Annual Report 1984

Continental

Continental

		Continental Gummi-Werke AG 1979–1984						Continental Group 1979–1984					
		1979	1980	1981	1982	1983	1984	1979	1980	1981	1982	1983	1984
Balance sheet													
Fixed assets	DM million	601.9	670.9	704.6	701.4	663.7	677.7	789.4	809.3	827.2	815.7	782.9	764.9
Current assets	DM million	554.4	539.6	530.3	513.1	492.2	527.0	1200.7	1215.2	1145.3	1103.0	1104.5	1200.8
Balance sheet total	DM million	1156.3	1210.5	1234.9	1214.5	1155.9	1204.7	1990.1	2024.5	1972.5	1918.7	1887.4	1965.7
Equity	DM million	392.9	399.1	406.8	418.3	419.3	480.6	396.9	418.6	401.9	420.6	442.7	522.2
Long-term debt	DM million	472.1	467.7	449.1	429.9	415.2	413.7	627.5	742.9	729.4	694.3	680.1	692.6
Total investments	DM million	123.9	142.7	108.8	77.2	59.5	110.0	113.4	150.6	159.7	134.8	129.7	151.1
Equity ratio	in %	34.0	33.0	32.9	34.4	36.3	39.9	19.9	20.7	20.4	21.9	23.5	26.6
Equity and long-term debt to fixed assets and inventories	in %	96.7	89.5	88.7	88.7	92.7	94.7	74.4	81.8	83.7	84.2	88.3	91.2
Total indebtedness	DM million	568.5	573.0	605.4	566.6	467.9	451.9	1268.2	1223.7	1195.9	1098.8	1 012.3	998.2
Self-financing ratio	in %	82.1	76.7	58.2	121.1	226.2	102.0	110.1	116.6	69.1	133.0	170.4	143.5
Liquidity ratio	in %	88.5	67.3	68.3	66.6	76.4	81.5	61.9	67.2	71.0	71.1	77.7	82.1
Profit and loss statement													
Sales	DM million	1692.6	1817.2	1823.9	1866.3	1992.7	2079.3	2623.4	3159.7	3229.0	3248.8	3387.2	3534.0
Export sales ratio	in %	26.3	28.5	29.3	28.6	28.2	33.4	34.5	37.0	38.0	37.3	36.4	40.1
Material costs to gross revenues	in %	44.1	43.3	45.0	44.3	45.0	47.3	42.8	41.4	41.5	41.6	41.7	43.3
Personnel costs to gross revenues	in %	41.5	40.7	40.7	39.9	38.6	37.5	39.7	39.2	39.7	39.2	37.9	36.8
Depreciation	DM million	70.8	68.8	69.5	77.0	92.1	88.5	101.4	119.3	120.3	126.2	150.1	153.9
Gross cash flow	DM million	122.1	138.6	87.5	115.6	163.1	159.1	163.7	218.5	139.0	204.2	269.9	273.9
Value added	DM million	799.3	884.5	838.6	847.7	865.3	886.2	1193.0	1480.2	1426.1	1476.3	1486.3	1519.0
Net income	DM million	+ 11.9	+ 12.7	+ 0.2	+ 3.9	+ 15.1	+ 18.3	+ 24.1	+ 26.1	− 17.8	+ 18.3	+ 40.2	+ 41.2
Dividends paid	DM million	–	13.5	–	–	16.2	17.9						
Employees													
(annual average)	thousand	18.1	18.3	17.4	16.3	15.6	15.4	31.1	31.3	29.6	28.2	27.1	26.3

Previous year figures in this annual report are based on changes in the annual financial statements of Continental Gummi-Werke AG and the Continental Group for 1977 to 1983 (see explanatory notes in the enclosure).

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

Report on the 113th Business Year 1984

Contents

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Deutsche Bank AG

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

Benno Adams *)
Deputy Chairman,
Former Trade Union District Manager,
Chemie-Papier-Keramik (up to 6. 7. 1984)

Rudolf Alt *)
Chairman of Group and Overall Works Council
as well as Works Council Chairman, Stöcken Plant

Adolf Bartels *)
Trade Union District Manager,
Chemie-Papier-Keramik
(as from 6. 7. 1984)

Siegfried Brauns *)
Former Works Council Member, Stöcken Plant
(up to 6. 7. 1984)

Manfred Emcke
Management Consultant

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

Ernst Fuhrmann
Honorary Professor,
Technical University of Vienna
(up to 6. 7. 1984)

Willi Goldschald *)
Works Council Chairman, Vahrenwald Plant

Rudolf Häßler *)
Former Works Council Chairman, Limmer Plant
(up to 6. 7. 1984)

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

Richard Köhler *)
Works Council Chairman, Korbach Plant
(as from 6. 7. 1984)

Joachim Kost *)
Plant Manager, Vahrenwald

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Chairman of the Supervisory Board,
Robert Bosch GmbH

Wilhelm Meyerheim
Former Member of the Executive and
Supervisory Boards,
Bayer AG (up to 6. 7. 1984)

Ernst Pieper
Chairman of the Executive Board,
Salzgitter AG

Klaus Piltz
Member of the Executive Board,
Veba AG

Günther Saßmannshausen
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Preussag AG (as from 6. 7. 1984)

Friedrich Schiefer
Member of the Executive Board,
Allianz Versicherungs-AG
and
Allianz Lebensversicherungs-AG
(as from 6. 7. 1984)

Siegfried Schille *)
Works Council Chairman, Limmer Plant
(as from 6. 7. 1984)

Hugo Schleiermacher *)
Works Council Member, Vahrenwald Plant
(as from 6. 7. 1984)

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

Wolfgang Seelig
Member (rtd.) of the Executive Board,
Siemens AG

Ernst Sprätz *)
Works Council Chairman, Dannenberg Plant
(as from 6. 7. 1984)

Heinz Tristram *)
Former Works Council Member, Vahrenwald Plant
(up to 6. 7. 1984)

Hermann Westerhaus *)
Former Works Council Chairman,
Korbach Plant (up to 6. 7. 1984)

*) Employee representative

Report of the Supervisory Board

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

The main subjects of these consultations were the budget and long-range planning, including capital investment policy and corporate structure. Particularly noteworthy in this connection are the special investment programme for the Tyre Division and the structural adjustments in the Affiliated Companies Division. We have also taken decisions on matters which, in accordance with legal provisions or company statutes, were submitted to us for approval.

The annual financial statements and the annual report have been audited in accordance with accounting principles by Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Hanover, who were approved 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 financial statements as per 31st December, 1984, the proposal for the appropriation of retained income and the annual report. In doing so, there were no objections raised.

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

With regard to the changes in the annual financial statements for 1977 to 1983, we refer to the separate report of the Supervisory Board in the enclosure to this annual report.

We have approved the annual financial statements for 1984 prepared by the Executive Board, and these are now adopted on the proviso that the Annual Shareholders' Meeting endorses the Administration's amended proposals for the appropriation of profit for the fiscal years from 1977.

At the Supervisory Board meeting on 12th December, 1984 Dr. Wilhelm Borgmann, who had previously been a Vice President, was appointed to the Executive Board effective 1st January, 1985 and retained responsibility for Manufacturing and Engineering, Tyres.

In the year under review the rotational elections for the Supervisory Board were held. The period of office of the new Supervisory Board members commenced at the end of the Annual Shareholders' Meeting on 6th July, 1984. Since then the former employee representatives, Messrs. Benno Adams, Siegfried Brauns, Rudolf Häßler, Heinz Tristram and Hermann Westerhaus, as well as the shareholder representatives, Professor Ernst Fuhrmann and Mr. Wilhelm Meyerheim, are no longer members of the Supervisory Board. At the last Annual Shareholders' Meeting generous tribute was paid to their creditable service. At this point we would like to reiterate our gratitude to them for their valuable contributions. Our special thanks also go to Mr. Adams who served on the Supervisory Board from 1966 and from 1976 acted as its Deputy Chairman and as a member of the presidium.

The employee representatives, Messrs. Adolf Bartels, Richard Köhler, Siegfried Schille, Hugo Schleiermacher and Ernst Sprätz, as well as the shareholder representatives, Dr. E. h. Günther Saßmannshausen and Dr. Friedrich Schiefer, were elected as new members of the Supervisory Board.

Hanover, 7th May, 1985

The Supervisory Board

Alfred Herrhausen

Alfred Herrhausen, Chairman

Members of the Executive Board

Helmut Werner
Chairman

Wilhelm Borgmann
Manufacturing and Engineering, Tyres
(as from 1. 1. 1985)

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

Bernd Frangenberg
Marketing Uniroyal Tyres

Jens P. Howaldt
General Counsel and Corporate Planning

Report of the Executive Board

Continued dividend payment despite difficult market conditions

The Continental Group developed satisfactorily in the 1984 business year, with the first few months of the year exceeding expectations. This positive trend was, however, brought to a halt in early summer by labour disputes in the metal-working and printing industries. As a result, the Group sustained losses in sales to the tune of DM 86 million and profits were down substantially. The fact that all three Divisions – Tyres, Technical Products and Affiliated Companies – generated positive results despite this is attributable to the increased demand for higher-grade products in both the original equipment and the replacement sectors, to our successful rationalization programmes and to strict cost control.

Corporate results are on a par with the previous year and permit us to pay the same dividend as in 1983.

With regard to the changes in the annual financial statements for 1977 to 1983, which were made for tax reasons, we refer to the separate report of the Executive Board in the enclosure to this annual report.

Hesitant economic recovery

In 1984 the upswing in the USA, Canada and Japan gathered momentum while economic recovery in West European industrialized countries tended to be restrained. The number of people employed in the USA increased by 4 %. In Western Europe on the other hand the unemployment level continued to rise. In 1984, 11 % of the workforce, that is some 19 million people, were without employment. However, almost all West European countries are now witnessing the first signs of success in their efforts to resolve problems of structure and weak growth. Thus, for example, the inflation rate which still averaged over 12 % in the EEC in 1980 was down to 5.5 % in 1984. Lower wage increases by comparison with previous years and further gains in corporate productivity improved the general investment climate. Nevertheless, the conditions for our key customers were not favourable.

Development in the West European automotive industry was negative, especially in the commercial vehicle sector, but also for passenger cars. The French and British industries in particular were unable to match the previous year's production levels. German car manufacturers launched a major effort in the second half of the year to make up for the production losses that followed the labour dispute in the metal-working industry in the early summer. Nonetheless, production was considerably lower than in the previous year.

The European replacement tyre business also failed to produce any new stimulus. Here, volume growth was slight. Because of this market situation excess capacities persist in the European rubber industry.

As a supplier to the automotive industry the German rubber industry also sustained a severe sales setback in the second quarter after starting the year well. Our industry endeavoured to compensate for the fall-off in demand by increasing exports and stepping up supplies to the non-OEM sector. However, this was only possible by making substantial price concessions.

Car makers throughout Europe are closely following the discussion on the possible introduction of a speed limit in Germany because they too must gear their product development to the requirements of the German market – the largest in Europe. The same applies to the demand for the fitting of a catalytic convertor to minimize harmful exhaust fumes. The timely development of a Europe-wide concept clearly defining the acceptable emission levels which such convertors must ensure would have upset the automotive market far less and would have been more beneficial to the cause of environmental protection.

Increased presence on foreign markets

Sales and results of the Continental Group were affected by the difficult market conditions that prevailed in Germany. Nevertheless, we were able to alleviate the effects by broadening our international base.

For some time now our Divisions have been the much sought after partners of Europe's original equipment manufacturers. We have intensified our marketing efforts to make full use of the opportunity this situation gives us to tap foreign replacement markets further. In France and Great Britain especially we have been able to strengthen our position. We have devised a special action programme for the Spanish market in order to lay the foundation for future growth once Spain is a member of the EEC.

The cooperation in the tyre sector with our partners General Tire, Inc. in the USA as well as Toyo Tire and Rubber Co., Ltd. in Japan has been intensified. Our cooperation partners produce Continental-brand tyres for us, which we sell in these key overseas markets.

Sales up by 4.3 %

In 1984 both Group and parent company sales were up by 4.3 %. The table below shows the development by comparison with the previous year.

	1984 DM million	1983 DM million	Change in %
Group	3,534.0	3,387.2	+ 4.3
Parent company	2,079.3	1,992.7	+ 4.3

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 64 % and 36 % respectively.

Profit on a par with previous year

Profit development was not only affected by the difficult market conditions but also by substantial price increases for raw materials. Because of the competitive situation we were unable to pass on these increases.

The parent company's profit before tax amounted to DM 49.0 million. Profit-related tax was DM 30.7 million, leaving an annual surplus of DM 18.3 million.

The Administration's proposal to the Annual Shareholders' Meeting is to use DM 17.9 million of the total retained income of DM 19.2 million to distribute a dividend of DM 3.00 per DM 50.00 share and to carry foward the remaining DM 1.3 million.

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. In the last few years this has been reduced substantially, and its adverse effects have been alleviated for the year under review.

The consolidated annual financial statement (worldwide) with a surplus of DM 41.2 million shows a result which is on a par with the previous year (DM 40.2 million).

Success with technological innovations

In 1984, as in the past, we gave special priority to improving our products and production technologies. Capital expenditure increased to DM 149.8 million and exceeded the previous year's level by 16.9 %. The focus was on quality improvement, rationalization and structural adjustments.

The development of the ContiTyreSystem is proceeding according to plan. In the year under review we unveiled the system to the entire West European car industry. The positive reaction confirms that we have achieved a major advance, both technically and strategically. We are therefore confident that we shall also obtain the commitment of the tyre trade which is needed to get this system generally accepted on the market. We have already found potential cooperation partners in the tyre industry with whom we shall jointly perfect the ContiTyreSystem so that we expect this system to reach the production stage in a few years. We estimate that in the region of DM 100 million will be required until this system is commercially manufactured.

Like the Tyre Division, the Technical Products and Affiliated Companies Divisions also concentrated on the development of high-technology products which enjoyed greater customer acceptance than less high-grade products. We shall sustain our efforts to further specialize our product range and to expand our services. A major step in this direction has been the concentration of Business Groups in the Technical Products Division in a single plant which we reported on last year and which is very near completion. The restructuring of our Vahrenwald and Limmer plants is proceeding according to schedule. In our plants outside Hanover we shall likewise improve production structures further over the next few years in order to enhance the cost position and to achieve greater flexibility in meeting customer requirements.

Thanks to our employees

It was only with the special commitment of the entire workforce of our Group that we were able to cope so well with the difficulties of the past year. We extend our thanks to all our employees whose performance and contributions 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 1984 after many years of service to the company. Our thanks are also due to the employee representatives in the various plants and to the Overall and Group Works Councils for their trustful cooperation in resolving our common tasks.

Outlook for 1985

Continental is well prepared to meet the challenge posed by its various markets and to exploit opportunities aggressively. Provided the continuing debate on the catalytic convertor and speed limits does not give rise to substantial adverse effects on our business, we expect to see profits developing positively in the current year.

Tyre Division

In 1984 the Tyre Division with its two brands Continental and Uniroyal consolidated its position as Western Europe's second largest tyre producer. Our shares on the major tyre markets France, Great Britain, Italy, the Benelux countries and Scandinavia increased steadily in the original equipment and replacement sectors both for passenger car and truck tyres. Division sales rose by 4.9 % to DM 2410.2 million. Production capacities in our eight domestic and foreign tyre plants were therefore well utilized despite the fact that sales on the German market were affected by labour disputes.

Both brands closed the year with positive results. However, earnings in the original equipment sector decreased considerably. The results generated by the two operations in 1984 again underline the fact that our decision to exploit market opportunities with two brands – Continental and Uniroyal – was the right one.

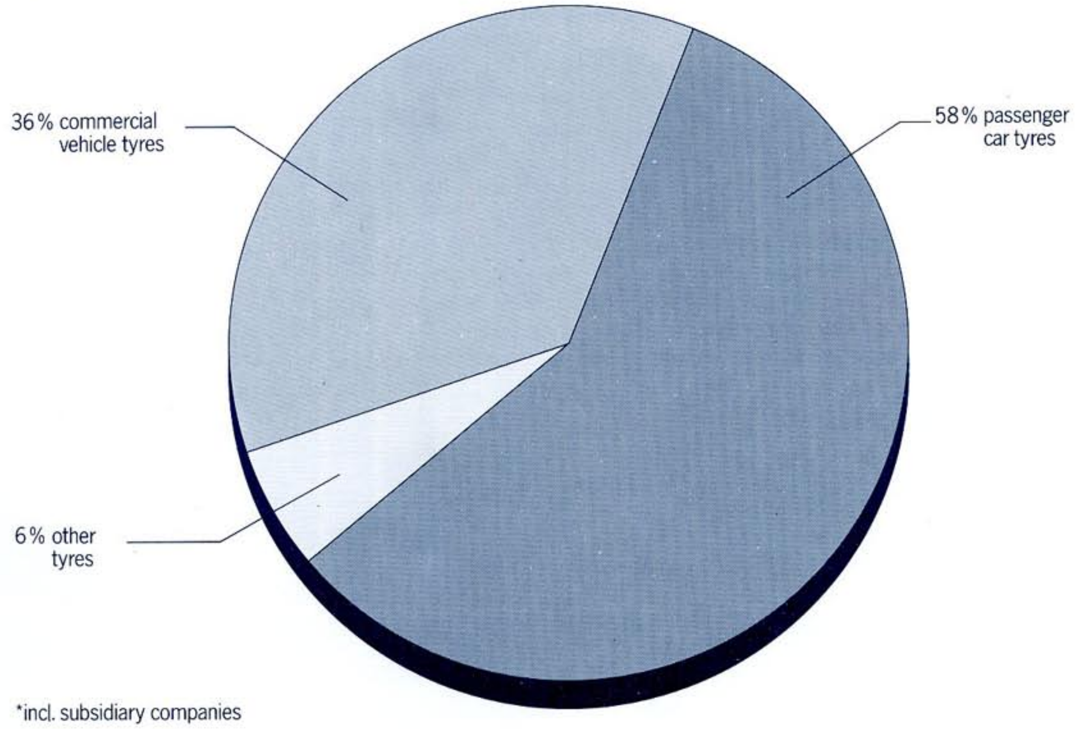
We successfully continued our strategy of expanding shares in the original equipment sector as a means of strengthening our position in the replacement business. Especially our truck tyres which have undergone major quality improvements in the past few years gained ground against competitive products. The introduction by the automotive industry of a multitude of new tyre sizes for different technical specifications makes product range additions increasingly essential; this need can only be met by tyre manufacturers of our stature.

Outlook

We have laid a strong foundation for the further positive development of our two tyre brands. Customers and the public see us as a reliable tyre manufacturer in terms of both technology and quality.

The successful launching of special tyres, such as high-performance and winter tyres, as well as the development of the ContiTyreSystem have strengthened our reputation as an innovative company. We are cautiously optimistic in our evaluation of business development for the year 1985.

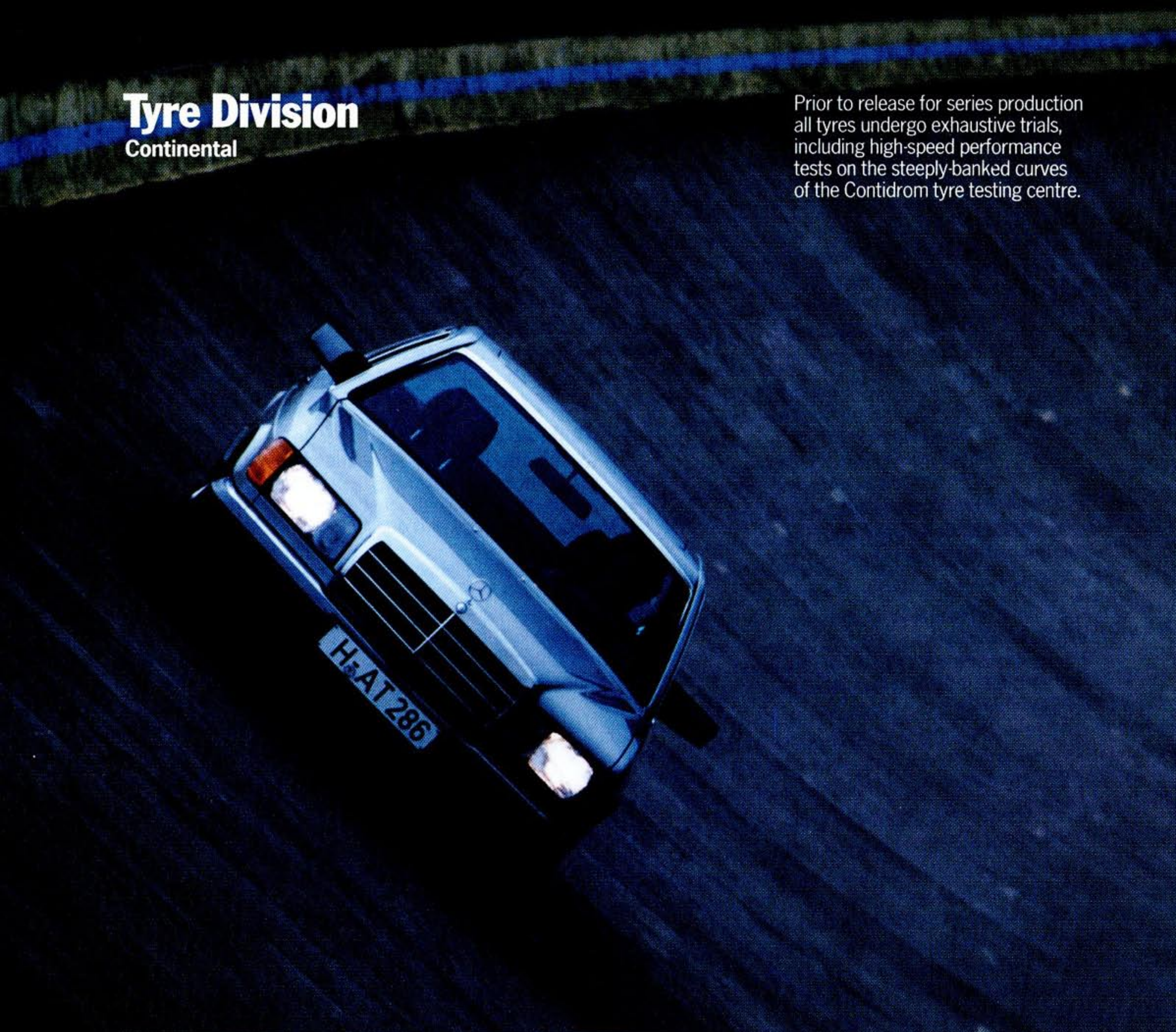
Sales structure of the Tyre Division*
by vehicle sectors



*incl. subsidiary companies

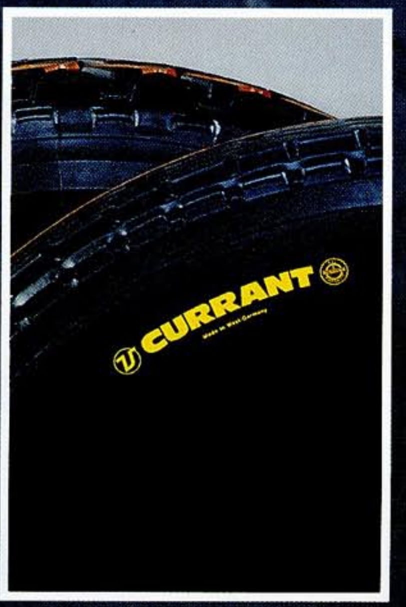
Tyre Division
Continental

Prior to release for series production all tyres undergo exhaustive trials, including high-speed performance tests on the steeply-banked curves of the Contidrom tyre testing centre.



ContiContact CS 21:
A superior passenger car tyre by virtue of its good all-round features; awarded top marks in all motoring press tests.

Conti HB 12:
A special tyre for urban and scheduled service buses ensuring both high comfort and exceptional economy.



Vergölst Currant:
A retreaded branded tyre for trucks; camelbacks made of the unsurpassed NOVUS compound vulcanized on tested first-class carcasses.

Continental

Continental Tyre Operations generated sales of DM 1,623 million in the year under review.

Contact family complete

In the passenger car tyre sector we introduced as a new tyre generation in 1982 the WinterContact and in 1983 the SuperContact (high-performance tyre). We completed this range of products in the year under review with the SummerContact CS 21/CT 21 for speeds of up to 180/190 km/h. A key feature of the new tyre is improved economy which is reflected in a fuel saving of 2 to 3 %. The number of technical approvals granted by the car manufacturers indicates that with this newly developed tyre, too, we are meeting the industry's requirements.

WinterContact – the market leader

User demand again made WinterContact the market leader. As in previous years, it was awarded top marks in tests carried out by leading motoring magazines both in Germany and elsewhere. Thus the string of successes so far gained by this tyre has continued in the third year since its introduction. With a sales increase of 20 % the ContiWinterContact asserted its dominant position in the stagnating market for winter tyres.

Increasing importance of low-section tyres

We accommodated the trend towards wide-base tyres for passenger cars. The new SummerContact tyres in the 65 series are right in line with this development. They are produced in a considerable volume, mainly for new models in the up-market sector. Our share of this segment of the German original equipment market is about 33 %.

Success with commercial vehicle tyres

We expanded our product range with new tyres for 15° tapered rims and thus achieved our ambitious sales targets for 1984. Apart from economy, the decisive factor with commercial vehicle tyres is specialization on the conditions under which the tyre is to be used. A particularly noteworthy addition to our range of low-section tyres for commercial vehicles is the HB 12. This product has been specially designed for urban buses and its chief characteristics are comfort and fuel economy.

Our sales success in the Middle East and North Africa is attributable to new tyres for 15° tapered rims designed for driving conditions encountered in these regions. Particularly in the USA, the world's largest tyre market, demand for our truck tyres increased substantially. Dealers and users appreciate the good retreadability of the Conti carcass.

Increasing shares in industrial tyre sector

Despite the fall-off in demand for industrial tyres we have expanded our share of the European market. The Elastic tyre on a single-piece rim which we launched two years ago has been fully accepted by major original equipment manufacturers at home and abroad.

New Business Group: Two-Wheeler Tyres

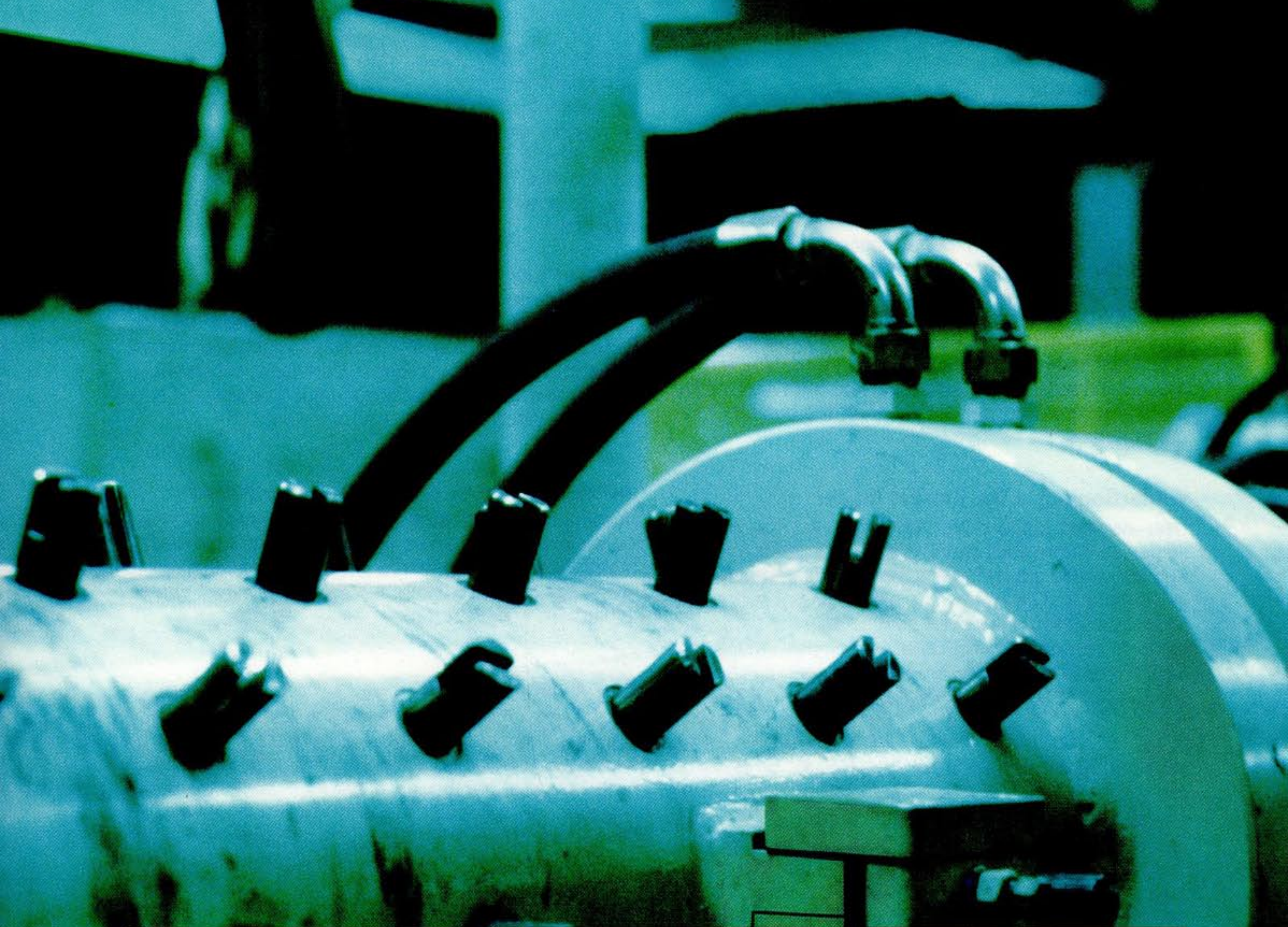
In the last few years, our two-wheeler tyre sales developed unsatisfactorily. We have now created an autonomous Business Group for Two-Wheeler Tyres in order to give greater attention and stimulus to this segment. As a result, we were able to unveil newly developed products at the Cologne IFMA show, the world's largest exhibition of two-wheel vehicles. We expect to see a further improvement in profitability and a renewed increase in market shares.

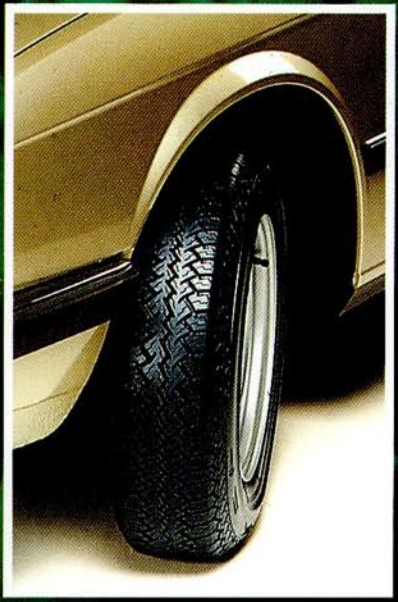
Increased marketing investment

We have begun to expand our service organization in many European countries. This will enable us to tap additional market segments.

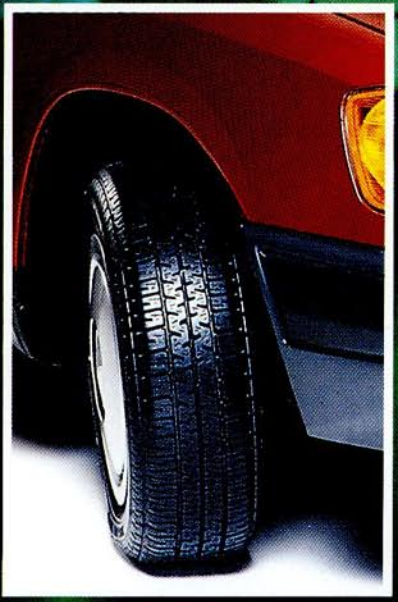
Tyre Division
Uniroyal Englebert

This cold-feed extruder for processing rubber compounds was designed at Uniroyal and has meanwhile been patented in many countries.





Uniroyal Rallye 340:
Impressive performance due to reliable handling on wet and dry roads, as well as a quiet and comfortable ride.



Uniroyal Rallye 340/65:
A sporty wide tyre with excellent wet properties and high rolling comfort.

Uniroyal Monoply R 40:
An all-steel tyre with a high mileage, low rolling resistance and good retreadability; for all wheel positions.

Uniroyal Englebert

Uniroyal Englebert Tyre Operations reported sales of DM 787 million in 1984. Sales shortfalls in the tyre business with the German automobile industry were offset by substantial growth rates in sales to European countries and to export markets outside Europe. The shift in the product mix towards high-speed and wide-base tyres has had a positive effect on the profit situation.

Market success in the USA

Together with our American marketing partner Uniroyal, Inc., we have developed a concept for marketing European-made Uniroyal passenger car tyres in the USA. As a result, sales in this market were up by 40 % in the year under review. The marketing programme will be expanded in 1985.

Higher production volumes

All Uniroyal Englebert plants increased their output in 1984 over the previous year. The production companies in Great Britain, France and Germany closed the year with positive results. The Belgian company sustained a loss. We have approved a special capital investment programme and have started on the restructuring of the plant in Herstal. Modernization and expansion of production capacities should lead to a lasting improvement of the results.

High-performance tyres successful

By concentrating development efforts on low-section tyres for sporty limousines we were able to supply a substantial share of the tyres on the new models launched by the car industry in the year under review. These include vehicles in the highest speed class.

Positive development with commercial vehicle tyres

With an increase in sales of 6 %, development in the commercial vehicle tyre sector was pleasing. Capital investment which in the past few years has focused on upgrading quality and improving the cost structure is beginning to pay off. Particular benefits are being derived both by light truck tyres with which we increased our shares in the original equipment sector and by heavy truck tyres which were successful in the European replacement business.

Subsidiaries of the Tyre Division

VERGÖLST GMBH, BAD NAUHEIM

Business activities: Sale of new tyres and car accessories, services in the automobile sector as well as production and marketing of retreaded tyres
Employees: 1,599

Business in the German tyre trade developed unsatisfactorily in the year under review. Vergölst too was affected by this trend and closed with a loss.

Although the recently launched programme to restructure the trading chain and the successful introduction of new retread lines for passenger car and truck tyres will strengthen the company's future strategic position, they put a strain on results in the year under review.

Vergölst sales were slightly up over 1984. But in line with the market, volume sales of retreaded tyres on the German market again declined. This development is attributable primarily to the late onset of winter. The sale of new tyres for the replacement business increased. The accessories and service business stagnated.

We are implementing improvement programmes which will bring the company back into the black in the short term.

CONTINENTAL INDUSTRIAS DEL CAUCHO SA,
COSLADA/MADRID, SPAIN

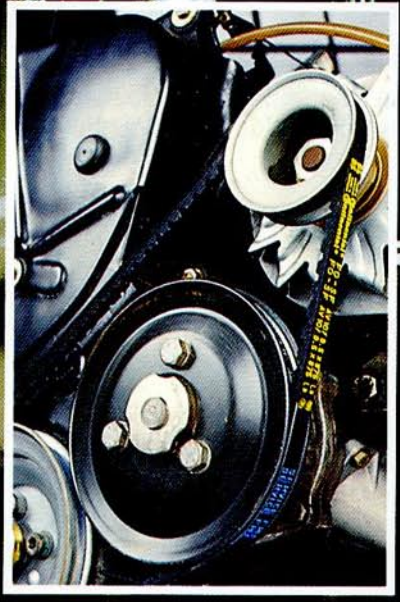
Business activities: Production and marketing of retreaded tyres and industrial tyres as well as sale of new Group tyres
Employees: 270

In 1984, the company made further progress and again generated a positive result. There was a pleasing development in the sale of retreaded tyres on the Spanish market and of industrial solid tyres which are also exported to neighbouring European markets.

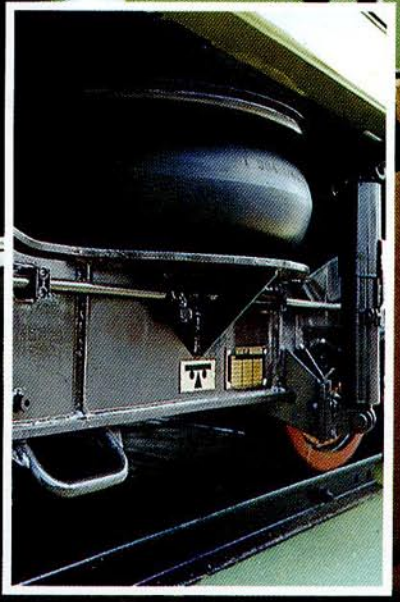
Sales of new passenger car and truck tyres which the parent company manufactures and exports to Spain rose substantially. For this business which was started up in 1983 a further increase is to be expected in the future.

Technical Products Division

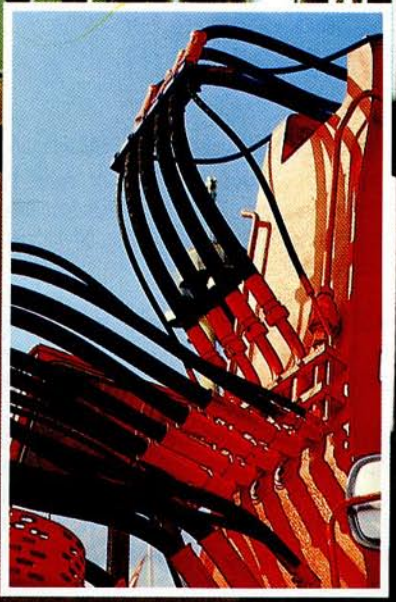
High-performance machine for vulcanizing Rubber-Metal Bonded Elements with electronic temperature control and a high degree of automation.



The new Conti V-Belt for the automotive OE sector is service free. Regular checks and retensioning are things of the past.



Conti holds a worldwide lead in air suspension technology. The cushioned comfort provided by Conti Air Springs is enjoyed in rolling stock, too.



Conti manufactures a highly diversified Hydraulic Hose programme for a vast array of applications in industry and mining, e.g. for use on a shovel dredger.

Technical Products Division

The positive results for the year 1984 are a clear indication that the Technical Products Division has taken a further step forward. The Product Groups that contributed especially to the upward trend were Hose, Moulded Products, Power Transmission Products, Rubberized Fabrics and Air Springs.

Those Product Groups which are dependent on the automotive and printing industries reported a temporary decline in sales following the labour disputes in these sectors. Also, we continued with our programme of pruning the product range by discontinuing commodities with only limited potential for the future. The resulting shortfall in sales is in excess of 2 % of overall Division sales. Nonetheless, sales in 1984 were up by 1.6 % to DM 896.8 million.

The Division achieved above-average sales growth in the European automotive industry outside Germany and in the remaining export business. In France, Sweden and Spain we reinforced our position both in the original equipment and replacement sectors. Our exports to Austria and the overseas markets Australia, Southern Africa and the United States of America were well up. Despite the impediments to trade coupled with the financing and foreign exchange problems which continue to face our customers, we also won major orders from South America.

Cutthroat competition in conveyor belting sector

Domestic demand was noticeably down mainly in the first six months of the year as our customers had brought forward their capital investment programmes originally planned for 1984 in order to take advantage of the investment subsidy available in 1983. At the same time the German conveyor belting market continued to be under pressure from imports. On the international level too there was no stimulus to revive the business.

In the first quarter, therefore, short-time work could not be avoided. In some market segments, e. g. conveyor belting for the German coal-mining sector, the slump in demand led to ruinous price cutting, the consequences of which could not be coped with by all West European conveyor belting suppliers.

We have persisted with our efforts to open up new export markets and have introduced newly developed Conveyor Belting for customer-specific applications both at home and abroad. Our international competitiveness was boosted by the favourable exchange rate of the D-Mark by comparison with the US dollar and the yen. Nevertheless, total sales were substantially below the previous year's level. However, the business year was closed with a positive result.

For 1985 we expect to see our customers step up their capital spending, but at the same time we shall continue to feel the effects of foreign exchange and transfer risks in the international business. Given the excess capacities in the industry, cutthroat competition will continue. This we shall counter with quality and more cost-effective production processes.

Rubberized Fabrics on an upward current

The business with Rubberized Fabrics and Engineered Products, which include e.g. Flexible Containers for storage and transportation, developed positively. A notable exception was the sale of Printing Blankets which was adversely affected early in the year by the wage disputes in the printing industry. On balance a satisfactory result was generated.

For both Product Segments we have been able to tap new and promising markets on the international level. We are confident that the upward trend in this Product Group will continue in 1985.

Hose production capacities fully utilized

The Hose Business Group reported a substantial increase in sales in 1984 and a pleasing development in profits. In the export business we achieved double-figure growth rates for the third year in succession. In some special segments we were not able to exploit all sales opportunities owing to capacity bottlenecks.

We are investing in new production capacities with a view to meeting the car industry's growing need for hose as vehicles are increasingly fitted with add-on and special equipment. We are conforming to the simultaneous increase in technical requirements by improving our products to suit specific applications.

The process of relocating Hose production from the Vahrenwald plant in Hanover has been completed so that we now produce Hose only in our Korbach and Northeim plants.

Still not satisfactory: Extruded and Moulded Products

In line with the development in the automotive industry, sales in this Business Group were at a high level in the first three months but slumped in the second quarter. A good second half enabled us to largely recoup the sales losses so that sales for the whole of the year were higher than in 1983.

We improved our market position slightly with Moulded Products and quite substantially with Extrusions. As planned, we increased the share of higher-grade products in the overall sales of this business. New developments in hydraulically damped Engine Mounts and complex Extrusions, which contain various materials, have already made a substantial contribution to sales and profit improvement. The significance of our new product technologies is also reflected in licence grants to overseas partners.

In the light of our strategy which is aimed at a maximum of decentralization we have resolved to expand our

Dannenberg plant as the centre of our plastics and special rubber processing operations. We have sold the PVC hard foam production of this plant to a foreign competitor in accordance with our principle of concentrating on key processing techniques only. Production of Footwear Materials has been concentrated in our Limmer plant.

Although the profitability of the Product Groups Moulded Products and Extrusions improved on balance, it is still not satisfactory.

We are confident that with our concept "new products and modern manufacturing processes in realigned plant structures" we shall achieve further improvement of results in the future.

Power Transmission Products: Business position strengthened

The Product Group Power Transmission Products benefited to an above-average degree from the economic recovery in its customer segments. This is due chiefly to the market-oriented modernization of our product range, intensified marketing activities and timely adaptation of production capacities to the growth in demand.

In the case of Raw Edge V-Belts and Synchronous Drive Belts, temporary supply bottlenecks occurred as a result of the high demand. Production capacities for the Conti-V Multiple V-Ribbed Belt were likewise fully utilized. With Wrapped V-Belts growth was in line with the market.

The newly developed, service-free V-Belt which self-adjusts the tension during operation received the first technical approvals from automotive original equipment manufacturers in 1984. For 1985 we expect this V-Belt to account for a substantial share of the car makers' series requirements.

We plan to increase our presence in Southeast Asia. To this end we have negotiated a cooperation agreement with a Thai manufacturer in the Wrapped V-Belt business.

The Product Group generated a much improved result over the previous year. By restructuring the Vahrenwald plant and modernizing production facilities we are laying the foundation for further advances in this sector.

Air Springs forge ahead

The market for Air Springs developed unfavourably compared to the previous year. Nevertheless, we were able to increase sales and hold the profit level. Performance was positively influenced by our close cooperation with the automotive industry in the field of research and development and by the expansion of our product range. We succeeded in further increasing our market shares in the European market both for road vehicles and rolling stock.

Together with leading car makers we are working on the further development of air suspension systems for passenger cars. Such systems provide greater comfort, levelling that is irrespective of load, decreased air resistance by lowering the vehicle and thus reduced fuel consumption as well as improved dynamic behaviour.

We are optimistic about the development of this business for 1985. We expect to see good rates of growth in the export business and for rolling stock Air Springs.

Weak demand for Cushioning Products

The concentration of our Foam business at Löhne-Gohfeld was completed at the end of the first six months of 1984. Thus the ground has been laid for the recovery of our Cushioning Products Business Group which also produces and processes Rubber Hair in Mendig. Although sales and results improved in 1984 they are still not satisfactory.

Persistently slack demand in the upholstered furniture industry and the decline in sales in the automotive industry in early summer caused the market for polyurethane flexible foam to decrease by some 5 % over the previous year. Furthermore, the German foam market came under pressure from low-priced imports from neighbouring countries.

Our Orthopaedic Seat – based on a combination of Foam, Rubber Hair and a Rubber Air Cushion – has proved successful in the car industry's top models, and demand is on the increase.

Outlook

Results for the year 1984 indicate that we have been able to reinforce the competitiveness of the Technical Products Division. After some considerable time, we were again in a position to come forward on the international level as a supplier of know-how. We shall continue with our efforts to optimize existing structures and to upgrade the performance of the individual Product Groups by increasing value added. In the framework of our specialization on high-technology products and aggregates we shall continue to provide our employees with the training and development they need to be able to meet the challenges posed by international markets.

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: 391

The company reported a distinctly improved result over 1983. Volume sales were in line with business development in the automotive industry.

The biggest increase over the previous year was achieved with low-pressure hose assemblies. The export business developed well and held its share of overall sales.

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 fabrics
Employees: 190

With a substantial project business we achieved at times good capacity utilization. The company closed the year with a positive result, but this is not yet satisfactory.

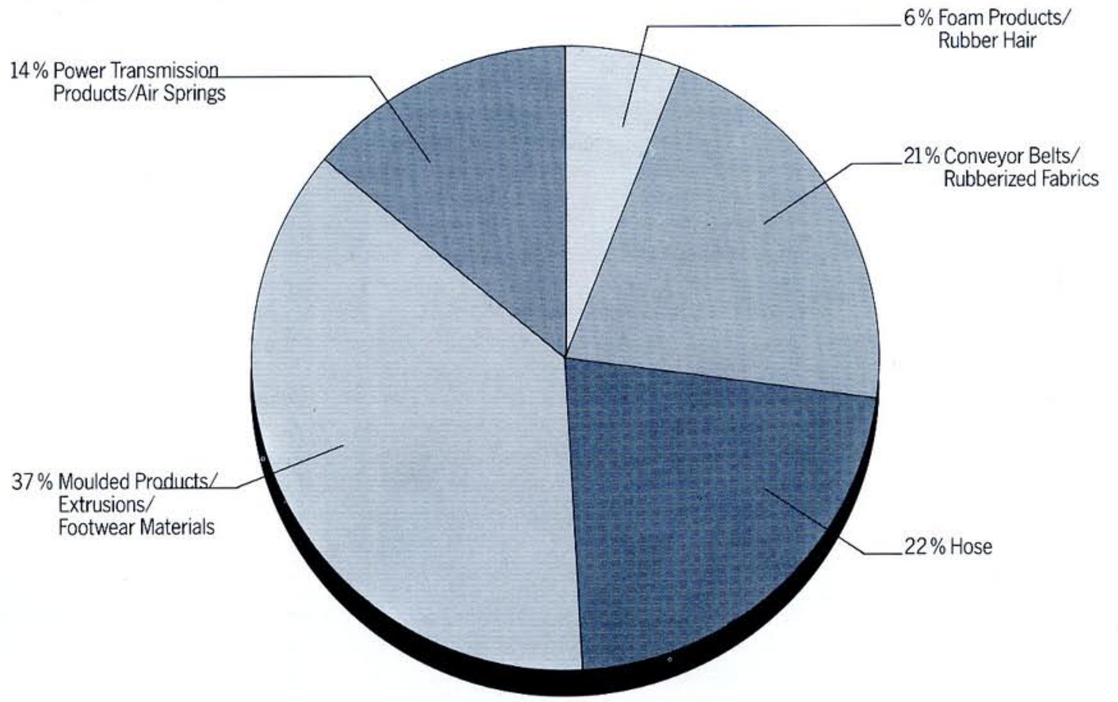
KA-RI-FIX TRANSPORTBAND-TECHNIK GMBH, KERPEN-SINDORF
Business activities: Confectioning, repair and marketing of conveyor belting and accessories
Employees: 121

The decline in demand from the Rhineland lignite field, which was due to reduced capital investment, was offset by an increase in sales to industrial customers. As in the previous year, results were positive.

CONTINENTAL-ALSA SCHUHBEDARF GMBH, STEINAU-UERZELL
Business activities: Production and marketing of shoe soles, shoe parts and footwear materials made of rubber, plastics and cork
Employees: 248

In 1984, we continued with our measures to strengthen the company. Sales were held at the previous year's level. Despite the burdens from 1983, the company achieved a result that was a substantial improvement on the previous year but which is still not satisfactory.

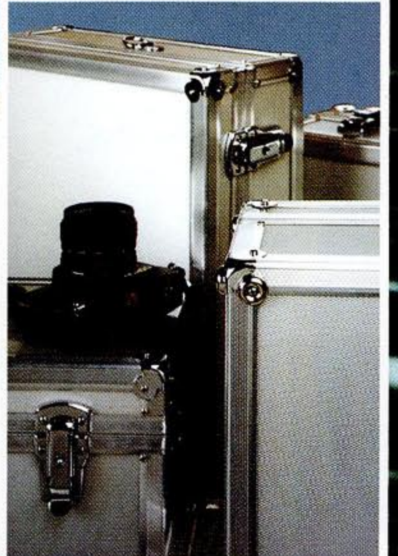
Sales structure of the Technical Products Division* by Business Groups



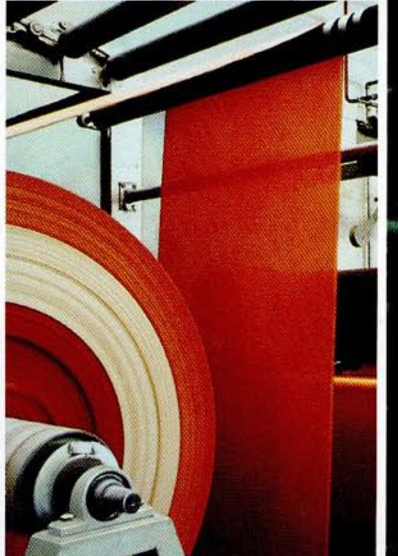
*incl. subsidiary companies

Affiliated Companies Division

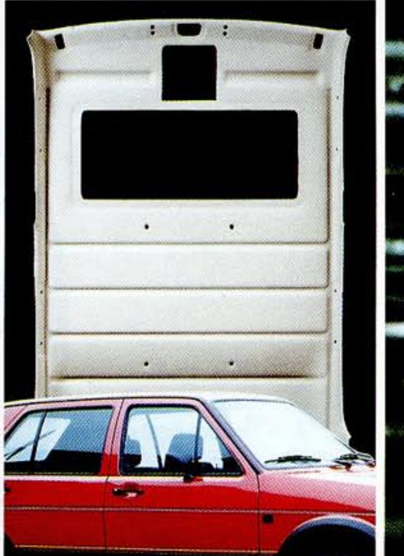
Tyre cords made from rayon, nylon, polyester and aramide fibres are manufactured on high-speed ring twisters at Uniroyal Englebert Textilcord S. A.



Metallic laminated sheeting, a product of Göppinger Kaliko in Eislingen, has proved its worth as a hard-wearing, shape-retaining material for high-grade cases to hold photographic equipment.



Book binding and roller blind materials are manufactured on special coating machinery at Bamberger Kaliko.



Car inside roof headlining, backed with Göppinger's lightweight "Yorn" foam sheeting, is dimensionally stable and highly temperature-resistant.

Affiliated Companies Division

The Affiliated Companies Division again reported a satisfactory result in 1984. Although Göppinger Kaliko's business which depends on the automotive sector suffered badly from the weak second quarter, the resulting shortfalls were offset in the second six months.

The consolidated companies produced at capacity in some cases and improved sales over 1983 by 8.7 % to DM 288.9 million. This figure includes intercompany sales to consolidated companies amounting to DM 61.3 million. At the end of the year, personnel totalled 1,352 (1,264 at the end of 1983 without Labortex). The consolidated accounts include only those companies in which Continental has a shareholding of more than 50 %.

The non-consolidated companies too have met and in some instances exceeded their targets. The sales of these companies were up on the previous year by 3.8 % to DM 481.0 million. On 31st December, 1984 employees numbered 2,362 (2,388 in 1983).

We are endeavouring to increase where possible our holding in those companies which produce raw materials. We have sold Labortex Ltda., São Paulo, Brazil so this company will no longer affect our performance. Apart from the acquisition of minor shares in Göppinger Kaliko- und Kunstleder-Werke GmbH and KG Deutsche Gasrusswerke G.m.b.H. & Co., there has been no change in our holdings in affiliates.

The product ranges of the companies were further developed in line with market requirements, and new products were added. The capital investment programmes, some of them substantial, that have been carried out for this purpose in the past are now beginning to pay off.

Domestic Companies

GÖPPINGER KALIKO- UND KUNSTLEDER-WERKE GMBH, EISLINGEN

Business activities: Production and marketing of synthetic leather, sheeting and car inside roof headlining
Employees: 951

Despite the breaks in supplies to the German automotive industry, the company achieved a very pleasing sales increase of 18 % over the previous year. Exports accounted for a disproportionately high share of this increase. Following the annual works holidays the company operated at capacity to meet the strong demand from vehicle manufacturers. So far this year, sales both at home and abroad have continued to develop well. Exports will become increasingly important for the company in the next few years.

In order to cope with the growth in demand, capital has been invested on the extension of production facilities. At the same time, rationalization projects have been implemented to reinforce the company's competitive position. Due to the strained labour market situation we have however difficulties at times in recruiting the required number of employees. Research and development capacity has been increased according to plan.

Good activity levels have led to a quite satisfactory profit although the availment of fiscally permitted special depreciation, the changeover from the straight-line to the declining-balance method of depreciation, non-recurrent pension accruals and high costs in connection with the negotiated pre-retirement arrangements all combined to put a severe burden on the company.

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: 164

Vereinigte Göppinger-Bamberger Kaliko GmbH has developed very positively with an increase in sales of 14 % over 1983. Apart from the traditionally successful domestic business the company was also able to expand its export business quite substantially.

Capacity utilization was good in 1984. Because full employment has continued into the current year capital has been invested on capacity extension.

As in the past, the company achieved a pleasing result for the year although additional burdens, as in the case of Göppinger Kaliko- und Kunstleder-Werke GmbH, had to be coped with.

The sales company Wilh. Leo's Nachfolger GmbH developed according to plan in the year under review. The sales office in Kassel which was opened at the end of 1983 performed as expected in 1984.

Production locations of the Continental Group

The Continental Group maintains 6 production plants in neighbouring West European countries.
The increasing internationalization of the company is clearly reflected in the growing proportion of non-German sales; in 1984 these amounted to 40.1% (1983: 36.4%).

● Plants of the Tyre Division

◎ Plants of the Technical Products Division

○ Plants of the Affiliated Companies Division (consolidated companies)

CONTI VERSICHERUNGSDIENST GMBH (CVD), HANOVER

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

Despite difficult market conditions the company has, as in the past, provided Group companies with optimal insurance cover and has successfully exploited the opportunities open to it. The private business too reported further pleasing rates of growth. The company closed with an improved result, and profit was transferred to the parent company.

DRAHTCORD SAAR GMBH & CO. KG, MERZIG/SAAR

Business activities: Production of wire and wire cord for the tyre industry
Employees: 823

The company supplies its shareholders with raw materials. As a result of the worldwide growth in demand for steel cord, capacities were fully utilized. The result was correspondingly good. Rationalization measures and capital investment will serve to increase capacity and productivity further in 1985.

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

Business activities: Production of furnace and gas carbon blacks for the rubber industry
Employees: 192

The company supplies its shareholders with carbon black. Production in the year under review was at capacity, and here too a satisfactory result was generated.

CLOUTH GUMMIWERKE AG, COLOGNE

Business activities: Production and marketing of conveyor belting, moulded rubber parts, rubberized fabrics, tank linings and hose
Employees: 1,347

In the last annual report we already indicated that many orders for conveyor belting had been pre-placed in order to take advantage of the investment subsidy which was phased out at the end of 1983. As a result of this forward buying, sales in 1984 remained below the previous year's level. The fact that the company nevertheless succeeded in achieving its target result is attributable to the structural improvements and rationalization measures that were introduced in the individual product areas.

Again, a dividend of 16 % will be paid out of the company's annual surplus, which amounted to DM 2.7 million (DM 3.6 million in the previous year).

The company is carrying out extensive capital investment programmes to modernize and rationalize material preparation and finishing. We expect to see a strong stimulus for the linings business in the future. With the de-sulphurization of power plant emissions we anticipate sales growth in this sector.

Foreign Companies

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

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

The Luxembourg-based company again reported a very good capacity utilization level in 1984 and increased sales by 15 % over the previous year. The annual surplus was considerably improved and was retained to strengthen equity.

The company is continuing to modernize production facilities for the existing product range according to plan. This apart, substantial resources are being invested in the development, production start-up and launching of the new products "flocked yarns". We anticipate good sales prospects in the automotive and furniture industries for fabrics based on these.

INTERCONTINENTAL RUBBER FINANCE B.V., AMSTERDAM/NETHERLANDS

Business activities: Financing services for domestic and foreign Group companies

There was no change from the previous year in the volume of loans. Funds were procured on both domestic and foreign capital markets. A small profit was again generated in 1984.

Companies and Plants in the Continental Group

Tyre Division

Continental Gummi-Werke Aktiengesellschaft, Hanover

Production and Sales

Stöcken Plant, Hanover

Production facilities at Korbach Plant

Continental France S. A. R. L.
Sarreguemines/France
FF 130 000 000.–
75 % Continental Gummi-Werke AG, Hanover
25 % Continental Caoutchouc-Export-AG, Han.

Continental Industrias del Caucho SA
Coslada/Madrid
Spain
Ptas 622 492 000.–
100 % Continental Gummi-Werke AG, Hanover

VERGÖLST GmbH, *
Bad Nauheim
DM 28 000 000.–
99.4 % Iroplastics Kunststoff- und Kautschuk-vertriebsgesellschaft mbH, Hanover

Production facilities at
Vahrenwald Plant, Hanover

Uniroyal Englebert Reifen GmbH, Aachen
DM 30 000 000.–
98.2 % Continental Gummi-Werke AG, Hanover
1.8 % Pneu Uniroyal Englebert S. A.
Herstal-lez-Liège/Belgium

Pneu Uniroyal Englebert S. A.
Herstal-lez-Liège/Belgium
bfrs 460 000 000.–
99.9 % Continental Gummi-Werke AG, Hanover

Pneu Uniroyal Englebert S. A.
Compiègne/France
FF 58 580 000.–
99.9 % Continental France S. A. R. L.
Sarreguemines/France

Uniroyal Englebert Tyres Ltd.
Newbridge/Great Britain
£ 10 000 000.–
50 % Continental Gummi-Werke AG, Hanover
50 % Uniroyal Englebert Reifen GmbH, Aachen

Technical Product Division

Production and Sales

Limmer Plant, Hanover

Northeim Plant

Gohfeld Plant

Production facilities at Korbach Plant

Techno-Chemie Kessler & Co. GmbH *
Frankfurt/M.
DM 15 000 000.–
100 % Continental Gummi-Werke AG, Hanover

Deutsche Schlauchbootfabrik
Hans Scheibert GmbH & Co. KG, Eschershausen
DM 3 000 000.–
94.2 % Continental Gummi-Werke AG, Hanover
0.8 % Union-Mittelland-Gummi-GmbH, Han.

Formpolster GmbH *
Hanover
DM 20 000.–
100 % Continental Gummi-Werke AG, Hanover

Sales of Tyres and Technical Products

Continental Caoutchouc (Suisse) SA
Zürich/Switzerland
sfrs 1 000 000.–
100 % Continental Caoutchouc-Compagnie GmbH, Hanover

Continental Italia S. p. A., Milan/Italy
Lire 1 700 000 000.–
75 % Continental Caoutchouc-Export-AG, Han.
25 % Continental Caoutchouc-Compagnie GmbH, Hanover

Continental Gummi AB
Solna/Sweden
skr 4 600 000.–
100 % Continental Caoutchouc-Export-AG Hanover

Continental Products Corporation
Lyndhurst/N. J./USA
$ 2 600 000.–
100 % Continental Caoutchouc-Export-AG Hanover

Continental Tyre and Rubber Company (Pty) Ltd.
Sandton/RSA
R 5 000.–
100 % Continental Caoutchouc-Export-AG Hanover

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

C. U. P. Ltd.
West Drayton/Great Britain
£ 1 300 000.–
100 % Uniroyal Englebert Tyres Ltd.
Newbridge/Great Britain

C. U. P. Gummi Gesellschaft mbH
Vösendorf/Austria
öS 13 00 000.–
100 % Continental Caoutchouc-Compagnie GmbH, Hanover

Affiliated Companies Division

Production, Sales and Services

Production facilities at Vahrenwald Plant, Hanover

Dannenberg Plant

Mendig Plant

Production unit at Aachen Plant

Continental-Alsa Schuhbedarf GmbH *
Steinau-Uerzell
DM 3 000 000.–
100 % Continental Gummi-Werke AG, Hanover

KA-RI-FIX Transportband-Technik GmbH
Kerpen-Sindorf
DM 1 000 000.–
100 % Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH, Hanover

Göppinger Kaliko- und Kunstleder-Werke GmbH *
Eislingen
DM 16 000 000.–
94.5 % Continental Gummi-Werke AG, Hanover

Vereinigte Göppinger-Bamberger Kaliko GmbH *
Bamberg
DM 3 000 000.–
100 % Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen

Wilh. Leo's Nachfolger GmbH
Stuttgart
DM 420 000.–
100 % Göppinger Kaliko- und Kunstleder-Werke GmbH, Eislingen

Uniroyal Englebert Textilcord, S. A.
Steinfort/Luxembourg
luxfrs 50 000 000.–
100 % Continental Gummi-Werke AG, Hanover

Deutsche Gasrusswerke GmbH
Dortmund
DM 250 000.–
28.8 % Continental Gummi-Werke AG, Hanover
2.2 % Uniroyal Englebert Reifen GmbH, Aachen

KG Deutsche Gasrusswerke G.m.b.H. & Co.
Dortmund
DM 7 360 000.–
25 % Continental Gummi-Werke AG, Hanover
2.7 % Uniroyal Englebert Reifen GmbH, Aachen

Drahtcord Saar Geschäftsführung GmbH
Merzig/Saar
DM 60 000.–
33.3 % Continental Gummi-Werke AG, Hanover

Drahtcord Saar GmbH & Co. KG
Merzig/Saar
DM 30 000 000.–
33.3 % Continental Gummi-Werke AG, Hanover

Clouth Gummiwerke AG
Cologne
DM 14 000 000.–
50 % Continental Gummi-Werke AG, Hanover

Intercontinental Rubber Finance B. V.
Amsterdam/Netherlands
hfl 1 000 000.–
100 % Continental Gummi-Werke AG, Hanover

Conti Versicherungsdienst GmbH, Hanover *
DM 20 000.–
75 % Continental Gummi-Werke AG, Hanover
25 % Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH, Hanover

Holding Companies

Pneu Uniroyal-Englebert S. A.
Geneva/Switzerland
sfrs 500 000.–
100 % Uniroyal Englebert Reifen GmbH Aachen

Uniroyal Englebert Daek A/S
Copenhagen/Denmark
dkr 3 500 000.–
100 % Uniroyal Englebert Reifen GmbH Aachen

Uniroyal Englebert Tyre Trading GmbH
Aachen
DM 1 000 000.–
100 % Continental Gummi-Werke AG, Hanover

Continental Caoutchouc-Compagnie GmbH *
Hanover
DM 250 000.–
100 % Continental Gummi-Werke AG, Hanover

Continental Caoutchouc-Export-Aktiengesellschaft *
Hanover
DM 800 000.–
100 % Continental Gummi-Werke AG, Hanover

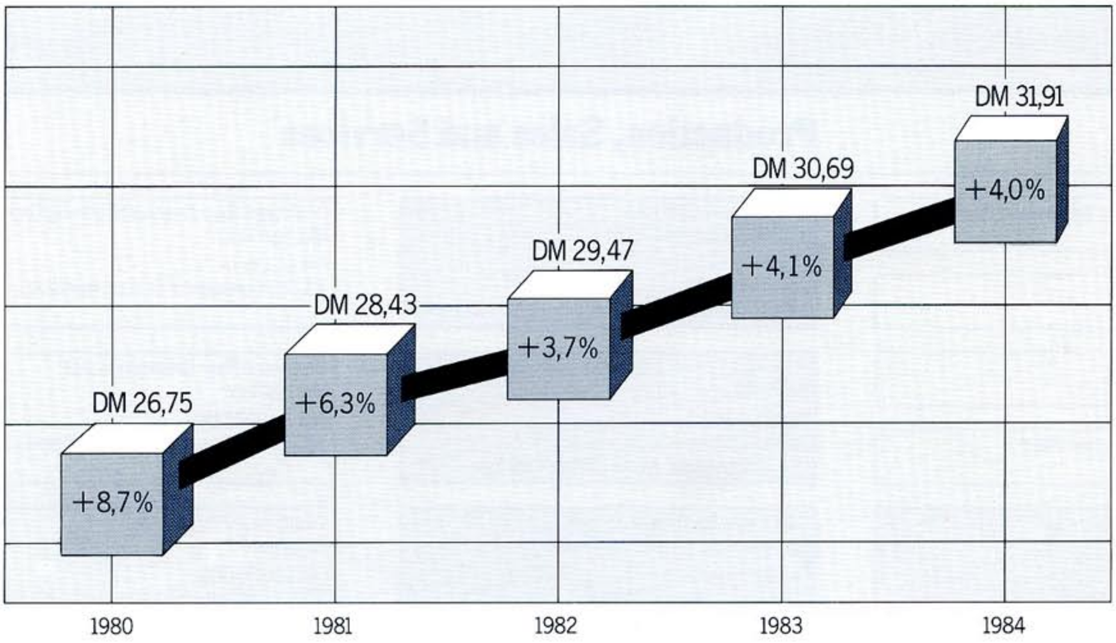
Iroplastics Kunststoff- und Kautschukvertriebsgesellschaft mbH *
Hanover
DM 3 500 000.–
100 % Continental Gummi-Werke AG, Hanover

Union-Mittelland-Gummi-GmbH *
Hanover
DM 25 000.–
100 % Continental Gummi-Werke AG, Hanover

Shaded box: Companies included in the consolidated accounts

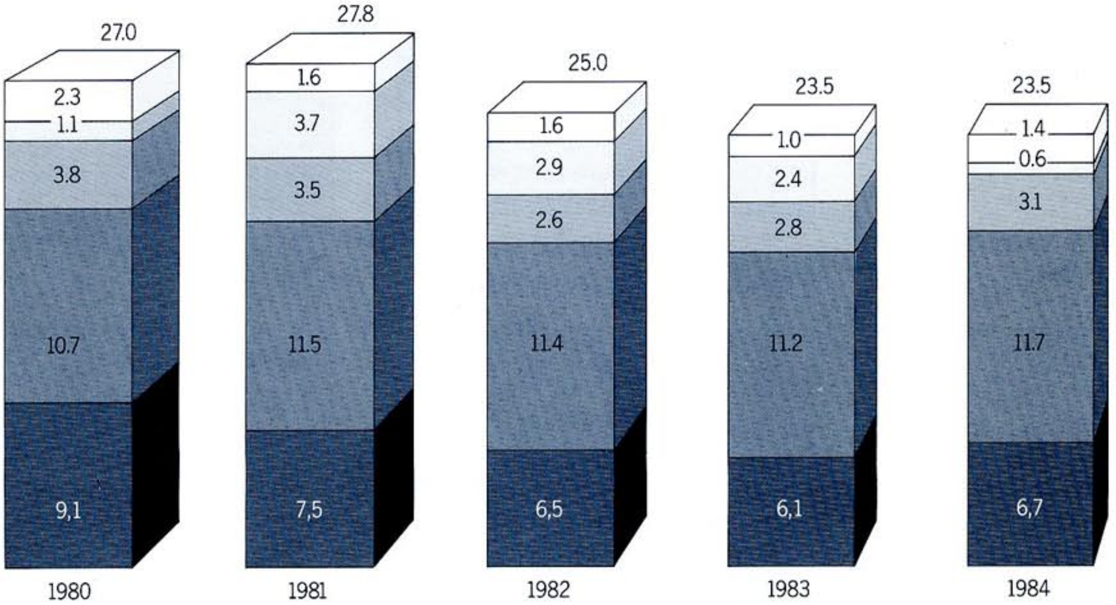
* Companies with which profit and loss pooling agreements exist

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

Employees

At the end of 1984 the workforce in the Group totalled 26,401 compared to 26,688 in the previous year. This is a drop of 287 or 1.1 % vis-à-vis 1983.

On the annual average the number of employees in the parent company was 15,377 (15,595 in the previous year). For the first time since 1979 there has been an increase in the parent company workforce, namely from 15,333 on 31st December, 1983 to 15,511 at the end of 1984. The number of foreign workers decreased from 2,522 to 2,368. The proportion of foreign workers in the total workforce was 15.3 % (16.4 % in the previous year).

Our cautious recruiting policy of previous years was carried forward into 1984 to begin with. However, especially in the second half of the year, we were able to replace leavers. All those apprentices who completed their vocational training with us in 1984 were also given employment.

At the beginning of 1984 new arrangements for the company pension scheme came into effect. These provide for the standardization of pension regulations which in the past had differed in terms of nature and level of benefits for salaried employees and wage earners. The changeover, to a system in the form of a direct commitment by the company, will not in the long term lead to any additional expenditure.

In 1984, 626 employees completed 25 years of service and 96 employees completed 40 years of service with the company.

At the end of 1984 the parent company terminated its membership of the employers' association of the Hesse and Lower Saxony rubber industry. On 1st January, 1985 we joined the employers' associations of the chemical industry. The reasons for this switch are, for example, that for some years now there has been a steady decline in the number of company employees affected by the collective wage agreements negotiated by the rubber industry and that as a result the parent company had a quasi-"company pay agreement" situation in the Lower Saxony collective agreement area.

We are thus orienting ourselves towards a large and powerful employers' association with essential international contacts and experience. Moreover, we are aiming at standard wage rates as far as possible throughout the Group.

Personnel costs

Personnel costs in the parent company increased by 3.1 % from DM 766.3 million to DM 790.0 million. Personnel costs per employee were 4.6 % higher than in the previous year. This increase is due mainly to the last contractual wage and salary rises. Other contributing factors were the reduction in short-time work and a slight increase in overtime. Personnel costs per hour worked were 4 % higher than the previous year's figure.

Personnel costs

	1983	1984	Change in %
Personnel costs in DM million	766.3	790.0	+3.1
Personnel costs per employee in DM	49,137	51,377	+4.6
Personnel costs per hour worked in DM	30.69	31.91	+4.0
Hours worked per employee	1,601	1,610	+0.6
Personnel costs in % of gross revenues	38.6	37.5	

Absence rates

The percentage of time lost relative to gross working hours was 23.5 %, as in the previous year. However, absence through illness rose on the annual average to 6.7 % (6.1 % in the previous year). Absence through short-time work increased by only 0.6 % of gross working hours on the annual average. At the mid-year point, short-time work was unavoidable above all following the production stoppage in the automobile industry caused by the labour disputes.

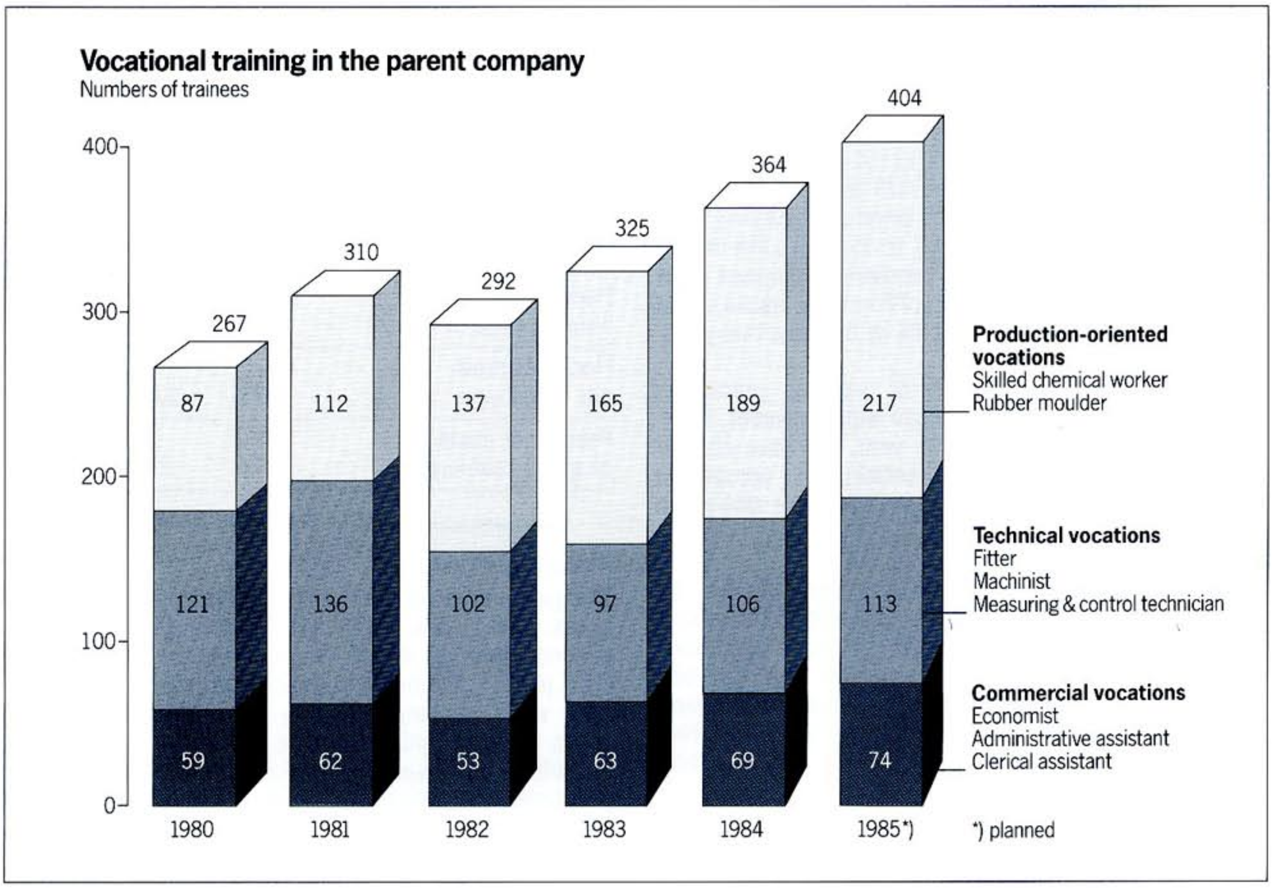
Extensive training and development

At the end of 1984 a total of 364 youngsters were receiving vocational training in our company of whom 146 were in their first year. This is an increase of 12 over 1983.

54 female trainees were taking part in the scheme "training of girls in technical vocations" which was launched as a pilot project in 1978. After completing their training they were given permanent positions and in most cases were deployed according to their qualifications. In 1984, for the first time ever, 27 young people completed their traineeships as "rubber and plastics moulders". They are now employed as skilled workers in production. We have thus secured a rising generation of personnel qualified to make use of increasingly sophisticated production technologies.

Vocational training apart, employee training and development continued to have high priority. The focus was on the training and development of foremen, management development, language training and project work in teams. In our training and development programme we attached special significance to improving both work and product quality.

At the company convention "Konvent '84" more than 250 skilled employees from all Divisions were introduced to the quality circles that have been set up in the plants, exchanged ideas and experience and discussed new forms of work organization.



Industrial accident rate down

The number of industrial accidents per 1,000 employees fell from 49 in the previous year to 48 in the year under review. This is equivalent to 30 industrial accidents per million hours worked.

Record bonus for improvement proposal

In 1984 the company paid DM 25,142 for an improvement proposal which is the highest single bonus in the history of the in-house suggestion scheme. By submitting a total of 2,100 improvement suggestions (1,425 in the previous year) our employees demonstrated their creativity and keen interest in further improving operating procedures and techniques.

The average bonus per improvement proposal increased from DM 492 in the previous year to DM 585 in 1984. The company paid a total of some DM 390,000 in bonus awards.

Our company's regained prestige and the positive reaction from the market to our many new products have done much to motivate our employees. With this boost to our self-confidence we shall accomplish the tasks that face us.

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

Financial position

The balance sheet total increased by DM 48.8 million (4.2 %) over the previous year, with fixed assets and financial assets accounting for DM 14.0 million and current assets, including prepaid expenses, for DM 34.8 million. Despite the 4.3 % increase in sales, accounts receivable from customers and affiliated companies decreased by DM 1.5 million (0.7 %), whereas inventories rose by DM 29.2 million (11.0 %), thus regaining a normal level relative to sales. The capital turnover rate (ratio of sales to total assets) changed only slightly from 1.72 to 1.73.

Disregarding investments in affiliates, which do not contribute directly to parent company sales, the balance sheet total was up by only DM 28.4 million (3.1 %). Calculated on this basis, the capital turnover rate is 2.22 (2.19 in the previous year). If we compare these figures with the corresponding ones five years ago, the positive development shows up even more clearly. While sales were 22.8 % higher than the 1979 level, the balance sheet total (excluding investments) fell by 4.3 %, which means that the capital turnover rate has improved from 1.73 to 2.22.

The proportion of fixed assets to total assets edged down to 56.3 % (57.4 % in the previous year). Investments in the affiliated companies account for some 40 %.

The company's total indebtedness (all short and long-term liabilities) was down by DM 16.0 million in 1984, a further substantial reduction. It was DM 451.9 million on the closing date.

Share capital and legal reserves increased by DM 54.9 million because of the exercising of the conversion rights afforded by the D-Mark portion of the convertible loan taken in 1979. Equity capital rose overall by DM 61.3 million to DM 480.6 million, taking into account 50 % of the increase in untaxed reserves and that part of retained income which is not distributed. This gives us an equity capital ratio of 39.9 % compared to 36.3 % in the previous year.

On the closing date, 70.9 % of fixed assets were financed out of equity (63.2 % in the previous year). 94.7 % of fixed assets and inventories were financed out of equity and long-term debt (92.7 % in the previous year).

The self-financing ratio (financing of additions to fixed assets out of the net cash flow minus the dividend payment for 1983) dropped to 102.0 % (226.2 % in the previous year) following an increase in fixed and financial assets that was almost double the 1983 level. On the other hand, the liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) improved from 76.4 % to 81.5 %.

Profit situation

Despite an increase of 6.1 % in gross revenues, the gross margin edged up by only 1.6 % or DM 17.0 million. The reasons are to be seen in the much higher proportion of merchandise and the large increase in material prices, most of which we could not pass on to our customers.

The net operating result (including financing charges, but before profit tax) at DM 62.2 million fell marginally short of the previous year's figure (DM 63.7 million). Here, it should be noted that the changeover in 1983 from the straight-line to the reducing-balance method of depreciation cost an additional DM 7.9 million (DM 4.2 million in the previous year).

The extraordinary result is a loss of DM 13.2 million; this is DM 5.0 million less than in the previous year. Here, the major items are changes in untaxed reserves, a write-down of the book value of Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell, special depreciation of fixed assets in accordance with § 3 Zonenrandförderungsgesetz (economic development of border areas), § 51 EStG (research and development), and § 6 b EStG (profit from the sale of fixed assets), gains and losses from the disposal of assets, and increase in tax deductions on imports in accordance with § 80 EStDV, 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.

On balance, profit before tax is DM 49.0 million (DM 45.5 million in the previous year). After tax deduction, net income amounts to DM 18.3 million (DM 15.1 million in the previous year).

Return on sales after tax improved slightly from 0.8 % to 0.9 %, and return on equity edged up from 3.6 % to 3.8 %.

The gross cash flow was down slightly from DM 163.1 million to DM 159.1 million and was equivalent to 7.7 % of sales (8.2 % in the previous year).

Balance sheet

The evaluation and depreciation methods used in the year under review were unchanged with the exception of additions to accrued pensions. The reorganization of the employees' retirement scheme, which previously had been financed out of our pension fund, and the ensuing increase in pension commitments for wage earners led to non-recurrent expenditure which we have spread over three years in accordance with tax provisions.

Property, plant and equipment

Additions to property, plant and equipment amounted to DM 85.4 million compared to DM 58.9 million in the previous year. When making this comparison, it should however be noted that in 1983 investments totalling DM

25.6 million were financed on a leasing basis and that in the year under review these amounted to only DM 0.3 million. On this basis, additions increased by only DM 1.2 million.

The Tyre Division accounted for 42 % of new investments, the Technical Products Division for 52 % and central service functions for 6 %. Again, the focus was mainly on rationalization and productivity improvement, some capacity expansion, the restructuring of our plants in Limmer and Vahrenwald as well as quality assurance and the introduction of new technologies.

Depreciation has increased to DM 85.5 million (DM 78.7 million in the previous year) and includes fiscally permitted special depreciation amounting to DM 3.5 million. Thus, depreciation is on a par with new investments (93.1 % in the previous year, including those financed through leasing contracts). Property was depreciated based on a useful life of up to 33 years, machinery on a useful life of 10 – 12.5 years, supply lines and various plant fixtures up to 20 years, furniture and equipment 4 – 7 years, and moulds up to 4 years.

Additions to machinery and longer-lived furniture and equipment were depreciated in accordance with the declining-balance method on the basis of the highest rates fiscally permitted. The remaining 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 1984 have been depreciated as follows:

	Additions and reclassifications DM million	Depreciation DM million
Land and buildings	7.3	1.4
Machinery and fixtures	38.5	8.3
Furniture and equipment	32.4	9.7
	78.2	19.4

The disposal of fixed assets amounting to DM 5.9 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 411.4 million. It exceeded depreciation by 10.5 %. In addition during the same period, financial investment has amounted to DM 116.7 million, so that total gross investment since 1979 has been DM 528.1 million.

Financial assets

The book value of affiliates rose by DM 20.4 million over the previous year.

In the year under review, the capital of Pneu Uniroyal Englebert S. A., Herstal-lez-Liège/Belgium was increased by bfrs. 400.0 million. Subsequently, capital was reduced by the same amount to amortize the loss brought forward. Also, the parent company acquired that share of the Belgian company that had previously been held by Uniroyal Englebert Textilcord S. A., Steinfort/Luxembourg.

The book value of Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell, was written off in view of the company's difficult situation.

The relationships of the affiliated companies within the Group are shown on the chart on pages 20 and 21.

Long-term loans are mainly home-building loans for 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

Inventories increased by DM 29.2 million (11.0 %) due to forward purchasing of raw materials in order to take advantage of tax reductions on imports and due to an increase in the stocks of passenger car and large truck tyres. This is attributable both to the rise in production costs and the substantially higher proportion of merchandise bought from other Group companies. The cost prices of goods obtained in this way are higher than their corresponding manufacturing costs at the parent company.

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 overhead expenses. Due allowance was made for slow-moving goods and items with limited usability. A comparison with the figures of five years ago shows that inventories are 1.5 % lower than on 31st December, 1979. This means that although sales have improved by 22.8 % during this period, capital (DM 4.6 million) previously tied up in inventories has been released.

Accounts receivable and other assets

The decrease of DM 16.8 million (9.6 %) in accounts receivable from deliveries and services derives entirely from the domestic business. A comparison with the figures as at 31st December, 1979 shows that accounts receivable – including all transactions with Group companies – have been reduced by 6.3 %. In other words, despite the increase in sales, capital (DM 12.2 million) was released here, too.

Apart from individual adjustments which were offset from accounts receivable, there is a bad debt reserve of DM 2.2 million on the liabilities side. The majority of receivables outstanding were due at the beginning of 1985 and were paid on schedule.

The increase of DM 15.3 million in accounts receivable from consolidated companies is chiefly attributable to higher trade receivables. Also included in this item are claims from profit-transfer agreements, clearing accounts and balances from Central Cash Management.

The item other debtors comprises mainly tax credits and receivables from employees and suppliers.

Capital and reserves

The holders of the convertible bond that was taken in D-Mark in 1979 (DM 58.0 million) exercised their conversion rights in 1984 and acquired new shares at the rate of 200 %. Consequently, share capital increased by DM 29.0 million to DM 299.0 million. The new shares are entitled to a dividend with effect from the beginning of 1984. The obligation to pay interest ceased to exist on the same date. The share premium reserve of DM 29.0 million minus a cash adjustment was allocated to legal reserves. This cash adjustment derived from a capital-watering safeguard clause in connection with the DM 70.0 million option bond that was raised at the beginning of 1984.

Because the conversion rights afforded by the 1979 conversion bond were exercised, conditionally authorized capital decreased to DM 47.0 million. Share capital can in future be increased by this amount by exercising the conversion rights from the US dollar portion of the 1979/1992 convertible loan and the 1984/1994 option bond. If and when the holder of the convertible loan in US dollars exercises its conversion rights will depend among other things on the future development of the dollar rate.

Free reserves were unchanged at DM 71.0 million.

With regard to the reserve for pension payments we refer to the separate report of the Executive Board in the enclosure to this annual report.

Untaxed reserves

Untaxed reserves increased by DM 10.1 million. This includes an allocation of DM 10.6 million in accordance with § 3 of AuslInvG (the law governing the taxation of foreign investments by German industry). Specifically, a reserve of DM 12.4 million was formed for our production company in Belgium, and a reserve of DM 1.8 million, that had been formed in the past for our production company in Great Britain, was released. Also, reserves amounting to DM 1.3 million were released in accordance with § 6 b EStG (gains from the sale of fixed assets) and offset against fixed assets as special depreciation; at the same time, there was an addition to untaxed reserves of DM 0.4 million for gains on sales in the year under review. A further DM 0.7 million was added in accordance with § 74 EStDV (reserve for price increases), and the sum of DM 0.3 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 6.0 %).

Accruals

Accrued pensions were computed on actuarial principles using the new life tables developed by Dr. Klaus Heubeck. Non-recurring expenditure relating to the reorganization of the company pension scheme has been spread over a period of three years in accordance with § 6a, section 4 EStG. Additional expenditure of DM 9.3 million remains for the years 1985 and 1986. The deficit of DM 7.0 million as per 31st December, 1984 is covered in full by the previously mentioned reserve for pension payments.

Other accruals include warranties, bonuses and other commitments arising in the ordinary course of business, contributions to the employer's liability insurance association, risks from contingent liabilities on notes, and tax commitments. The decrease over the previous year is due mainly to lower bonus commitments.

Liabilities

Long-term liabilities with a term of at least four years were reduced on balance by DM 13.9 million. This decrease is due to scheduled repayments (DM 35.9 million) and the previously mentioned conversion of the D-Mark portion of the 1979 convertible bond (DM 58.0 million) as well as to the fact that a new loan was taken (DM 10.0 million) and that the option loan was negotiated (DM 70.0 million).

At the end of the year, there were no short-term liabilities payable to banks.

The increase in trade payables is attributable to advance purchasing of raw materials and to the fact that some payments were not effected until the following year as a result of our fixed date payment system. As in the past, advantage was always taken of possible discounts.

Payments received on account include mainly advance payments from customers and the revenues already received from the sale of land with building at the beginning of 1985. Payments due to consolidated companies have decreased, mainly due to the repayment of a loan negotiated by our financing company Intercontinental Rubber Finance B. V., Amsterdam/Netherlands. Other liabilities derive chiefly from wages and salaries, interest and tax commitments as well as bonuses and commission.

On balance, short and long-term liabilities went down by DM 16.0 million.

Contingent liabilities

Contingent liabilities on notes increased by DM 18.8 million to DM 200.0 million. This comprises mainly the customer notes of our affiliated companies which are refinanced by the parent company in the framework of Central Cash Management.

There has been a further decrease in guarantees and warranties from DM 102.8 million in 1983 to DM 76.5 million in the year under review. They relate almost entirely to liabilities of our subsidiaries and 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.

Profit and loss statement

Sales rose by DM 86.6 million (4.3 %) to DM 2079.3 million, with tyres generating 64 % (61 % in the previous year) and other products 36 % (39 % in the previous year). The export sales ratio improved to 33.4 % (28.2 % in the previous year); five years ago (1979) it was only 26.3 %. With an increase in finished goods inventories and overheads capitalized on the construction of fixed assets, gross revenues improved by DM 121.2 million (6.1 %) on the previous year.

Material costs were up by 11.7 %. Their proportion relative to gross revenues rose to 47.3 % (45.0 % in the previous year). This resulted chiefly from the higher volume of merchandise purchased from other Group companies (28.7 %). Personnel costs were up by 3.1 % and were equivalent to 37.5 % of gross revenues (38.6 % in the previous year). This too is indirectly attributable to the higher proportion of merchandise.

Income in the form of profit and loss transfer agreements and dividends amounted to DM 11.4 million (DM 11.6 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. Losses on the other hand were assumed from Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell and VERGÖLST GmbH, Bad Nauheim. Items offset against this are the previously mentioned write-down of the book value of Continental-Alsa Schuhbedarf GmbH and the increase in untaxed reserves in accordance with § 3 AuslInvG, which together amounted to DM 13.6 million. On balance, therefore, the parent company result was reduced by DM 2.2 million from the Affiliated Companies Division.

Interest expenses and income should be considered only on balance, because the loans in transit for our domestic subsidiaries in the framework of the Central Cash and Credit Management system limit the definitiveness of the individual items. Due to much reduced credit requirements and lower interest rates, the interest balance was down DM 4.3 million to DM 29.7 million, which is equivalent to just 1.4 % of gross revenues (1.7 % in the previous year).

The increase in income from the disposal of fixed assets resulted primarily from the sale of our company in Brazil, the book value of which had already been written off in 1983.

Other income derives mainly from service charge-outs to other Group companies, sales in our kitchens and canteens, proceeds from rents, insurance compensation and foreign exchange gains. Also included are public-sector allocations which – insofar as these were in the form of investment subsidies and grants – were included in extraordinary income. The overall increase of DM 10.1 million in income is chiefly attributable to our expanding the parent company's service function for other Group companies. The costs this entailed are charged out to the companies concerned. The expenditure involved in providing these services in the areas of production, logistics, administration and marketing are included in personnel costs and other expenditures.

Taxes totalled DM 39.7 million; again, the tax load was additionally affected by the negative EK 56. Tax expenditures relate only to the period under review.

Other expenses, mainly repairs, freight charges, rents, advertising, travel expenses and insurance premiums, rose by only 1.5 %, despite cost increases brought about by external factors. This is equivalent to 10.0 % of gross revenues (10.4 % in the previous year).

The remuneration of Executive Board members in 1984 totalled DM 3,653,038 (DM 3,263,776 in the previous year). Pensions to retired Board members or their dependents amounted to DM 2,265,690 (DM 2,256,933 in the previous year). As in 1983, emoluments to the Supervisory Board totalled DM 301,000. 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 profit

It will be proposed to the shareholders that approval is given for the distribution of a dividend amounting to DM 3.00 at the par value of DM 50.00 (6 %) per share from the retained income of DM 19,206,157. This means paying out DM 17,940,000 from a share capital of DM 299,000,000. The remaining DM 1,266,157 will be carried forward. Together with the corporation tax of DM 1.69 per share, a total income of DM 4.69 per DM 50.00 share (9.38 %) accrues to our domestic shareholders.

Notes on the Consolidated Annual Financial Statements of the Continental Group

Consolidated Group of companies

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

In addition to the parent company, the consolidated accounts cover sixteen domestic and sixteen foreign companies, in which the parent company has a direct or indirect financial interest of more than 50 %. The companies included in the consolidated accounts are shown in the chart on pages 20 and 21.

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

The production company Labortex Ltda., Santo André/São Paulo, Brazil was sold in the year under review. In Austria, Continental Gummi Gesellschaft mbH, Vösendorf assumed sales activities for all Continental and Uniroyal products as well as for the Vergölst tyre business. In this context, Vergölst Ges. m. b. H., Vösendorf/Austria was transferred to Continental Gummi Gesellschaft mbH with effect from 1st January, 1984 in the framework of a merger. At the same time, the company's name was changed to C. U. P. Gummi Gesellschaft mbH, Vösendorf/Austria.

Due to their low business volume or because they were inactive, the following companies, in which we have an interest of more than 50 %, have not been included in the consolidated Group of companies:

Unterstützungskasse mbH der Göppinger
Kaliko- und Kunstleder-Werke GmbH
Eislingen

Wohnungsbau Salach GmbH
Eislingen

Reifen-Friedenburg, KG
Troisdorf

Unterstützungseinrichtung der Uniroyal-Werke GmbH
Aachen

Continental Tyre and Rubber Company (Pty) Ltd.
Sandton/RSA

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 financial statements of the foreign companies, which were drawn up to conform with local 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 have had to be modified 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, 1984. Items on the profit and loss statements were converted at average exchange rates for the year. Differences resulting from the use of year-end rates (balance sheet) 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 compared with the affiliated company's equity capital (including profits or losses) and the residual balance is shown in the difference arising from consolidation.

Affiliated companies belonging to the Group before 1979 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

With sales to third parties up by 4.3 %, the balance sheet total improved from the previous year by 4.2 %. The capital turnover rate was 1.80 (1.79 in the previous year). This means that at Group level, too, this ratio has improved steadily since the first consolidated statement in 1979. Although sales were 18.4 % higher than in 1979, the balance sheet total narrowed by 1.2 %, leading to an improvement in capital turnover from 1.50 to 1.80.

The proportion of fixed assets (including the difference arising from consolidation) to total assets fell from 41.5 % to 38.9 %. In this context the fixed assets decreased by a total of DM 18.0 million and the current assets (including prepaid expenses) increased by DM 96.3 million. The proportion of the fixed assets in the Group is lower than for the parent company because consolidated assets are reduced substantially through

consolidation and the consolidated sales companies have relatively high current assets.

Total indebtedness (all short and long-term liabilities), which has fallen substantially over the last few years, decreased by a further DM 14.1 million to DM 998.2 million in the year under review. Since 1979, therefore, the debt level has been reduced on balance by DM 270.0 million, although total investment over the last five years was 8.4 % higher than depreciation.

DM 25.9 million were allocated to parent company legal reserves (due to conversion rights being exercised). Also, a sum of DM 21.8 million from the net income of the other Group companies was allocated to reserves. After subtracting DM 2.0 million for Group adjustments, and withdrawing DM 0.9 million from the reserve for pension payments, consolidation-related reserves increased overall by DM 44.8 million to DM 211.0 million.

Equity capital, including 50 % of untaxed reserves, rose to DM 522.2 million and on the closing date was equivalent to 26.6 % of total assets (23.5 % in the previous year).

Of fixed assets, the difference arising from consolidation, and inventories, altogether 91.2 % were financed out of equity capital and long-term debt (88.3 % in the previous year).

The self-financing ratio (financing of additions to fixed assets out of the net cash flow minus the dividend payment for 1983) decreased to 143.5 % (170.4 % in the previous year) despite the slightly improved cash flow; this is well above the comparable ratio for the parent company (102.0 %)

At Group level too, the liquidity ratio (short-term receivables and liquid assets relative to short-term liabilities) has shown a further improvement, from 77.7 % to 82.1 %. The corresponding ratio for the parent company is 81.5 %.

Profit situation

Profit before tax amounted to DM 100.9 million (DM 100.8 million in the previous year) and, as in the previous year, was more than twice as high as at parent company level (DM 49.0 million). After the deduction of taxes and discounting the change in untaxed reserves in accordance with § 3 AuslInvG, annual net income is DM 49.3 million (DM 40.2 million in the previous year).

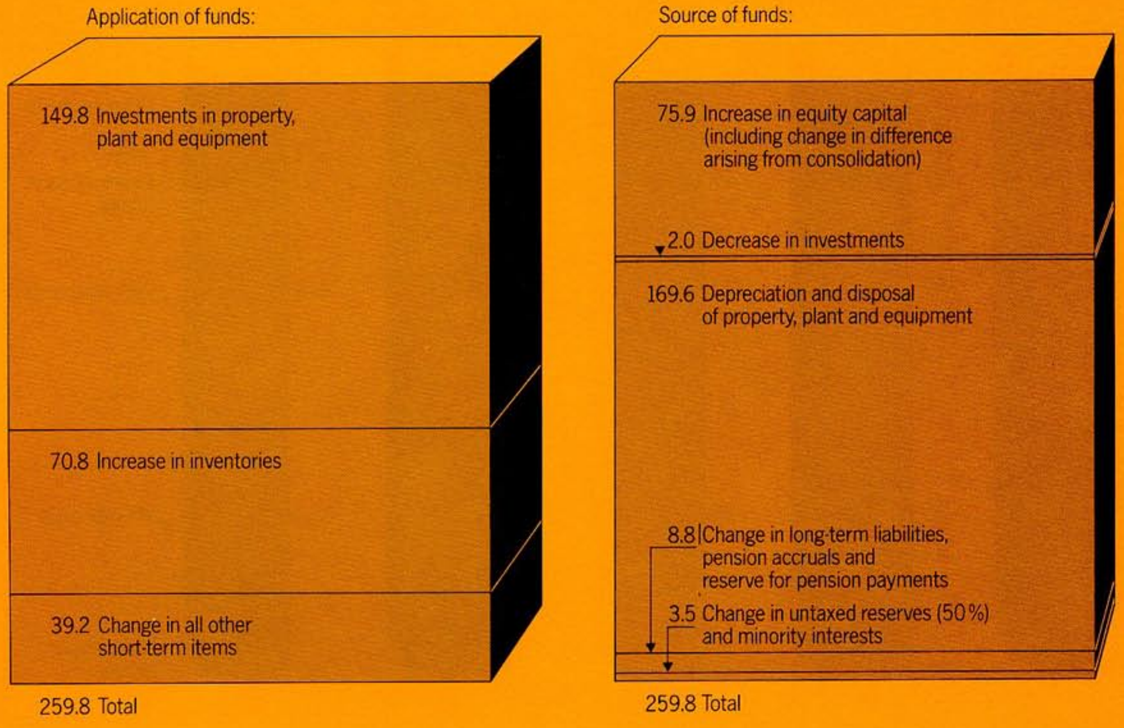
For the loss sustained by our subsidiary in Belgium, untaxed reserves of DM 12.4 million have been formed at the parent company in accordance with § 3 AuslInvG to capitalize on tax advantages. At the same time, we profitably released part of a similar reserve for tax reasons that had been formed in previous years for our subsidiary in Great Britain. In accordance with the evaluation principles set out in the Stock Corporation Law, these amounts have to be included twice over in the consolidated profit and loss statement, first as consolidated loss and profit of the two subsidiaries respectively and second, as a change in reserves. In order to permit a better evaluation of consolidated results, we have deducted the increase in these reserves (DM 8.1 million) from net income. In the previous year, this was unnecessary because additions to and the release of untaxed reserves in accordance with § 3 AuslInvG cancelled each other out within the Group. Thus, net income (according to the provisions of Stock Corporation Law) amounts to DM 41.2 million. Allowing for the amount required to fund the parent company's dividend, a sum of DM 21.8 million remains to strengthen reserves.

As in the previous year, after-tax return on sales is 1.2 %; after-tax return on equity deteriorated from 9.1 % to 7.9 %.

The gross cash flow on the other hand increased to DM 273.9 million (DM 269.9 million in the previous year) and was equivalent to 7.8 % of sales (8.0 % in the previous year). The ratio at parent company level was 7.7 % (8.2 % in the previous year).

Computed according to the rules of German financial analysts (DVFA) the result improved by 14.2 % to DM 53.0 million. Earnings per share (including tax credit) at DM 10.56 is however almost unchanged from the previous year (DM 10.29); this is due to a substantial increase

Financing in 1984 (Group)
in DM million



in the number of shares entitled to dividend. Without this, earnings per share would have been DM 11.51.

Balance sheet

The consolidated statements too are based on the same evaluation and depreciation principles as in the previous year with the exception of the distribution of the non-recurring extra costs involved in improving retirement benefits, as already mentioned in the section of this report on the parent company.

Property, plant and equipment

Additions to property, plant and equipment increased by DM 21.6 million to DM 149.8 million. In this context, it should be noted, however, that in the previous year investments of DM 25.8 million were financed on a leasing basis and for that reason were not included in additions to property, plant and equipment; in the year under review leasing-based investments totalled only DM 0.3 million.

Tyres accounted for some 60 % of total investments and other products for 40 %. As in the parent company, the declining-balance method of depreciation based on the highest rates fiscally permitted in Germany was adopted by all foreign and domestic Group companies. The straight-line method of depreciation was always applied where it led to higher expenditure. Depreciation throughout the Group is based on the same standard assumptions for useful life.

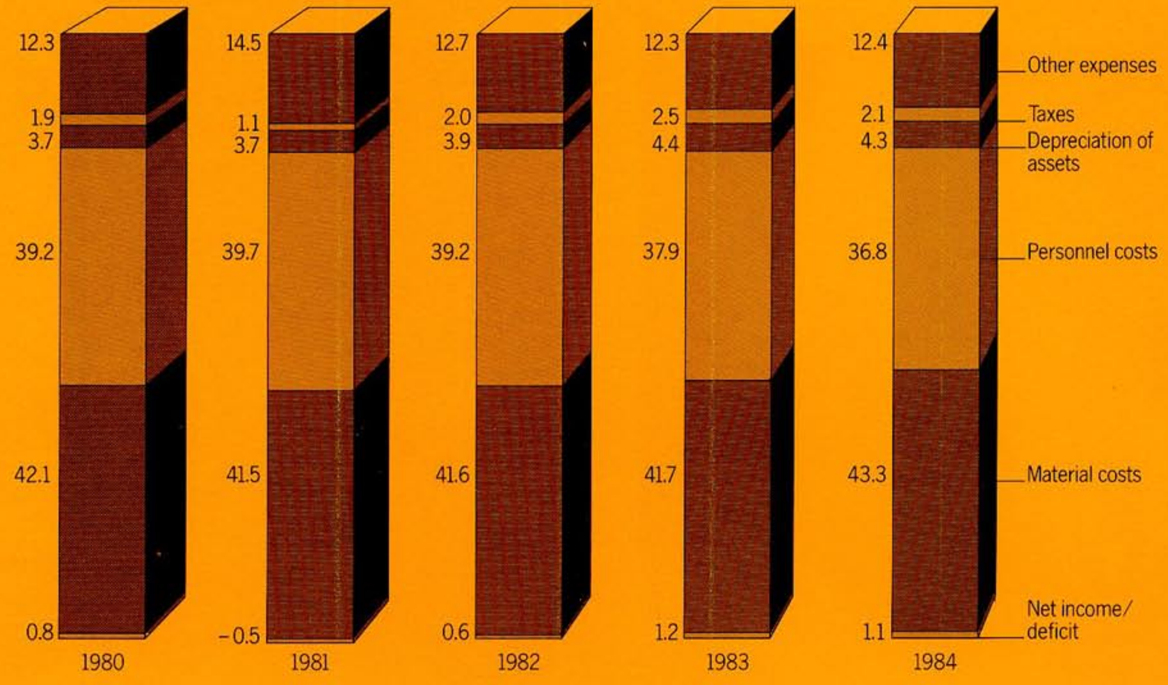
The parent company accounts for 60.5 % of property, plant and equipment (59.6 % in the previous year). The book value of foreign-based property, plant and equipment has decreased from DM 150.8 million in the previous year to DM 141.5 million and accounted for 21.1 % of the total on the closing date.

Additions and depreciation can be broken down as follows:

	Additions DM million	Depreciation DM million
Parent company	85.4	85.5
Consolidated affiliated companies	64.4	65.3
	149.8	150.8

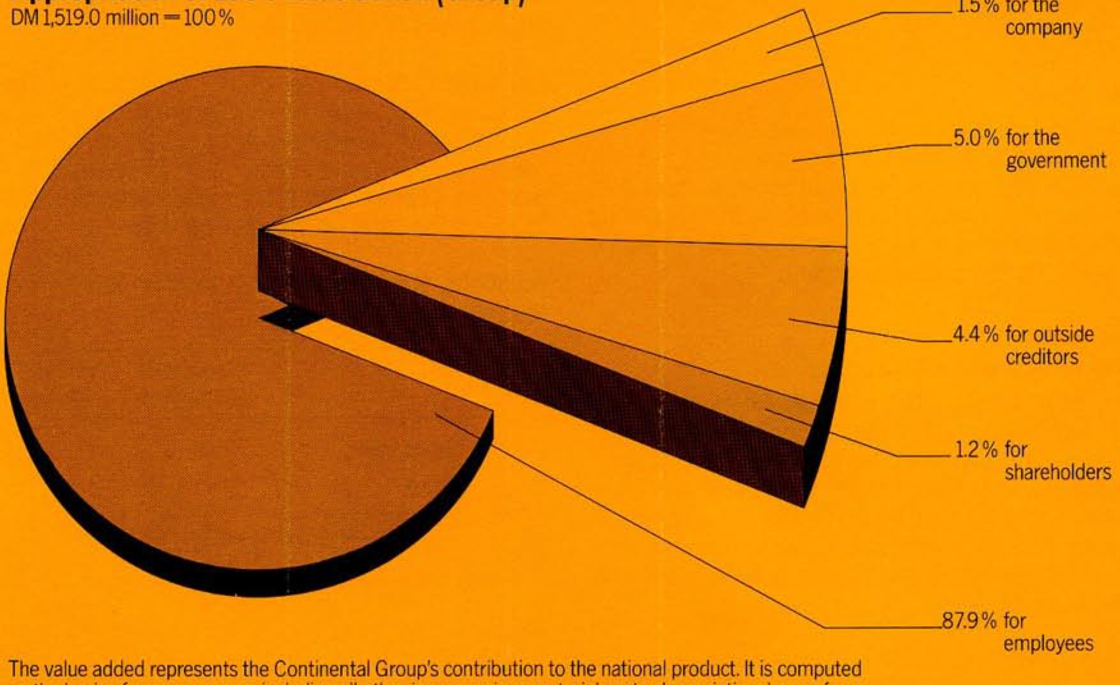
Additions to property, plant and equipment relate mainly to machinery and moulds, which serve to maintain our performance in terms of technology and costs, and to expand production capacity in specific priority areas. Over the past five years, investment in property, plant and equipment has totalled DM 717.5 million and was 11.2 % higher than depreciation. Together with the

Breakdown of expenditure in % of gross revenues (Group)



Appropriation of 1984 value added (Group)

DM 1,519.0 million = 100%



The value added represents the Continental Group's contribution to the national product. It is computed on the basis of gross revenues including all other income minus material costs, depreciation, losses from the disposal of fixed and current assets, expenses from profit and loss pooling agreements, additions to untaxed reserves and other expenses.

leasing-financed investments of DM 33.6 million during the same period and financial investments of DM 8.4 million, total gross investment is DM 759.5 million.

Financial assets

Interests in the non-consolidated companies (see chart on pages 20 and 21) are held mainly by the parent company. Changes from the previous year are restricted to a small number of minor companies.

Loans are mainly home-building loans to employees and funds 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 edged down in the year under review by DM 0.4 million, this item also includes the differences between nominal capital and reserves on the one hand and 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 companies were acquired or capital was increased, the D-Mark has strengthened relative to other currencies with the exception of the US dollar. The equity capital of these companies translated at the rate valid on 31st December, 1984, therefore, shows a lower D-Mark 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 D-Mark values that are lower than the book values at the time of acquisition, this part of the difference arising from consolidation can also be regarded as undisclosed reserves. In the past the effect of this foreign exchange loss was particularly marked in the consolidation of Continental France S. A. R. L., Sarreguemines/France, but on the other hand, it resulted in a substantial volume of undisclosed reserves. At the same time, the strength of the US dollar in the year under review had the opposite effect and led to a reduction of DM 1.1 million in the difference arising from consolidation for our company Continental Products Corporation, Lyndhurst, New Jersey, USA.

On balance, that part of the difference arising from consolidation in accordance with the German consolidation method increased by DM 4.2 million. Specifically, the sale of Labortex Ltda., Santo André/São Paulo, Brazil has led to an increase (DM 9.8 million) and the write-down of the book value of Continental-Alsa Schuhbedarf GmbH, Steinau-Uerzell on the parent company's balance sheet resulted in a decrease (DM 3.0 million) in the difference arising from consolidation. Exchange rate differences deriving from the equity capital translation of the remaining foreign companies led to a further decrease of DM 2.6 million.

Inventories

Apart from inflation-linked cost and price increases, the growth in inventories by DM 70.8 million is due to higher stock levels.

The breakdown is as follows:

	DM million
Parent company	295.0
Consolidated affiliated companies	316.9
	611.9

By comparison with the consolidated balance sheet as per 31st December, 1979 inventories have risen by only DM 9.4 million (1.6 %) although in the same period sales have increased by DM 548.4 million (18.4 %).

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

Trade accounts receivable at Group level increased by only DM 5.7 million (1.1 %) due to the favourable development of receivables in the parent company. 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 increased by DM 10.1 million to DM 41.2 million and include mainly receivables due from suppliers, tax authorities and employees.

Comparing these items with the corresponding figures on 31st December, 1979, there has been an overall increase of 2.8 %; taking inventories into account the increase is only 2.1 %. Sales growth in the past five years has thus necessitated relatively minor additional capital commitment in current assets. The Group's total indebtedness therefore shows a pleasing reduction.

Accruals

The pension accruals of the German Group companies were computed on the basis of actuarial principles, applying an interest rate of 6 %. In doing so, Dr. Klaus Heubeck's new life tables were applied.

The statutory compensation entitlements of employees in some foreign companies were also computed on actuarial principles, based on various discount rates for unaccrued interest and are included in pension accruals. As mentioned earlier, there is a deficit of DM 7.0 million at the parent company which, however, is covered in full by the reserve for pension payments. The pension funds available in the benefit scheme of one affiliated company are short by DM 7.0 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

As in the parent company, long-term liabilities at Group level have decreased on balance by DM 2.7 million although new loans were taken; other short-term liabilities were reduced by as much as DM 11.3 million.

The increase of DM 59.2 million in trade payables is attributable primarily to the advance buying of raw materials by the parent company and to the fact that some payments were not effected until the following year as a result of our fixed date payment system.

Notes payable and liabilities due to banks were down by a total of DM 90.0 million. Payments received on account include mainly customer prepayments and the revenues already received for land with building sold by the parent company at the beginning of 1985. Other liabilities also comprise wages and salaries, including payroll tax and outstanding social security contributions, interest, tax commitments and other liabilities arising in the ordinary course of business.

Contingent liabilities

Contingent liabilities on notes rose to DM 197.7 million (DM 176.3 million in the previous year). Warranties and guarantees totalled DM 5.4 million (DM 5.1 million in the previous year).

Commitments arising from rent or lease contracts

Future commitments arising from rent or lease contracts amount to a present cash value of DM 67.2 million (DM 72.7 million in the previous year). Land and buildings account for DM 46.0 million of this, machinery and fixtures for DM 11.2 million, and furniture and equipment for DM 10.0 million. 54 % of the total commitment relates to the parent company and 46 % to the consolidated affiliated companies.

Profit and loss statement

Consolidated sales on foreign markets – translated into D-Mark – improved by 14.8 %, whilst on the domestic market they were down by 1.6 %. On balance, sales have increased by 4.3 % to DM 3,534.0 million. 40.1 % was generated on foreign markets (36.4 % in the previous year).

Gross revenues increased by 6.5 % to DM 3,624.3 million. Material costs relative to gross revenues rose to 43.3 % (41.7 % in the previous year); personnel costs on the other hand were down to 36.8 % (37.9 % in the previous year). These figures are lower than the corresponding ratios on parent company level mainly because the sales companies, which have relatively low material and personnel costs, have been included. The interest balance fell to DM 65.0 million (DM 69.4 million in the previous year) due to improved terms of financing and the lower total debt level. It was equivalent to 1.8 % of gross revenues (2.0 % in the previous year).

Extraordinary income of DM 12.2 million (DM 12.6 million in the previous year) includes mainly investment subsidies and grants as well as released adjustments and income deriving from other periods.

With a decrease in profit tax, taxes were down by DM 9.4 million to DM 75.6 million.

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

Hanover, 24th April, 1985
Continental Gummi-Werke Aktiengesellschaft

The Executive Board

Helmut Werner | Wilhelm Borgmann | Peter Haverbeck

Hans Kauth | Julius Peter | Wilhelm Schäfer | Horst W. Urban

ontinental Gummi-Werke Aktiengesellschaft – Balance Sheet, 31st December, 1984

ssets	31st December, 1984 DM	DM	DM	31st Dec., 1983 DM 1000
Fixed Assets				
A. **Property, Plant and Equipment**				
1. Land				
a) with commercial plant and other buildings	131 364 228			133 977
b) with residential buildings	724 662			889
c) without buildings	192 703			71
2. Machinery	192 152 442			204 437
3. Furniture and equipment	46 838 810			44 690
4. Assets under construction and prepayments	34 748 264			27 849
		406 021 109		411 913
B. **Investments**				
1. Investments	267 589 964			247 215
2. Loans with a term of at least four years	4 045 765			4 540
thereof secured by mortgages DM 2 432 841		271 635 729		251 755
			677 656 838	663 668
Current Assets				
A. **Inventories**				
1. Raw materials and consumables	80 200 195			67 168
2. Work in progress	49 354 272			52 125
3. Finished goods, goods for resale	165 405 842			146 424
		294 960 309		265 717
B. **Other Current Assets**				
1. Payments on account		252 637		346
2. Accounts receivable		157 541 210		174 342
thereof due after one year DM 218 213				
3. Notes receivable		965 459		464
thereof rediscountable with the Federal Bank DM 829 489				
4. Checks		7 172 313		6 623
5. Cash on hand, at Federal Bank and on postal giro accounts		1 399 295		1 118
6. Cash at banks		5 449 623		1 112
7. Due from affiliated companies		48 600 775		33 324
8. Other receivables (§ 89 Stock Corp. Law)		175 281		232
9. Other debtors		9 886 664		8 089
			526 403 566	491 367
Prepaid Expenses				
1. Loan discounts		461 326		688
2. Other		162 900		148
			624 226	836
			1 204 684 630	1 155 871

Liabilities	31st December, 1984 DM	31st December, 1984 DM	31st Dec., 1983 DM 1000
I. **Share Capital** (Common Stock)		299 000 000	270 000
Conditionally authorized capital DM 47 000 000			
II. **Open Reserves**			
1. Legal reserves.			
Brought forward to 1st January, 1984	66 000 000		
Allocation from premium in accordance with § 150, section 2, No. 2 Stock Corp. Law	25 920 200		
		91 920 200	66 000
2. Free reserves		71 000 000	71 000
3. Reserves for pension payments.			
Brought forward to 1st January, 1984	12 835 000		
Withdrawal	885 000		
		11 950 000	12 835
III. **Untaxed Reserves** according to § 3 Auslandsinvestitionsgesetz, § 6 b EStG, § 52 section 5 EStG, § 74 EStDV		34 843 860	24 670
IV. **General Bad Debt Reserve**		2 200 000	2 400
V. **Accruals**			
1. Accrued pensions	135 625 728		127 443
2. Accruals for deferred maintenance	1 052 025		1 027
3. Other accruals.	86 024 981		96 480
		222 702 734	224 950
VI. **Liabilities With Terms Of At Least Four Years**			
1. Bonds and convertible bonds	111 438 450		109 018
thereof secured by mortgages DM 90 000 000			
2. Loans and debentures	33 500 700		43 547
thereof secured by mortgages DM 33 445 380			
3. Due to banks	103 750 000		110 000
thereof secured by mortgages DM —		248 689 150	262 565
Due within four years DM 127 963 182			
VII. **Other Liabilities**			
1. Trade payables	111 404 583		62 759
2. Notes payable	–		19 819
3. Due to banks	–		14 921
4. Payments received on account	21 431 286		2 511
5. Due to affiliated companies	12 388 513		49 042
6. Other liabilities	57 948 147		56 199
		203 172 529	205 251
VIII. **Retained Income**		19 206 157	16 200
Contingent liabilities on notes DM 200 043 008			
Guarantees DM 57 187 911			
Warranties DM 19 353 481			
		1 204 684 630	1 155 871

Fixed Assets Schedule 1984

	1st January, 1984 DM	Additions DM	Reclassifications DM	Deductions DM	Depreciation DM	31st Dec., 1984 DM
A. **Property, Plant and Equipment**						
1. Land						
a) with commercial plant and other buildings	133 977 029	6 947 742	201 535	113 386	9 648 692	131 364 228
b) with residential buildings	888 460			128 921	34 877	724 662
c) without buildings	70 800	163 863		41 960		192 703
2. Machinery	204 436 672	29 795 478	8 725 024	3 117 980	47 686 752	192 152 442
3. Furniture and equipment	44 690 354	29 131 091	3 262 208	2 132 947	28 111 896	46 838 810
4. Assets under construction and prepayments	27 849 366	19 406 260	– 12 188 767	318 595		34 748 264
	411 912 681	85 444 434	—	5 853 789	85 482 217	406 021 109
B. **Investments**						
1. Investments	247 215 099	23 742 460		360 994	3 006 602	267 589 963
2. Loans with a term of at least four years	4 539 925	801 525		1 295 685		4 045 765
	251 755 024	24 543 985	—	1 656 679	3 006 602	271 635 728
	663 667 705	109 988 419	—	7 510 468	88 488 819	677 656 837

Continental Gummi-Werke Aktiengesellschaft – Profit and Loss Statement for the year 1984

		1984 DM	1984 DM	1983 DM 1000
1. **Sales**		2 079 320 161		1 992 671
2. Change in inventories of products		+ 7 291 881		– 22 565
			2 086 612 042	1 970 106
3. Overheads capitalized on construction of fixed assets			22 295 767	17 597
4. **Gross Revenues**			2 108 907 809	1 987 703
5. Raw materials and consumables			998 019 329	893 820
6. **Gross Margin**			1 110 888 480	1 093 883
7. Income from profit and loss pooling agreements		9 426 068		6 947
8. Investment income		15 867 621		13 706
9. Income from long-term loans		189 895		356
10. Interest and similar income		8 478 300		8 738
11. Income from disposal of fixed assets		5 559 428		1 430
12. Income from the reduction in general bad debt reserve		200 000		—
13. Income from release of accruals		2 159 946		3 157
14. Income from release of untaxed reserves		3 376 861		1 035
15. Other income		61 497 669		51 418
thereof extraordinary	DM 5 986 227		106 755 788	86 787
			1 217 644 268	1 180 670
16. Wages and salaries		659 063 177		631 540
17. Social security contributions		112 940 560		108 715
18. Pensions and employees' welfare		18 024 358		26 033
19. Depreciation of property, plant and equipment		85 482 217		78 707
20. Depreciation of investments		3 006 602		13 355
21. Depreciation of current assets (excluding inventories)		2 363 702		2 766
22. Losses from disposal of fixed assets		3 131 073		1 919
23. Interest and similar expenses		38 163 719		42 692
24. Taxes				
a) on income, profit and net worth	DM 43 727 455			
charged to subsidiaries	DM 5 391 172			
	DM 38 336 283			
b) other	DM 1 370 316	39 706 599		41 206
25. Expenses from profit and loss pooling agreements		13 884 899		9 101
26. Additions to untaxed reserves		13 551 212		2 587
27. Other expenses		210 004 993		206 980
			1 199 323 111	1 165 601
28. **Net Income**			18 321 157	15 069
carry forward:			18 321 157	15 069

	1984 DM	1984 DM	1983 DM 1000
carried forward:		18 321 157	15 069
29. Profit brought forward		–	4 909
30. Additions to reserves		–	4 900
31. Withdrawal from reserve for pension payments		885 000	1 122
32. **Retained Income**		19 206 157	16 200

Pension payments and payments to legally independent pension funds DM 9 397 899. Anticipated payments in the following five years: 105 %, 110 %, 113 %, 115 %, 115 %.

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, on the proviso that the Annual Shareholders' Meeting approves the profit appropriation proposals of the Executive Board and the Supervisory Board with respect to the years 1977 to 1983.

Berlin/Hanover, 24th April, 1985

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant

Continental Gummi-Werke Aktiengesellschaft – Consolidated Balance Sheet, 31st December, 1984

Assets	31st December, 1984 DM	DM	31st Dec., 1983 DM 1000
I. Fixed Assets			
A. Property, Plant, Equipment and Intangible Assets			
1. Land			
a) with commercial plant and other buildings	192 696 849		204 909
b) with residential buildings	1 384 051		1 609
c) without buildings	3 644 801		3 651
2. Buildings on third parties' land	5 983 380		5 777
3. Machinery	318 848 826		343 660
4. Furniture and equipment	92 591 349		86 343
5. Assets under construction and prepayments	55 706 915		44 622
6. Intangible assets	671 090		695
		671 527 261	691 266
B. Investments			
1. Investments	31 746 729		31 821
2. Investment securities	256 227		1 241
3. Loans with a term of at least four years	5 646 746		6 594
thereof secured by mortgages DM 2 719 497			
		37 649 702	39 656
		709 176 963	730 922
II. Difference Arising From Consolidation		55 775 813	52 016
thereof from consolidation according to Anglo-American method DM 7 526 625			
III. Current Assets			
A. Inventories	611 854 131		541 066
B. Other Current Assets			
1. Payments on account	580 734		410
2. Accounts receivable	512 118 845		506 428
thereof due after one year DM 423 592			
3. Notes receivable	8 724 000		2 388
thereof rediscountable with the Federal Bank DM 1 070 604			
4. Checks	9 300 498		8 894
5. Cash on hand, at Federal Bank and on postal giro accounts	3 183 348		2 146
6. Cash at banks	7 224 132		6 812
7. Marketable securities	2 092		3
8. Due from affiliated companies	1 037 837		1 493
9. Other receivables (§ 89 Stock Corp. Law)	410 718		456
10. Other debtors	41 187 003		31 106
		1 195 623 338	1 101 202
IV. Prepaid Expenses			
1. Loan discounts	543 373		1 046
2. Other	4 597 816		2 251
		5 141 189	3 297
		1 965 717 303	1 887 437

Liabilities	31st December, 1984 DM	DM	31st Dec., 1983 DM 1000
I. **Share Capital** (Common Stock)		299 000 000	270 000
Conditionally authorized capital DM 47 000 000			
II. **Open Reserves**			
1. Legal reserves	91 920 200		66 000
2. Free reserves	107 138 358		87 368
3. Reserves for pension payments	11 950 000		12 835
		211 008 558	166 203
III. **Minority Interests**		1 621 191	1 773
including interests in net income DM 109 612			
less interests in losses DM 4 267			
IV. **Untaxed Reserves** according to § 3 Auslandsinvestitionsgesetz, § 6 b EStG, § 52 section 5 EStG, § 74 EStDV and foreign tax regulations		42 502 848	34 992
V. **General Bad Debt Reserve**		6 818 510	6 803
VI. **Accruals**			
1. Accrued pensions and similar accruals	205 547 482		193 085
2. Accruals for deferred maintenance	1 817 680		1 360
3. Other accruals	179 977 394		184 716
		387 342 556	379 161
VII. **Liabilities With Terms Of At Least Four Years**			
1. Bonds and convertible bonds	111 438 450		109 018
thereof secured by mortgages DM 90 000 000			
2. Loans and debentures	33 500 707		43 547
thereof secured by mortgages DM 33 445 380			
3. Due to banks	282 857 662		280 345
thereof secured by mortgages DM 9 925 220			
4. Other liabilities	26 056 430		23 705
thereof secured by mortgages DM 5 091 056			
		453 853 249	456 615
Due within four years DM 201 576 011			
VIII. **Other Liabilities**			
1. Trade payables	209 164 981		149 992
2. Notes payables	78 047 043		88 094
3. Due to banks	90 544 105		170 543
4. Payments received on account	37 922 544		8 898
5. Due to affiliated companies	1 524 643		5
6. Other liabilities	127 160 918		138 158
		544 364 234	555 690
IX. **Retained Income**		19 206 157	16 200
Contingent liabilities on notes DM 197 735 150			
Guarantees DM 5 388 339			
		1 965 717 303	1 887 437

Continental Gummi-Werke Aktiengesellschaft – Consolidated Profit and Loss Statement for the year 1984

	1984 DM	1984 DM	1983 DM 1000
1. **Sales**	3 534 007 977		3 387 229
2. Change in inventories of products	+ 57 385 847		– 14 877
		3 591 393 824	3 372 352
3. Overheads capitalized on construction of fixed assets		32 875 410	29 653
4. **Gross Revenues**		3 624 269 234	3 402 005
5. Raw materials and consumables		1 569 442 596	1 419 968
6. **Gross Margin**		2 054 826 638	1 982 037
7. Income from profit and loss pooling agreements	–		2
8. Investment income	2 313 606		2 288
9. Income from long-term loans	281 957		1 226
0. Interest and similar income	2 298 054		3 690
1. Income from disposal of fixed assets	8 260 152		6 739
2. Income from release of accruals	10 997 777		11 328
3. Income from release of untaxed reserves (without § 3 Auslandsinvestitionsgesetz)	3 624 181		4 037
4. Other income	43 187 883		46 209
thereof extraordinary . . . DM 12 241 852		70 963 610	75 519
		2 125 790 248	2 057 556
5. Wages and salaries	1 082 892 025		1 044 111
6. Social security contributions	214 833 967		204 535
7. Pensions and employees' welfare	37 040 638		39 504
8. Depreciation of property, plant, equipment and intangible assets	150 828 625		135 515
9. Depreciation of investments, including consolidated affiliated companies	3 036 249		14 590
0. Depreciation of current assets (excluding inventories)	8 900 697		8 810
1. Losses from disposal of fixed assets	5 895 122		2 975
2. Interest and similar expenses	67 356 850		73 075
3. Taxes			
a) on income, profit and net worth . . . DM 69 044 300			
b) other . . . DM 6 544 569	75 588 869		84 946
4. Expenses from profit and loss pooling agreements	201		—
5. Addition to untaxed reserves (without § 3 Auslandsinvestitionsgesetz)	2 180 918		394
6. Other expenses	427 970 616		408 929
		2 076 524 777	2 017 384
7. **Net Income** before change in untaxed reserves in accordance with § 3 Auslandsinvestitionsgesetz		49 265 471	40 172
carry forward:		49 265 471	40 172

	1984 DM	1984 DM	1983 DM 1000
carried forward:		49 265 471	40 172
28. Change in untaxed reserves in accordance with § 3 Auslandsinvestitionsgesetz			
a) formation	12 410 000		2 390
b) release	4 330 000	8 080 000	2 390
29. **Net Income**		41 185 471	40 172
30. Profit brought forward		–	4 909
31. Additions to reserves		21 792 690	29 420
32. Withdrawal from reserves for pension payments		885 000	1 122
33. Addition to difference arising from consolidation		966 279	491
34. Income attributable to minority interests		109 612	113
35. Losses attributable to minority interests		4 267	21
36. **Retained Income**		19 206 157	16 200

Continental
Gummi-Werke Aktiengesellschaft
The Executive Board

The consolidated annual financial statements and the management reports concerning the Continental Group, which we have examined with due care, comply with the pertinent legal requirements, on the proviso that the Annual Shareholders' Meeting of Continental Gummi-Werke Aktiengesellschaft, Hanover approves the profit appropriation proposals of the Executive Board and the Supervisory Board with respect to the years 1977 to 1983.

Berlin/Hanover, 24th April, 1985

Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Richter
Chartered Accountant

Kirste
Chartered Accountant