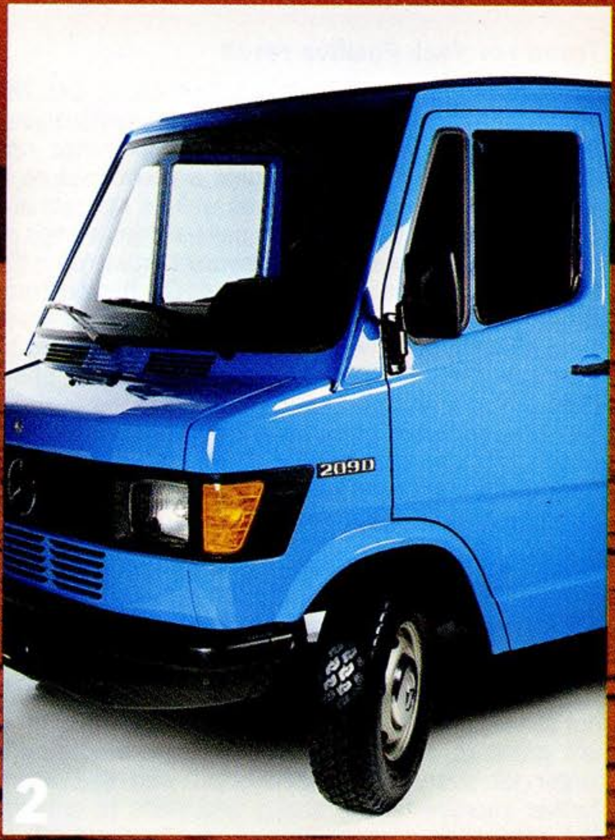
3 Techno-Chemie Kessler & Co. GmbH, Karben.
Installing oil cooling lines for the automobile industry. One of Techno-Chemie's many hose assemblies with couplings.

4 Vereinigte Göppinger-Bamberger Kaliko GmbH, Bamberg.
Attractive interior decoration with roller blinds made from material produced in our affiliated company. The blind material is based on a high-quality cotton fabric which passes through various finishing processes (water-proofed, made resistant to cutting and rolling). Blinds are available in a wide range of patterns and colours.

Uniroyal Englebert Division

1 Testing and product development: Interplay between man and electronics.

2 A new concept: With the very different brothers MAX C 5 and MAX C 50, Uniroyal caters for the different requirements in the area of light trucks and vans.



3 A speciality: The monoply R 40 "UB" was developed for suburban buses. Low rolling resistance and long life are its strong points.

4 Visible success: Many of the cars that made their début in 1982 run on Uniroyal. The new Rallye 340/70 as HR tyre and the Rallye 340/60 as new VR tyre have both been approved for BMW's 300 series.

Uniroyal Englebert Division

In the year under review our primary goal was to reduce costs and improve results. This was achieved by further successful implementation of the programme that was devised in 1981. These measures are aimed at restructuring production facilities, increasing the efficiency of the sales organization and improving product quality.

Trend reversal: Positive result

Sales of the Uniroyal Englebert Division at DM 782 million were some 1% lower than in the previous year. This decline is largely attributable to exchange rate movements. Volume sales present a varied picture in terms of both product groups as well as markets and customer groups. Despite some quite serious slumps on the market, there were no employment problems in the four Uniroyal Englebert tyre plants. On the contrary, strikes in Clairoix, France and Herstal, Belgium caused serious supply gaps which could not always be filled by the other plants. These strikes were symptomatic of the difficult social and political climate prevailing in these countries and were mirrored in results.

Nevertheless, we were able to achieve a positive overall result vis-à-vis the previous year.

Structural adjustments: Improved efficiency

Capital spending was continued according to plan and matched the previous year's level. The focus reflects our strategic goal: Concentration of production by product group to exploit all cost-reduction potential with larger lot sizes. Closely connected with this was a further improvement in quality and steps to optimize the production process as well as personnel adjustments.

New products: Straight to the top

1982, like previous years, was a year of new products. With the high-speed passenger car tyre Rallye 340 (HR) a major step forward was taken. For the first time ever, Uniroyal Englebert also produced VR class tyres for top speeds of more than 210 km/h. Right away, both these tyres went to the top, as confirmed by the tests of the motoring press. As the car manufacturers have also given the new products their technical approval, an increasing number of vehicles in the high-speed category will be equipped with these tyres in the future; this is in line with our strategy of achieving a good position in the high-technology segment.

In the case of tyres for delivery vans, Uniroyal Englebert leads the market in many European countries. This is attributable mainly to the MAX-T 2, the special features of which are robustness and high mileage. Now, a new family of delivery van tyres MAX-C 5 and MAX-C 50 has been developed to replace the existing generation.

By the end of 1983, Uniroyal Englebert will have replaced almost its entire tyre range with new products in a space of just four years. This has called for a high degree of creativity in R&D and flexibility in production.

Shifts in exchange parities

The volume sales of passenger car tyres to replacement markets in some countries were slightly down on the previous year. However, progress was made in Great Britain, the Benelux countries and Denmark. On the other hand, results in the replacement business were severely hit by industrial action.

In the original equipment sector, by contrast, we were able to improve our position further in an economic climate that was in part favourable. The improvement is attributable to the technical approvals given by the automotive industry. In the passenger car tyre sector, Uniroyal Englebert is now one of the leaders in Germany in this respect. In the case of light trucks and trucks, tyre sales lagged behind the previous year's level. This is due to cyclical developments and mirrors the market situation in most European countries.

Results in the individual countries only partly reflect the real market situation, distorted as they are by substantial shifts in currency parities. Whereas only two years ago, the high exchange rate for the pound sterling made production in Newbridge uneconomical, the productivity improvement programme and the rapid weakening of the British currency have now combined to make this site the most cost-effective of all our production facilities. At the same time, the production of tyres in France became more difficult due to the social and political situation. This is underlined by the negative result sustained in France. It will continue to be our main problem in 1983, and will be far more difficult to resolve than was the case on the British market.

Three main factors permit us to make a positive assessment for the future:

Our leading position with regard to new product technology, our ability to react flexibly to change and the inclusion in the corporate strategy of individual measures to improve the spread of risks and to optimize results.

Production Companies of the Uniroyal Englebert Division

UNIROYAL ENGLEBERT REIFEN GMBH,
AACHEN

PNEU UNIROYAL ENGLEBERT S.A.,
COMPIÈGNE, FRANCE

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

UNIROYAL ENGLEBERT TYRES LTD.,
NEWBRIDGE, GREAT BRITAIN

UNIROYAL ENGLEBERT TEXTILCORD S.A.,
STEINFORT, LUXEMBOURG

Sales Companies of the Uniroyal Englebert Division

UNIROYAL ENGLEBERT REIFEN GMBH,
AACHEN
Head Office and Regional Sales Offices

UNIROYAL ENGLEBERT DAEK A/S,
COPENHAGEN, DENMARK

UNIROYAL ENGLEBERT BANDEN B. V.,
BOESINGHELIEDE, NETHERLANDS

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

UNIROYAL ENGLEBERT TYRE TRADING GMBH,
AACHEN
(Financing and Sales)

Continental Gummi-Werke Aktiengesellschaft, Hanover

Share capital: DM 270,000,000

Continental-Alsa Schuhbedarf GmbH
Steinau-Uerzell
DM 3,000,000
100 %
***●

Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG
Eschershausen
DM 3,000,000
94.2 %
0.8 % Union-Mittelland-Gummi-GmbH, Hanover ●

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

Göppinger Kaliko- und Kunstleder-Werke GmbH
Eislingen
DM 16,000,000
93.8 %
***●

- 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 Kunststoff- und Kautschukvertriebsgesellschaft mbH, Hanover ***●

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 14,000,000
50 %

Deutsche Gasrusswerke GmbH
Dortmund
DM 250,000
28.8 %
2.2 % Uniroyal Englebert Reifen GmbH, Aachen

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

Drahtcord Saar Geschäftsführung GmbH
Merzig/Saar
DM 60,000
33.3 %

Drahtcord Saar GmbH & Co. KG
Merzig/Saar
DM 30,000,000
33.3 %

Pneu Uniroyal Englebert S.A.
Herstal-lez-Liège/Belgium
bfrs 460,000,000
78.2 %
21.7 % Uniroyal Englebert Textilcord, S.A. Steinfort/Luxembourg ●

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

Pneu Uniroyal Englebert S.A.
Compiègne/France
FF 46,000,090
99.9 % Continental France S.A.R.L. Sarreguemines/France
●

Uniroyal Englebert Reifen GmbH, Aachen
DM 30,000,000
98.2 %
1.8 % Pneu Uniroyal Englebert S.A., Herstal-lez-Liège/Belgium ●

- Uniroyal Englebert Daek A/S
  Copenhagen/Denmark
  dkr 3,500,000
  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 GmbH, Aachen ●

Uniroyal Englebert Tyre Trading GmbH, Aachen
DM 1,000,000
100 %
●

Continental Group

Continental France S.A.R.L.
Sarreguemines/France
FF 130,000,000
75 %
25 % Continental Caoutchouc-Export-Aktiengesellschaft. Hanover ●

Labortex Ltda.
Santo André/São Paulo
Brazil
Cr$ 480,850,000
100 % ●

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

Continental Caoutchouc-Compagnie GmbH
Hanover
DM 250,000
100 % * * * ●

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

Continental Caoutchouc-Export-Aktiengesellschaft
Hanover
DM 800,000
100 % * * * ●

- Continental Italia S.p.A.
  Milan/Italy
  Lire 1,700,000,000
  75 %
  25 % Continental Caoutchouc-Compagnie GmbH. Hanover ●
- AB Continental Caoutchouc-Compagnie
  Solna/Sweden
  skr 50,000
  100 % ●
- Continental Gummi AB
  Solna/Sweden
  skr 4,600,000
  97.8 %
  2.2 % AB Continental Caoutchouc-Compagnie Solna/Sweden ●
- Continental Products Corporation
  Lyndhurst/N.J./USA
  $ 2,600,000
  100 % ●

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

Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH
Hanover
DM 3,500,000
100 % * * * ●

- KA-RI-FIX Transportband-Technik GmbH
  Kerpen-Sindorf
  DM 1,000,000
  100 % ●
- VERGÖLST GmbH
  Bad Nauheim
  DM 28,000,000
  99.4 % Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH Hanover * * * ●
  - Reifen-Friedenburg, KG
    Troisdorf
    DM 90,000
    66.7 % * *
  - Reifen-Stötzel KG
    Hüttental-Weidenau
    DM 60,000
    66.7 % * *
  - 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 9 other companies with minor or no business activities.

Affiliated Companies Division

Sales of the consolidated majority shareholdings which form this division increased by 1.8 % to DM 617 million.

In the framework of our corporate strategy, it is the task of our affiliated companies to back up the Group's operations in the areas of both forward and backward integration. Most of the affiliates are also dependent on the automotive industry and its economic development. As for the Tyre and Technical Products Divisions, therefore, the year 1982 showed itself from two distinct sides:

Whereas in the first six months the companies reported an altogether positive development, the second half year resulted in quite a drastic slump in sales and profits for some of them. This was attributable to unexpected declines in orders and cancellations by key customers, especially in the automotive and building industries as well as in the public sector. In order to avoid redundancies on the one hand and a precipitous rise in inventory levels on the other, almost all domestic affiliates had to counter this development with spells of short-time work.

For this reason, the domestic companies failed to achieve their profit and sales targets. However, we are pleased to report a phase of consolidation at the two foreign companies in Brazil and Spain. Labortex (Brazil) and Continental Industrias (Spain) managed to make considerable progress over the previous year despite extremely difficult market conditions, and were able to achieve positive operating results.

There was no change from the previous year in the number of affiliates nor in the size of our holding in these companies.

Domestic companies

VERGÖLST GMBH, BAD NAUHEIM

Business activities: Sale of new tyres and car accessories, services in the motor vehicle sector as well as production and marketing of retreaded tyres.
Employees: 1,661

The lower receptivity of the German tyre market, a poor winter season, and the recession in the building industry and transportation sector have led to a stagnation in sales. Although the company again closed with a positive result, it did not match that of the previous year.

In 1982, the company began with the construction of a retreading plant for truck tyres. Work is proceeding according to plan, and completion can be expected in the second quarter of 1983.

In the marketing area, continued priority is being given to expanding the consumer business and thus better utilizing the branch network.

CLOUTH GUMMIWERKE AG, COLOGNE

Business activities: Production and marketing of conveyor belting, moulded rubber parts, rubberized fabrics, tank linings and hose.
Employees: 1,460

The company has enjoyed a successful business year, with all activities developing positively. Both sales and profit expectations were surpassed in 1982. Share capital was increased out of own resources from DM 12 million to DM 14 million. An unchanged dividend of 16 % will be paid out on this increased share capital.

GÖPPINGER KALIKO- UND KUNSTLEDER-WERKE GMBH, EISLINGEN

Business activities: Production and marketing of synthetic leather, sheeting and moulded parts.
Employees: 871

In the year 1982 business developed very unevenly. Whereas sales and profit targets were met in the first six months, the slowdown in the automotive industry and other key customer segments hit the company hard in the second half of the year. Advance financial commitments for the new automotive product "inside roof headlining" will contribute positively to results in years to come as unit volume increases. Although a profit was generated in 1982, it was lower than in the previous year.

VEREINIGTE GÖPPINGER-BAMBERGER KALIKO GMBH, BAMBERG

WILH. LEO'S NACHFOLGER GMBH, STUTTGART

Business activities: Production and marketing of book binding and roller blind materials as well as technical fabrics.
Employees in both companies: 169

Bamberger:

Sales development in the two most important market segments of Bamberger Kaliko – book binding and roller blind materials – were affected negatively by the decline in economic activity. However, this had only a minor impact on corporate results, which almost equalled the pleasing level of the previous year.

Wilh. Leo's Nachfolger:

This company also closed with a satisfactory result again.

DRAHTCORD SAAR GMBH & CO. KG, MERZIG/SAAR

Business activities: production of wire and wire cord for the tyre industry.
Employees: 815

Again, substantial productivity improvements were achieved while maintaining a high quality level and with virtually the same product range. Output rose by a further 7 % and was thus very close to the capacity limit. The good result of the previous year was exceeded slightly.

TECHNO-CHEMIE KESSLER & CO. GMBH, FRANKFURT/MAIN

Business activities: Production and marketing of hose assemblies, couplings and fittings.
Employees: 409

The economic downturn in the second half of the year especially led to severe under-employment in the company's two major customer segments – the building machine industry and truck manufacturing – which forced Techno-Chemie to introduce short-time work. For this reason, the company just failed to reach its sales target. At the same time, however, it was able to exploit much of the rationalization potential that was expected as a result of the relocation to the new production plant.

CONTINENTAL-ALSA SCHUHBEDARF GMBH, STEINAU-UERZELL

Business activities: Production and marketing of shoe soles, shoe parts, and footwear materials made of cork, rubber and synthetics.
Employees: 323

Although activity levels in the company were good throughout the year, profits were down due to strong pressure from both national and international competitors. A series of measures have now been initiated to give the company long-term viability.

KG DEUTSCHE GASRUSSWERKE G.M.B.H. & CO., DORTMUND

Business activities: Production of furnace and carbon black for the rubber industry.
Employees: 190

As in previous years, competition on the carbon black market continued to be extremely fierce in the year under review. It was not easy to keep capacities utilized. Further progress was made in the field of process engineering, and the target return on investment was met. The closing result can be described as quite pleasing.

DEUTSCHE SCHLAUCHBOOTFABRIK HANS SCHEIBERT GMBH & CO. KG, ESCHERSHAUSEN

Business activities: Production and marketing of rubber dinghies and inflatable life rafts as well as technical products made of rubberized fabric.
Employees: 191

The continued cost-saving drive of public sector contractors hit the company extremely hard in the year under review, and it was not always able to offset the resulting fall-off in sales. Nevertheless, the company managed to achieve an almost balanced result.

Foreign Companies

LABORTEX LTDA., SAO PAULO, BRAZIL

Business activities: Production and marketing of moulded rubber parts, extruded rubber sections and textile machinery accessories.
Employees: 453

In Brazil, the year 1982 was characterized by a very weak economy and continued extremely high financing costs. Despite these very unfavourable conditions, the company generated a positive result for the year, due not least to the sale of assets that were not essential to the company's operations and an improved equity base. Over the past few years, the company has steadily improved its quality standard. By transferring more and more Group technology to Labortex, its production programme has been supplemented with high-technology products.

CONTINENTAL INDUSTRIAS DEL CAUCHO SA, COSLADA/MADRID, SPAIN

Business activities: Production and marketing of retreaded tyres and industrial tyres as well as sale of new tyres.
Employees: 262

Although the Spanish authorities refused the company permission to adjust staffing levels to the lower business volume, the planned manpower reductions were made in some cases on a voluntary basis with corresponding severance compensation. Despite the difficult economic situation in Spain, considerable progress was made over the previous year, and a balanced operating result was achieved. Apart from stimulating industrial tyre sales by supplying more to other Group companies, the company also plans to push the sale of new Continental tyres in Spain.

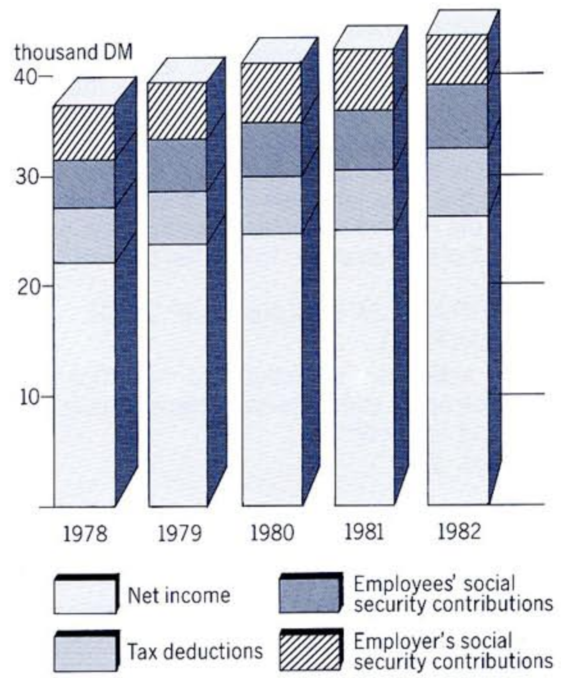
Employees

At the end of 1982, the workforce in the Group totalled 27,631 compared to 28,640 in the previous year. This is a decrease of 3.5 %.

On 31st December, 1982 the parent company had 15,905 employees on the payroll (16,675 in the previous year). The decrease here is 4.6 %. On the annual average, the workforce numbered 16,304 (17,352 in the previous year), i. e. 6.0 % less. 16.4 % of employees were foreign workers.

Because of the difficult market situation, new recruits were only taken on in exceptional cases in the year under review. On the whole, employees who left the company were not replaced. Any vacancies that occurred were filled by internal reshuffles.

Personnel costs per employee from 1978 to 1982



Personnel costs

Personnel costs in the parent company increased by 0.7 % from DM 743.1 million to DM 748.2 million. Personnel costs per employee and per hour worked were up by 7.2 % and 3.3 % respectively over the previous year. Direct wage and salary payments accounted for 74.2 % of total personnel costs. The increase in personnel costs per employee is attributable mainly to contractual wage and salary increases, higher social security contributions and less short-time work. The lower rate of increase in personnel costs per hour worked is due to fewer public holidays and to a reduction in the number of days lost through illness. It also reflects higher productivity.

	1981	1982	Change in %
Personnel costs in million DM	743.1	748.2	+0.7
Personnel costs per employee in DM	42,823	45,894	+7.2
Personnel costs per hour worked in DM	28.33	29.27	+3.3
Hours worked per employee	1,512	1,568	+3.7
Personnel costs in % of gross revenues	40.5	39.7	

By comparison with the previous year, personnel costs relative to gross revenues were down from 40.5 % to 39.7 %.

Lower absence rates

1982 showed a first decrease in the percentage of time lost relative to gross working hours. The sum of all absences was 25.0 % and thus almost equalled the 1979 level (27.8 % in the previous year). This decrease is attributable mainly to a lower ratio of short-time work, less absence through public holidays and a decrease in absence through illness to 6.5 %.

A clear yes to industrial training

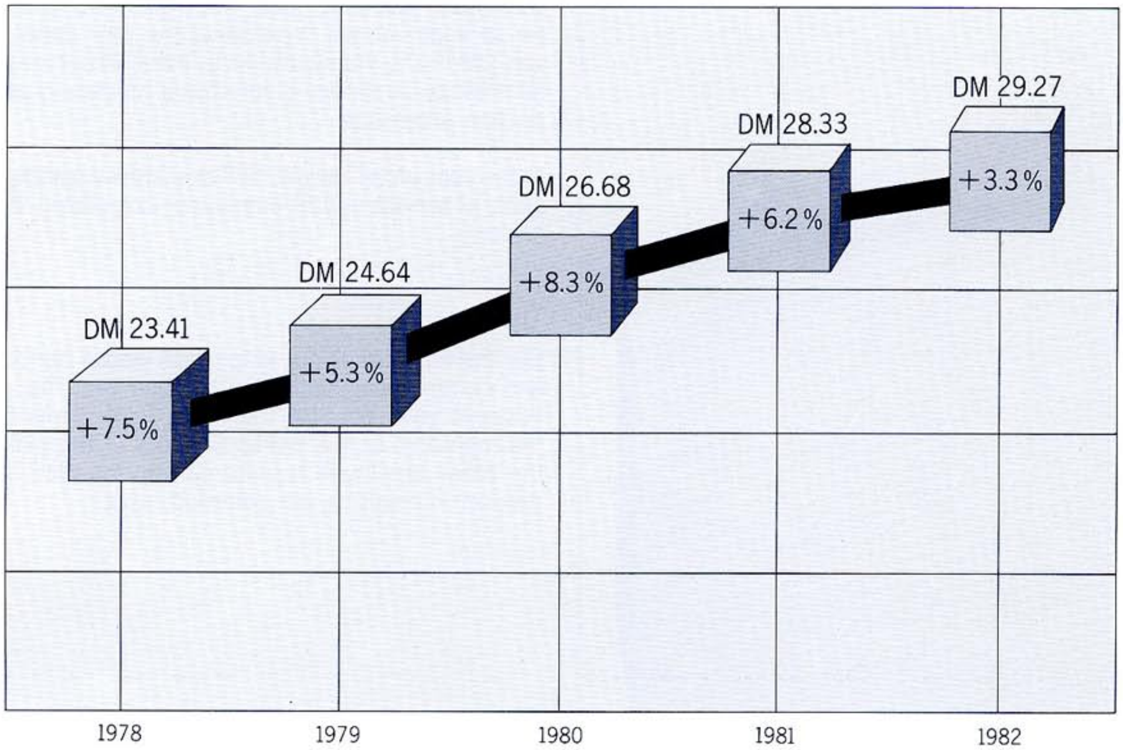
High priority was again given to employee training and development in 1982. The focus was on developing a pool of skilled foremen, language training, and advanced training of our marketing personnel. In order to ensure our efficiency and competitiveness as well as our ability to keep abreast of technological progress, we shall continue to provide our employees with a broad range of development opportunities.

At the end of 1982, more than 290 young people were training for 14 different vocations at our training centres in Hanover, Northeim and Korbach. The number of girls being trained for technical vocations was 37. This training of girls for technical vocations, a project which we began in 1978, has turned out to be successful.

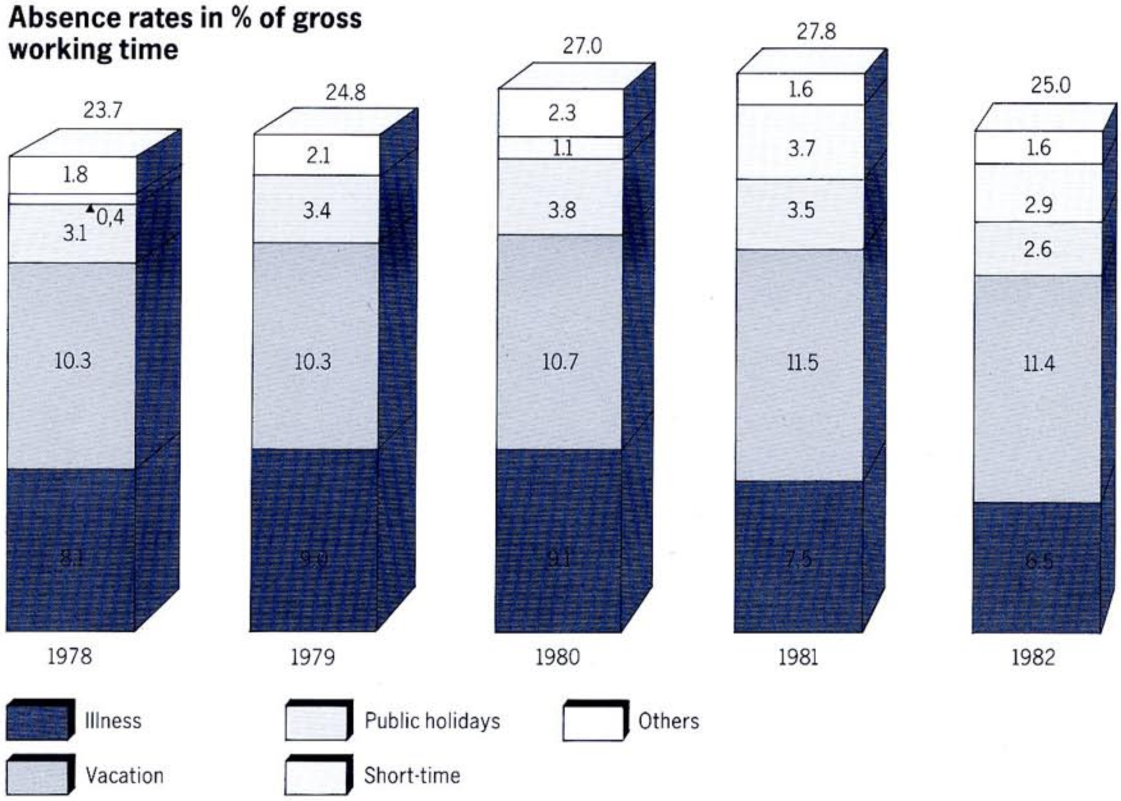
Industrial accident rate down

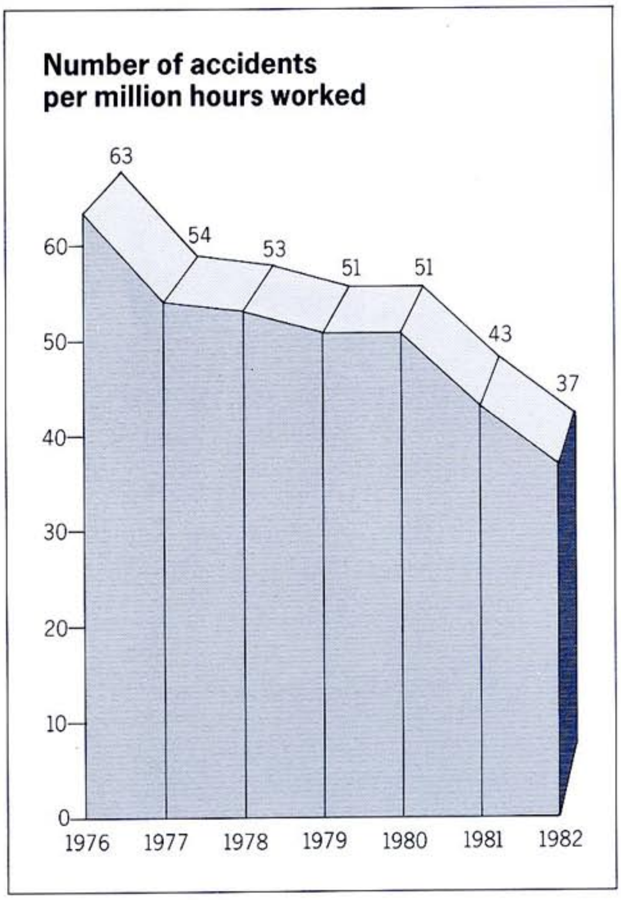
Thanks to the care taken by our employees and to technical safety devices and operating precautions, the number and seriousness of industrial accidents has continued to decrease. Industrial accidents per 1,000 employees fell from 64 in 1981 to 57 in 1982. Again, numerous special campaigns were carried out to improve occupational safety and reduce health hazards.

Personnel costs per hour worked



Absence rates in % of gross working time





By submitting a total of 1,918 improvement proposals (2,143 in the previous year), our employees again showed keen interest in helping to optimize production techniques and processes. The highest bonus awarded for an improvement proposal in the year under review was DM 15,173. We would like to thank all our employees for their commitment in improving machinery and production processes.

In the year under review, 528 employees completed 25 years of service and 51 employees completed 40 years seniority.

Thanks

Our thanks go to all our employees whose performance and commitment helped us to cope with this difficult business year. We also thank the Joint Works Council, the members of the Works Councils in the plants and the other employee representatives for their staunch support in resolving our common tasks.

Purchasing and Logistics

In the year under review, our production volume increased at a higher rate than our raw materials purchasing volume after price adjustment. This is attributable to our continued efforts to reduce material stocks. Raw material consumption totalled DM 582 million (DM 543 million in the previous year), an increase of some 7 %.

Our raw materials markets were characterized in 1982 by slack demand and inadequate capacity utilization, although the cost pressure continued to increase. The situation on these markets was made more difficult by the unexpected movements in the US dollar exchange rate as well as by rate adjustments within the European monetary system. These impeded cross-border goods traffic and made the market less transparent, but at the same time, they opened up new supply sources for us. All in all, we consolidated and stabilized our relationships with major suppliers in 1982. In sectors where the supply situation made it necessary or possible, new or alternative suppliers were tried out. We obtained an increased volume of carbon black and steel cord from the Group companies in which we have a holding. We have streamlined and restructed the organization and as a result achieved a considerable improvement in efficiency.

Further price increases

At the end of 1982, the average purchase price of our raw materials was more than 5 % higher than the average price in 1981, without taking changes in the commodity mix into account. This development resulted chiefly from price increases which were introduced the previous year but which did not become fully felt until 1982.

Throughout the period under review, natural rubber prices were well below the previous year's level. The weakness in the market which became apparent at the end of 1981 due to the persistently slack demand worldwide continued. The European market for synthetic rubber was characterized by company mergers which reduced competitive intensity, and continued low capacity utilization levels resulting in relatively high fixed costs. This, combined with a strong US dollar led our suppliers to up their prices. Together with the increases that were introduced in the previous year, the price of synthetic rubber was some 15 % higher than the average level in 1981.

We encountered a similar situation on our markets for rubber chemicals and carbon black. Here, too, suppliers raised their prices.

In the first few months of 1983, the price of natural rubber has soared by as much as 50 %. This trend reversal, which puts substantial pressure on us, has resulted from some speculation, but it is chiefly attributable to measures taken by the rubber-producing countries to throttle supplies at a time when worldwide demand is reviving. With regard to those of our raw materials based on petrochemical primary products, such as synthetic rubber, carbon black and rubber chemicals, prices are expected to remain more or less stable in 1983.

All in all, however, we have to assume that our raw material costs will continue to rise in 1983.

Proposal for the Appropriation of Profits

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

Retained income	DM 8,422,001.08
● Reduction in corporation tax upon resolution in accordance with this proposal	DM 4,737,375.61
	DM 13,159,376.69
● Allocation to free reserves	DM 9,150,000.—
● Profit carried forward	DM 4,009,376.69

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

Net income	DM 5.7 million	
Reduction in corporation tax	DM 4.7 million	
		DM 10.4 million
50 % of allocation to untaxed reserves		DM 3.9 million
Increase in equity		DM 14.3 million

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

Financial position

The balance sheet total decreased by DM 20.5 million (1.7 %) over the previous year, with fixed assets accounting for DM 3.2 million and current assets, including deferred items, totalling DM 17.3 million. While we were able to reduce accounts receivable from customers and affiliated companies, inventory levels were virtually unchanged from the previous year. Because sales increased by 2.3 %, the capital turnover rate (ratio of sales to total assets) improved from 1.48 to 1.54.

If we calculate this ratio without investments, because they do not contribute directly to parent company sales, the capital turnover rate is 1.96 (1.86 in the previous year). The balance sheet total without investments decreased by DM 27.4 million (2.8 %). The positive development of the capital turnover rate is particularly noticeable if we consider it over a period of time. Although sales increased by 22.9 % in the last five years, the balance sheet total only rose by 15.9 % so that the capital turnover rate improved from 1.63 to 1.96.

The proportion of fixed assets to total assets is virtually unchanged at 57.8 % (57.0 % in the previous year). Investments in the affiliated companies account for just over one third.

If the Annual General Meeting approves the profit appropriation proposal, free reserves will increase by a total of DM 12.0 million, including the reduction in corporation tax, and the profit to be carried forward will amount to DM 4.0 million. On this basis equity capital will increase by DM 14.3 million, and the equity ratio will reach 34.6 % (32.9 % in the previous year). In this calculation, we have included 50 % of untaxed reserves in equity capital.

With lower capital commitment and higher equity, the company's indebtedness (sum of all short and long-term liabilities including other accruals) was down by DM 39.2 million.

Recent economic development has shown just how important an adequate equity base is. It is all the more pleasing to see this ratio improve for the first time in many years.

On 31. 12. 1982, 60.0 % of fixed assets were financed out of equity (57.6 % in the previous year). 88.6 % of fixed assets and inventories were financed out of equity and long-term debt (90.5 % in the previous year).

Due to lower new investment and higher cash flow, the self-financing ratio (financing of additions to fixed assets out of the net cash flow) improved quite considerably to 122.4 % (57.0 % in the previous year).

The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) decreased slightly to 66.5 % (68.2 % in the previous year). The reason for this is the lower volume of long-term debt due to repayments. With interest rates expected to fall, we have not yet negotiated new long-term loans in place of those that were paid off.

Profit situation

Despite the difficult situation on our markets and the further cost increases in 1982, there has been a substantial improvement in our profit situation. The main contributing factors here were our intensive rationalization and cost-reduction efforts. Gross revenues increased by 3 % to DM 1,886.8 million. The gross margin was up by DM 44.1 million (4.4 %) to DM 1,051.5 million, due to the reduced proportion of merchandise in material consumption.

The net operating result (before profit tax but including both financing charges and net income from investments) improved to DM 23.2 million (DM 2.8 million in the previous year).

On balance, the extraordinary result shows a deficit of DM 3.4 million. This includes depreciation of investment, losses or gains resulting from the change in adjustments to receivables as well as the release of reserves that were no longer required. The income from the reduction in accrued pensions following the introduction of the new computation rate of 6 % was allocated to untaxed reserves, taking full advantage of the tax benefits amounting to $^{11}/_{12}$ (DM 6.5 million).

Altogether, profit before tax is DM 19.8 million. After the tax deduction, net income amounts to DM 5.7 million.

The gross cash flow improved to DM 116.1 million (DM 88.5 million in the previous year) and is equivalent to 6.2 % of sales (4.9 % in the previous year). Earnings per share, based on the DVFA formula, were DM 1.96.

Balance sheet

Evaluation and depreciation methods are unchanged from previous years.

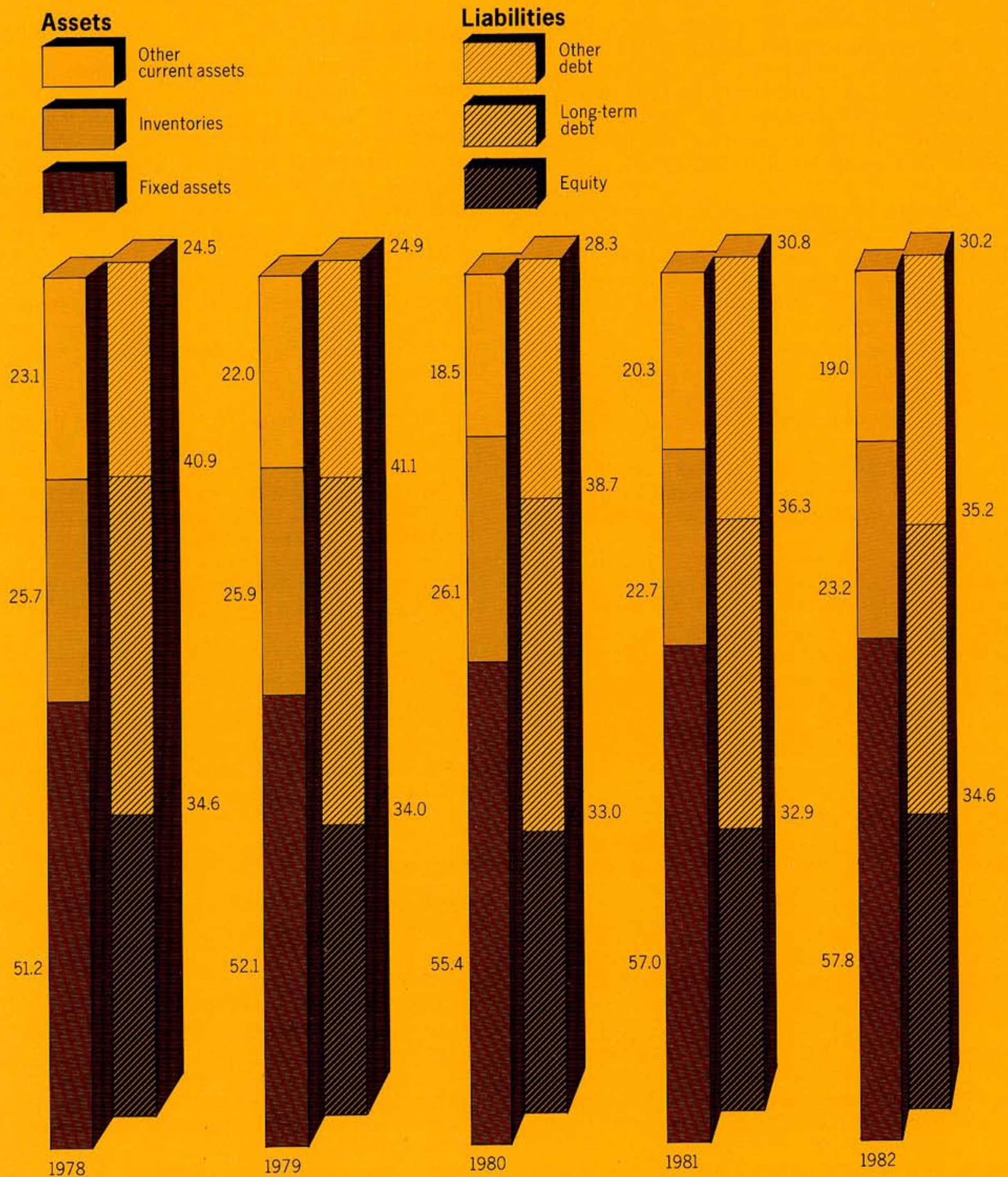
Property, plant and equipment

Property, plant and equipment were valued at initial or production cost.

Additions to property, plant and equipment amounted to DM 66.1 million. The Tyre Division accounted for 56 % and the Technical Products Division for 44 % of these additions. New investments were DM 24.1 million lower than in the previous year. This development does not however mean that we are cutting back on our investment programmes.

Again, the focus was mainly on rationalization and quality assurance, increased application of new technologies, and, in some areas, capacity expansion, especially for tyres, industrial hose, air springs, seals and anti-vibration elements.

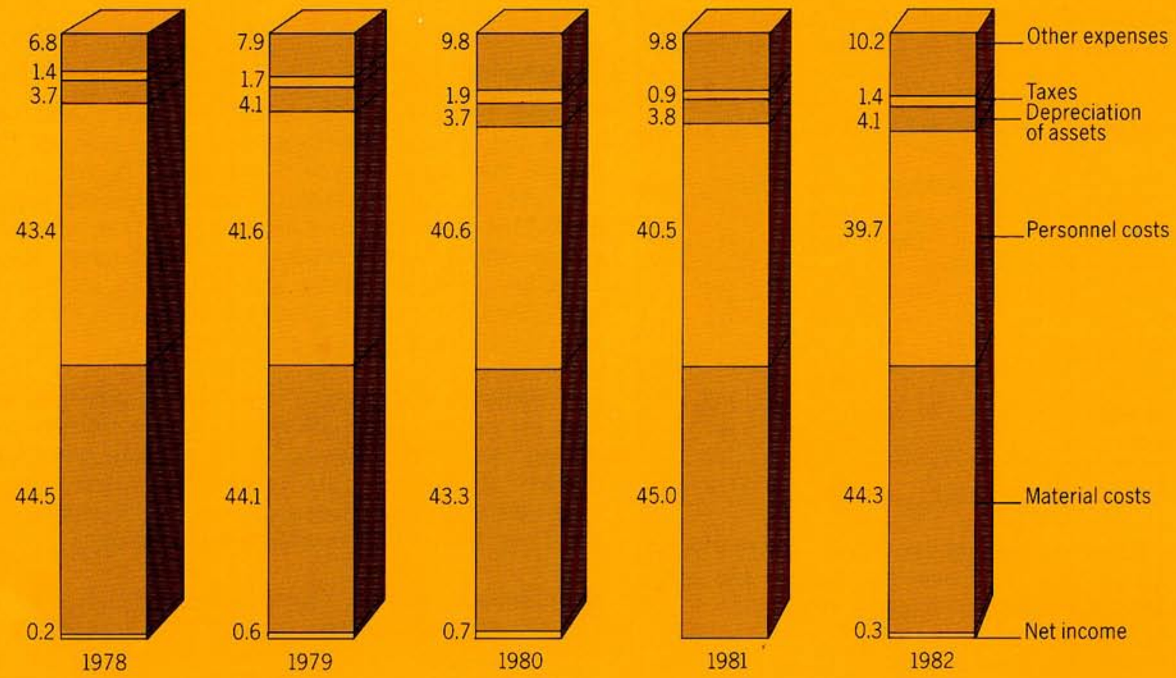
Balance sheet structure



Balance sheet total (in million DM)

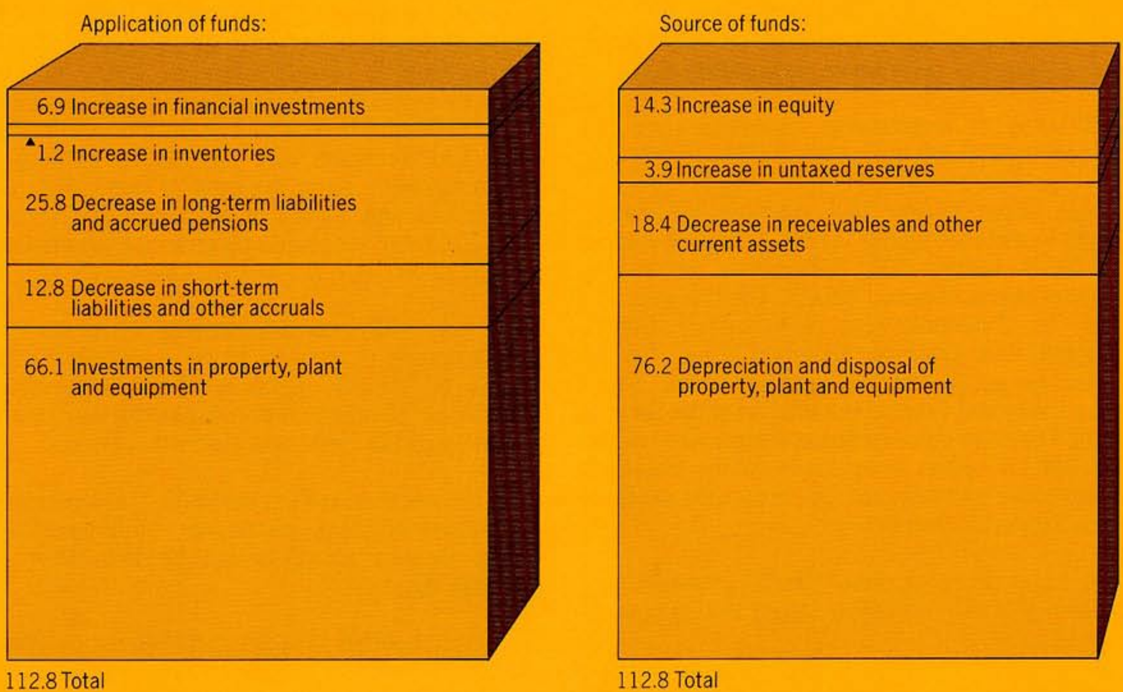
1978	1979	1980	1981	1982
1091.4	1156.3	1210.5	1234.9	1214.5
Changes in %				
+4.1	+5.9	+4.7	+2.0	−1.7

Breakdown of expenditure in % of gross revenues



Financing in 1982

(in million DM)



Depreciation has increased to DM 73.5 million (DM 69.5 million in the previous year); it is equivalent to 111.2 % of new investments and is computed according to the straight-line method based on a useful life of up to 33 years for property, 10 to 12.5 years for machinery, up to 20 years for supply lines and various plant fixtures, and 4–7 years for furniture and equipment. Economic goods of low value are written off in the year of purchase.

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

	Additions and reclassification DM million	Depreciation DM million
Land and buildings	2.8	0.1
Machinery and fixtures	44.0	3.4
Furniture and equipment	29.4	7.7
	76.2	11.2

The disposal of fixed assets amounting to DM 2.7 million relates to obsolete machinery and fixtures and to the sale of land and buildings no longer required.

Over the last five years, investment in property, plant and equipment has totalled DM 388.1 million and was 18.4 % higher than depreciation. During the same period, financial investment has amounted to DM 172.0 million. Total gross investment since 1977 is therefore DM 560.1 million.

Investments

Financial investments were valued at purchase cost. Where necessary, the book value was written down.

The book value of investments increased over the previous year by DM 7.0 million to DM 260.5 million.

In the year under review, the capital of Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen was increased by a further DM 2.0 million within the framework of the authorized capital. Capital was also increased at Continental-Alsa Schuhbedarf GmbH, Steinau-Ürzell and Uniroyal Englebert Tyre Trading GmbH, Aachen as well as at Labortex Ltda., Santo André/São Paulo and Continental Industrias del Caucho SA, Madrid. The book value of this company was written down by DM 1.5 million in response to the country's difficult economic situation and the continuing devaluation of the Spanish currency.

The book value of Formpolster GmbH, Hanover was written down (DM 2.0 million) to reflect the company's actual asset value.

The relationships of the affiliated companies within the Group can be seen from the chart on pages 18 and 19.

Long-term loans are mainly home-building loans to our employees. Interest-free loans have been adjusted to their present value. Any differences between present value and last year's value are included in additions to investments.

Inventories

Despite higher raw material prices and production costs, the value of inventories was up by only DM 1.2 million. The increase in work-in-progress is mainly attributable to the fact that production was not interrupted between Christmas and the New Year, whereas in the previous year production almost came to a standstill during the same period due to short-time work. The fall in finished goods inventories is a result of large deliveries at the end of the year.

Raw materials and supplies are stated at the lower of cost or market value, with discounts and rebates deducted. Work-in-progress and finished goods were valued at manufacturing cost, including proportionate factory overhead. Due allowance was made for slow-moving goods and items with limited usability.

A comparison with the figures of five years ago shows that the decrease in capital tied up derives largely from inventories. Since 31. 12. 1977 sales have increased by 22.9 %, whilst inventories have fallen by DM 11.0 million or 3.8 %.

Accounts receivable and other assets

The increase in payments on account is a result of prepayments for imported raw materials and for machinery which are charged out to Group companies.

Accounts receivable from deliveries and services have fallen by DM 7.6 million (4.3 %) despite the increase in sales. The decrease this year arises primarily from foreign business. As in the case of inventories, a comparison with the figures of five years ago shows that since 31. 12. 1977 accounts receivable have increased at a much slower rate (1.0 %) than sales (22.9 %).

Apart from individual adjustments which were offset from accounts receivable, there is a general bad debt reserve of DM 2.2 million on the liabilities side. The largest part of receivables outstanding was due at the beginning of 1983 and was paid on schedule.

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

The position other debtors includes receivables from short-time work, tax credits, receivables from suppliers and employees and from the sale of three plots of real estate.

Capital and reserves

Share capital is unchanged at DM 270 million. There is also conditionally authorized capital of DM 41 million. Share capital can be increased by a maximum of this amount in instalments up to 1992 by exercising the conversion rights afforded by the convertible loans taken in 1979.

Executive Board and Supervisory Board resolved to allocate one-half the net income, i. e. DM 2.85 million, to free reserves in accordance with § 58, section 2 of the Stock Corporation Law. If the Annual General Meeting approves the Administration's proposal for the appropriation of profit, a further DM 9.15 million will be allocated to free reserves, bringing the total to DM 12.0 million.

Untaxed reserves

The increase of DM 6.5 million in untaxed reserves relates to a reserve formed in accordance with § 52, section 5 EStG ($^{11}/_{12}$ from the change in the rate used to compute accrued pensions from 5.5 % to 6 %), and the addition of DM 1.3 million is in accordance with § 6b EStG (profit from the sale of land and buildings).

Accruals

Accrued pensions are computed on actuarial principles.

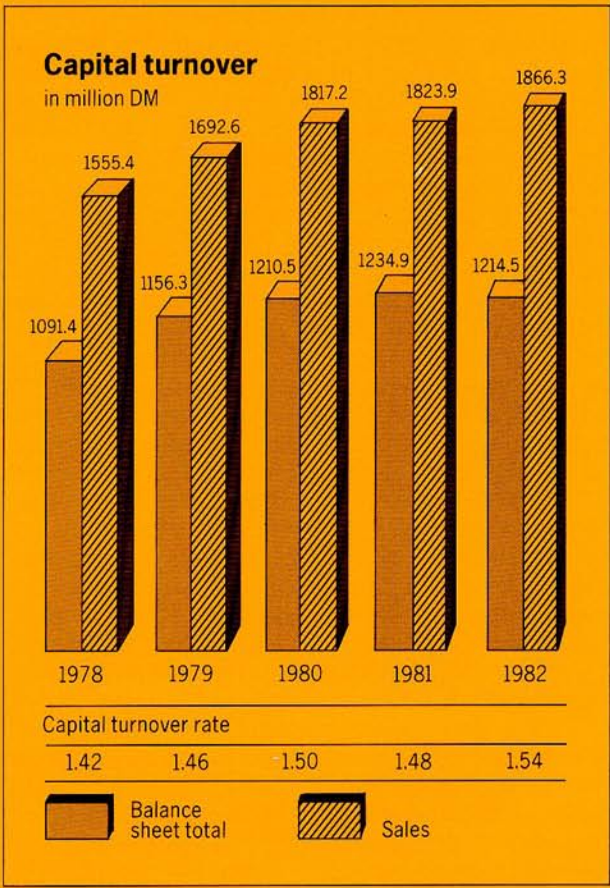
Other accruals include warranties, bonuses and other commitments arising in the ordinary course of business, contributions to the employers' liability insurance association, tax commitments and risks from contingent liabilities on notes.

In accordance with the Shareholders' resolution of 30th June, 1982 on the appropriation of profits the corporation tax reserve of DM 2.0 million that was formed in the previous year was written back and included in the profit carried forward from that year.

For the business year 1982, this balance sheet item again includes a corporation tax reserve (DM 4.7 million) to provide for dividend payments. This will be written back if the Shareholders approve the Administration's proposal for the appropriation of profit.

Liabilities

Scheduled repayment of long-term liabilities totalled DM 26.4 million in the year under review. New loans have not yet been negotiated due to the development of interest rates in 1982. Apart from a generally cautious inventory policy, trade payables were also down on the previous year as a result of different payment intervals which are based on calendar days. As in the past, full advantage was taken of cash discounts offered for prompt payment. Liabilities due to banks were reduced by DM 9.5 million. Altogether, long-term and short-term liabilities fell by DM 38.8 million. The increase in payments received on account is due mainly to advance payments made by foreign customers.



Payments due to affiliated companies include a loan of DM 60.0 million negotiated by our Dutch financing company Intercontinental Rubber Finance B.V., Amsterdam.

The increase in other liabilities is due chiefly to wages and salaries and tax commitments.

Contingent liabilities

The increase in contingent liabilities on notes to DM 169.1 million (DM 144.7 million in the previous year) is attributable to the customer notes of our affiliated companies which are settled by the parent company in the framework of central cash management.

Guarantees and warranties amounting to DM 107.7 million (DM 137.0 million in the previous year) are on the decrease. They relate almost entirely to liabilities of our affiliated companies.

Outstanding payments on contributions to the capital of affiliated companies and liabilities due to cooperatives totalled DM 3.8 million (DM 5.8 million in the previous year).

Profit and loss statement

Sales rose by 2.3 % to DM 1,866.3 million, with the Tyre Division generating an unchanged 61 % and the other products 39 %. The export sales ratio was down slightly to 28.6 % (29.3 % in the previous year) owing to exchange rate movements. Five years ago, exports accounted for just 25.2 % of sales.

As inventories remained at the previous year's level, there was little change in stock levels. With the increasing trend towards less in-house production of capital goods and contracting still more out to other companies, overheads capitalized on the construction of fixed assets decreased by DM 4.6 million to DM 20.7 million. Gross revenues were up by some 3 % on the previous year to DM 1,886.8 million.

The proportion of material costs to gross revenues fell to 44.3 % (45.0 % in the previous year). This is due largely to a lower volume of merchandise purchased from foreign affiliated companies which accounted for 17.2 % of material costs (21.7 % in the previous year). Raw materials costs, including energy costs but excluding merchandise, rose by some 7.0 %. Personnel costs accounted for 39.7 % of gross revenues (40.5 % in the previous year). This figure too is influenced by the lower volume of merchandise. In absolute terms, the change in personnel and social security costs was only DM 5.1 million (+ 0.7 %).

Income from affiliated companies in the form of profit and loss pooling agreements and dividends amounted to DM 7.2 million. Because of the economic difficulties, the profits of the domestic affiliated companies came under strong pressure, and the profits transferred to the parent company were much lower.

With regard to our foreign affiliated companies, we derived a dividend from our Luxembourg company.

Virtually the only loss was from Continental-Alsa Schuhbedarf GmbH, Steinau-Ürzell.

Interest expenses and income can only be considered on balance because the loans in transit from central financing to our domestic affiliated companies distort the two positions. Due to falling interest rates and a noticeable reduction in the debt level, the interest balance decreased considerably to DM 52.5 million (DM 60.1 million in the previous year) and is equivalent to 2.8 % of gross revenues (3.3 % in the previous year).

Other income includes cost reimbursements, services, sales in our kitchens and canteens, foreign exchange gains, proceeds from rents and leases, insurance payments and so forth. Apart from investment subsidies and grants, extraordinary income includes earnings from receivables that were written off earlier and released adjustments.

Tax expenditures relate only to the period under review. The increase is attributable mainly to the higher profit and to the fact that we have to calculate the corporation tax, as if paying a dividend.

Other expenses include freight charges, rents, repairs, insurance premiums, advertising expenditure, and other costs arising in the ordinary course of business. The change in the sum total is on a par with the increase in gross revenues.

With regard to our assessment of the action filed to the arbitral tribunal by Kléber-Colombes S.A. and others, there is no change in the situation. Our legal counsel continues to advise us that this action has no chance of succeeding.

The remuneration of Executive Board members totalled DM 3,072,371 (DM 3,220,229 in the previous year), including DM 285,000 at affiliated companies. Pensions to retired members of the Executive Board or their dependents amounted to DM 2,455,734 (DM 2,186,270 in the previous year). Emoluments to the Supervisory Board were unchanged at DM 215,000.

Hanover, 11th April, 1983
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 affiliated companies.

In addition to the parent company, the consolidated accounts cover sixteen domestic and nineteen foreign affiliated companies, 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 18 and 19.

The consolidated Group of companies is unchanged from the previous year. Eight domestic and five 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 affiliated companies were translated at the exchange rates which were valid on 31st December, 1982.

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 (profit and loss statement) 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 affiliated company'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 affiliated company'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

Sales to third parties rose by 0.6 % to DM 3,248.8 million. All the same, the balance sheet total again decreased by 2.7 % to DM 1,918.7 million. This means that the capital turnover rate improved to 1.69 (1.64 in the previous year). In the Group too, this ratio has improved every year since consolidated statements were first published for the business year 1979.

Although investments were again higher than depreciation, fixed assets (including the difference arising from consolidation) fell by DM 11.6 million in the year under review. We made a conscious effort to dispose of property and real estate that was not vital to operations, and this resulted in deductions of DM 6.6 million. The decrease in current assets, including prepaid expenses, was even larger, at DM 42.2 million. This pleasing development applies both to inventories and trade receivables.

If the Shareholders approve the Administration's proposal for the appropriation of income retained by the parent company, equity capital, including 50 % of untaxed reserves, will increase by DM 21.6 million to DM 422.8 million and will then represent 22.0 % of total assets. Consolidated open reserves included in equity capital have decreased by DM 12.3 million; however, following the Shareholders' resolution, they will be strengthened by DM 9.15 million. The decline is due to the currency conversion of the companies that are consolidated in accordance with the Anglo-American method; their equity capital is included in the difference arising from consolidation at historical rates, while the remaining balance sheet items are translated at year-end rates.

Total debt (all short and long-term liabilities including other accruals) was again down. On the closing date it was DM 79.5 million lower than in the previous year and amounted to DM 1,286.5 million. Because interest rates were expected to fall, new loans were not negotiated as long-term debt was paid off. 85.0 % of fixed assets and inventories were financed out of long-term debt. This is virtually unchanged from the previous year (83.6 %).

As indicated earlier, investments were higher than depreciation. The self-financing ratio (financing of additions to fixed assets out of the net cash flow) improved to 130.9 % from 78.0 % in the previous year due to a much better cash flow.

The equivalent ratio for the parent company is 122.4 % (57.0 % in the previous year). We are satisfied with this development and attach great importance to the Group's stronger financial position.

The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) also improved to 72.1 % (70.9 % in the previous year).

Profit situation

The profit includes all profits and losses of our consolidated affiliated companies. Profit before tax improved substantially to DM 59.0 million (DM 12.2 million in the previous year). After the deduction of taxes, annual net income is DM 20.0 million. Despite this increase in profit, we are not satisfied with the overall development, as some foreign companies are still having to battle with difficulties. Moreover, the disproportionately high tax rate is a severe burden on profit. Because profits or losses in European companies cannot be offset for tax purposes, some companies are subject to profit tax while others show a loss; the tax burden therefore does not reflect the overall profit situation.

Pre-tax return on sales has improved to 1.8 % (0.4 % in the previous year). The pre-tax return on equity increased to 14.0 % (3.0 % in the previous year). After the deduction of profit tax, return on sales was 0.6 % and return on equity 4.7 %.

The gross cash flow increased to DM 204.7 million (DM 140.0 million in the previous year). Of this, the parent company accounts for DM 116.1 million. The cash flow at Group level was equivalent to 6.3 % of sales (4.3 % in the previous year) and in the parent company 6.2 % (4.9 % in the previous year).

Balance sheet

The consolidated statements too are based on the same evaluation and depreciation principles as in previous years.

Property, plant and equipment

Additions to property, plant and equipment decreased to DM 131.9 million (DM 158.4 million in the previous year). Again, however, this was higher than depreciation, which totalled DM 123.8 million. One of the reasons for the decrease of DM 17.3 million in property, plant and equipment is that currency conversion was done at year-end rates. Due to the weakening of foreign currencies, figures on the closing date were on balance some DM 15 million down vis-à-vis the previous year. This item also includes the write-ups which, in accordance with Brazilian law, were in cruzeiros but which did not result in higher fixed assets when converted into DM due to the continued devaluation of the Brazilian currency.

As in the previous year, the parent company accounted for 61 % of property, plant and equipment. Due mainly to exchange movements, foreign property, plant and equipment decreased from DM 172.0 million to DM 157.4 million and accounted for 22.1 % of the total on the closing date.

Additions and depreciation can be broken down as follows:

	Additions DM million	Depreciation DM million
Parent company	66.1	73.5
Consolidated affiliated companies	65.8	50.3
	131.9	123.8

Additions to property, plant and equipment relate chiefly to machinery and moulds which serve to maintain our performance in terms of technology and cost. In specific priority areas, there was minor expansion of production capacity. Depreciation is done according to standard Group principles, using the straight-line method and on the basis of the same useful life.

Investments

The consolidated companies can be seen in the chart on pages 18 and 19. Interests in the non-consolidated companies are held mainly by the parent organization. Changes over the previous year only occurred in a few small companies. Loans are mainly 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 the amounts calculated according to the modified Anglo-American method, which are virtually unchanged from the previous year, this item also includes the differences between nominal capital and reserves on the one hand and book values on the other.

In addition to undisclosed reserves from acquisitions, this item includes exchange rate differences resulting from the equity capital translation of foreign companies which were consolidated according to the German method. Since these companies were acquired or subsequent capital increases were made, the DM has strengthened relative to the other currencies. The equity capital of these companies translated at the rate valid on 31. 12. 1982 therefore shows a lower DM value than the corresponding book value at the parent company. However, because the fixed assets of these companies were also converted at the same closing-date rates, thus resulting in DM values that are lower than the book values this part of the difference arising from consolidation can also be regarded as undisclosed reserves. The change in the year under review derives almost entirely from the consolidation of Continental France S.A.R.L., which was severely affected by the foreign exchange loss, but which at the same time accumulated a substantial volume of undisclosed reserves.

Inventories

The decrease in inventories is due above all to systematic efforts to reduce stock levels, although at the same time costs and prices increased through inflation. In the foreign companies, these increases could only partly be offset by foreign exchange movements. In volume terms, inventories are noticeably lower.

The breakdown is as follows:

	DM million
Parent company	281.0
Consolidated affiliated companies	267.3
	548.3

By comparison with the first consolidated balance sheet of 31. 12. 1979, inventories have fallen by DM 54.2 million (9.0 %), although over the same period sales have increased by 9.5 %.

Throughout the Group, inventories are stated at purchase or manufacturing cost, according to the lower of cost or market value. Intercompany profits are eliminated. Proper allowance was made for slow-moving goods and items with limited usability.

Accounts receivable and other assets

As at the parent company, accounts receivable in the affiliated companies have also decreased. Adequate individual adjustments have been made to provide against other possible risks. Apart from these, a lump-sum bad debt reserve of DM 6.0 million on the liabilities side covers the general credit risk.

Other assets include receivables from sundry business and interest claims, receivables from suppliers and tax authorities, wage prepayments and other claims.

Open reserves

Open reserves have decreased by DM 12.3 million. DM 8.3 million of this derives from exchange rate fluctuations since 31st December, 1981. Also, we have withdrawn DM 6.8 million to repay the loss carried forward, less the retained income of the consolidated companies. Adding to this the DM 2.8 million of the parent company's profit that was allocated to open reserves, the figure on 31st December, 1982 was DM 116.6 million.

Untaxed reserves

Additions result chiefly from the change in the interest rate used to compute the German companies' pension accruals. In accordance with § 52, section 5 EStG, $^{11}/_{12}$ of the difference was allocated to untaxed reserves. At the same time, DM 1.3 million was allocated at the parent company in accordance with § 6b EStG.

Accruals

The pension accruals of the German companies were computed on the basis of actuarial principles, applying a rate of 6 %.

Also included in pension accruals are the statutory compensation claims of some foreign companies. In the case of two affiliated companies, the funds available in benefit schemes are short by some DM 10 million.

Other accruals include bonus and tax commitments, warranties, contributions to the employers' liability insurance association, vacation claims and other commitments arising in the ordinary course of business.

Liabilities

Long-term liabilities have decreased by DM 45.3 million to DM 483.3 million following scheduled repayments. We were able to cut other short-term liabilities by DM 51.8 million.

Trade payables decreased by DM 5.1 million to DM 132.4 million, whilst other liabilities, especially tax commitments, rose. As in the previous year, the main items here are wages and salaries, including payroll tax and outstanding social security contributions. Also included are interest charges and commission as well as other liabilities arising in the ordinary course of business.

Contingent liabilities

Contingent liabilities on notes increased to DM 194.0 million (DM 161.4 million in the previous year). Warranties and guarantees totalling DM 8.5 million (DM 12.3 million in the previous year) relate to some non-consolidated companies.

Profit and loss statement

On foreign markets consolidated sales – translated into DM – to third parties fell by 1.2 %, whilst there was an improvement of 1.7 % in domestic sales. On balance, sales have increased by 0.6 % to DM 3,248.8 million. 37.3 % was generated on foreign markets (38.0 % in the previous year).

Sales have developed as follows:

	1982	1981
	DM million	DM million
Parent company	1,500.0	1,477.9
Consolidated affiliated companies	1,748.8	1,751.1
	3,248.8	3,229.0

Gross revenues increased by 1.7 % to DM 3,272.9 million. Material costs relative to gross revenues were virtually unchanged at 41.6 % (41.5 % in the previous year), and personnel costs were slightly down at 39.1 % (39.6 % in the previous year). These figures are lower than the corresponding ratios on parent company level because the sales companies have relatively low personnel and material costs.

The interest balance fell to DM 102.7 million (DM 124.5 million in the previous year) due to the low interest rate and the substantially lower total debt level. It was equivalent to 3.1 % of gross revenues (3.9 % in the previous year).

Extraordinary income of DM 15.3 million (DM 14.3 million in the previous year) includes mainly investment subsidies and grants as well as released adjustments and income deriving from other periods.

The increase in taxes to DM 65.6 million (DM 37.9 million in the previous year) relates almost entirely to profit taxes and is attributable to the improved profit situation.

The main items in other expenses are freight charges, advertising expenditure and other distribution costs as well as repairs, rents and so forth.

Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1982

Assets	31st December, 1982 DM	DM	DM	31st Dec., 1981 DM 1 000
I. Fixed Assets				
A. Property, Plant and Equipment				
1. Land				
a) with commercial plant and other buildings	141 118 485			147 373
b) with residential buildings	928 151			1 428
c) without buildings	70 800			71
2. Machinery	222 044 253			218 578
3. Furniture and equipment	48 172 703			44 799
4. Assets under construction and prepayments	23 658 050			33 807
		435 992 442		446 056
B. Investments				
1. Investments	260 520 479			253 516
2. Loans with a term of at least four years	4 903 770			5 003
thereof secured by mortgages DM 3 435 871		265 424 249		258 519
			701 416 691	704 575
II. Current Assets				
A. Inventories				
1. Raw materials and consumables	61 941 801			62 180
2. Work in progress	50 304 527			46 546
3. Finished goods, goods for resale	169 069 172			171 405
		281 315 500		280 131
B. Other Current Assets				
1. Payments on account		2 330 980		749
2. Accounts receivable		168 943 002		176 497
due after one year DM 656 030				
3. Notes receivable		113 291		383
rediscountable with the Federal Bank DM 113 291				
4. Checks		6 843 559		3 711
5. Cash on hand, at Federal Bank and on postal check accounts		1 744 192		4 845
6. Cash at banks		3 535 464		4 324
7. Due from affiliated companies		29 753 142		40 421
8. Other receivables (§ 89 Stock Corp. Law)		307 678		396
9. Other debtors		15 862 676		16 340
			510 749 484	527 797
III. Prepaid Expenses				
1. Loan discounts		941 583		1 223
2. Other		1 382 097		1 352
			2 323 680	2 575
			1 214 489 855	1 234 947

iabilities

	31st December, 1982 DM	DM	31st Dec., 1981 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		
Addition to reserves	2 850 000		
		57 850 000	55 000
II. Untaxed Reserves according to tax regulations		27 028 321	19 200
V. General bad debt reserve		2 250 000	2 250
V. Accruals			
1. Accrued pensions	124 556 676		123 991
2. Accruals for deferred maintenance	687 600		642
3. Other accruals	91 166 652		88 974
		216 410 928	213 607
I. Liabilities with Terms of at least four Years			
1. Bonds and convertible bonds	118 928 650		129 026
thereof secured by mortgages . . . DM 40 000 000			
2. Loans and debentures	53 594 063		63 640
thereof secured by mortgages . . . DM 53 457 183			
3. Due to banks	116 250 000		122 500
thereof secured by mortgages . . . DM —			
		288 772 713	315 166
Due within four years . . . DM 152 261 786			
I. Other Liabilities			
1. Trade payables	49 312 979		60 233
2. Notes payable	56 340 745		57 418
3. Due to banks	40 706 123		50 242
4. Payments received on account	5 473 300		2 616
5. Due to affiliated companies	67 274 894		69 003
6. Other liabilities	58 647 851		50 647
		277 755 892	290 159
I. Retained Income		8 422 001	3 565
1. Contingent liabilities on notes . . . DM 169 052 782			
2. Guarantees . . . DM 93 043 268			
3. Warranties . . . DM 14 665 903			
		1 214 489 855	1 234 947

Balance Sheet

Fixed Assets Schedule 1982

	1st January, 1982 DM	Additions DM	Reclassifications DM	Deductions DM	Depreciation DM	31st Dec., 1982 DM
A. **Property, Plant and Equipment**						
1. Land						
a) with commercial plant and other buildings	147 373 258	1 830 757	1 004 311	243 634	8 846 207	141 118 485
b) with residential buildings	1 428 325		2 775	463 286	39 663	928 151
c) without buildings	70 800					70 800
2. Machinery	218 578 360	28 890 826	15 125 319	1 409 126	39 141 126	222 044 253
3. Furniture and equipment	44 798 473	24 515 816	4 842 214	550 625	25 433 175	48 172 703
4. Assets under construction and prepayments	33 806 801	10 901 072	– 20 974 619		75 204	23 658 050
	446 056 017	66 138 471	—	2 666 671	73 535 375	435 992 442
B. **Investments**						
1. Investments	253 516 404	10 504 075			3 500 000	260 520 479
2. Loans with a term of at least four years	5 002 489	542 290		641 009		4 903 770
	258 518 893	11 046 365	—	641 009	3 500 000	265 424 249
	704 574 910	77 184 836	—	3 307 680	77 035 375	701 416 691

Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1982

	1982 DM	1982 DM	1981 DM 1000
1. **Sales**	1 866 286 860		1 823 941
2. Change in inventories of products	– 203 623		– 16 545
		1 866 083 237	1 807 396
3. Overheads capitalized on construction of fixed assets		20 710 950	25 300
4. **Gross Revenues**		1 886 794 187	1 832 696
5. Raw materials and consumables		835 328 832	825 328
6. **Gross Margin**		1 051 465 355	1 007 368
7. Income from profit and loss pooling agreements	4 932 315		16 404
8. Investment income	5 210 363		6 526
9. Income from long-term loans	501 173		503
10. Interest and similar income	10 935 149		17 650
11. Income from disposal of fixed assets	1 934 230		3 796
12. Income from release of accruals	9 507 724		10 368
13. Income from release of untaxed reserves	—		2 741
14. Other income	31 610 380		31 838
thereof extraordinary . . . DM 3 722 739		64 631 334	89 826
		1 116 096 689	1 097 194
15. Wages and salaries	621 144 276		619 075
16. Social security contributions	105 495 642		102 284
17. Pensions and employees' welfare	21 619 087		21 710
18. Depreciation of property, plant and equipment	73 535 375		69 494
19. Depreciation of investments	3 500 000		
20. Depreciation of current assets (excluding inventories)	3 021 784		1 240
21. Losses from disposal of fixed assets	1 060 426		1 181
22. Interest and similar expenses	63 420 491		77 804
23. Taxes			
a) on income profit and net worth . . . DM 29 235 674			
charged to subsidiaries . . . DM 3 596 866			
DM 25 638 808			
b) Other . . . DM 736 004			
	26 374 812		17 182
24. Expenses from profit and loss pooling agreements	2 936 568		1 784
25. Additions to untaxed reserves	7 828 321		11 700
26. Other expenses	180 457 344		173 183
		1 110 394 126	1 096 637
27. **Net Income**		5 702 563	557
carry forward:		5 702 563	557

	1982 DM	1982 DM	1981 DM 1000
carried forward:		5 702 563	557
28. Profit brought forward		5 569 438	3 008
29. Addition to reserves		2 850 000	—
30. **Retained Income**		8 422 001	3 565

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, 11th April, 1983

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1982

Assets	31st December, 1982 DM	31st December, 1982 DM	31st Dec., 1981 DM 1000
I. Fixed Assets			
A. Property, Plant, Equipment and Intangible Assets			
1. Land			
a) with commercial plant and other buildings	215 065 711		228 587
b) with residential buildings	1 710 940		2 349
c) without buildings	2 303 679		2 580
2. Buildings on third parties' land	5 129 601		4 674
3. Machinery	354 905 173		343 721
4. Furniture and equipment	85 387 388		82 839
5. Assets under construction and prepayments	48 757 420		65 502
6. Intangible assets	530 663		827
	713 790 575		731 079
B. Investments			
1. Investments	32 331 415		31 174
2. Investment securities	1 912 066		1 952
3. Loans with a term of at least four years	7 027 092		6 728
thereof secured by mortgages . . . DM 3 802 821	41 270 573		39 854
		755 061 148	770 933
II. Difference arising from Consolidation		60 627 991	56 315
thereof from consolidation according to Anglo-American method . . . DM 10 984 140			
III. Current Assets			
A. Inventories	548 263 294		561 394
B. Other Current Assets			
1. Payments on account	2 528 412		835
2. Accounts receivable	477 878 697		501 208
due after one year . . . DM 1 199 548			
3. Notes receivable	3 709 931		4 929
rediscountable with the Federal Bank . . . DM 974 396			
4. Checks	10 034 557		5 238
5. Cash on hand, at Federal Bank and on postal check accounts	3 299 829		8 298
6. Cash at banks	8 298 574		10 583
7. Marketable securities	2 612		125
8. Due from affiliated companies	918 885		1 319
9. Other receivables (§ 89 Stock Corp. Law)	497 973		650
10. Other debtors	42 436 854		44 242
		1 097 869 618	1 138 821
IV. Prepaid Expenses			
1. Loan discounts	1 113 448		1 569
2. Other	4 047 909		4 858
		5 161 357	6 427
V. Accumulated Deficit		—	17 156
		1 918 720 114	1 989 652

Liabilities	31st December, 1982 DM	31st December, 1982 DM	31st Dec., 1981 DM 1000
I. **Share Capital**		270 000 000	270 000
Conditionally authorized capital. DM 41 000 000			
II. **Open Reserves**			
1. Legal reserves	66 000 000		66 000
2. Free reserves	50 604 318		62 923
		116 604 318	128 923
III. **Minority Interests**		1 765 101	1 721
including interests in net income DM 108 204			
including interests in losses DM 23 858			
IV. **Untaxed Reserves** according to German and foreign tax regulations		42 624 097	31 398
V. **General bad debt reserve**		6 026 049	6 723
VI. **Accruals**			
1. Accrued pensions and similar accruals	186 699 814		184 813
2. Accruals for deferred maintenance	1 423 856		2 185
3. Other accruals	186 289 637		167 956
		374 413 307	354 954
VII. **Liabilities with Terms of at least four Years**			
1. Bonds and convertible bonds	118 928 650		129 026
thereof secured by mortgages DM 40 000 000			
2. Loans and debentures	53 594 063		63 640
thereof secured by mortgages DM 53 457 183			
3. Due to banks	286 496 975		313 877
thereof secured by mortgages DM 49 397 393			
4. Other liabilities	24 316 510		22 080
thereof secured by mortgages DM 5 273 541			
		483 336 198	528 623
Due within four years DM 235 164 132			
VIII. **Other Liabilities**			
1. Trade payables	132 391 560		137 490
2. Notes payable	118 704 777		120 479
3. Due to banks	229 744 419		289 907
4. Payments received on account	10 324 811		6 390
5. Due to affiliated companies	4 834		4
6. Other liabilities	124 358 642		113 040
		615 529 043	667 310
IX. **Retained Income**		8 422 001	—
Contingent liabilities on notes. DM 193 963 918			
Guarantees DM 3 502 964			
Warranties DM 4 959 331			
		1 918 720 114	1 989 652

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1982

	1982 DM	1982 DM	1981 DM 1000
1. **Sales**	3 248 790 759		3 229 014
2. Change in inventories of products	– 5 040 397		– 49 625
		3 243 750 362	3 179 389
3. Overheads capitalized on construction of fixed assets		29 128 380	37 991
4. **Gross Revenues**		3 272 878 742	3 217 380
5. Raw materials and consumables		1 361 342 944	1 335 023
6. **Gross Margin**		1 911 535 798	1 882 357
7. Income from profit and loss pooling agreements	1 221		—
8. Investment income	2 207 603		1 901
9. Income from long-term loans	1 441 864		1 865
10. Interest and similar income	5 958 168		7 626
11. Income from disposal of fixed assets	2 895 632		7 815
12. Income from release of accruals	19 785 747		17 062
13. Income from release of untaxed reserves	1 427 761		4 855
14. Other income	52 050 575		56 407
thereof extraordinary ... DM 15 259 500		85 768 571	97 531
		1 997 304 369	1 979 888
15. Wages and salaries	1 044 041 143		1 044 768
16. Social security contributions	201 748 350		198 968
17. Pensions and employees'welfare	32 287 549		29 908
18. Depreciation of property, plant, equipment and intangible assets	123 818 023		119 998
19. Depreciation of investments including affiliated companies	2 431 230		346
20. Depreciation of current assets (excluding inventories)	8 697 300		10 230
21. Losses from disposal of fixed assets	4 341 031		5 996
22. Interest and similar expenses	108 636 849		132 083
23. Taxes			
a) on income profit and net worth ... DM 59 479 047			
b) Other ... DM 6 152 591			
	65 631 638		37 906
24. Expenses from profit and loss pooling agreements	265		15
25. Additions to untaxed reserves (without reserve acc. to § 3 Auslandsinvestitionsgesetz)	13 148 984		225
26. Other expenses	372 509 732		398 729
		1 977 292 094	1 979 172
27. **Net Income** before additions to untaxed reserves according to § 3 Auslandsinvestitionsgesetz		20 012 275	716
carry forward:		20 012 275	716

	1982 DM	1982 DM	1981 DM 1000
carried forward:		20 012 275	716
8. Additions to untaxed reserves according to § 3 Auslandsinvestitionsgesetz		—	18 200
9. **Net income** (1981 Net loss)		20 012 275	17 484
0. Loss brought forward (1981 Profit brought forward)	17 155 809		3 008
1. Decrease as per Shareholders'meeting of 30th June, 1982	2 004 998		
		15 150 811	
2. Addition to reserves		2 850 000	1 107
3. Release of reserves		6 759 916	—
4. Addition to difference arising from consolidation		265 034	1 537
5. Income attributable to Minority Interest		108 204	123
6. Losses attributable to Minority Interest		23 859	87
7. **Retained Income** (1981 Accumulated Deficit)		8 422 001	17 156

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, 11th April, 1983

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant