Annual Report 1983

Continental

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

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

Rudolf Alt*)
Chairman,
Hanover Works Council

Siegfried Brauns*)
Works Council Member,
Stöcken Plant

Manfred Emcke
Management Consultant

Baron Albert Englebert
Président du Conseil Pneu Uniroyal Englebert S. A.

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 e. V., Lower Saxony Division

Joachim Kost*)
Plant Manager, Vahrenwald

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Robert Bosch GmbH

Wilhelm Meyerheim
Former Member of the Executive Board
and the Supervisory Board,
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Klaus Piltz
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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

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

The main subjects of these consultations were the budget, long-range planning, including capital investment policy as well as fundamental questions of business policy and corporate structure. Particularly noteworthy in this connection are the structural plans for the Technical Products Division and the resolution to issue an option bond of DM 70 million. The Supervisory Board has also taken decisions on matters which, in accordance with legal provisions or company statutes, were submitted to us for approval.

The annual statements and the annual report have been audited by Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, who were selected as auditors by the Annual Shareholders' Meeting and who have confirmed that these are in consonance with the law and company statutes. We concur with the auditors' report.

We have also examined the annual statements as per 31st December, 1983, the proposal for the appropriation of retained income and the annual report. In doing so, there were no objections raised.

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

We have approved the annual financial statements prepared by the Executive Board, and these are now adopted. We endorse the proposal for the appropriation of retained income.

Hanover, 30th April, 1984

The Supervisory Board

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, Affiliates and Purchasing

Vice Presidents

Wilhelm Borgmann
Manufacturing and Engineering, Tyres

Bernd Frangenberg
Logistics, Marketing Tyres Uniroyal

Jens P. Howaldt
General Counsel and Corporate Planning

Report of the Executive Board

Continental again able to pay dividend

1983 saw the return of Continental to that group of German companies being able to pay a dividend. This marks the company's achievement of a significant milestone. Despite persistently difficult market conditions, earnings have been generated which permit a distribution of profit. Our goal, which we declared in 1980, was not to propose a dividend payment to the Annual Shareholders' Meeting until we could expect to do so in the future too. As far as the result for the current year can be anticipated at this point, we shall also be able to declare a dividend for 1984. We would like to thank our shareholders for bearing with the difficult course that our company has had to take.

This clearly visible recovery is having a positive effect on the company's ability to act and on our image of ourselves. It gives the company the opportunity to continue growing and facilitates the financing of major capital investment projects. Particularly, these include the restructuring programmes in the plants and the further development of the new tyre concept ContiTyreSystem through to its commercial marketing.

All three Divisions – Tyres, Technical Products and Affiliated Companies – have contributed positively to the significant improvement of results in 1983.

Turn for the better

In wide sectors of the world economy, the recession came to a halt in 1983. Starting in the USA, where employment levels improved significantly, positive trends also characterized the economic climate in the second half of the year in some West European countries. However, in France and Italy the economic depression persisted. While unemployment in the USA fell, it continued to worsen in some other Western industrialized countries. Hopes of a further fall in interest rates and with it incentives for new investment were put off until 1984.

The long awaited economic upswing was felt only in some sectors of German industry in 1983. Business failures and unresolved structural problems in some industries created psychological barriers and did nothing to dispel the sense of economic uncertainty. As a result, both investment climate and consumer spending continued to suffer.

Development in the West European automotive industry, on which our business hinges, was uneven in 1983. While passenger car sales rose, sales of light and heavy trucks were down.

The West European rubber industry continues to suffer from excess capacities, distortion of competition and inadequate productivity. With the acquisition by the Japanese Sumitomo Group of Dunlop's British, German and French tyre plants an adjustment process may well have been started in the year under review. We estimate that excess capacities in Western Europe are still in the region of 10 to 15 %.

In Germany, the upswing in the motor industry in 1983 was a mainstay for the hesitant recovery of the economy. Higher domestic demand for cars led to an increase in production – both for Tyres and Technical Products – which in turn had a positive effect on our original equipment business. The commercial vehicle sector suffered especially from the purchasing restraint of the OPEC countries, which, as a result of the slowdown in oil exports, have less income at their disposal.

Following the hesitant recovery in the first six months, the German replacement tyre business picked up as the year went on. However, the sluggish demand in the first few months led to intense price wars owing to excess capacities.

Sales of all our Divisions profited from the economic upswing in the second half of the year, especially in the motor industry, but also in mining and mechanical engineering.

The International Motor Show (IAA) in Frankfurt provided us with a platform to inform industry, consumers and the media about our company's products and achievements. Both the motoring public and our customers made extensive use of the information available.

Technological challenge for tyres

Our position as leading technology partner to the European motor industry was further strengthened in the year under review. We have again improved the tyre ranges of both Continental and Uniroyal brands. Of outstanding importance was the introduction of the new ContiTyreSystem, for which unlike the conventional wheel system the tyre is seated internally on the wheel rim. This system promises a solution to major problems which has been called for by the motor industry for some considerable time. The key features are increased safety in case of tyre deflation, lower fuel consumption and the possibility of dispensing with a spare tyre. The unveiling of this system met with great interest and a positive echo, which was underscored by wide coverage in the media. We attach great importance to the economic value of this innovation, but at the same time know that it will not be possible to get the new system generally accepted on our own. For this, the changes required by the automotive industry, tyre dealers and users alike are too extensive. Therefore, we expect the ContiTyreSystem to reach the production stage in the medium rather than the near term.

Technical Products in the black

The Technical Products Division was able to achieve a positive result for the first time since 1978. This is an indication that our ongoing efforts to find new applications for an "old" raw material – rubber – are beginning to bear fruit. These efforts demand considerable flexibility and an increasingly international dimension in these business groups which have tended to be more national in character.

International cooperation on a broader base

The cooperation with Toyo Tire & Rubber Co. Ltd. in Japan and The General Tire & Rubber Company in the USA, which began in 1981 and 1982 respectively, was continued according to plan. In the current year, we shall increase our presence in these markets. Since the beginning of 1984, Toyo has been supplying Japanese-produced Continental tyres to the Japanese original equipment sector. General Tire, too, has begun to produce Continental tyres for our US sales company. We have concluded an agreement with our Swedish cooperation partner Gislaved, whereby cooperation will be extended to the Norwegian tyre company Viking which Gislaved has acquired. 1984 will bring further advances in international cooperation for the Technical Products Division.

Ambitious capital investment programme

Capital expenditure, including investments financed by leasing, increased significantly over the previous year and was much higher than depreciation. Furthermore, a special capital spending project involving DM 70 million was decided upon for restructuring measures in the Hanover plants Vahrenwald and Limmer, both of which are part of the Technical Products Division.

Increase in purchase prices

Our major raw material markets were influenced by an increase in demand in the second half of 1983. This resulted in higher prices. Further factors causing our purchase prices to rise were the substantial strengthening of the US dollar and an increase in the price of basic raw materials. By comparison with previous years, crude oil did not trigger any major price movement.

In the course of the year under review, the price of natural rubber rose by as much as 50 %. Towards the end of the year, the prices of synthetic rubber and plastics also moved upwards. Steel and textile reinforcing materials likewise increased in price, while the prices of rubber chemicals remained relatively stable.

Sales increased

In 1983, Group sales were up by 4.3 % and parent company sales by 6.8 %. The table below shows the development by comparison with the previous year:

	1983 DM million	1982 DM million	Change in %
Group	3,387.2	3,248.8	+ 4.3
Parent company	1,992.7	1,866.3	+ 6.8

As in the previous year, 68 % of Group sales were generated by tyres and 32 % by other products and services. In the parent company, tyres and other products accounted for 61 % and 39 % respectively.

Higher profit

In the rubber industry, in 1983 Continental was again one of the companies in Europe to generate a profit. Results were considerably improved over 1982. Apart from the market successes indicated above, tight cost and financial management have again contributed significantly to the positive result. The parent company's profit before tax amounted to DM 47.1 million. Profit-related tax was DM 30.9 million, leaving an annual surplus of DM 16.2 million.

Taking into account the profit brought forward of DM 4.0 million and subtracting a sum of also DM 4.0 million from net income allocated to free reserves, retained income is likewise DM 16.2 million. The Administration's proposal to the Annual Shareholders' Meeting is to use this to distribute a dividend of DM 3.00 per DM 50.00 share.

The proposed dividend does not – as is customary – lead to the full reduction of the corporation tax rate from 56 % to 36 % on distributed profit, so that we are faced with a higher tax load. The reason for this higher tax load is the so-called negative EK 56. However, its adverse effects have been alleviated for the year under review.

The consolidated financial statement (worldwide), with a surplus of DM 41.3 million, shows a pleasing improvement on the previous year (DM 20.0 million).

Balance sheet structure improved further

There has been marked progress in the structure of the consolidated balance sheet over the previous year. With a 1.6 % decrease in the balance sheet total, the equity capital ratio increased from 22.0 % to 23.5 %. At the same time, we were able to reduce the overall debt level by DM 86.5 million, which is a further substantial improvement. In the parent company, the balance sheet total was down by 4.8 % despite the increase in sales of 6.8 %. The equity ratio rose from 34.6 % to 36.4 %.

At the beginning of 1984, the holders of the convertible loan which was negotiated in 1979 exercised their conversion rights on the part-sum of DM 38.0 million, so that parent company share capital increased by DM 19.0 million. The premium has been allocated to free reserves. We expect that the remainder of the convertible loan in D-marks will be converted by the end of 1984 and that as a result share capital will rise to DM 299.0 million. Whether the holder of the convertible loan negotiated in US dollars will exercise its conversion rights in 1984 depends among other things on the further development of the dollar.

On the authorization of the Annual Shareholders' Meeting, the Executive Board resolved to issue DM 70 million bearer bonds in the form of an option bond at the beginning of 1984. This will serve to improve financial structure and to finance ongoing capital projects.

Thanks to our employees

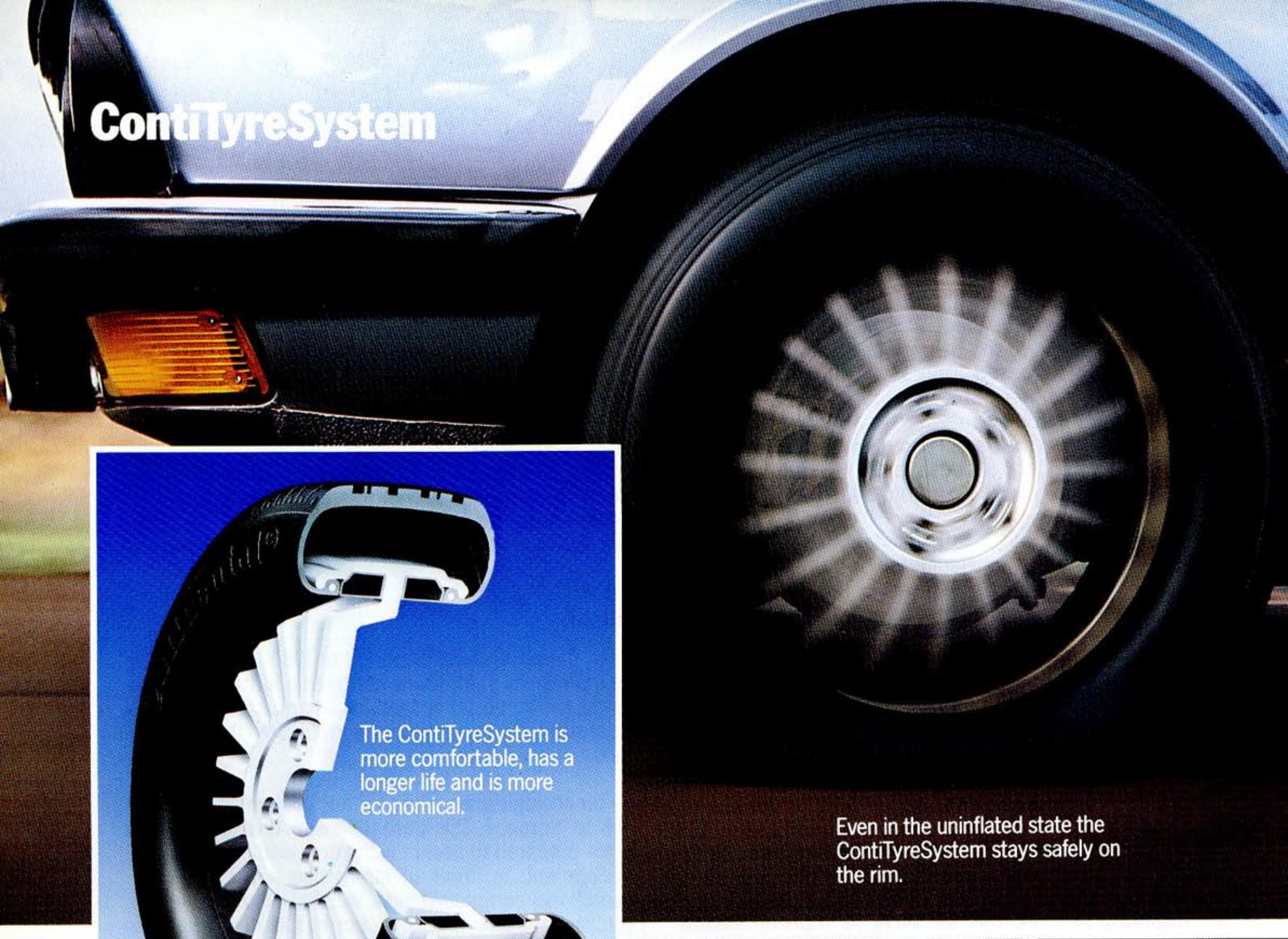
The year 1983 marked an important step forward on our way to regaining full corporate strength. The tremendous efforts of recent years are beginning to pay off. We extend our thanks to all our employees whose performance and commitment made the year successful. In doing so, we include all those people who reached the age of retirement or who began their well-earned early retirement in 1983 after many years of service to the company. Our thanks also go to the employee representatives whose trustful cooperation with the management has helped us to resolve our common tasks.

Outlook

So far, the positive development of 1983 has carried on into the current year. There has been a further improvement in the domestic economic climate, although this is jeopardized by the disputes surrounding the 35-hour week.

The technological demands of our customers will continue to increase. This poses a major challenge which we are prepared to accept with intensified research and development. In order to strengthen and secure our international competitiveness, we shall also continue to exercise a maximum of cost control. Our capacities are well utilized – the situation at the start of 1984 is good.

ContiTyreSystem



The ContiTyreSystem is more comfortable, has a longer life and is more economical.

Even in the uninflated state the ContiTyreSystem stays safely on the rim.

If the conventional tyre is driven uninflated it is soon destroyed.

Tyre Division

In Western Europe, original equipment demand for passenger car tyres was up on the previous year owing to the increase in automobile production. By contrast, the fall-off in export orders for the commercial vehicle industry was reflected in tyre sales to the original equipment sector. On West European replacement markets, sales stagnated both for passenger car and light truck tyres. A substantial decrease was recorded for heavy truck tyres.

In Germany, the demand for passenger car and light truck tyres was rather higher than in the previous year, while there was a slight decline in demand for winter tyres. Nevertheless, the consumers' interest in winter tyres remains undiminished. Contrary to other West European countries, there was a revival in the truck replacement business in Germany after three years of decline.

Despite the economic recovery, cutthroat competition in the West European tyre industry continued unabated in 1983. Until supply and demand are reconciled, it will be extremely difficult to enforce prices that are in line with costs.

For the first time, the Tyre Division report groups together all our tyre operations. Apart from the production and sales companies of the two independent and autonomous brands Continental and Uniroyal, it also includes the subsidiaries Vergölst GmbH, Bad Nauheim and Continental Industrias del Caucho S. A., Madrid.

Sales of this Division rose by 4.2 % to DM 2,299 million. With important product groups, we have gone into the lead on the German market in both the original equipment sector and the replacement business. Our steel-radial truck tyres have moved into fourth position on the world market.

In 1983, we were able to enhance our market positions further. The profit rose well above the previous year's level. This put Continental outside the general trend of the West European tyre industry.

Improved capacity utilization

The major reason for our improved results is to be seen in the increased acceptance of our products by the market. With the growth in sales, our production capacities for modern radial tyres for passenger cars and commercial vehicles at home and abroad were increasingly better utilized as the year progressed. From time to time, even, bottlenecks occurred. Only our production capacities for cross-ply tyres (agricultural, earthmoving machinery and industrial tyres) were not fully utilized.

The continued orientation of our product range towards high-technology products such as high-speed tyres, winter and commercial vehicle tyres was in line with market requirements and has resulted in higher profitability. Another factor that has contributed to profit improvement was the further optimization of production processes.

We have consistently pursued and refined our two-brand strategy. With our quality assurance policy and numerous product innovations we have been able to tap new markets and serve market niches. Both brands, Continental und Uniroyal, concentrate on profitable products with a promising future. In terms of strategy, product and service range as well as image they occupy clearly defined competitive positions and are accepted by our customers as alternatives to each other and to their competitors.

Outlook

For both brands of the Tyre Division we expect demand to increase, especially for products that have been recently launched.

In 1984, we shall replace the Conti TS 771 by the new passenger car tyre CS 21. We expect this tyre to continue the line of successes that have been achieved by other members of the ContiContact tyre family.

In the case of light and heavy truck tyres, we are well prepared for the general trend towards low-section tyres.

The new ContiTyreSystem will be developed further with a high level of commitment.

With production capacities at present fully utilized, we shall continue to pursue our proven strategy:

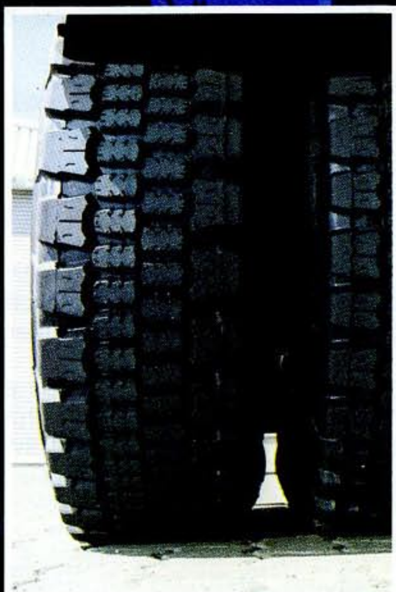
- New products for new markets
- Higher productivity
- Market share gains.

For 1984, we expect to see a further improvement in sales and a profit level which is at least as good as in the year under review.

Tyre Division Continental

Conti at the IAA '83.
Laser-controlled demonstration of the advantages of our products.

Conti passenger car tyre.
ContiSuperContact CH 51:
The new high speed tyre that won most tests in 1983.



Conti truck tyre.
HMS 90: The winter specialist for the driving axle with excellent all-season features.

Vergölst.
A new method of retreading, a combination of extruder line, material store, servicer and assembling machine.

Continental

Market success with new tyres

In 1983, Continental brought several new developments to the series production stage. Outstanding examples are the high-speed ContiSuperContact CH 51 and CV 51 tyres: High-speed tyres for safe, fast and relaxed driving. These tyres meet the high demands for comfort, long life, low fuel consumption and adhesion on wet roads and are gaining in popularity. In tests carried out by leading motoring magazines the ContiSuperContact was awarded top marks and continued the successes gained by the ContiContact family in 1982.

With the ContiCarcass guarantee we warrant two lives for truck tyres, in other words, they are retreadable once. The improved cost-benefit ratio brings distinct advantages to users, retreaders, vehicle manufacturers and tyre dealers. Also, the advanced technological development on which this guarantee is based makes for a more economical use of raw materials. This guarantee, the first of its kind in the tyre industry, has only been rendered possible by improvements in product quality and in quality control.

With the winter tyre that was launched in 1982, Continental was again market leader and was awarded top place in tests by the motoring press.

The technology on which the ContiContact TS 740 for passenger cars is based has been transferred to the light truck tyre Contrans LMS 70. In the case of heavy truck tyres, the product range has been supplemented by the new winter tyre HMS 90. It differs from its predecessor in that it gives improved traction combined with long life.

In the case of industrial tyres, we have successfully launched an ElasticTyre on a single-piece rim (CSE SIT).

Further sizes have been added to the new generation of motorcycle tyres SuperTwin TK 22/TK 44.

With ContiAirsafe, a new inflating gas specially for passenger car tyres, constant tyre pressure can be maintained over many months. The effects are improved durability and greater comfort.

Growth in the original equipment sector

For passenger car tyres – especially in the high-speed segment – we increased our market shares in the European original equipment sector. We are able to report a pleasing development in the sale of space-saving, lightweight spare tyres, which we supply to original equipment customers in Germany and France. In the case of truck tyres, we have been able to expand our market shares despite the overall slackening of the market.

The technical approvals which we have received from the European motor vehicle industry for the models launched in 1983 put us in good standing for our business in the original equipment sector in 1984.

In 1984, we shall give special focus to two-wheeler tyres because our role in this segment is still inadequate.

Success on replacement markets, too

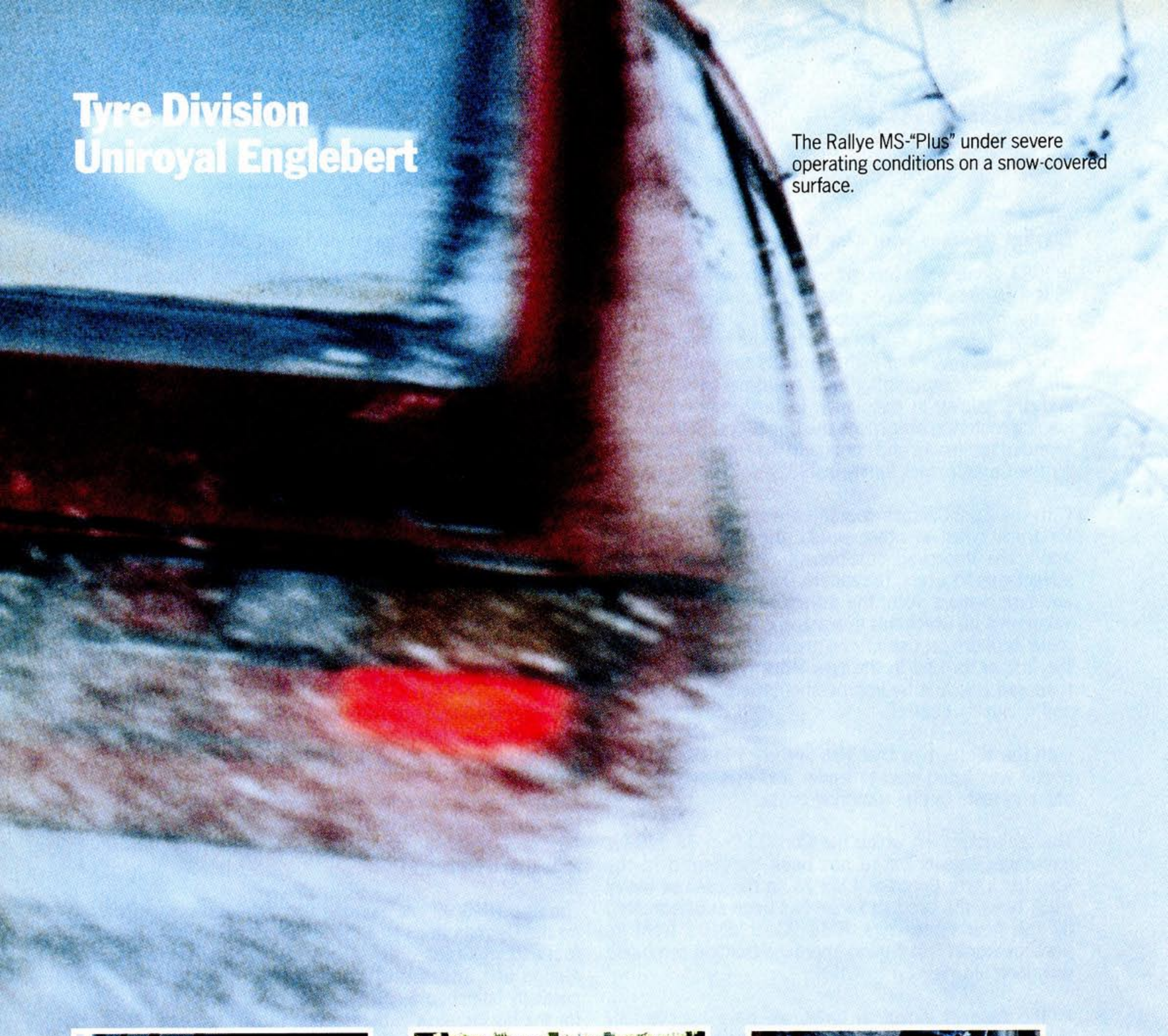
The high quality of our products, acknowledged by both users and the motoring press, ensured us a pleasing level of replacement sales.

The new winter tyre for small buses and transporters has proved successful in Germany, Switzerland and Austria. Sales of light truck tyres developed well in Great Britain and Sweden.

The new HMS 90 has helped us to defend our position on the German truck tyre market and to strengthen our foothold in Great Britain, Sweden, Denmark, France, Austria and Switzerland. We have developed and successfully launched a special range of products to cater for the big increase in demand for radial-ply truck tyres in the USA.

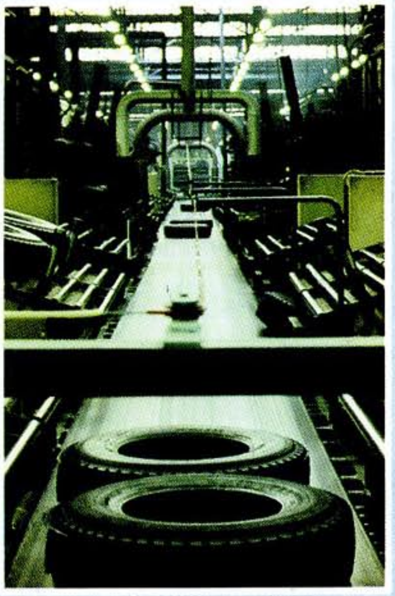
Business on the markets outside Western Europe and the USA proved difficult. Our customers' financing and foreign exchange problems and trade restraints in buyer countries combined to prevent us from matching our results of the previous year. It should be noted that the truck tyre business with Eastern bloc countries developed well.

Tyre Division
Uniroyal Englebert



The Rallye MS-"Plus" under severe operating conditions on a snow-covered surface.

Particularly economical:
The Monoply R 40 E with low rolling resistance for heavy trucks.



Latest manufacturing technology:
Truck tyre factory in Herstal/Belgium.

The new Rallye MS-"Plus":
Grips on snow, is safe and quiet on wet and dry roads.

Uniroyal Englebert

In 1983, Uniroyal Englebert again achieved its goals and improved profits substantially.

Structural changes bring higher productivity

In the year under review, market requirements outstepped the planned production volume. Flexibility and adaptability on the part of employees helped the company to cope with difficult bottleneck situations.

The restructuring measures in the plants went ahead according to plan. Our capital spending focused on new and up-to-date production facilities at the plants in Belgium and Great Britain.

New products pay off

By the end of 1983, the entire product range of Uniroyal Englebert had been replaced in the space of just four years, i. e. since the takeover by Continental. This brand now has a complete range of modern steel-belted tyres and is well positioned for the future.

In the growth-intensive segment of high-speed tyres the Rallye 340/70 gained further ground. Technical approvals by leading car manufacturers were the basis for substantial sales increases.

Outstanding product innovations during the year were:

- Winter tyre Rallye MS-"Plus"
- Tyre for delivery vans and light trucks (Max C5 and Max C50)
- Tyre for heavy trucks (Monoply R 40 E).

In the case of winter tyres for passenger cars, we have replaced the existing product range – which for many years stood for top technology – by the new MS-"Plus". The product launch was accompanied by favourable test results in motoring journals and positive press coverage. The acceptance of this tyre has done much to boost to a total of almost 40 % the share of the Group's two winter tyres in Germany in this market segment.

In the case of light truck tyres, Uniroyal Englebert maintained its leadership. Max C5 meets the user's demand for passenger car-like comfort, and Max C50 gives the customer a robust, high-mileage tyre.

For urban buses as well as for local and long-distance vehicles, the Monoply R 40 E was introduced to the market. This is a particularly economical tyre, with distinctly reduced rolling resistance and thus lower fuel consumption with no loss of mileage.

Technological partnership with car industry

Of all tyre manufacturers, Uniroyal Englebert still has the highest number of technical approvals from European car makers. In the year under review, the company made further gains in the original equipment sector for passenger cars in Great Britain, Germany and France. As a result, the market position has improved significantly.

In the case of sales of light truck tyres, growth rates in the original equipment sector were up as the company expanded its customer base, especially in France. Traditional customer relationships were strengthened by increasing our share of supplies.

Improvement in replacement business

On the replacement markets, especially in Germany, Great Britain, Netherlands and Italy we were successful with passenger car tyres. Additions to the product range and the pleasing business with summer tyres in Germany contributed to this development.

Uniroyal Englebert has firmly asserted its position in the heavy truck tyre sector. In Great Britain, Sweden, Italy and Belgium, the previous year's sales levels were far outstepped.

Subsidiaries of the Tyre Division

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: 1,660

For Vergölst, as for the whole of the tyre trading sector, the winter tyre business is of particular importance. The relatively mild and late winter of 1983/84 and the resulting drop in the sale of winter tyres combined with the usual start-up difficulties at the newly opened retreading plant for truck tyres led to Vergölst closing 1983 with a loss.

Efficiency levels were further improved in the nationwide network of almost 160 Vergölst tyre service stations. The company plans to substantially expand its consumer business.

The retreading plant, which is now operating at a high productivity level, ensures optimized production and the use of the latest retreading technologies. Autumn 1983 saw the introduction to the market of the "Currant" tyre, the quality of which should distinguish it from other retreaded tyres.

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

Business activities: Production and marketing of retreaded tyres and industrial tyres as well as sale of new Group tyres
Employees: 260

The company developed well in 1983 and achieved a positive result although difficult operating conditions persisted. Sales of retreaded tyres increased despite the shortage of high-quality carcasses. Sales of industrial solid tyres were up 11.5 % on the previous year. Because Spain, as one of Europe's major tyre markets, is becoming increasingly important for us, the company has begun to market new Continental tyres on its own account. Sales here have exceeded our expectations.

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

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

Sales Companies of the Tyre Division

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

C. U. P. LTD.,
COULSDON, GREAT BRITAIN

C. U. P. GIE
EPINAY, FRANCE

CONTINENTAL GUMMI AB,
SOLNA, SWEDEN

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

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

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

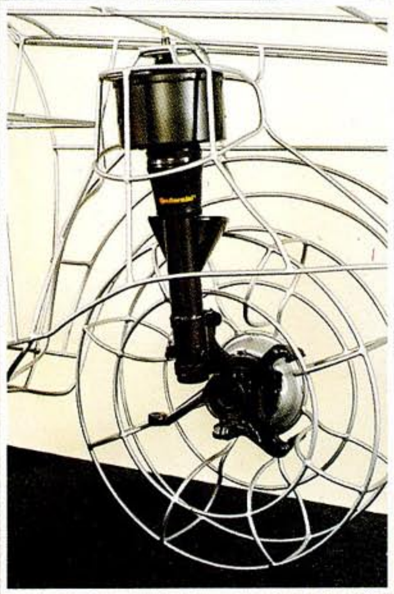
UNIROYAL ENGLEBERT DAEK A/S,
COPENHAGEN, DENMARK

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

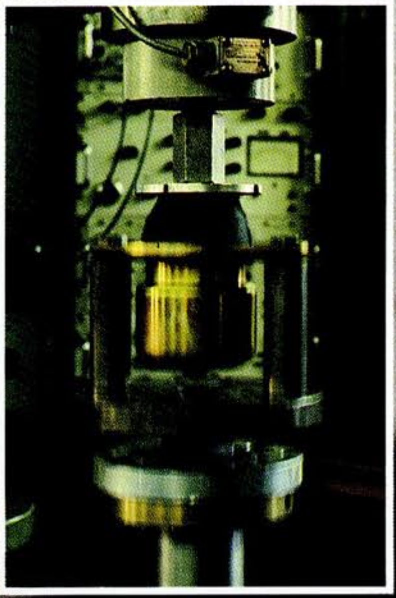
UNIROYAL ENGLEBERT TYRE TRADING GMBH,
AACHEN
(Financing and Sales)

Technical Products Division

Conti aircraft refuelling hose. Easy handling for economical refuelling.



Conti passenger car air suspension system. Load-adjustable spring elements for modern chassis technology.



Conti engine bearing.
Newly developed engine mounting on a computer-controlled vibration test stand.

Conti roof weatherstrip.
For aerodynamically favourable vehicle design with additional sealing function.

Technical Products Division

The product groups that contributed especially to the continued upward trend in this Division were conveyor belting, coated fabrics, airsprings and hose. Sales in the year under review rose by 5.1 % to DM 882 million. This figure includes intercompany sales to other Divisions amounting to DM 4 million.

This pleasing improvement in results is attributable to the consistent pursual of a strategy which is aimed at expanding business lines with good future prospects both at home and abroad. An essential aspect of this strategy is the restructuring of our Vahrenwald and Limmer plants in Hanover. The objective is to optimize production processes and to concentrate the products of each product group in a single plant. By doing so, we are laying the foundations for further profit improvement in our product groups moulded parts, extrusions and power transmission products.

In consolidating our product range, we have discontinued the unprofitable products battery containers and regenerated rubber as well as parts of the foam business.

By locating the functions of a business group and its various product groups at a single site, the effectiveness of business groups will be enhanced further. In this way, we shall be able to cooperate more closely with our customers and reinforce our position as a highly competent technology partner.

The report on this Division also includes the results of the subsidiaries Techno-Chemie Kessler & Co. GmbH, Frankfurt am Main, Deutsche Schlauchbootfabrik Hans Scheibert GmbH & Co. KG, Eschershausen, KA-RI-FIX Transportband-Technik GmbH, Kerpen-Sindorf and Continental-Alsa Schuhbedarf GmbH, Steinau-Ürzell.

Conveyor belting exceeds targets

Large parts of the market for conveyor belting in the year under review were again characterized by a foreign exchange shortage in key customer countries and a higher credit risk. Also, we had to cope with a further increase in imports of textile-ply conveyor belting on the domestic market. The resulting slump in demand led to renewed price cutting.

The fact that we were nevertheless able to exceed our sales targets is attributable both to an increase in exports despite the difficulties indicated above and to the stimulating effects of the investment subsidy in the Federal Republic of Germany which was phased out at the end of 1983. This applies especially to the coal mining sector. As a result of some capital spending programmes having been advanced, our prospects for the current year are quite considerably impaired.

Innovations and product improvements underlined our technological lead. An outstanding example is the first-ever production of a 6.40 metre wide steel cable conveyor belt at our Northeim plant. It is the world's widest conveyor belt.

All in all, we have asserted our position as a leading producer of conveyor belting. The result generated by the business was good.

More internationality with coated fabrics

For coated fabrics and engineered products, we are able to report a positive development. Especially our top product CONTI AIR WEB for offset printing has proved successful on the international level, and further sales growth can be expected.

In the case of engineered products, our continued efforts to tap international markets for flexible containers were successful. These containers with particularly high tensile strength are supplied with a capacity of up to 50,000 litres and are used for the transportation or storage of liquids such as water, petrol, oil or chemicals.

We expect to see the sale and profitability of both printing blankets and engineered products grow at an above-average pace in 1984. Our efforts in this area will be aimed at reducing the manufacturing costs of lightweight coated fabrics.

Sales of hose up

Although market conditions were on the whole difficult, the hose business group improved sales quite considerably. Production capacities were fully utilized. We accommodated the new trends in engine construction such as the demand for easier assembly of hose components, by supplying compact hose systems. As a result, our business with the motor vehicle industry improved substantially on balance. Temporary bottlenecks occurred in the case of curved radiator hose. Capacities were brought into line with increased demand, so that we shall be able to further expand our position in this attractive market segment.

We added four newly developed product types to our range of hydraulic hose. These are specially designed for handling particularly aggressive fluids. Pleasing growth rates were achieved with high-pressure cleaning hose for use with cold water and hot steam up to a temperature of 150 °C.

If all the hoses produced by Continental within one year were placed end to end, they would extend for a distance of 55,000 kilometres. The products range from polyamide tubing with an internal diameter of just one millimetre to suction and discharge hose of 350 millimetres in diameter.

New products in extrusions and moulded parts

The business with extrusions and moulded parts was characterized by sharp competition and inadequate opportunities for passing on increased material and labour costs. Despite further improvements, results were still not satisfactory. In 1984, we expect to see the business developing better, not least as a result of some interesting innovations in both product groups.

Continental supplies extrusions made of cellular rubber, plastics or a combination of various materials for a wide range of applications. The newly developed car roof weatherstrip with a rigid metal ply and integrated cellular rubber seal involved high capital expenditure, especially in production.

In the case of moulded parts, a new engine suspension technology was developed which plays an important role in damping vibrations in passenger cars. These bearing elements will not only be used for mounting engines and gearboxes, but also for cushioning vehicle bodies and in supporting machinery. We expect these products to meet with substantial success on the market.

The footwear materials business had difficulty in holding its market position. Our high-grade footwear materials were exposed to strong competition from low-priced products from Germany and abroad.

Price slump for power transmission products

The business with transmission elements developed unevenly. Whereas we achieved an above-average sales increase with our growth-intensive products such as the raw edge Conti FO®-Z V-belt, the synchronous HTD belt and the Conti-V multiple V-ribbed belt, we suffered a setback with wrapped V-belts, especially in the export business.

By comparison with this product, the FO®-Z V-belt has a life expectancy that is as much as 300 % higher, it has greater temperature stability and elongation is up to 50 % lower. For the user, this means a high level of economy and reliability. We expect the development of a maintenance-free FO®-Z V-belt, which self-adjusts the tension during operation, to be particularly successful.

Equally positive are our expectations of the Conti-V multiple V-ribbed belt, a combination of the V-belt and flat belt. Here, we plan to expand our market shares, especially with German manufacturers of household appliances.

We are not satisfied with the result generated. Essential price increases could not be passed on to customers. Owing to the worldwide recession, our capacity utilization level was not good until late in the year. With improved products, intensified marketing activities, further cost reductions in production and the brisker economy, we view the prospects for 1984 more positively.

Good prospects for airsprings

For more than 30 years now, Continental has been a dominant force in airspring technology for buses, trucks and rolling stock. In the year under review too, we have further consolidated our leadership as developer and major supplier in Europe despite a stagnating original equipment market for buses and trucks. Our comprehensive range of products now includes airsprings with metal components supplied as a complete system ready to install.

Special significance is attached to the development of airsprings for passenger cars, which we are working on in cooperation with various car manufacturers both at home and abroad. In the case of rolling stock, demand has slackened worldwide, and this has led to a slight drop in sales.

The call for improved working conditions is resulting in the wider use of air-sprung seats in truck cabs and for operators of building site equipment. We have become market leader in Europe in this segment.

The demand for compensators remained on the previous year's low level. This was due mainly to the persistently low rate of capital spending in plant and tank truck construction.

New business group: Cushioning products

In order to reduce losses, to achieve more economic capacity utilization and thus to improve productivity overall, we have resolved to concentrate our entire foam business in one location. Our objective is to complete the relocation of foam production from the Stöcken plant in Hanover to our foam plant at Gohfeld near Minden by the middle of this year. In the framework of the restructuring programme, we have dropped unprofitable products. In the long term, we expect to see both our market position and profitability strengthen.

Our plant at Mendig/Eifel is starting up series production of an orthopaedic front-seat support for passenger cars. Further orthopaedic upholstered elements based on a new combination of foam, rubber hair and a rubber air cushion, are being developed for the German car industry.

Outlook

The restructuring programme that has been started in the Hanover plants will be implemented without delay to create this basis for modern and cost-effective production processes as well as material planning and control. It is our aim to combine the advantages of specialized medium-sized companies with those of a large corporation in order to be better equipped for the competitive environment of the future, which will still be characterized by excess capacities.

We shall selectively market the strengths of the individual product groups and continue to provide our staff with the necessary commercial and technical training and development.

Our sales efforts will remain focused on European car and car component manufacturers and the specialized trading sector as well as on the mining industry and mechanical engineering.

Subsidiaries of the Technical Products Division

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

Business activities: Production and marketing of hose assemblies, couplings and fittings
Employees: 399

The fall-off in domestic demand was partly compensated by an increase in exports. However, the altogether positive result was negatively affected by the collapse of a French hose coupling company, in which Techno-Chemie had a minority interest.

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: 186

By expanding foreign business quite substantially, the company was able to increase its sales. Major contributors were inflatable life rafts, newly developed products for amphibious vehicles and mobile bridges. Despite difficult operating conditions, the company managed to achieve a positive result.

KA-RI-FIX TRANSPORTBAND-TECHNIK GMBH,
KERPEN-SINDORF

Business activities: Confectioning, repair and marketing of conveyor belting and accessories
Employees: 125

Business activity again centered on services to the Rhineland lignite field. The year under review closed with a positive result.

CONTINENTAL-ALSA SCHUHBEDARF GMBH,
STEINAU-ÜRZELL

Business activities: Production and marketing of shoe soles, shoe parts and footwear materials made of rubber, plastics and cork
Employees: 258

The company continues to be in a difficult situation. With sales declining, short-time work was necessary and staffing levels had to be adjusted. Thoroughgoing measures have been initiated to improve competitiveness and thus strengthen profitability. The loss of the previous year was only slightly improved upon in 1983.

Production Companies of the Technical Products Division

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

UNIROYAL ENGLEBERT REIFEN GMBH,
AACHEN

Sales Companies of the Technical Products Division

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

C. U. P. LTD.,
COULSDON, GREAT BRITAIN

C. U. P. GIE
EPINAY, FRANCE

CONTINENTAL GUMMI AB,
SOLNA, SWEDEN

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

UNIROYAL ENGLEBERT REIFEN GMBH,
AACHEN

Affiliated Companies Division

Following the organizational changes within the Group, the Affiliated Companies Division no longer includes those companies that are directly related to the Tyre and Technical Products Divisions. On the other hand, all those companies have been integrated into the Affiliated Companies Division in which Continental does not have a majority interest or which are active in other product areas, which are involved in supplying raw materials, or which perform financial or service functions.

The Affiliated Companies Division again made a positive contribution to Group results. Sales of the consolidated companies rose by 7.3 % over the previous year to DM 265 million. This figure includes intercompany sales to other Divisions amounting to DM 55 million. At the end of the year, personnel in this Division numbered 1,712 (1,723 in the previous year).

The non-consolidated minority shareholdings increased their sales by an average of 3.4 % to DM 463 million. On the closing date, these companies employed 2,388 persons (2,465 in the previous year).

Most of the companies had a difficult first six months to cope with owing to the state of the economy. The second half of the year by contrast brought full capacity utilization. Only Labortex Ltda., Brazil reported a worsening of its position, which we view with concern. The difficult economic situation in Brazil has taken a severe toll on the company. Extremely high inflation rates and inadequate money supply to the Brazilian economy suggest that there will be no short-term improvement in the economic climate. Closure or sale of the company is not ruled out. For this reason, we have taken the precaution of making a complete adjustment of the book value.

There was no change from the previous year in the percentage of Continental's holding in the affiliates (see pages 22 and 23). As in previous years, the consolidated accounts include only those companies in which we have a shareholding of more than 50 %.

Domestic Companies

GÖPPINGER KALIKO- UND KUNSTLEDER-WERKE GMBH, EISLINGEN

Business activities: Production and marketing of synthetic leather, sheeting and car inside roof headlining
Employees: 859

1983 was a very positive year for the company. This is reflected in a substantial increase in sales, especially from relatively young products. The big unit increase for the new automotive product line, inside roof headlining, justifies the commitment that has been made in this area in recent years and has prompted the company to plan for expanded capacity here. This apart, however, the general revival of the automotive industry had a positive effect on employment. Primary tasks for the next few years will be to intensify product development and to expand the export business. The profit transferred to Continental was higher than in the previous year and exceeded profit expectations.

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: 168

Although the market has become more difficult, Bamberger Kaliko has achieved sales growth in all three product segments. Again, the profit level was good. Capital expenditure in the production area was considerably above the average level of previous years.

The sales company, Wilh. Leo's Nachfolger, also closed with a satisfactory result.

DRAHTCORD SAAR GMBH & CO. KG, MERZIG/SAAR

Business activities: Production of wire and wire cord for the tyre industry
Employees: 778

This company is a joint enterprise of the three tyre manufacturers Veith-Pirelli AG, Dunlop AG and Continental and serves to cover part of their steel cord requirements. Because of the partners' strong demand, production was at capacity throughout the year. Substantial productivity gains were achieved, so that the company again closed with a good result for the year.

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

Business activities: Production of furnace and carbon black for the rubber industry
Employees: 191

50 per cent of this firm is held by Degussa AG and 50 per cent by a group of rubber processing companies including Continental. Output is supplied exclusively to shareholders. The improved level of activity in the rubber industry resulted in a much higher utilization of capacities. Further advances were made in process engineering. Again, the company closed with a positive result.

CLOUTH GUMMIWERKE AG, COLOGNE

Business activities: Production and marketing of conveyor belting, moulded rubber parts, rubberized fabrics, tank linings and hose
Employees: 1,419

In 1983, the company, in which Philips Kommunikations Industrie AG has a 50 % holding, achieved a 6 % increase in sales. The annual surplus rose at a disproportionately high rate of 24 % to DM 3.64 million. This pleasing result stems primarily from the increase in sales of conveyor belting. Here, the investment subsidy provided additional incentives which were partly reflected in pre-placed orders. Other contributors to the company's profit improvement were the rubberized fabrics business, military technology and moulded parts as well as internal rationalization programmes. As in the previous year, the company will pay a dividend of 16 % and make a further allocation to free reserves.

CONTI VERSICHERUNGSDIENST GMBH (CVD)

Business activities: Placing, servicing and administration of insurance for Group companies and individual employees in Germany and abroad as well as for companies outside the Group
Employees: 16

In an insurance market that is becoming increasingly difficult, the company has successfully counseled the Group companies, represented their interests and exploited all available opportunities. Particularly noteworthy are also the growth rates achieved in the private business. CVD has again closed with a good result, and profit has been transferred in full to Continental.

Foreign Companies

LABORTEX LTDA., SÃO PAULO/BRAZIL

Business activities: Production and marketing of moulded rubber parts, rubber extrusions and textile machinery accessories
Employees: 448

The company has tried to adapt to the worsening local conditions in Brazil. However, in doing so, it has suffered volume losses, and these in turn have had a negative impact on earnings.

The government's restrictive price regulations have prevented the company from passing the inflation-related cost increases onto the customer in full, although the price of imported raw materials especially and interest rates have risen to an extent that far exceeds inflation. Despite all the company's efforts to cut costs, it was unable to achieve its targets. Labortex has consequently closed with a loss.

UNIROYAL ENGLEBERT TEXTILCORD, S. A., STEINFORT/LUXEMBOURG

Business activities: Production and marketing of tyre cord
Employees: 221

Approximately one-half the company's output goes to Group plants and the other half to outside companies. As a result of the high activity levels in the tyre industry, the company reported a substantial increase in sales. Accordingly, capacity utilization was high throughout the year. The company operates three shifts a day, seven days a week. Again, a good profit was reported, which the company has retained to strengthen equity.

INTERCONTINENTAL RUBBER FINANCE B. V., AMSTERDAM/NETHERLANDS

Business activities: Financing services for domestic and foreign Group companies.

The company reported an increase in loans over previous years. Funds were procured on both domestic and foreign capital markets. A small profit was again generated in 1983.

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 ●

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 %
●

the 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 622,492,220
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 ●

- Continental Gummi AB
  Solna/Sweden
  skr 4,600,000
  100 % ●

- Continental Products Corporation
  Lyndhurst/N.J./USA
  $ 2,600,000
  100 % ●

C.U.P. Ltd.
Coulsdon/Great Britain
£ 1,300,000
100 % Uniroyal Englebert Tyres Ltd. Newbridge/Great Britain ●

C.U.P. GIE
Epinay/France
50 % Continental France S.A.R.L. Sarreguemines/France
50 % Pneu Uniroyal Englebert S.A. Compiègne/France ●

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 Kautschukvertriebs-gesellschaft 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 7 other companies with minor or no business activities.

Employees

At the end of the year, the workforce in the Group totalled 26,688 compared to 27,631 in the previous year. This is a decrease of 943 employees or 3.4 % vis-à-vis 31st December, 1982.

In the parent company, the number of employees edged down from 15,905 on 31st December, 1982 to 15,333 at the end of 1983. The decrease of 572 employees or 3.6 % was lower than the corresponding figure for the previous two years. The number of foreign workers changed from 2,608 to 2,522. The proportion of foreign workers in the total workforce remained constant at 16.4 %. On the annual average, the workforce numbered 15,595 (16,304 in the previous year).

In 1983, we continued with our cautious recruiting policy. Some of the vacancies that occurred as a result of labour turnover and early retirement were filled by internal reshuffles, and new employees were hired in exceptional cases only. Priority was given to young employees who had completed their vocational training in our company. A high degree of mobility and flexibility was shown by those employees who had to be relocated in the framework of structural changes in Hanover.

In the year under review, 484 employees completed 25 years of service, and 55 employees completed 40 years with the company.

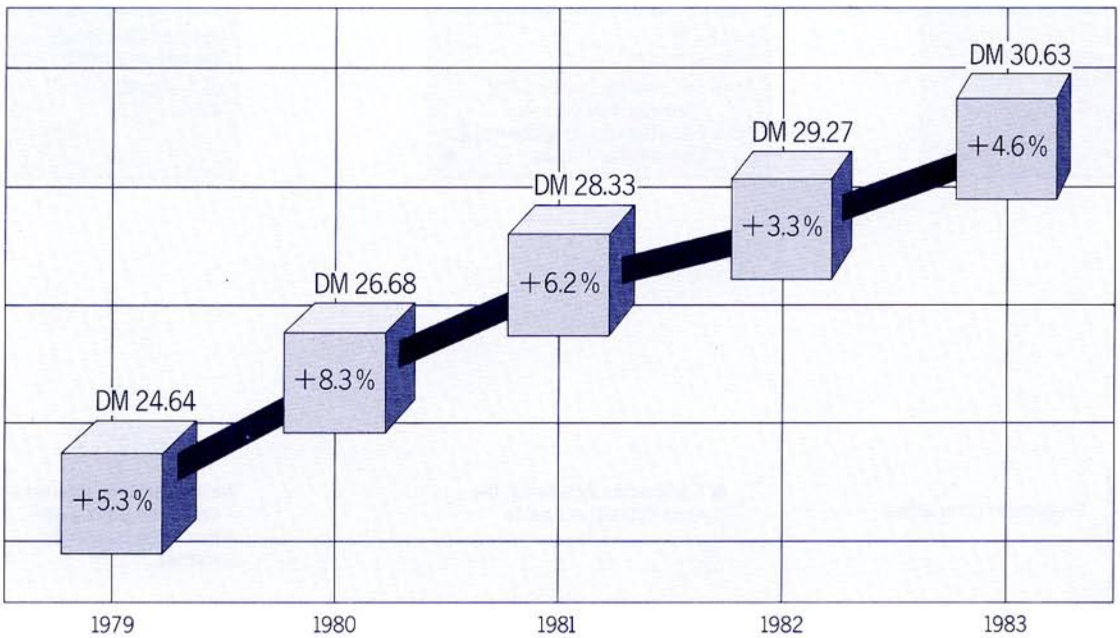
The average age of employees in the parent company was 43, and the average tenure was 17 years.

Personnel costs

Personnel costs in the parent company increased by 2.2 % to DM 765.0 million despite the reduction in the staffing level. Personnel costs per employee were up from DM 45,894 to DM 49,055. This increase is attributable mainly to contractual wage and salary rises, higher social security contributions and higher allocations to accrued pensions.

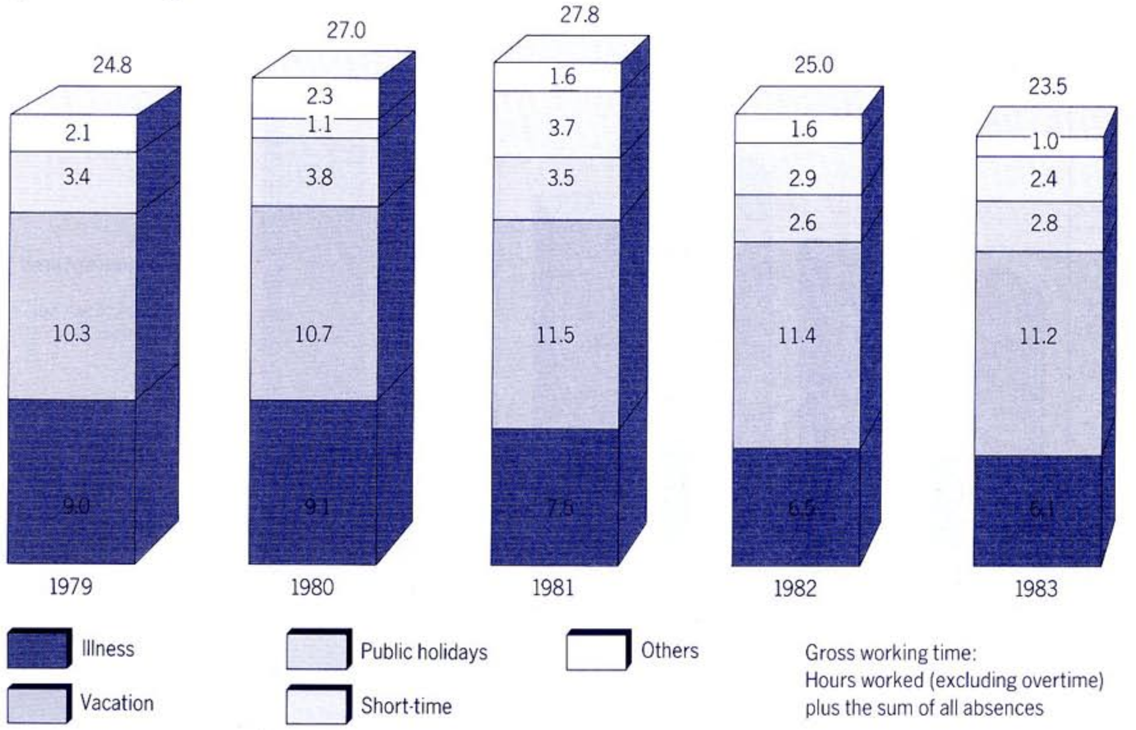
	1982	1983	Change in %
Personnel costs in DM million	748.3	765.0	+2.2
Personnel costs per employee in DM	45,894	49,055	+6.9
Personnel costs per hour worked in DM	29.27	30.63	+4.6
Hours worked per employee	1,568	1,601	+2.1
Personnel costs in % of gross revenues	39.7	38.5	

Personnel costs per hour worked



Personnel costs: Wages, salaries, bonuses, social security contributions as well as expenditure on retirement pensions and employees' welfare.

Absence rates in % of gross working time



Gross working time:
Hours worked (excluding overtime)
plus the sum of all absences

Lower absence rate

The percentage of time lost relative to gross working hours decreased – for the second year in succession – and is now 23.5 %, which is even lower than the 1978 level. We were pleased to see a further reduction in absence through illness to 6.1 % on the annual average. However, since the mid-year point we have noted with growing concern that the average monthly absence rates have been steadily increasing.

The ratio of short-time work fell continuously to the mid-year point from a peak in January and following the vacation period was virtually negligible as a result of good plant utilization. Nevertheless, on the average for the year, 2.4 % of gross working hours was lost through short-time work (2.9 % in the previous year).

Internal communication improved

In the year under review we made further improvements to communication within the company. This is an area to which we attach great importance.

The in-house newspaper "Conti intern" carries reports on all sections of the company. On "Open Day" at the Contidrom in Jeversen, all our employees together with their families and friends have the opportunity to get to know one another. Last year, more than 14,000 visitors attended.

At regular employee forums, both blue-collar and white-collar personnel exchange ideas and experience with members of the management.

At a company convention "Konvent '83" for the first time employee project groups presented new forms of work organization and discussed them with more than 400 senior staff.

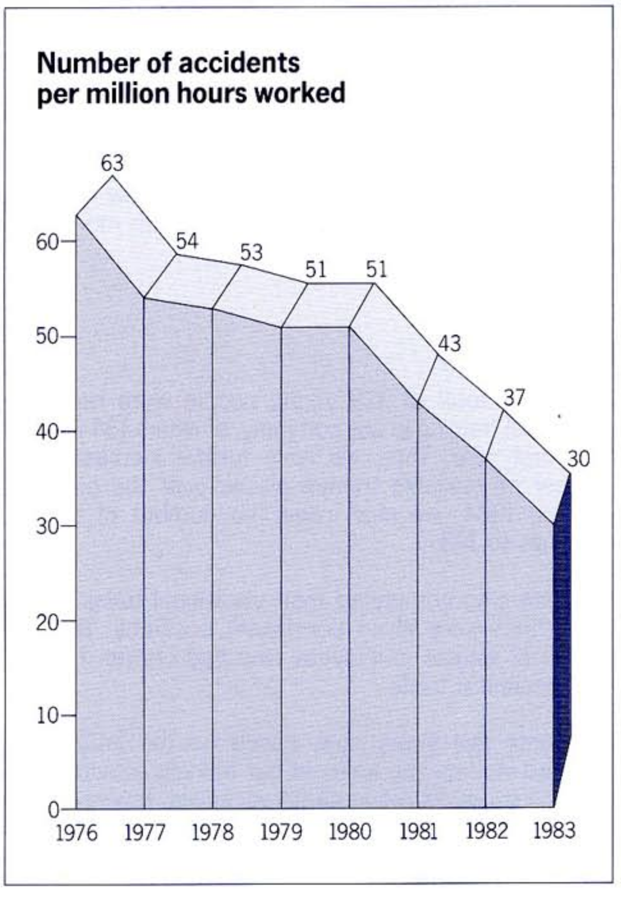
More trainees

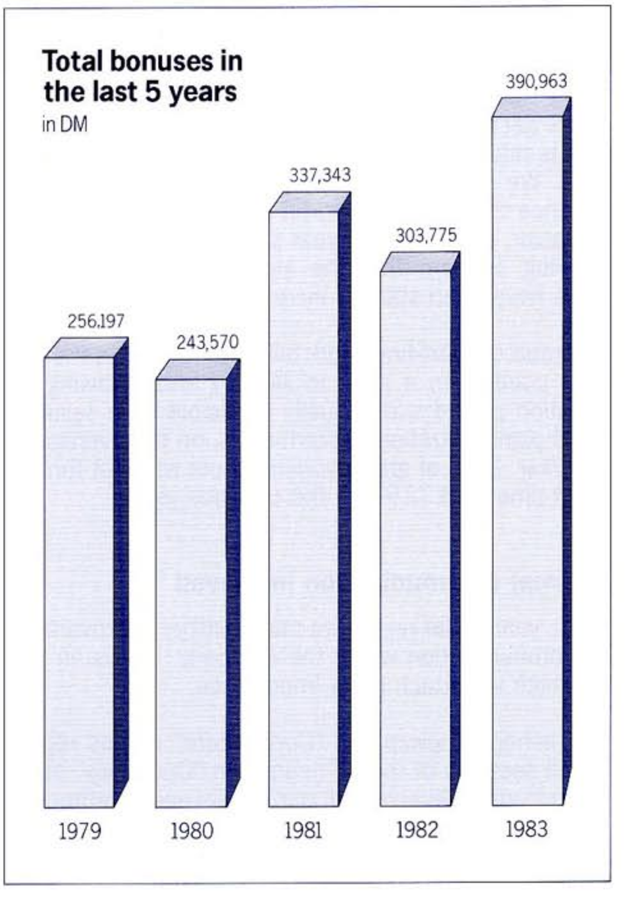
In 1983, a total of 329 young people were receiving vocational training in our company, of whom 134 were in their first year. Thus, we have further increased the number of available trainee places over the previous year. In 1984, we shall raise the number of trainee openings to 143.

All those who completed their vocational training with us in 1983 were given permanent positions. They included 12 female employees who had chosen to train for a technical trade.

For some five years now, based on the findings of targeted studies, the focus of our training activities has been on production-orientated vocations. It is only with a rising generation of qualified personnel that we shall be able to cope with the ever-increasing demands of production and product technology.


Vocational training in the parent company
Number of trainees in %
Number
400
300
200
100
0
25
50
25
33
45
22
36
44
20
47
35
18
51
30
19
53
29
18
1979
1980
1981
1982
1983
1984*)
Production-orientated vocations
Skilled chemical worker
Rubber moulder
Technical vocations
Fitter
Machinist
Measuring & control technician
Commercial vocations
Economist
Administrative assistant
Clerical assistant
*) planned


Number of accidents per million hours worked
63
54
53
51
51
43
37
30
60
50
40
30
20
10
0
1976
1977
1978
1979
1980
1981
1982
1983


Total bonuses in the last 5 years
in DM
256,197
243,570
337,343
303,775
390,963
1979
1980
1981
1982
1983

Training and development for more "quality"

Our standard programme of training and development for Continental employees is aimed at improving technical skills, conveying information and training patterns of behaviour which help the individual to put his technical skills into practice.

A further point of focus is quality improvement, whereby quality in this context is to be seen in its entirety: the quality of work, the process and the product. In selected production areas, small project groups are being trained on the job to systematically consider ways of enhancing work quality.

Improved occupational safety

With just 30 industrial accidents per million hours worked in 1983, we achieved the lowest level since records were first kept in 1955; in absolute terms, this was a decrease over the previous year of 179 industrial accidents or 19 %. Our success here was attributable to increased safety consciousness on the part of our employees and managerial staff.

More money for improvement proposals

In 1983, the company paid a total of some DM 391,000 in bonus awards for improvement proposals. This is the highest amount yet in the 54-year history of the in-house suggestion scheme. The highest single bonus also marked a new record at DM 24,933. The number of award-winning proposals as a proportion of all those submitted rose from 722 in 1982 to 794 in the year under review. The average bonus of DM 492 per improvement suggestion (DM 421 in the previous year) shows that the quality and usefulness of the award-winning proposals have also further improved.

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

Financial position

The balance sheet total decreased by DM 58.6 million (4.8 %) over the previous year, with fixed assets accounting for DM 24.1 million, financial assets for DM 13.6 million, and current assets, including prepaid expenses, for DM 20.9 million of the decrease. Despite the 6.8 % increase in sales, accounts receivable from customers and affiliated companies rose by only 4.5 %, whereas inventories were even reduced by 5.5 %. On balance, therefore, the capital turnover rate (ratio of sales to total assets) was improved further to 1.72 (1.54 in the previous year).

From a strictly accounting point of view, investments in affiliates should not be included when calculating this ratio, because they do not contribute directly to parent company sales. On this basis, the capital turnover rate improves to 2.19 (1.96 in the previous year). This positive development becomes still clearer if we compare these figures with the corresponding ones for 1979. While sales were 17.7 % up on the 1979 level, the balance sheet total (excluding investments) fell by 7.2 %, which means that the capital turnover rate has improved from 1.73 to 2.19.

The proportion of fixed assets to total assets was virtually unchanged at 57.4 % (57.8 % in the previous year). Investments in the affiliated companies account for just over one-third.

The company's total indebtedness (all short and long-term liabilities) was again reduced substantially (down by DM 98.7 million); it is now DM 467.9 million.

Equity capital was increased by only DM 0.6 million in 1983 (50 % of increase in untaxed reserves), because we propose to distribute retained income in full. The equity capital ratio was 36.4 % compared to 34.6 % in the previous year.

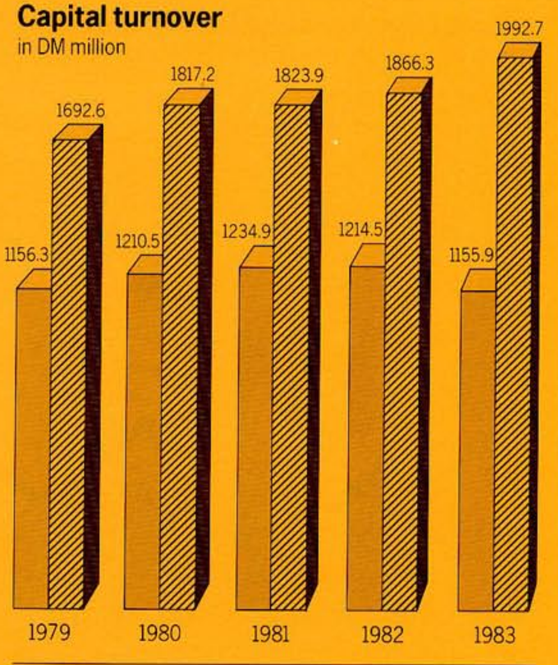
On the closing date, 63.4 % of fixed assets were financed out of equity (60.0 % in the previous year). 92.5 % of fixed assets and inventories were financed out of equity and long-term debt (88.6 % in the previous year).

The self-financing ratio (financing of additions to fixed assets out of the net cash flow) was much improved at 227.3 % (122.4 % in the previous year). The liquidity ratio, too (short-term receivables and liquid assets relative to short-term liabilities) was up from 66.5 % to 76.0 %.

Taken as a whole, our balance sheet and financial structure puts us in a favourable position for the future.

Profit situation

1983 saw a further substantial improvement in the company's profit situation. With gross revenues up by 5.3 % (3.0 % in the previous year), the gross margin increased by 4.0 % or DM 42.4 million despite sharp rises in material prices and a higher proportion of merchandise. Of the numerous contributing factors, it was above all the large number of new products that gave us improved profit potential.

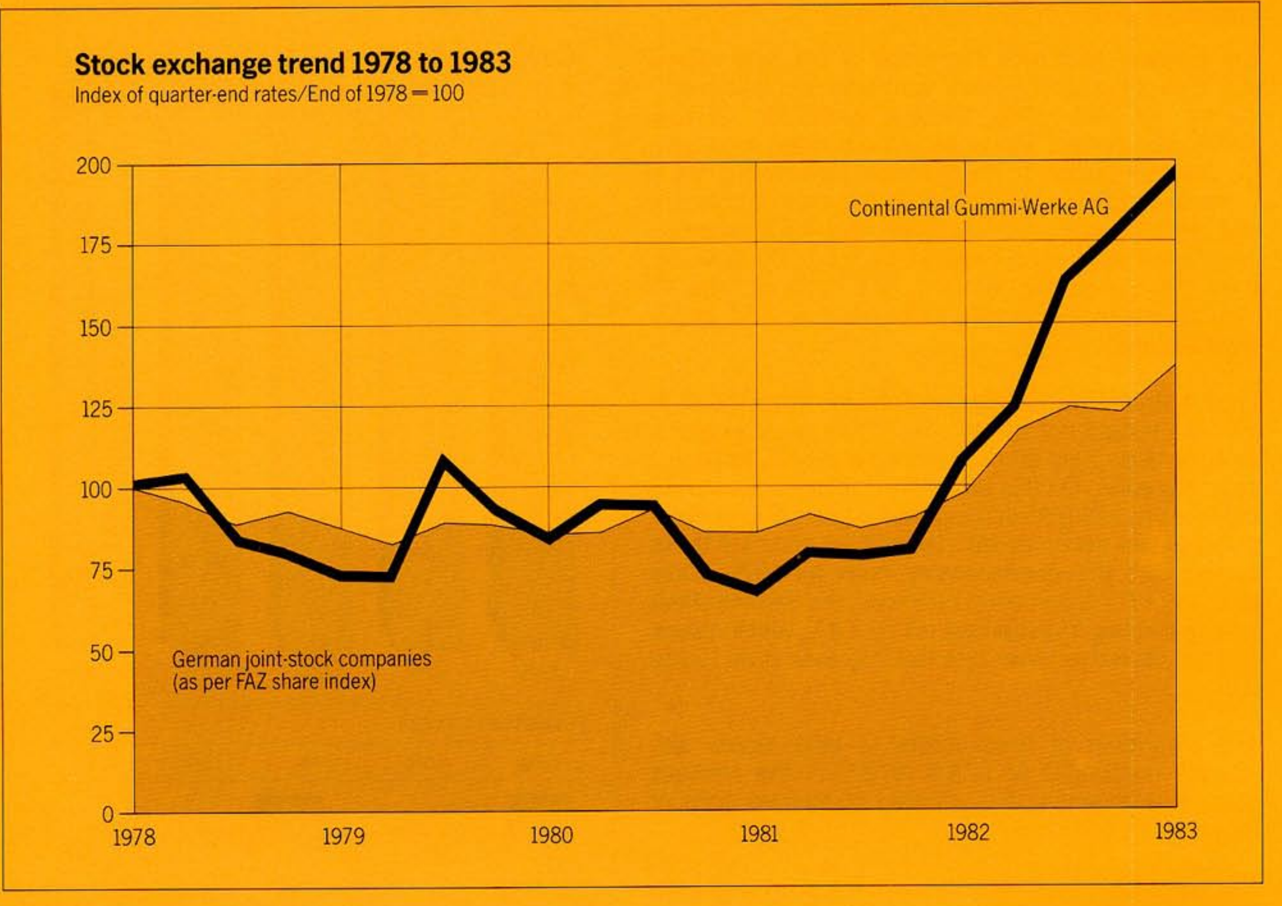


Capital turnover rate				
1.46	1.50	1.48	1.54	1.72

The net operating result (before profit tax, but including financing charges and net income from investments) improved to DM 65.0 million (DM 23.2 million in the previous year). The extraordinary result by contrast shows a deficit of DM 17.9 million (DM 3.4 million in the previous year). This is due mainly to the book value of our affiliated company in Brazil being written off. Also, we made allowance for the loss sustained by the Uniroyal Englebert company in Belgium by forming untaxed reserves in accordance with § 3 AuslInvG. This item also includes an increase in the tax deductions on imports in accordance with § 80 EStDV, special depreciation of fixed assets, adjustments to the value of current assets, investment allowances and grants as well as gains from the release of reserves that were no longer required, and the legally stipulated release of untaxed reserves in accordance with § 3 AuslInvG and § 52 section 5 EStG.

Altogether, profit before tax is DM 47.1 million (DM 19.8 million in the previous year). After the tax deduction, net income amounts to DM 16.2 million (DM 5.7 million in the previous year).

Return on sales after tax improved from 0.3 % in the previous year to 0.8 %, and return on equity was up from 1.4 % to 3.8 %.



The gross cash flow rose to DM 164.3 million (DM 116.1 million in the previous year) and is equivalent to 8.2 % of sales (6.2 % in the previous year).

Balance sheet

The evaluation and depreciation methods on which these Annual Financial Statements are based, are unchanged from previous years, with the exception of a return to the declining-balance depreciation method for additions to property, plant and equipment and the application of new tables for the computation of accrued pensions. These changes are described in detail below.

Property, plant and equipment

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

Additions to property, plant and equipment amounted to DM 58.9 million. Apart from this, investments totalling DM 25.6 million were financed on a leasing basis and as such are not included in additions. Of the total DM 84.5 million (DM 66.1 million in the previous year), roughly equal amounts were invested in Tyre Operations and Technical Products Operations.

Apart from capacity expansion in some areas, especially for tyres, industrial hose, airsprings, and products from the moulded and extruded rubber products group, the focus was mainly on rationalization, productivity improvement as well as further quality assurance measures and incorporating new technologies.

Depreciation has increased to DM 78.7 million (DM 73.5 million in the previous year); it is equivalent to 93.1 % of new investments, including those financed through leasing contracts. Property, plant and equipment on 31st December, 1982 were depreciated as in the past 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, 4–7 years for furniture and equipment, and up to 4 years for moulds. Additions to machinery in the year under review were depreciated in accordance with the declining-balance method on the basis of the highest rates fiscally permitted. The difference vis-à-vis the straight-line method is DM 4.2 million. The remaining additions to property, plant and equipment were depreciated as in the past using the straight-line method, and economic goods of low value purchased in the year under review were written off completely.

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

	Additions and reclassifications DM million	Depreciation DM million
Land and buildings	1.5	0.0
Machinery and fixtures	29.9	6.6
Furniture and equipment	23.3	6.7
	54.7	13.3

The disposal of fixed assets amounting to DM 4.3 million relates to obsolete machinery and fixtures as well as to the sale of land and buildings no longer required.

Over the last five years, investment in property, plant and equipment, including leasing-financed additions, has totalled DM 400.3 million and was 14.5 % higher than depreciation. During the same period, financial investment has amounted to DM 143.5 million, so that total gross investment since 1979 was DM 543.8 million.

Financial assets

Financial assets were valued at the lower of acquisition cost or current value.

The book value of affiliates decreased from the previous year by DM 13.3 million to DM 247.2 million. This is because the book value of Labortex Ltda., Santo André/ São Paulo, Brazil was written off in view of the difficult economic situation in Brazil.

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

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 increased raw material prices and higher production costs, the value of inventories was DM 15.6 million or 5.5 % lower than in the previous year. The substantial decrease in finished goods inventories is primarily attributable to large deliveries at the end of the year. The increase in raw materials and supplies by contrast is due mainly to early purchasing in anticipation of price rises.

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

A comparison with the figures as at the end of 1979 shows that the decrease in capital tied up in current assets derives largely from our efforts to tighten inventory management. Since 31st December, 1979, inventories have fallen by 11.3 % (DM 33.9 million). The increase of 17.7 % in sales during the same period has thus not led to an increase in the amount of capital tied up in inventories.

Accounts receivable and other assets

Despite the increase in sales of 6.8 % over the previous year and comparatively high sales in November and December, accounts receivable from deliveries and services rose by only 3.2 % (DM 5.4 million). Here too, a comparison with the figures as at 31st December, 1979 shows that accounts receivable are now only 6.7 % or DM 11.0 million higher despite the 17.7 % growth in sales.

Apart from individual adjustments which were offset from accounts receivable, there is a bad debt reserve of DM 2.4 million on the liabilities side. The majority of receivables outstanding was due at the beginning of 1984 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 item other debtors includes mainly receivables from suppliers and employees.

Capital and reserves

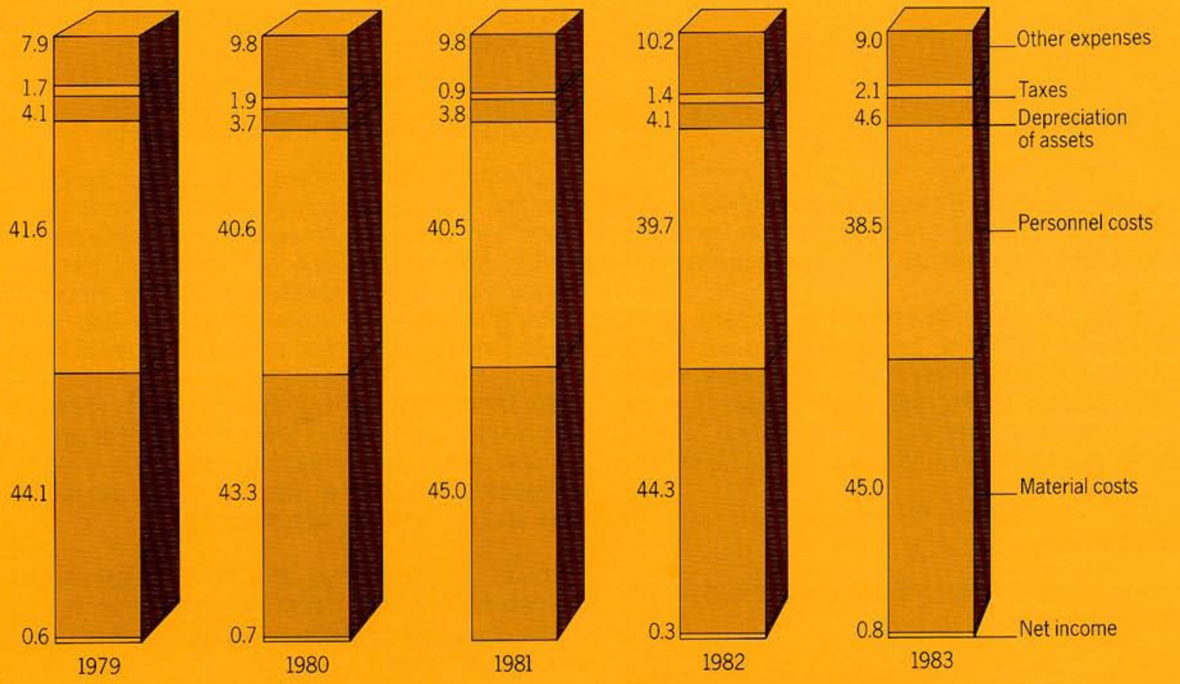
Share capital was unchanged at DM 270 million on the closing date. Following the resolution of the Annual Shareholders' Meeting on 29th June, 1983, conditionally authorized capital was increased by DM 35.0 million and at 31st December, 1983 amounted to DM 76.0 million to accommodate the option rights afforded by the 1984/ 1994 option bond. Share capital can be increased by a maximum of this amount by exercising the conversion rights deriving from the 1979/1992 convertible loan or the option bond 1984/1994. The new shares will be entitled to a dividend with effect from the beginning of the business year in which they are issued as a result of the conversion or option rights being exercised.

By resolution of the Annual Shareholders' Meeting on 29th June, 1983, DM 9.15 million was allocated to free reserves. Furthermore, DM 4.0 million of the company's net income for 1983 was allocated to free reserves in accordance with § 58 section 2 of the Stock Corporation Law.

Untaxed reserves

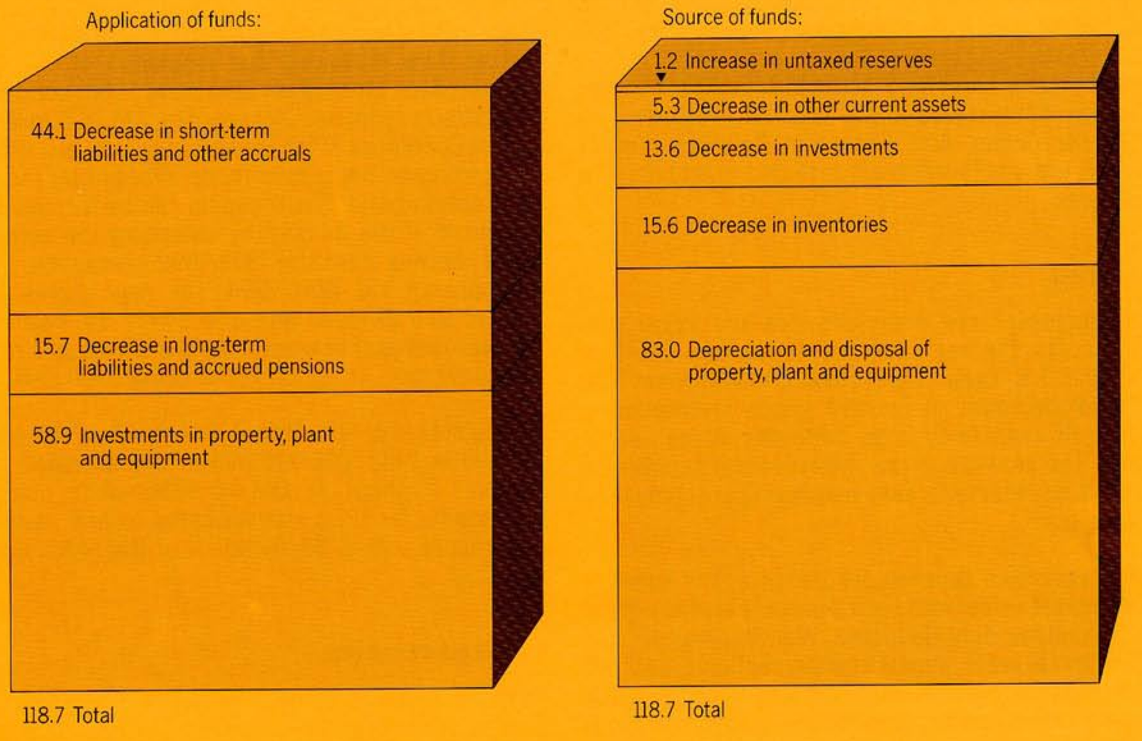
Untaxed reserves increased by DM 1.2 million in the year under review. DM 2.4 million relates to a reserve formed and DM 0.8 million to a reserve released in

Breakdown of expenditure in % of gross revenues



Financing in 1983

(in DM million)



accordance with § 3 of the law governing the taxation of foreign investments by German industry; a further DM 0.2 million was added in accordance with § 74 EStDV (reserve for price increases), and the sum of DM 0.6 million was released in accordance with § 52 section 5 EStG (1/12 from the increase in the rate used to compute pension accruals from 5.5 % to 6 %).

Accruals

Accrued pensions were computed on actuarial principles. The increase in the year under review is partly due to the fact that Dr. Klaus Heubeck's new tables were used, which resulted in an additional DM 5.8 million compared to the tables used in the past.

Other accruals include warranties, bonuses and other commitments arising in the ordinary course of business, contributions to the employers' liability insurance association, risks from contingent liabilities on notes and, not least, tax commitments.

Liabilities

Scheduled repayment of long-term liabilities totalled DM 56.2 million. New long-term loans amounting to DM 30.0 million were taken.

The increase in raw material inventories at the end of the year resulted in higher trade payables. On the other hand, liabilities due to banks and bills and notes payable were reduced quite substantially, so that on balance short-term liabilities were down by DM 72.5 million.

Payments due to affiliated companies include a loan of DM 40.0 million negotiated by our Dutch financing company Intercontinental Rubber Finance B. V., Amsterdam. Other liabilities derive mainly from wages and salaries as well as from tax commitments.

Contingent liabilities

The increase in contingent liabilities on notes to DM 181.2 million (DM 169.1 million in the previous year) is mainly 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 totalling DM 102.8 million (DM 107.7 million in the previous year) relate almost entirely to liabilities of our affiliated companies.

Outstanding payments on contributions to the capital of companies and liabilities due to cooperatives were unchanged from the previous year at DM 3.8 million.

Obligations from rent or leasing contracts

Future obligations from rent or leasing contracts have a present value of DM 44.7 million. Land and buildings account for DM 20.2 million, machinery for DM 10.3 million as well as furniture and equipment for DM 14.2 million. None of these payments is due to affiliated companies.

Profit and loss statement

Sales rose by DM 126.4 million to DM 1,992.7 million, with tyres generating an unchanged 61 %, and other products 39 %. Despite the severe devaluation of some currencies, the decrease in the export sales ratio to 28.2 % was almost negligible (28.6 % in the previous year).

The reduction in finished goods inventories, which was mentioned in an earlier section, resulted in a relatively large difference in the inventory level of DM 22.6 million (DM 0.2 million in the previous year). Overheads capitalized on the construction of fixed assets were down to DM 17.6 million, a decrease of DM 3.1 million. This is evidence of the trend continuing also in 1983 towards less in-house production of capital goods and more contracting out to other companies. On balance, gross revenues were up on the previous year to DM 1,987.7 million.

The proportion of material costs to revenues increased to 45.0 % (44.3 % in the previous year). Apart from higher prices for raw materials, this increase is also due to a 25.2 % larger volume of merchandise purchased from other Group companies. Material costs excluding merchandise rose by 3.2 %.

Personnel costs amounted to DM 765.0 million (DM 748.3 million in the previous year) and were equivalent to 38.5 % of gross revenues (39.7 % in the previous year), whereby this figure too is influenced by the higher volume of merchandise. Personnel costs were up by 2.2 % on the previous year.

Income in the form of profit and loss transfer agreements and dividends amounted to DM 11.6 million (DM 7.2 million in the previous year). Apart from a dividend from our French subsidiary, Continental France S. A. R. L., Sarreguemines, all revenues derived from domestic companies; they include no extraordinary items. Losses were assumed from Continental-Alsa Schuhbedarf GmbH, Steinau-Ürzell and VERGÖLST GmbH, Bad Nauheim. Also included here are the write-off of the book value of our affiliated company in Brazil as indicated earlier and the increase in untaxed reserves in accordance with § 3 AuslInvG.

The central cash and credit management system for our domestic affiliates has had a considerable influence on the two items interest expenses and income, so that they should be considered only on balance. Due to much reduced credit requirements and as a result of falling interest rates, the interest balance was down DM 18.5 million to DM 34.0 million, which is equivalent to just 1.7 % of gross revenues (2.8 % in the previous year).

The increase of DM 19.8 million in other income is attributable chiefly to service charge-outs to other Group companies. With effect from 1st January, 1983, the parent company assumed service functions in the areas of production, logistics, administration and marketing, especially for companies in the Uniroyal Englebert Group, which had previously been performed by the Uniroyal Englebert company in Belgium. The costs of these services are included in personnel costs and other expenses. Other income also includes sales in our kitchens and canteens, proceeds from rents, insurance compensation, foreign exchange gains, income from service contracts etc. Extraordinary income includes investment subsidies and grants as well as minor proceeds from released adjustments and from written off receivables.

The increase of DM 15.3 million in tax expenditures to DM 41.7 million is due to our higher profit. In this context, we again refer to the heavier tax load which, as mentioned in the Report of the Executive Board, results from the negative EK 56. Tax expenditures relate only to the period under review.

With higher costs for freight, advertising, severance benefits for former employees and for services that we have received from other Group companies, other expenses rose by DM 26.5 million to DM 207.0 million. This is equivalent to 10.4 % of gross revenues (9.6 % in the previous year).

The arbitration proceedings with Kléber-Colombes S. A., France, and others were settled amicably in 1983 on mutually acceptable terms and without detriment to our results.

The remuneration of Executive Board members in 1983 totalled DM 3,263,776 (DM 3,072,371 in the previous year). Pensions to retired Board members or their dependents amounted to DM 2,256,933 (DM 2,455,734 in the previous year). Emoluments to the Supervisory Board totalled DM 301,000 (DM 215,000 in the previous year). Inasfar as these payments are dependent on dividend, it was assumed that the Annual Shareholders' Meeting will approve the Administration's proposal for the appropriation of profit.

Proposal for the appropriation of profits

The profit and loss statement for 1983 closes as follows:

Net income	DM 16,190,623
Profit brought forward	DM 4,009,377
Addition to reserves	DM 4,000,000
Retained income	DM 16,200,000

It will be proposed to the shareholders that approval is given for the distribution of a dividend amounting to DM 3.00 (6 %) at the par value of DM 50.00 per share. This means paying out DM 16,200,000 for a share capital of DM 270,000,000. Together with the corporation tax of DM 1.69 per share, a total income of DM 4.69 per DM 50.00 share accrues to our domestic shareholders.

Hanover, 10th April, 1984
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 German Stock Corporation Law we are not required to draw up separate consolidated accounts for our domestic companies.

In addition to the parent company, the consolidated accounts cover sixteen domestic and eighteen foreign 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 22 and 23.

The consolidated Group of companies has changed from the previous year as follows:

On 31st December, 1983, AB Continental Caoutchouc-Compagnie, Solna/Sweden, which until then had merely performed the function of an intermediate holding company, went into liquidation. Continental Caoutchouc-Export-Aktiengesellschaft, Hanover assumed the interest that this company had previously held in our sales company Continental Gummi AB, Solna/Sweden.

The sales company Uniroyal Englebert Banden B. V., Boesingheliede/Netherlands was sold in the year under review. The two production companies Continental France S. A. R. L., Sarreguemines, and Pneu Uniroyal Englebert S. A., Compiègne, established C. U. P. GIE (groupement d'intérêt économique), Epinay/France to perform sales activities in France for tyres and technical products. Continental Tyre and Rubber Company Ltd., Coulsdon/Great Britain assumed responsibility for the sale of all Uniroyal products and since 31st December, 1983 has operated as C. U. P. Ltd., Coulsdon/Great Britain.

Eight domestic and four foreign companies, which have a low business volume or which are inactive, were not included in the consolidated Group of companies. This does not detract from the 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 complied 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 generally accepted 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, 1983. 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) have been included under other income and other expenses.

Consolidation method

For affiliated 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 cost at the time of acquisition is set against the affiliated company's equity capital (including profits or losses). The deviation is shown in the difference arising from consolidation.

Affiliated companies belonging to the Group before the above date were consolidated according to the 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 as also were expenditures and revenues deriving from intercompany transactions.

Financial position

Although sales to third parties increased by 4.3 %, the balance sheet total again decreased from the previous year by DM 31.3 million (1.6 %), thus yielding a capital turnover rate of 1.79 (1.69 in the previous year). This means that at Group level, too, this ratio has improved steadily since the first consolidated statement in 1979. With an increase in sales of 13.5 % over 1979, the balance sheet total narrowed by 5.2 % and led to an improvement in capital turnover from 1.50 to 1.79.

Fixed assets and the difference arising from consolidation decreased in the year under review by a total of DM 32.8 million. The proportion of fixed assets to total assets fell from 42.5 % to 41.5 %. Here, however, it should be taken into account that in 1983 investments totalling DM 25.8 million were financed by leasing and are thus not included in fixed assets. Also, the write-off of the book value of Labortex Ltda., Santo André/São Paulo/Brazil and the sale of Uniroyal Englebert Banden B. V., Boesingheliede/Netherlands have reduced the difference arising from consolidation. Current assets, including prepaid expenses, edged up only slightly by DM 1.5 million and were equivalent to 58.5 % of total assets (57.5 % in the previous year). This is higher than the ratio for the parent company because by nature the consolidated sales companies have relatively high current assets. Total debt (all short and long-term liabilities) showed a further substantial decrease in the consolidated accounts too and, at DM 1,012.3 million on the closing date, was DM 86.5 million lower than the previous year's figure. Since 1979, the debt level in the consolidated companies has been reduced on balance by DM 255.9 million, although investments over the same period were 15.3 % higher than depreciation. The Group's financial flexibility has thus considerably improved.

Following the resolution at the Annual Shareholders' Meeting on 29th June, 1983, consolidated reserves were increased by DM 9.15 million. Also, a sum of DM 4.0 million from the parent company's net income and a further DM 24.5 million from the net income of the other Group companies were allocated to reserves. After subtracting DM 0.9 million for adjustments, consolidated reserves increased to DM 153.4 million.

Equity capital, including 50 % of untaxed reserves, rose to DM 444.5 million and represented 23.5 % of total assets (22.0 % in the previous year).

88.1 % of fixed assets, the difference arising from consolidation, and inventories were financed out of equity capital and long-term debt (85.0 % in the previous year).

With a much better cash flow, the self-financing ratio (financing of additions to fixed assets out of the net cash flow) improved to 166.0 % (130.9 % in the previous year). The equivalent ratio for the parent company is 227.3 % (122.4 % in the previous year).

The liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) also improved at Group level, from 72.1 % to 77.5 %; this is even slightly higher than the figure for the parent company (76.0 %).

Profit situation

Profit before tax improved substantially to DM 102.4 million (DM 59.0 million in the previous year) and was thus more than twice as high as at parent company level (DM 47.1 million). After the deduction of taxes, annual net income is DM 41.3 million. Allowing for the amount required for the parent company's proposed dividend, some 60 % will remain to strengthen reserves.

After-tax return on sales improved from 0.6 % in the previous year to 1.2 %, and after-tax return on equity was up from 4.7 % to 9.3 %.

The gross cash flow increased to DM 271.1 million (DM 204.7 million in the previous year) and was equivalent to 8.0 % of sales (6.3 % in the previous year) – the ratio at parent company level was 8.2 %.

Balance sheet

The consolidated statements too are based on the same evaluation and depreciation principles as in previous years, with the exception of a return to the declining-balance depreciation method and the application of new tables for the computation of accrued pensions. These are described in detail below.

Property, plant and equipment

Additions to property, plant and equipment totalled DM 128.2 million (DM 131.9 million in the previous year). Apart from this, investments of a further DM 25.8 million were financed on a leasing basis, mainly in the parent company – and for this reason are not included in additions to property, plant and equipment. Total investment therefore amounted to DM 154.0 million, of which tyres accounted for some 70 % and other products for 30 %. The changeover from the straight-line to the declining-balance method of depreciation for additions in 1983 resulted in additional expenditure of DM 10.1 million. Declining-balance depreciation was done on the basis of the highest rates fiscally permitted and, as in the parent company, was adopted by all domestic and foreign tyre-producing companies. The remaining companies will change over during the current year. Depreciation throughout the Group is done according to the declining-balance or the straight-line method and based on the same standards for useful life.

The parent company accounts for 59.6 % of property, plant and equipment (61.1 % in the previous year). Foreign-based property, plant and equipment accounted for 21.8 % on the closing date (22.1 % in the previous year). The value of the latter has decreased from the previous year by DM 8.5 million as a result of exchange movements and amounted to DM 150.8 million on 31st December, 1983.

Additions and depreciation can be broken down as follows:

	Additions DM million	Depreciation DM million
Parent company	58.9	78.7
Consolidated affiliated companies	69.3	56.8
	128.2	135.5

Additions to property, plant and equipment relate mainly to machinery and moulds, which serve to maintain our performance in terms of technology and cost, and to expand production capacity in specific priority areas. Over the past five years, investment in property, plant and equipment has totalled DM 681.0 million and was 15.3 % higher than depreciation. Together with the leasing-financed investments of DM 36.3 million and financial investments of DM 7.2 million, total gross investment since 1979 is DM 724.5 million.

Financial assets

Interests in the non-consolidated companies (see chart on pages 22 and 23) are held mainly by the parent company. There are no changes from the previous year.

Loans are mainly home-building loans to employees and funds contributed to energy supply companies. 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 decreased in the year under review by DM 3.1 million following the sale of a marketing company in the Netherlands, this item also includes the differences between nominal capital and reserves on the one hand and investment book values on the other hand that are computed on the basis of the German method.

In addition to undisclosed reserves arising from acquisitions, this item also includes exchange rate differences resulting from the equity translation of foreign companies which were consolidated according to the German method. Since these affiliated companies were acquired or capital was increased, the DM has strengthened relative to other currencies. The equity capital of these companies translated at the rate valid on 31st December, 1983 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 prior year book values, this part of the difference arising from consolidation can also be regarded as undisclosed reserves. The effect of this foreign exchange loss was particularly marked in the consolidation of Continental France S. A. R. L., but at the same time, it resulted in a substantial volume of undisclosed reserves.

On balance, that part of the difference arising from consolidation computed in accordance with the German consolidation method decreased by DM 5.5 million. Specifically, the write-off of the book value of Labortex Ltda., Brazil on the parent company's balance sheet led to a decrease and the exchange rate differences deriving from the equity capital translation of the remaining foreign companies led to an increase in the difference arising from consolidation. The negative difference arising from consolidation which is due to the book value of Labortex Ltda. being written off, is essentially equivalent to an adjustment of the assets as shown on the individual statement.

Inventories

Although inflation-related cost and price increases in the foreign companies could not always be offset completely by foreign exchange movements, inventories were again reduced and were DM 7.2 million lower than in the previous year.

The breakdown is as follows:

	DM million
Parent company	265.7
Consolidated affiliated companies	275.4
	541.1

By comparison with the first consolidated balance sheet of 31st December, 1979, inventories have fallen by DM 61.4 million (10.2 %), although in the same period sales have increased by 13.5 %.

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

Accounts receivable and other assets

The increase of DM 28.5 million (6.0 %) in accounts receivable is, as at the parent company, the result of high sales in December. Adequate individual adjustments have been made to provide against possible risks. There is also a bad debt reserve of DM 6.8 million on the liabilities side to cover the general credit risk.

Other assets decreased by DM 11.3 million to DM 31.1 million and include mainly receivables due from suppliers and tax authorities as well as from employees.

Comparing these two items with the corresponding figures on 31st December, 1979, there has been a decrease of 0.2 %, while sales have increased by 13.5 %. Taken together, inventories, accounts receivable and other assets have been reduced by 5.5 % in this period. Corporate growth in the past four years has thus necessitated no additional capital commitment; indeed, funds have been released.

Accruals

The pension accruals of the German Group companies were computed on the basis of actuarial principles, applying an interest rate of 6 %. The application of Dr. Klaus Heubeck's new tables by the parent company and by Uniroyal Englebert Reifen GmbH, Aachen have resulted in an increase in accruals of DM 6.8 million.

The statutory compensation claims of employees in some foreign companies were also computed on actuarial principles, based on various rates, and are included in pension accruals. The pension funds available in the benefit schemes of two Group companies are short by DM 9.3 million.

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

Liabilities

Following scheduled repayments, long-term liabilities have decreased on balance by DM 26.7 million, although new loans were taken; short-term liabilities could even be reduced by a substantial DM 59.8 million.

The increase of DM 17.2 million in trade payables is attributable mainly to stockbuilding purchases by the parent company at the end of the year.

Other liabilities increased by DM 13.8 million, chiefly as a result of higher tax commitments. This item also comprises wages and salaries, including payroll tax and outstanding social security contributions as well as other liabilities arising in the ordinary course of business.

Contingent liabilities

Contingent liabilities on notes decreased to DM 176.3 million (DM 194.0 million in the previous year). Warranties and guarantees totalling DM 5.1 million (DM 8.5 million in the previous year) relate to non-consolidated affiliated companies.

Commitments arising from rent or leasing contracts

Future commitments arising from rent or leasing contracts amount to a present cash value of DM 72.7 million. Land and buildings account for DM 43.7 million of this, machinery and fixtures for DM 14.7 million and furniture and equipment for DM 14.3 million. 62 % of the total commitment relates to the parent company and 38 % to the consolidated affiliated companies.

Profit and loss statement

Consolidated sales on foreign markets – translated into DM – improved by 1.7 % and on the domestic market by 5.8 %. Overall sales have increased by 4.3 % to DM 3,387.2 million of which 36.4 % was generated on foreign markets (37.3 % in the previous year).

Gross revenues increased by 4.0 % to DM 3,402.0 million. Material costs relative to gross revenues were virtually unchanged at 41.7 % (41.6 % in the previous year), personnel costs were down to 37.8 % (39.1 % in the previous year). These figures are lower than the corresponding ratios on parent company level mainly because the consolidated sales companies have relatively low material and personnel costs.

The interest balance fell to DM 69.4 million (DM 102.7 million in the previous year) due to the lower interest rate and the substantially lower total debt level. It was equivalent to 2.0 % of gross revenues (3.1 % in the previous year).

Extraordinary income of DM 12.6 million (DM 15.3 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 85.5 million (DM 65.6 million in the previous year) relates almost entirely to profit taxes.

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

Continental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1983

Assets	31st December, 1983 DM	DM	DM	31st Dec., 1982 DM 1 000
I. Fixed Assets				
A. Property, Plant and Equipment				
1. Land				
a) with commercial plant and other buildings	133 977 029			141 118
b) with residential buildings	888 460			928
c) without buildings	70 800			71
2. Machinery	204 436 672			222 044
3. Furniture and equipment	44 690 354			48 173
4. Assets under construction and prepayments	27 849 366			23 658
		411 912 681		435 992
B. Investments				
1. Investments	247 215 099			260 521
2. Loans with a term of at least four years	4 539 925			4 904
thereof secured by mortgages DM 3 143 437		251 755 024		265 425
			663 667 705	701 417
II. Current Assets				
A. Inventories				
1. Raw materials and consumables	67 168 196			61 942
2. Work in progress	52 124 879			50 305
3. Finished goods, goods for resale	146 423 991			169 069
		265 717 066		281 316
B. Other Current Assets				
1. Payments on account		346 201		2 331
2. Accounts receivable		174 341 946		168 943
due after one year DM 430 211				
3. Notes receivable		463 978		113
rediscountable with the Federal Bank DM 463 978				
4. Checks		6 622 799		6 843
5. Cash on hand, at Federal Bank and on postal check accounts		1 118 277		1 744
6. Cash at banks		1 112 100		3 536
7. Due from affiliated companies		33 323 524		29 753
8. Other receivables (§ 89 Stock Corp. Law)		231 767		308
9. Other debtors		8 088 979		15 862
			491 366 637	510 749
III. Prepaid Expenses				
1. Loan discounts		688 383		942
2. Other		148 152		1 382
			836 535	2 324
			1 155 870 877	1 214 490

Liabilities		31st December, 1983 DM	31st December, 1983 DM	31st Dec., 1982 DM 1000
I. **Share Capital (Common Stock)**			270 000 000	270 000
Conditionally authorized capital	DM 76 000 000			
II. **Open Reserves**				
1. Legal reserves			66 000 000	66 000
2. Free reserves		57 850 000		55 000
Allocation by resolution of the Annual General Meeting on 29th June, 1983		9 150 000		
Allocation from net income		4 000 000		2 850
			71 000 000	57 850
III. **Untaxed Reserves** according to § 3 Auslandsinvestitionsgesetz, § 6b EStG, § 52 section 5 EStG, § 74 EStDV			28 224 600	27 028
IV. **General Bad Debt Reserve**			2 400 000	2 250
V. **Accruals**				
1. Accrued pensions		135 113 447		124 557
2. Accruals for deferred maintenance		1 027 275		687
3. Other accruals		98 089 534		91 167
			234 230 256	216 411
VI. **Liabilities With Terms Of At Least Four Years**				
1. Bonds and convertible bonds		109 017 850		118 929
thereof secured by mortgages	DM 30 000 000			
2. Loans and debentures		43 547 558		53 594
thereof secured by mortgages	DM 43 451 458			
3. Due to banks		110 000 000		116 250
thereof secured by mortgages	DM —		262 565 408	288 773
Due within four years	DM 119 571 755			
VII. **Other Liabilities**				
1. Trade payables		62 759 087		49 313
2. Notes payable		19 818 696		56 341
3. Due to banks		14 920 459		40 706
4. Payments received on account		2 511 385		5 473
5. Due to affiliated companies		49 042 032		67 275
6. Other liabilities		56 198 954		58 648
			205 250 613	277 756
VIII. **Retained Income**			16 200 000	8 422
1. Contingent liabilities on notes	DM 181 185 829			
2. Guarantees	DM 82 980 568			
3. Warranties	DM 19 827 553			
			1 155 870 877	1 214 490

Fixed Assets Schedule 1983

	1st January, 1983 DM	Additions DM	Reclassifications DM	Deductions DM	Depreciation DM	31st Dec., 1983 DM
A. Property, Plant and Equipment						
1. Land						
a) with commercial plant and other buildings	141 118 485	1 358 439	170 717	189 486	8 481 126	133 977 029
b) with residential buildings	928 151				39 691	888 460
c) without buildings	70 800					70 800
2. Machinery	222 044 253	21 210 045	8 634 980	2 661 273	44 791 333	204 436 672
3. Furniture and equipment	48 172 703	21 699 459	1 591 545	1 453 943	25 319 410	44 690 354
4. Assets under construction and prepayments	23 658 050	14 663 762	– 10 397 242		75 204	27 849 366
	435 992 442	58 931 705	—	4 304 702	78 706 764	411 912 681
B. Investments						
1. Investments	260 520 479	49 865			13 355 245	247 215 099
2. Loans with a term of at least four years	4 903 770	487 175		851 020		4 539 925
	265 424 249	537 040	—	851 020	13 355 245	251 755 024
	701 416 691	59 468 745	—	5 155 722	92 062 009	663 667 705

Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1983

		1983 DM	1983 DM	1982 DM 1000
1. **Sales**		1 992 670 586		1 866 287
2. Change in inventories of products		– 22 565 315		– 204
			1 970 105 271	1 866 083
3. Overheads capitalized on construction of fixed assets			17 597 233	20 711
4. **Gross Revenues**			1 987 702 504	1 886 794
5. Raw materials and consumables			893 819 458	835 329
6. **Gross Margin**			1 093 883 046	1 051 465
7. Income from profit and loss pooling agreements		6 947 328		4 932
8. Investment income		13 706 257		5 211
9. Income from long-term loans		355 947		501
10. Interest and similar income		8 738 150		10 935
11. Income from disposal of fixed assets		1 430 379		1 934
12. Income from release of accruals		3 156 622		9 508
13. Income from release of untaxed reserves		1 390 595		—
14. Other income		51 417 446		31 611
thereof extraordinary	DM 4 421 746			
			87 142 724	64 632
			1 181 025 770	1 116 097
15. Wages and salaries		631 540 495		621 144
16. Social security contributions		108 714 596		105 496
17. Pensions and employees' welfare		24 751 376		21 619
18. Depreciation of property, plant and equipment		78 706 764		73 535
19. Depreciation of investments		13 355 245		3 500
20. Depreciation of current assets (excluding inventories)		2 765 774		3 022
21. Losses from disposal of fixed assets		1 919 141		1 061
22. Interest and similar expenses		42 692 554		63 420
23. Taxes				
a) on income, profit and net worth	DM 46 660 654			
charged to subsidiaries	DM 5 777 194			
	DM 40 883 460			
b) other	DM 838 212			
		41 721 672		26 375
24. Expenses from profit and loss pooling agreements		9 100 614		2 937
25. Additions to untaxed reserves		2 586 874		7 828
26. Other expenses		206 980 042		180 457
			1 164 835 147	1 110 394
27. **Net Income**			16 190 623	5 703
	carry forward:		16 190 623	5 703

	1983 DM	DM	1982 DM 1000
carried forward:		16 190 623	5 703
28. Profit brought forward		4 009 377	5 569
29. Additions to reserves		4 000 000	2 850
30. **Retained Income**		16 200 000	8 422

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, 10th April, 1984

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1983

Assets	31st December, 1983 DM	DM	31st Dec., 1982 DM 1000
I. Fixed Assets			
A. Property, Plant, Equipment and Intangible Assets			
1. Land			
a) with commercial plant and other buildings	204 909 082		215 066
b) with residential buildings	1 608 602		1 711
c) without buildings	3 651 156		2 304
2. Buildings on third parties' land	5 777 200		5 130
3. Machinery	343 659 788		354 905
4. Furniture and equipment	86 343 137		85 387
5. Assets under construction and prepayments	44 622 208		48 757
6. Intangible assets	695 127		531
		691 266 300	713 791
B. Investments			
1. Investments	31 821 461		32 331
2. Investment securities	1 240 864		1 912
3. Loans with a term of at least four years	6 593 782		7 027
thereof secured by mortgages . . . DM 3 500 894			
		39 656 107	41 270
		730 922 407	755 061
II. Difference Arising From Consolidation		52 015 580	60 628
thereof from consolidation according to Anglo-American method . . . DM 7 902 611			
III. Current Assets			
A. Inventories	541 066 165		548 263
B. Other Current Assets			
1. Payments on account	409 775		2 528
2. Accounts receivable	506 428 384		477 879
due after one year . . . DM 930 683			
3. Notes receivable	2 388 185		3 710
rediscountable with the Federal Bank . . . DM 463 978			
4. Checks	8 894 285		10 035
5. Cash on hand, at Federal Bank and on postal check accounts	2 146 147		3 300
6. Cash at banks	6 811 990		8 298
7. Marketable securities	2 420		3
8. Due from affiliated companies	1 492 492		919
9. Other receivables (§ 89 Stock Corp. Law)	456 307		498
10. Other debtors	31 106 312		42 437
		1 101 202 462	1 097 870
IV. Prepaid Expenses			
1. Loan discounts	1 046 257		1 113
2. Other	2 250 679		4 048
		3 296 936	5 161
		1 887 437 385	1 918 720

Liabilities	31st December, 1983 DM	31st December, 1983 DM	31st Dec., 1982 DM 1000
I. **Share Capital**		270 000 000	270 000
Conditionally authorized capital . . . DM 76 000 000			
II. **Open Reserves**			
1. Legal reserves	66 000 000		66 000
2. Free reserves	87 367 823		50 604
		153 367 823	116 604
III. **Minority Interests**		1 772 780	1 765
including interests in net income . . . DM 112 690			
including interests in losses . . . DM 20 666			
IV. **Untaxed Reserves** according to § 3 Auslandsinvestitionsgesetz, § 6b EStG, § 52 section 5 EStG, § 74 EStDV and foreign tax regulations		38 546 841	42 624
V. **General Bad Debt Reserve**		6 803 088	6 026
VI. **Accruals**			
1. Accrued pensions and similar accruals	200 755 486		186 700
2. Accruals for deferred maintenance	1 360 249		1 424
3. Other accruals	186 325 824		186 290
		388 441 559	374 414
VII. **Liabilities With Terms Of At Least Four Years**			
1. Bonds and convertible bonds	109 017 850		118 929
thereof secured by mortgages . . . DM 30 000 000			
2. Loans and debentures	43 547 558		53 594
thereof secured by mortgages . . . DM 43 451 458			
3. Due to banks	280 344 585		286 497
thereof secured by mortgages . . . DM 43 569 622			
4. Other liabilities	23 705 026		24 316
thereof secured by mortgages . . . DM 5 053 477			
		456 615 019	483 336
Due within four years . . . DM 187 298 143			
VIII. **Other Liabilities**			
1. Trade payables	149 991 891		132 391
2. Notes payable	88 094 024		118 705
3. Due to banks	170 543 294		229 744
4. Payments received on account	8 898 098		10 325
5. Due to affiliated companies	5 172		5
6. Other liabilities	138 157 796		124 359
		555 690 275	615 529
IX. **Retained Income**		16 200 000	8 422
Contingent liabilities on notes . . . DM 176 273 793			
Guarantees . . . DM 3 326 320			
Warranties . . . DM 1 792 029			
		1 887 437 385	1 918 720

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1983

	1983 DM	1983 DM	1982 DM 1000
1. **Sales**	3 387 229 157		3 248 791
2. Change in inventories of products	– 14 877 132		– 5 040
		3 372 352 025	3 243 751
3. Overheads capitalized on construction of fixed assets		29 652 702	29 128
4. **Gross Revenues**		3 402 004 727	3 272 879
5. Raw materials and consumables		1 419 968 351	1 361 343
6. **Gross Margin**		1 982 036 376	1 911 536
7. Income from profit and loss pooling agreements	1 961		1
8. Investment income	2 287 620		2 208
9. Income from long-term loans	1 226 012		1 441
10. Interest and similar income	3 689 768		5 958
11. Income from disposal of fixed assets	6 738 980		2 896
12. Income from release of accruals	11 328 327		19 786
13. Income from release of untaxed reserves	6 783 163		1 428
14. Other income	46 209 198		52 050
thereof extraordinary DM 12 608 641		78 265 029	85 768
		2 060 301 405	1 997 304
15. Wages and salaries	1 044 111 158		1 044 041
16. Social security contributions	204 534 765		201 748
17. Pensions and employees' welfare	38 221 840		32 288
18. Depreciation of property, plant, equipment and intangible assets	135 514 642		123 818
19. Depreciation of investments, including consolidated affiliated companies	14 589 614		2 431
20. Depreciation of current assets (excluding inventories)	8 809 612		8 697
21. Losses from disposal of fixed assets	2 975 317		4 341
22. Interest and similar expenses	73 074 696		108 637
23. Taxes a) on income, profit and net worth DM 79 765 634; b) other DM 5 696 142	85 461 776		65 632
24. Expenses from profit and loss pooling agreements	284		—
25. Additions to untaxed reserves	2 784 298		13 149
26. Other expenses	408 929 461		372 510
		2 019 007 463	1 977 292
27. **Net Income**		41 293 942	20 012
carry forward:		41 293 942	20 012