# 2003 Annual Report
## The Freudenberg Group

# Responsibility

"Our company and its family shareholders together are committed to protecting the environment and being responsible corporate citizens in all countries and communities in which we do business. We take all possible care to ensure the safety of the workplace and of our products.
As a family company, we strive for the highest standards of personal behavior. Fairness and integrity guide our conduct among ourselves, towards our business partners and the general public."

Responsibility for our associates and the environment is firmly anchored in Freudenberg corporate culture and therefore constitutes one of our Guiding Principles. The Guiding Principles are a condensed version of the Group's Business Principles, summarized for our associates and the public at large. In 2003, the "Responsibility" Guiding Principle found special expression in the "We all take care" initiative, launched to enhance awareness of occupational safety and environmental protection and to reduce the number of accidents. The 2003 Annual Report presents further information on "We all take care" and the impact of the initiative in the sections entitled "Information on the Business Areas" and "People and Responsibility".

# Highlights

| The Freudenberg Group* | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| | GCC** | GCC** | IAS | IAS | IAS |
| **Sales [ million € ]** | | | | | |
| Germany | 1,001 | 1,068 | 1,007 | 969 | **984** |
| EU (excluding Germany) | 1,068 | 1,124 | 1,131 | 1,153 | **1,235** |
| Other European countries | 160 | 197 | 185 | 204 | **224** |
| North America | 1,109 | 1,335 | 1,278 | 1,235 | **1,066** |
| Latin America | 98 | 136 | 118 | 88 | **89** |
| Asia | 136 | 239 | 250 | 219 | **214** |
| Other regions | 48 | 55 | 40 | 50 | **55** |
| **Total sales** | **3,620** | **4,154** | **4,009** | **3,918** | **3,867** |
| | | | | | |
| Consolidated profit | 105 | 117 | 134 | 137 | **93** |
| Cash flow from operating activities | 291 | 288 | 345 | 355 | **267** |
| Cash flow from investing activities | -293 | -236 | -164 | -287 | **-221** |
| Depreciation and amortization | 211 | 224 | 238 | 202 | **208** |
| Balance sheet total | 2,759 | 2,926 | 3,399 | 3,276 | **3,380** |
| Partners' equity | 1,146 | 1,208 | 1,549 | 1,503 | **1,440** |
| Personnel expenses | 1,208 | 1,311 | 1,269 | 1,264 | **1,265** |
| | | | | | |
| **Workforce (Dec. 31)** | 29,667 | 30,118 | 27,578 | 27,693 | **28,479** |
| **Workforce (annual average)** | 29,459 | 30,179 | 28,063 | 27,728 | **28,416** |

| **Business Areas** | **1999** | **2000** | **2001** | **2002** | **2003** |
|---|---|---|---|---|---|
| **Sales [ million € ]** | | | | | |
| Seals and Vibration Control Technology | 1,768 | 2,037 | 2,024 | 2,028 | **1,932** |
| Nonwovens | 808 | 967 | 964 | 924 | **960** |
| Household Products | 458 | 495 | 516 | 526 | **548** |
| Specialties and Others | 839 | 913 | 757 | 685 | **673** |
| | | | | | |
| **Workforce (Dec. 31)** | | | | | |
| Seals and Vibration Control Technology | 15,997 | 16,256 | 15,564 | 15,871 | **15,938** |
| Nonwovens | 5,571 | 5,781 | 5,382 | 5,320 | **5,504** |
| Household Products | 1,718 | 1,750 | 1,815 | 1,971 | **2,437** |
| Specialties and Others | 6,381 | 6,331 | 4,817 | 4,531 | **4,600** |

* The figures include all companies in which Freudenberg & Co. owns 50% or more of the capital, either directly or indirectly. Shareholdings of 50% are consolidated to half the amount, shareholdings over 50% in full.

** German Commercial Code

# Contents

# Company Boards

## Board of Partners

Dr. Reinhart Freudenberg
Chairman
Heidelberg

Dr. Michael Rogowski
Deputy Chairman
Heidenheim

Cornelius von Baeyer
Ottawa/Canada

Andreas Freudenberg
Berlin

Dr. Ulrich Freudenberg
Mülheim
(from June 28, 2003)

Dr. Wolfram Freudenberg
Stuttgart

Dr. Maria Freudenberg-Beetz
Weinheim

Dr. Bettina Hahne
Wangen/France
(until June 28, 2003)

Dr. Christoph Schücking
Frankfurt am Main

Martin Wentzler
Großhesselohe

Prof. Dr.-Ing. Hartmut Weule
Karlsruhe

Dr. Hermann Wunderlich
Odenthal

## Management Board

Dr. Dr. Peter Bettermann
Speaker
General Partner
Weinheim

Dr. Hans-Jochen Hüchting
General Partner
Weinheim

Dr. Albert W. Pürzer
General Partner
Weinheim

Dr. Ernst Schön
General Partner
Weinheim

Dr. Peter Stehle
General Partner
Weinheim

**Management of the Business Groups and Divisions***

| Management | Business Groups | Business Areas |
|---|---|---|
| Jörg Sost (Chairman), Dr. Herbert Fehrecke, Michael Preisler | Seals and Vibration Control Technology Europe | **Seals and Vibration Control Technology Business Area** |
| Dr. Mohsen Sohi (President & CEO), Ludger Neuwinger-Heimes | Seals and Vibration Control Technology America (Freudenberg-NOK General Partnership) | |
| Reinhard Schütz (Chairman), Norbert Schebesta | Vibracoustic Europe | |
| Prof. Elmar F. Baur (CEO), Dr. Walter Steinbach, Christoph Mosmann, Jochen Strasser (deputy) | Burgmann Industries | |
| Stephan Tanda (Chairman), Thomas Kehl, Dr. Christoph Josefiak, Walter Schwarz | Nonwovens | **Nonwovens Business Area** |
| Dr. Riccardo Sollini (President & CEO), Dr. Riccardo Forni, Dr. Bernhard Klein | Freudenberg Politex Nonwovens | |
| Dr. Hans Georg Franke (Chairman), Dr. Klaus Peter Meier, Dr. Alexander Moker, Gerhard Schmitt | Household Products | **Household Products Business Area** |
| Hanno D. Wentzler (President & CEO), Dr. Jörg Matthias Großmann | Chemical Specialities | **Specialties and Others Business Area** |
| Dr. Rüdiger Fischer, Jochen Schlitt | Building Systems | |
| Günter Fichtner, Dr. Ralf Krieger | IT Services | |
| | **Divisions** | |
| Dr. Thomas Barth | Research Services | |
| Dr. Ditmar Flothmann | Service Support | |

* as at June 1, 2004

# Report of the Board of Partners

During fiscal 2003, the Management Board and the Board of Partners held regular and detailed discussions on the progress of the company, its Business Groups and Divisions, and on major individual business transactions on the basis of oral and written reports from the Management Board. Corporate policy was formulated in consultations between the two bodies and updated where necessary in joint deliberations. Key topics included the acquisition of substantial areas of business of Burgmann Dichtungswerke and the purchase of Chem-Trend. The risk situation and risk management were also topics considered by the Board of Partners.

In fiscal 2003, four scheduled meetings of the Board of Partners were held. A consensus was reached in all cases where decisions required the participation of the Board of Partners under the Partnership Agreement; decisions relating to major projects were taken on the basis of written submissions.

At the Partners Meeting on June 28, 2003 Dr. Bettina Hahne stepped down from the Board of Partners. We would like to thank her for many years of dedicated service. The Partners Meeting of June 28, 2003 elected Dr. Ulrich Freudenberg as a new member of the Board of Partners.

The Board of Partners expresses its appreciation to the Management Board and the workforce for their commitment and performance during the year under review.

The consolidated financial statements for 2003 were audited by KPMG Deutsche Treuhand-Gesellschaft, Mannheim (Germany) and were approved without qualification. The Board of Partners approves the consolidated financial statements and, following examination, concurs with the auditor's findings.

Weinheim, April 15, 2004

For the Board of Partners

Freudenberg

Dr. Reinhart Freudenberg
Chairman

# Foreword of the Management Board

The economic backdrop to Freudenberg Group business in 2003, a year in which the violent conflicts in the Middle East and the SARS epidemic in China had a severe impact, was broadly speaking even more difficult than the previous two years. Among the industrial sectors served by Freudenberg, the textile industry in the USA and Europe was severely hit by the effects of relocation, and the downturn in the construction industry continued. The automotive industry in Europe and North America reported a slight decrease, while automakers in the Far East registered a significant improvement. Overall, the mechanical engineering industry produced an average performance. The food retail trade showed no signs of growth momentum, either.

Against this unsatisfactory backdrop, the Freudenberg Group continued to focus on strengthening customer performance and expanding market positions through internal growth. Additionally, Freudenberg Nonwovens implemented a global restructuring process for production and sales in response to the far-reaching impact of textile industry relocation to the Far East.

With regard to portfolio restructuring, disinvestment was completed with the disposal of the remaining 49 percent interest in Technischer Handel Freudenberg (THF), and a series of strategic acquisitions was prepared (Burgmann and Chem-Trend group, completed in early 2004) or implemented (purchase of the second 50 percent of Freudenberg Politex Nonwovens, take-over of the US market leader O'Cedar under Chapter XI, purchase of the specialty lubricant retailer OKS of Munich).

The increase in sales from acquisitions which became effective in 2003 and internal growth could not offset the effects of deconsolidation and, more particularly, the serious impact of developments in the Euro/Dollar exchange rate; as a result, sales declined by just over 1 percent. Adjusted for these effects, sales rose by 3 percent. Consolidated profit totaled 93 million Euro, significantly lower than the previous year (137 million Euro), chiefly as a result of exchange rate effects, restructuring expenditure and upfront costs for the major acquisitions concluded in early 2004. Borrowing for these acquisitions secured in the fourth quarter of 2003 led to an increase in the balance sheet total; consequently, the share of partners' equity declined by approximately 3 percent to 43 percent. As part of its annual review in summer 2003, Moody's reaffirmed its A 3 rating with a stable outlook assigned to Freudenberg.

Dr. Dr. Peter Bettermann

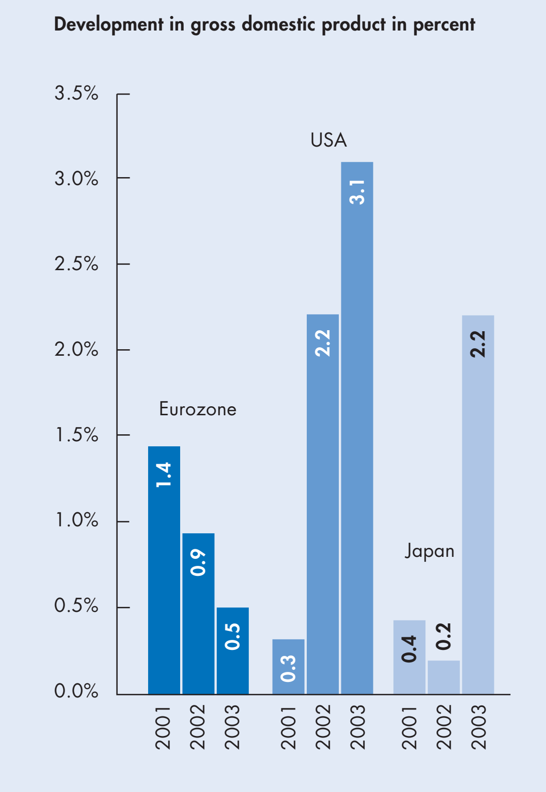
Dr. Hans-Jochen Hüchting

Dr. Albert W. Pürzer

Dr. Ernst Schön

Dr. Peter Stehle

# Management Report of the Freudenberg Group
# Report of the Management Board




In 2003, the Freudenberg Group reported sales of 3,867 million Euro (2002: 3,918 million Euro). Consolidated profit amounted to 93 million Euro (2002: 137 million Euro). At December 31, 2003, the Group's workforce totaled 28,479, 786 higher than at year-end 2002.

The backdrop to business by the Freudenberg Group may be summarized as follows:

**Global economic situation**
The Eurozone moved into recession in the first half of 2003. Following a return to growth in the third and fourth quarters, slight macroeconomic growth of 0.5 percent was recorded for the year as a whole. Gross domestic product in Germany fell by 0.1 percent. For the US economy, growth of 3.1 percent in 2003 represented a much better performance than the previous year. The recession in Japan has been overcome and the economy there grew by 2.2 percent. In the People's Republic of China, retail industry sales improved by 9.1 percent despite the negative impact of the SARS epidemic, and the country's exceptional economic trend continued.

The situation in the sectors supplied by the Freudenberg Group may be summarized as follows: the West European automobile industry sold 14.2 million vehicles; although this was 1 percent down on the previous year, the slump feared by many did not in fact materialize. At just over 1 percent, the decline in sales in the USA was also moderate. The Japanese automobile industry had a good year.

The downturn in the German construction industry has still not come to a halt. Investment in this sector fell by 3.7 percent. Although sales in the German mechanical engineering sector were down by just over 1 percent in 2003, the clear rise in orders in the last quarter of the year encourages hopes of a recovery there. For the clothing industry in Europe and the USA, prospects remain poor. The entire industry is going through a restructuring process, demand for textiles declined and the trend to relocate production capacity to Asia is becoming more pronounced. The situation in the information and communication industry and the electronics industry improved in 2003. In the German retail industry, the downturn eased slightly, with sales only down by 1 percent.

**Products and markets**
Components and intermediate products account for over three-quarters of sales by the Freudenberg Group. The major customer groupings are the automotive industry, the mechanical engineering sector, and the textile and clothing industry. Just under one-quarter of all goods are final products such as vileda® brand mechanical household cleaning and laundry care products or nora® brand rubber floorcoverings.

The decline in sales by the Freudenberg Group occurred almost exclusively in North America – chiefly as a result of the changes in exchange rate parity between the Dollar and the Euro. This development explains the pronounced shift in sales by regions. While North America was still the strongest single market for Freudenberg in 2002, accounting for 31.5 percent of sales, the share fell to 27.6 percent in the year under review. The region accounting for the largest share of Group sales was the EU (excluding Germany) with a share of 31.9 percent (2002: 29.4 percent). For the first time in several years, the percentage share of sales accounted for by the German market rose, and now totals 25.5 percent (2002: 24.7 percent). Sales in Asia fell to some 214 (2002: 219) million Euro, chiefly due to exchange rate effects. As a result of various cooperation projects, particularly with the Japanese partners JVC and NOK, the lion's share of Freudenberg's activities in Asia is not consolidated. If sales by the Japanese partners were included solely on a pro-rata shareholding basis, Asia would account for 17 percent of total Group sales.

**Consolidated sales**

At 3,867 million Euro, consolidated sales of the Freudenberg Group were 51 million Euro, or 1.3 percent, down on the previous year. This is due to the decline in sales by Freudenberg-NOK General Partnership and Freudenberg Nonwovens (largely as a result of exchange rate shifts) and to the deconsolidation of Freudenberg Mektec and Freudenberg Leather. The resulting drop in sales could not be offset by the first full consolidation of Freudenberg Politex Nonwovens and the rise in sales by Freudenberg Seals and Vibration Control Technology, Freudenberg Household Products and Klüber. Adjusted for currency effects, acquisitions and disinvestments, Group sales rose by 109 million Euro or 3 percent.

**The consolidated group**

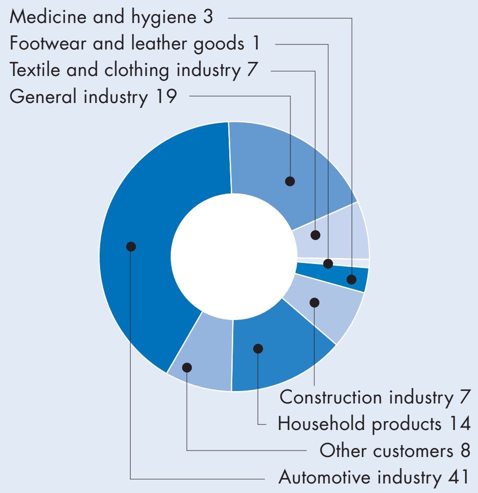
At year-end 2003, the Freudenberg Group comprised 334 companies in 46 countries. 251 companies, including 80 production companies and 93 sales companies, were fully consolidated.

Apart from spin-offs and start-ups, the main change in the consolidated group was the purchase of a further 8.48 percent of the shares of the Politex group. The business unit, formerly consolidated on a pro-rata basis, was fully consolidated effective January 1, 2003.

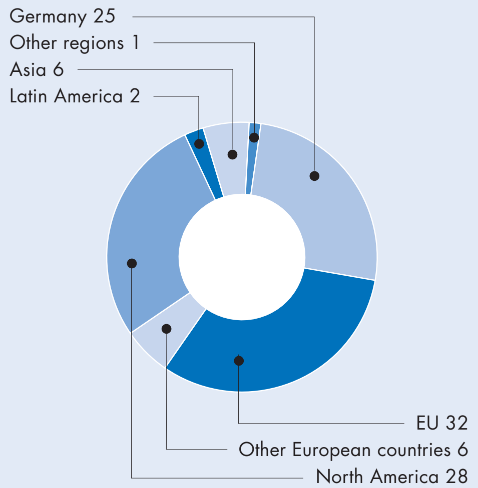
**Minority interests and joint ventures**

Freudenberg holds a minority interest, either direct or via subsidiaries, in several companies, most of which are consolidated under the equity method. These companies reported sales of 2,514 million Euro, 6.5 percent down on the previous year. The decline is chiefly due to exchange rate effects and is also affected by the disposal of the remaining shares in Technischer Handel Freudenberg. The most important minority shareholdings held by Freudenberg concern the Japanese company NOK Corporation (23 percent) and Japan

**Sales structure by sectors in percent**




**Sales by regions in percent**



Vilene Company Ltd. (22 percent), both registered in Tokyo.

NOK Corporation manufactures seals and vibration control technology products, flexible circuit boards, lubricants and specialty chemicals. The company operates 40 sites worldwide and has a workforce of 16,178 (NOK Group), of which 3,458 are on the payroll at NOK Corporation. Sales by NOK Corporation in 2003 totaled 1,973 million Euro (NOK Group: 2,291 million Euro). Compared with the previous year, this represents a decline of 2.2 percent: however, if the changes in exchange rate parity are taken into consideration, sales rose by 9.1 percent.

Japan Vilene Company Ltd. (JVC) manufactures nonwovens for the clothing, automotive and electrical industries as well as medical applications, consumer goods and the agricultural sector. The company has production facilities in Japan, China, Taiwan, Hong Kong, Korea and the USA. The total workforce is 926. Sales in 2003 fell by 11 percent (0.2 percent adjusted for exchange rate effects) to 363 million Euro.

The proven partnership between Freudenberg and these two Japanese companies already spans more than 40 years. During the course of this long-standing cooperation, numerous joint activities have been launched in the USA, Asia and Europe.

**Financing and consolidated profit**
In fiscal 2003, cash flow from operating activities decreased to 267 million Euro (2002: 355 million Euro), chiefly as a result of reduced consolidated profit and lower cash flow from liabilities and provisions. Investment including acquisitions was again financed in full from operative cash flow. The balance sheet total rose 3 percent to 3,380 million Euro, primarily due to the loans secured by borrower's note raised before the end of 2003 inter alia to finance both major acquisitions (Burgmann and Chem-Trend group) concluded in early 2004. The share of partners' equity is 43 (46) percent. Provisions for pensions amounting to 333 (331) million Euro accounted for a further 10 (10) percent of the balance sheet total. Consolidated profit fell by 44 million Euro to 93 (137) million Euro.

**Cash flow from investing activities and personnel expenses**
Cash flow from investing activities by the Group totaled 221 (287) million Euro. Investment during the reporting period focused on the Seals and Vibration Control Technology and Nonwovens Business Areas.

The Group's personnel expenses, including pension contributions and provisions for partial retirement, came to 1,265 (1,264) million Euro.

**Risk management**
Freudenberg operates a standardized global risk management system for the timely identification of risks to which the company is exposed and the initiation and control of countermeasures. Risks are classified by risk category, likelihood and scale of damage. The external auditor assessed the structure and implementation of the risk management system during the audit process. The system is appropriate for the timely identification of developments that could pose a threat to the continued existence of Freudenberg.

As a global company, Freudenberg is exposed to macroeconomic risk. The economic situation of most industrialized nations is characterized by a high degree of uncertainty as to future developments, giving rise to exchange rate risk and interest risk which are monitored by the risk management system.

In its function as a supplier, Freudenberg is exposed to the business risk and product risk of the sectors it serves; these are primarily the automotive industry and the mechanical engineering industry, the textile and clothing industry and the construction industry. Freudenberg responds to the economic risk in these customer groupings by an unceasing effort to constantly improve customer performance through innovative and reliable products and services.

As a broadly diversified company, Freudenberg is also exposed to the legal risk of the sectors it serves. This risk is incorporated in the risk management system and limited by the implementation of countermeasures.

In 2003, the special focus of the Freudenberg Group again concerned the prevention of product liability risks.

The analysis of present risks concluded there are no risks to the continued existence of the Freudenberg Group.

Freudenberg largely implements the rules of the German Corporate Governance Code on a voluntary basis. The only provision of relevance to Freudenberg that is not implemented concerns the publication of individual executive compensation for the Management Board and the Board of Partners.

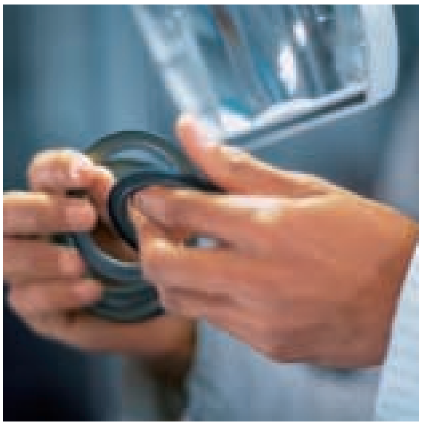
**Prospects for 2004**

Freudenberg concluded two major acquisition projects in the first quarter of 2004: these were the purchase of substantial areas of business of Burgmann Dichtungswerke of Wolfratshausen/Germany with sales of some 300 million Euro and a workforce of 3,300, and Chem-Trend of Howell, Michigan/USA, with sales of some 95 million Euro and a workforce of 400. A key task in 2004 will be to integrate these companies in the Freudenberg Group. Burgmann will operate as a stand-alone Business Group in the Seals and Vibration Control Technology Business Area, while Chem-Trend joins Klüber and OKS to form the new Chemical Specialities Business Group in the Specialties and Others Business Area. These acquisitions confirm Freudenberg's strategy to purchase complementary processes and products in order to achieve growth in high-earnings segments where the Group is familiar with products and markets.

A further focus in 2004 will be to continue the efforts begun in 2003 to intensify innovation in even closer union with customers and to accelerate the pace at which innovation is brought to market maturity.

Several unforeseeable developments such as EU enlargement, the situation in the Middle East, reform policy in Germany and other European states as well as Dollar-Euro parity play a role in a forecast for 2004. However, business in the first quarter of the current fiscal year indicates that the effects of the ostensible upturn in Germany have as yet hardly made an impact on Freudenberg business, and sales developments in the European Union and America give little cause for optimism. Freudenberg therefore assumes that 2004 will again be a very tense year.

# Seals and Vibration Control Technology Business Area



Simmerring quality control

The Business Groups Freudenberg Seals and Vibration Control Technology (Europe), Freudenberg-NOK General Partnership and Vibracoustic (Europe) belong to the Seals and Vibration Control Technology Business Area. At year-end 2003, the total workforce of the Business Area was 15,938. Sales in the year under review totaled 1,932 million Euro.

A Business Group named Burgmann Industries and belonging to the Seals and Vibration Control Technology Business Area has been established to incorporate substantial areas of business of Burgmann Dichtungswerke (in particular mechanical seals, compensators and automotive seals) acquired at the end of February 2004. Burgmann Industries has a workforce of approximately 3,300 and sales of about 300 million Euro.

A special feature of this Business Area is the cooperation with the Japanese company NOK Corporation. Freudenberg and NOK have been working together since 1960. In the USA, the two companies have pooled their activities in a joint venture called Freudenberg-NOK General Partnership. In union, these three corporations form a global alliance offering customers anywhere in the world complete solutions in the field of seals and vibration control technology, and creating a "virtual" global company. Freudenberg holds a share of 23 percent in NOK.

Friedrich Jakob, mechanic,
Freudenberg Spezialdichtungsprodukte KG,
Reichelsheim

# Freudenberg Seals and Vibration Control Technology Europe

Seals and vibration control parts for agricultural machinery

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 952.0 | 927.1 | 2.7 % |
| Workforce* | 9,056 | 9,021 | 0.4 % |

*Dec. 31

**Divisions:**
Simmerrings/Damper Seals, Special Sealing Products, O-Rings, Merkel Freudenberg Fluidtechnic, Brakes, Freudenberg Meillor Flat Gaskets, Industrial Vibration Control Technology

The motto of Freudenberg Seals and Vibration Control Technology is: "We want to be the best partner for our customers." The "Customer Value First" initiative launched throughout Europe at the end of 2002 symbolizes a step in this direction. There are three pillars to the focused customer orientation program: internally, all processes within the company are geared to the customer. Externally, the close network of customers, suppliers and field associates creates an intensive partnership with the application technology of industrial partners. The third pillar is regular symposiums, forums and technical colloquiums with experts from Freudenberg and customers as well as training for associates and clients. A successful start has already been made: a customer survey established a significant rise in the performance of Freudenberg Seals and Vibration Control Technology in all areas.

Freudenberg Seals and Vibration Control Technology is the Technology Specialist for customers in the automotive industry, automotive component suppliers and the general industry sector. The company offers complete solutions for seals and vibration technology to manufacturers of agricultural and construction machinery, rail vehicles and machines. Freudenberg Seals and Vibration Control Technology produces and develops in 27 countries, chiefly in Europe. To meet the global demands of customers, the company cooperates with Freudenberg's Japanese partner NOK in Tokyo and the Freudenberg-NOK General Partnership joint venture in Plymouth/USA. Thanks to this partnership, products of the same quality and with the same service are offered all over the world. Cooperation was systematically expanded last year, with China becoming a focus for the coming years. Partner production in Central and Eastern Europe, particularly Estonia, Romania and Hungary, was also extended.

Developments on the European automobile market were better than expected. Sales only fell by 1 percent to 14.2 million vehicles. Incoming orders in the mechanical engineering sector in November and December 2003 were high, but they were not sufficient to prevent a decline in sales of just over 1 percent. The chemical industry, another sector taking Freudenberg Seals and Vibration Control products, also reported a decline in production, but sales nevertheless increased by 1.5 percent. Against this backdrop, Freudenberg Seals and Vibration Control Technology expanded its market position in all core business areas with sales rising by almost 3 percent. The company increased sales to the automotive industry by 4 percent, while sales to the general industry sector rose by 5 percent and Freudenberg Process Seals, the special sales channel for

Producing Simmerrings for ABS brake systems

the chemicals and process technology sector, reported a 30 percent boost in sales.

Higher sales and larger market shares are in part due to the innovative strength of Freudenberg Seals and Vibration Control Technology. There is considerable demand for seals with additional functions such as sensors for measuring speeds. A core competence of Freudenberg Seals and Vibration Control Technology is elastomer materials and their processing, as illustrated by the accurate magnetizability of elastomer components for sensor seals and encoders. The competitive edge in this field was expanded further and European materials centers strengthened.

All Divisions at Freudenberg Seals and Vibration Control Technology participated in the "We all take care" initiative. There was a substantial cut in the number of accidents at European sites as well as absence times due to sickness. In France, the country with the highest workforce and largest number of facilities after Germany, an inter-facility HSE committee was set up to develop and identify an HSE task profile taking into consideration the specific cultural and legal background. Overall, Freudenberg Seals and Vibration Control Technology submitted 56 projects for the "We all take care Award".

During the current financial year, Freudenberg Seals and Vibration Control Technology will further strengthen its market position in all segments. To this end, partner production in Eastern Europe, China and India will be expanded further and innovative ability enhanced. With these measures, the company expects a rise in sales in 2004.

**www.freudenberg-ds.com**

# Freudenberg-NOK General Partnership

(Seals and Vibration Control Technology America)

2003 was not a good year for U.S. automakers, with production down 4 percent. In comparison, Freudenberg-NOK General Partnership (FNGP) produced a good performance. Excluding the effect of acquisitions, the decline in Dollar sales by producing divisions of FNGP was only 2 percent. This confirms the success of strategically targeting business at the "New Domestics" to both maintain and increase market share. The term "New Domestics" describes automakers from outside the U.S. with production facilities in the country. FNGP is ideally positioned to secure business from the New Domestics because many of these automakers already do business with FNGP's partners Freudenberg Seals and Vibration Control Technology in Europe or NOK in Asia.

Freudenberg-NOK General Partnership is a joint venture between the Japanese company NOK Corporation, Tokyo, (25 percent) and Freudenberg & Co., Kommanditgesellschaft, Weinheim/Germany (75 percent). The corporation produces seals and vibration control parts for the automotive sector and the general industry segment. Its main market is the Americas.

As a result of permanent cost pressure in North America, FNGP made intensive efforts to move the manufacture of high-volume mature products to lower-cost regions. These efforts culminated in the Latin American strategy, under which FNGP utilizes existing facilities in Latin America whenever possible, while simultaneously expanding production capacity in the region. The Simrit Division of Freudenberg-NOK General Partnership opened a new facility with some 150 associates in Querétaro/Mexico in November 2003.

In the automotive aftersales market, the Corteco spare parts brand continued to establish itself as a full-range supplier of OE quality automotive sealing products.

In the general industry segment, Freudenberg-NOK General Partnership has realigned its businesses to provide appropriate sealing solutions for all levels of the market. Simrit, the OEM sealing business within the general industry segment, serves the mechanical engineering, aerospace and marine industries. The upswing in these sectors during the second half of 2003 offset the drop in sales of the first six months of the year.

The "We all take care Award" was won by the La Grange/Georgia facility for a project heightening awareness for safety in the minds of associates. As a reward for six months without a notifiable accident, all associates were given a half-day off work.

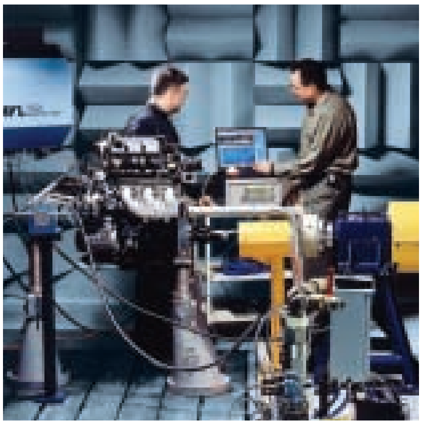
Against the backdrop of improved economic conditions in the USA, Freudenberg-NOK General Partnership expects to see moderate growth in sales in 2004.

**www.fngp.com**

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 722.1 | 853.6 | -15.4 % |
| Workforce* | 5,650 | 5,666 | -0.3 % |

*Dec. 31

**Divisions:**
Radial Shaft Seals, Special Sealing Products, Gaskets, O-Rings, Vibracoustic, Hoses, Simrit, Corteco, Dichtomatik



Acoustic test rig at FNGP

# Vibracoustic (Europe)

Engine hydromount (Engine Mounts Division)

"Come and feel the comfort" was the Vibracoustic motto at the Frankfurt International Motor Show. Comfort in the sense of the motto is when vibrations and background noise are eliminated from driving. This is what Vibracoustic aims to do. These phenomena can occur in several places, especially in the engine and chassis where there are moving parts.

Vibracoustic is both the name of a joint venture between Freudenberg & Co. Kommanditgesellschaft, Weinheim, and Phoenix AG, Hamburg, and a brand name. While the joint venture is primarily active in Europe, automotive customers can purchase Vibracoustic anti-vibration products of the same specification and same quality all over the world thanks to cooperation with partners in Japan, Korea, India and Brazil as well as the sister company Freudenberg-NOK General Partnership (FNGP) in the USA. The figures quoted in this section only refer to Vibracoustic (Europe), the joint venture with Phoenix.

Last year, automobile production in Europe fell by 1 percent. Nevertheless, Vibracoustic sales rose by just over 4 percent to 399 million Euro.

Vibracoustic strives for technological leadership in the market, combining superior quality and competitive prices. In order to continue with this successful strategy, the company launched a project called "Customer Dialog" aimed at the sustained expansion of customer satisfaction. With regard to research and development, Vibracoustic developed new production methods to market maturity in 2003. One such project is a joint development with Freudenberg Research Services involving a new hot air welding method to integrate connecting parts in intake systems, substantially reducing process times.

Vibracoustic associates implemented 17 projects under the "We all take care" initiative. The measures produced immediate success: the number of notifiable accidents per 1,000 employees fell from 13.6 to 8.4.

Vibracoustic expects a further rise in sales of around 4 percent for the current financial year. The Engine Mounts and Intake Systems Divisions will be restructured. Vibracoustic also plans to move forward with globalization, acquiring global customer projects with its Asian and American partners and intensifying utilization of the sites in China and India.

**www.vibracoustic.com**

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 399.1 | 383.4 | 4.1 % |
| Workforce* | 1,959 | 1,878 | 4.3 % |

*Dec. 31

**Divisions:**
Drive Train, Engine Mounts, Intake Systems, Chassis, Suspension Struts

# Nonwovens Business Area

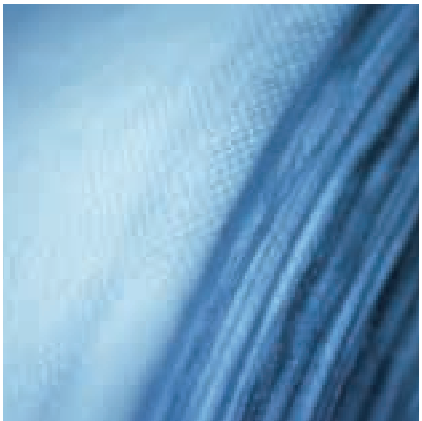
The Nonwovens Business Area comprises the Business Groups Freudenberg Nonwovens and Freudenberg Politex Nonwovens. Sales in 2003 totaled 960 million Euro. At year-end the Business Area had a total workforce of 5,504.

Freudenberg acquired a further 8.48 percent of the shares of Freudenberg Politex Nonwovens at the end of 2003 and purchased the remaining shares at the beginning of 2004. The company is now wholly-owned by the Freudenberg Group and was fully consolidated in 2003.

Freudenberg has maintained close cooperation with Japan Vilene Company (JVC) since 1960. Both companies are active in several joint ventures in Asia (outside Japan). Freudenberg holds a 22 percent share in JVC.

Manfred Götz (left) and Sascha Bonenberger, production operatives in the Filters Division, Freudenberg Vliesstoffe KG, Kaiserslautern

Close-up of rolled nonwoven



# Freudenberg Nonwovens

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 796.4 | 845.7 | -5.8 % |
| Workforce* | 4,877 | 5,011 | -2.7 % |

*Dec. 31

**Divisions:**
Interlinings, Tuft, Technical Nonwovens, Filters, Hygiene/Medical, Evolon

Comfortemp®, a thermal management interlining material from Freudenberg Nonwovens, can outperform the competition and thus enhances wear comfort for the customer. What distinguishes Comfortemp® from other materials with thermal insulation properties is that Comfortemp® compensates for rapid changes in temperature. Tiny capsules integrated into the nonwoven material are designed to absorb or give off heat, allowing them to provide either cooling or heating benefits. The Comfortemp® brand was added to the Freudenberg Nonwovens product range in 2003.

The vast majority of the clothing industry is currently migrating to China and Eastern Europe. While this relocation has already been underway for some time in Europe, it has now also gathered pace in the USA. This trend, combined with unfavorable exchange rates, had a direct impact on sales in the Interlinings Division of Freudenberg Nonwovens, which were 11 percent down on the previous year. In contrast, business in China expanded. There were positive developments in tuft backing business, where Freudenberg nonwovens extended its market leadership. The Filters Division again had a successful year with sales rising adjusted for exchange rate influences. The Hygiene/Medical Division also reported a rise in sales, while the Technical Nonwovens Division registered a slight decline and the microfilament textile Evolon® did not fully meet expectations. Overall, Freudenberg Nonwovens sales fell by approximately 6 percent.

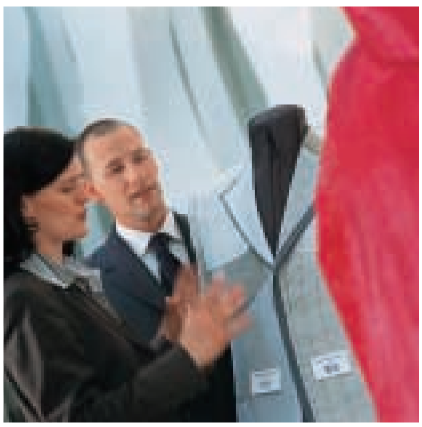
In response to market changes, Freudenberg Nonwovens already initiated a restructuring project – the facility concept – in Europe and North America in 2002. During the year under review, old plant was dismantled and replaced by new, faster equipment at the Parets/Spain and Weinheim/Germany facilities without interruption to production at adjacent machines.

More than 30 projects were started at Freudenberg Nonwovens under the “We all take care” initiative. All sites participated. Apart from improving technical safety, the projects primarily focused on safety culture. The number of accidents continued to fall in 2003. However, there was a fatal accident at the Greetland/UK facility as a result of an unfortunate chain of events. The causes of the accident have been thoroughly investigated and appropriate action taken on all machines of similar design.

The negative trend of past years has continued during the first few months of the current financial year. Massive structural change with the relocation of clothing production to Asia and Eastern Europe will continue. Faced with these conditions, Freudenberg Nonwovens must accelerate the pace of innovation, bring restructuring to a speedy conclusion, and focus more strongly on China. If these goals are met, the company has a good chance of emerging strengthened from this structural change.

**www.nonwovens-group.com**

A must in textile design: Freudenberg interlinings



# Freudenberg Politex Nonwovens

Ready for dispatch: rolls of nonwoven at Freudenberg Politex

Who would not appreciate a protective barrier against urban pollution? Freudenberg Politex Nonwovens has come up with a solution, developing and marketing the first protective padding designed for city life. Polifill®T3 URBAN is a new nonwoven padding for city garments. It consists of three layers of polyester with a woven copper wire. This combination protects the body against urban pollution; it is also anallergic and has excellent transpiration properties. Wadding for clothing and furniture is the smaller of the two Divisions at Freudenberg Politex Nonwovens. The company's core business is polyester nonwovens used as reinforcement for bituminous roofing membranes.

Until the end of 2003, Freudenberg Politex Nonwovens was a joint venture between the Italian company Politex and Freudenberg & Co., Weinheim/Germany. At the beginning of 2004, Freudenberg took over all the shares of the company.

Freudenberg Politex will continue as a stand-alone Business Group. The company is headquartered in Novedrate, Northern Italy. Other production facilities are located in Pisticci (Southern Italy), Colmar (France), Lodz (Poland) and Macon (Georgia/USA).

Freudenberg Politex offset the effects of the strong Euro by stepping up exports of roofing materials from the USA to Europe. Business in America was weak in the first half of the year. In Western Europe the market continued to tighten, while developments on markets in Eastern Europe, the Middle East and Asia were positive. In wadding, the markets showed different trends in a general scenario of strong competition. While the market in Poland recovered, the Italian market continued slow.

In these difficult conditions, Freudenberg Politex reported a rise in sales of approximately 5 percent and a further strengthening of its position as the leading manufacturer on the world market for polyester-based roofing materials. In the 2003 fiscal year, a new line in Novedrate for the production of nonwoven fabrics of spunbonded polyester reinforced with fiberglass filament was completed, further strengthening the company's position on East European and Asian markets. Work on the construction of a new spun bonding plant at Pisticci began during the year and will be completed in 2004.

Occupational safety under the "We all take care" initiative was given high priority at Freudenberg Politex. Zero accident status was achieved at the Macon (USA) and Lodz (Poland) facilities. An outstanding "We all take care" project was launched at the Colmar (France) plant. The project under the motto "Occupational safety concerns us all … especially me" generated high motivation for safety at work among the plant's associates.

The scenario for 2004 is one of increasing competitive pressure. Freudenberg Politex will strengthen its marketing activities on emerging markets in Eastern Europe and Asia and bring new products to market. Freudenberg Politex expects higher sales in 2004.

**www.freudenbergpolitex.com**

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 163.3 | 155.6 | 4.9 % |
| Workforce* | 627 | 617 | 1.6 % |

*Dec. 31

**Divisions:**
Roofing, Wadding

# Household Products Business Area

The Household Products Business Area comprises one Business Group – Freudenberg Household Products, best known for vileda® brand products. In 2003, this Business Area reported sales of 548 million Euro with a workforce of 2,437.

Ralf Jürgens, Product Creation Group, Freudenberg Household Products

A classic: vileda® Super Mop

# Freudenberg Household Products

Works wonders: the vileda® all purpose cloth

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 547.5 | 525.5 | 4.2 % |
| Workforce* | 2,437 | 1,971 | 23.6 % |

*Dec. 31

**Divisions:**
Consumer, Professional

Not entirely unexpectedly, competition was stiff: when Freudenberg Household Products launched an innovative cleaning system under the vileda® brand last year called "Rapid AttrActive" and featuring an integrated water tank on the handle, it was not long before three major competitors were already presenting similar products. Vileda was the only manufacturer to market the new floor cleaning system throughout Europe, and thus established European market leadership in this segment with a share of 38 percent. Overall, Vileda holds a share of over 19 percent on the European market for mechanical household cleaning products.

The sluggish economy had little effect on demand for cleaning products in the core markets of Europe and the USA, where growth averaged 3 percent. Freudenberg Household Products recorded above-average growth in both Divisions, with growth in the Consumer Division slightly higher than in the Professional Division. The company therefore expanded its strong position on the European market and, through the acquisition of O'Cedar, became the clear market leader in the USA. O'Cedar, a manufacturer of household cleaning equipment registered in Springfield/Ohio with a tradition spanning almost 100 years, filed for insolvency in August 2003. The company will be integrated in Freudenberg Household Products Ltd., Northlake/Illinois.

Through the acquisition of the laundry care business of Hailo, Haiger/Germany, Freudenberg Household Products has substantially strengthened its activities in this market segment. The company will now be offering outdoor and indoor clothes driers and high-quality ironing boards.

Freudenberg Household Products has facilities in Germany, Sweden, Italy, Czech Republic, Spain, USA, Finland, Great Britain, the Netherlands and China. The importance of the Chinese facility will increase further, and the rights to use of further land required to expand the facility were purchased in the year under review.

Freudenberg Household Products launched two projects focusing on communication with neighbors under the "We all take care" initiative. In Augsburg, company representatives made contact with the "Bürgeraktion Textilviertel" (textile district citizens' action). 32 neighbors were invited to tour the facility. The objective was to enter into a dialog with the citizens' initiative and foster familiarity with the site. A similar project was initiated in Norrköping/Sweden, where the aim was to establish good and trusting relations. Here, a group of 15 neighbors was invited to the plant to learn about the products and technology. In future, this group will meet with representatives of Freudenberg Household Products three times a year.

With regard to the current financial year, Freudenberg Household Products expects to see substantial sales growth, particularly as a result of the Hailo and O'Cedar acquisitions which will show to full advantage.

The new "Rapid AttrActive" and "Ultramat" floor cleaning equipment will also contribute to this growth. Targeted investment at the Norrköping and Augsburg facilities will improve production cost structure, offsetting the effects of a strong Euro.

**www.vileda.com**

Spray and wipe – the vileda® Rapid AttrActive is a totally new way of convenient wet cleaning

# Specialties and Others Business Area

In 2003, the Specialties and Others Business Area comprised the Business Groups Klüber Lubrication (Specialty Lubricants), Freudenberg Building Systems and Freudenberg IT as well as the Divisions Freudenberg Systems and Tool Engineering, Freudenberg Research Services and Freudenberg Service Support. In 2003, the Business Area reported sales totaling 673 million Euro with a workforce of 4,600.

A new Business Group called Freudenberg Chemical Specialities comprising Klüber Lubrication, Chem-Trend and the specialty lubricant producer OKS was set up following the acquisition of the release agents manufacturer Chem-Trend at the end of February 2004.

Keeping the world turning –
with Klüber lubricants

Pasquale Nappo, Group Manager Production,
Klüber Lubrication München KG

# Klüber Lubrication (Specialty Lubricants)

It would be appropriate to say that, although much has changed in the Specialties Business Area over the past months, Klüber remains Klüber.

Freudenberg purchased the Munich-based specialty lubricant producer OKS, with the deal backdated to July 1, 2003. OKS, which has sales of approximately 10 million Euro and a workforce of around 50, specializes in lubricants for maintenance and thus ideally complements Klüber business. Negotiations with the US release agents manufacturer Chem-Trend of Howell/Michigan, which also began in the second half of 2003, were concluded in February 2004. Chem-Trend has sales of some 95 million Euro and a workforce of 400. These three companies joined up at the beginning of 2004 to form the new Freudenberg Chemical Specialities Business Group. They will continue to operate independently on the market under their respective names. The figures quoted throughout this section refer to 2003 and therefore only apply to Klüber Lubrication.

There was a global downturn in consumption of lubricants in 2003. The trend towards specialties continued, while at the same time competition became stiffer. The result was growing price pressure and persistent consolidation in the industry. Under these conditions, Klüber once again produced a good performance and won market shares. The innovative global niche strategy is proving its worth and has led to particularly strong growth in some market segments such as the textile industry and automotive technology.

In the USA, Klüber opened a new facility in Manchester/New Hampshire and expanded the manufacture of lubricant greases. In Mexico, a new plant in Querétaro was completed.

In Munich, the shell of the new Technology Center has been completed and inauguration of the building is scheduled for August 2004. During the year under review, development work at Klüber Lubrication focused on the automotive division. At pre-product level, Klüber Lubrication is working on research projects concerning nanotechnology.

At Klüber, the "We all take care" initiative generated 60 activities, 15 of which participated in the company's internal competition. There was a drastic cut in the number of accidents per 1,000 employees from 12.2 to 7.

During the current financial year, the structures for the Freudenberg Chemical Specialities lead company will be put in place. Klüber continues to see above-average prospects for growth in Asia and North America and will be expanding the sales organization in both markets. Chem-Trend will expand its world market leadership in release agents through reinforced growth in Europe and Asia. OKS will push ahead with internationalization. Overall, the new Business Group expects to see positive business developments during the current financial year.

**www.klueber.com**
**www.fcs-munich.com**

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 280.8 | 261.6 | 7.3 % |
| Workforce* | 1,570 | 1,473 | 6.6 % |

*Dec. 31

An anti-friction bearing is only as good as its lubricant: Klüber Lubrication offers product diversity and service

# Freudenberg Building Systems

nora® floorcovering in the Düsseldorfer Stadttor building

There is always a sense of expectation and excitement in the run-up to a major event. In the case of Freudenberg Building Systems, the event in question was the launch of the new collection of nora® rubber floorcoverings. In cooperation with Pentagram, the prestigious London-based design agency, the company developed a unique color strategy to streamline the range without curbing the creative potential for architects. Throughout almost the whole of 2003, working groups and workshops devoted their attention to the new range catering for customer tastes on different markets around the world.

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 142.4 | 145.4 | -2.1 % |
| Workforce* | 940 | 920 | 2.2 % |

*Dec. 31

**Divisions:**
Construction, Shoe Components

For Freudenberg Building Systems, developments on most relevant markets in 2003 were negative. In Germany and some other European countries, activity in the construction industry declined by as much as 10 percent. The Shoe Components Division, which primarily produces orthopedic technology products, struggled with the effects of health reform measures in Germany. Here, too, the market shrank. Freudenberg Building Systems could not entirely escape the general downward trend: even though some markets continued to grow, sales were approximately 2 percent lower than the previous year. Adjusted for exchange rate effects, there was a rise of the same order, and the relative position on key markets was improved or preserved.

As its contribution to the "We all take care" initiative, Freudenberg Building Systems launched a health and wellness project aimed at achieving a substantial cut in the sickness absence rate by improving working conditions. 180 associates from production talked about their working environment in moderated group discussions under the first stage of the project. The greatest potential for improvement was identified in the areas relating to the "behavior of superiors", the "immediate working environment" and "organization". The first measures to remedy the critical points have now been initiated. Numerous measures introduced following an occupational safety audit resulted in a 40 percent year-on-year reduction in the number of accidents at work. Finally, the environmental impact was reduced by adapting the cooling water system; as a result, 250,000 $m^3$ of well water are now saved annually with a corresponding cut in water treatment plant throughput.

Freudenberg Building Systems cannot see a glimmer of hope in the German construction industry for the current financial year. Although no growth momentum is expected on some European markets, Freudenberg Building Systems is nevertheless optimistic about prospects for these markets, as well as developments in the USA. High growth is expected to continue in China, while expectations for the remaining Asian markets are somewhat subdued.

With regard to shoe components, Freudenberg Building Systems places its hopes in exports and orthopedic technology products. Overall, the company expects to see a slight improvement compared with 2003.

**www.nora.com**

# Freudenberg IT

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 48.8 | 51.6 | -5.4 % |
| Workforce* | 352 | 361 | -2.5 % |

*Dec. 31

**Divisions:**
ADICOM, Hosting, IT-Consulting

Freudenberg IT is going international. In fall 2003, the IT service provider incorporated a US subsidiary and opened offices in Plymouth/Michigan and Durham/South Carolina. The company sees good market opportunities from its new locations at the hub of the automotive industry and in the high-tech region of Durham, where a computer centre is to be opened. Further expansion is planned for Asia in 2005.

In 2003, the market for IT services in Germany was characterized by an unwillingness to invest on the part of many companies. This resulted in predatory competition which led to low prices in outsourcing and consulting business and heralded a wave of consolidation among IT service providers, where the main casualties were medium-sized enterprises. Freudenberg IT was able to expand external business through a range of measures. However, as several large projects for Freudenberg companies came to an end, Freudenberg IT nevertheless faced a decline in sales of some 5 percent. Business with companies outside the Freudenberg Group now accounts for some 50 percent of sales.

Freudenberg IT's contribution to the "We all take care" initiative included driving safety training for 25 associates.

For the current financial year, Freudenberg IT expects to see the market pick up slightly. The company will continue to expand external business in this demanding environment.

**www.f-it.com**

# Freudenberg Service Support

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 121.2 | 116.2 | 4.3 % |
| Workforce* | 853 | 833 | 2.4 % |

*Dec. 31

Freudenberg Service Support has begun training young people again, providing a training service for other Freudenberg companies at the Weinheim location. The company took over responsibility for training from Freudenberg Systems and Tool Engineering effective September 1, 2003. That was the day when 101 young people started work for the very first time at Freudenberg in Weinheim. Freudenberg is thus one of the largest training companies along the "Bergstraße" (Mountain Road) in Germany.

Freudenberg Service Support provides technical services and operates the Freudenberg Group industrial sites in Weinheim and Neuenburg. The Industrial Technology Department offers its customers comprehensive solutions for the erection and relocation of machinery, plant and the associated infrastructure. Freudenberg Service Support earns some 88 percent of its sales from business with other companies in the Group.

Freudenberg Service Support came up with 9 projects for the "We all take care" initiative. One particularly interesting project is the development of a comprehensive, cost-effective concept for an electrical system for safety measurements on stationary plant and machinery. Thanks to this concept, machine downtimes have been shortened and the number of safety checks expanded.

For the current financial year, Freudenberg Service Support intends to increase the share of sales accounted for by companies that do not belong to the Freudenberg Group in order to stabilize the general sales situation.

**www.fse-kg.de**

The automated data archive system of Freudenberg IT

# Freudenberg Research Services

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 23.4 | 23.1 | 1.1 % |
| Workforce* | 221 | 215 | 2.8 % |

*Dec. 31

**Divisions:**
Services, Development, Patents, Brands & Information

Freudenberg Research Services accounts for some 6 percent of the approximately 140 million Euro earmarked for research and development at Freudenberg. However, the company's significance in terms of R&D is much larger. Freudenberg Research Services is the technology "nerve center" of the Group, developing materials, manufacturing technologies, methods and products on commission from Group companies. Some 10 percent of total sales come from companies outside the Freudenberg Group. Under a young researchers program, Freudenberg Research Services recruits university graduates in scientific and technical disciplines who then move to other companies in the Group after a three-year period.

Sales growth of just over 1 percent in the 2003 financial year is almost exclusively due to an increase in business with companies outside the Freudenberg Group.

Under the "We all take care" initiative, Freudenberg Research Services conducted a holistic risk assessment for safety at all workplaces in line with EU Directives.

Freudenberg Research Services expects a slight rise in sales for the current financial year. However, it is difficult to anticipate whether the forecast economic upswing will have an effect on the volume of internal development contracts at Freudenberg. Freudenberg Research Services expects to see a further rise in sales from business with external customers.

**www.ffd-kg.de**

# Freudenberg Systems and Tool Engineering

| | 2003 | 2002 | Change |
|---|---|---|---|
| Sales [million €] | 44.7 | 40.1 | 11.4 % |
| Workforce* | 392 | 443 | -11.5 % |

*Dec. 31

**Divisions:**
Tool Engineering, System Engineering, Information Technology and Automation

Freudenberg Systems and Tool Engineering is primarily an internal service provider, building systems and tools for companies in the Freudenberg Group. The company therefore possesses know-how that does not allow unrestricted activities in the marketplace. For this reason, the Management Board of Freudenberg & Co. decided that the present (internal) key customers should participate in the company. There have therefore been several changes: the new shareholders are Freudenberg Seals and Vibration Control Technology, Freudenberg Nonwovens and Freudenberg-NOK General Partnership. Operative business of the former Dutch subsidiary PL Tooling ceased on June 30, 2003 and the Training Subdivision has been taken over by Freudenberg Service Support. These changes explain the 11.5 percent drop in the workforce.

The reorganization did not have a negative impact on sales, which rose 11.4 percent to just under 45 million Euro.

Freudenberg Systems and Tool Engineering introduced an occupational health and safety management system pursuant to OHSAS 18001 at the Laudenbach facility, adapting the entire management documentation structure and communicating the new system to associates.

**www.faw-freudenberg.de**

# People and Responsibility

From its tradition Freudenberg derives a special responsibility for the people who work for the company and who live in the neighborhood of Freudenberg facilities as well as for the environment. The company feels a commitment not only to its shareholders but to other stakeholders as well. This commitment is anchored in the Group's Business Principles and the Guiding Principles, which state: "... we are devoted to our employees' well-being and personal development ... The professional advancement of its staff is a traditional concern in the Freudenberg Group, and a crucial factor in its success. Special priority is accordingly attached to staff training, and to international staff exchange schemes ... Our company and its family shareholders together are committed to protecting the environment and being responsible corporate citizens in all countries and communities in which we do business. We take all possible care to ensure the safety of the workplace and of our products."

Freudenberg's commitment to associates, the environment and the community has a long tradition which can be traced back to well before the present discussion on "corporate social responsibility" and standards for sustainability reporting.

Due to the decentralized organizational structure, this commitment has a local focus. Activities range from support for university research institutions to assistance for social institutions in the communities where Freudenberg associates live, and are always very closely linked to the local and regional situation. Most of the activities described in this section refer to Germany. They serve to illustrate Freudenberg's commitment and lay no claim to completeness, with the exception of the references to HR figures, occupational safety and environmental certification.

Gunter Wolk, electrical professions instructor,
Freudenberg Service KG
Rebecca Hepp, apprentice
Christian Nicklas, apprentice

Teaming up for success – intercultural team at Freudenberg

# Human Resources and Social Responsibility

We would like to thank all our employees for their loyalty to the company, their dedication and their hard work to strengthen and enhance the competitiveness and esteem of the Freudenberg Group. They have made a valuable contribution to safeguarding existing jobs and creating new ones.

On December 31, 2003 the Freudenberg Group employed 28,479 associates, 786 more than the previous year. The payroll increase is primarily due to first full consolidation of Freudenberg Politex Nonwovens backdated to January 1, 2003 (+318) and the acquisition of Alucon/Hailo (+98) and O'Cedar (+305). Due to a management buy-out, the workforce at O'Cedar – with the exception of 33 associates – is only temporarily included in the Freudenberg payroll statistics. Running at 1,265 million Euro, personnel expenses remained almost unchanged (2002: 1,264 million Euro). Social security contributions and costs of pensions and assistance accounted for 265 million Euro of this sum, representing an increase of 12 million Euro on the previous year.

Europe (excluding Germany) accounted for the largest rise in the number of employees. Here, the payroll rose by 445 to 7,957. In Germany, Freudenberg had 66 fewer associates than the previous year. With 11,375 employees, Germany is still by far the region with the largest workforce. The increase in payroll in North America was 249 (total: 6,874), while the rise in Central and South America was 96 (total: 896). In Asia, Freudenberg employed 1,148 associates, an increase of 62.

The comparatively small number of employees in Asia is due to the partnership strategy, particularly with NOK and JVC in Japan, where Freudenberg holds minority interests. The workforce of these companies is not consolidated in the Group's statement of accounts.

**High number of trainees**
In 2003, more than 500 young people were training at Freudenberg's German companies; of these, 150 began their training in September. The spectrum of training ranges from a two-year commercial or technical course to dual studies at a university of cooperative education. Freudenberg has acquired a reputation for the high standard of its training, as is confirmed by the fact that some neighboring companies located in Weinheim send their young people to Freudenberg for training.

**Welfare services and institutions for employees**
Employee pension schemes in the Freudenberg Group comprise both defined contribution schemes and defined benefit schemes. Defined-contribution pension plans have no obligations other than the payment of contributions. Contributions paid are expensed under personnel expenses and totaled 2.4 million Euro for fiscal 2003. Net pension obligations for the year under review rose by 6 million Euro to 319 million Euro.

Furthermore, the company provides welfare services concerning housing support and a relief fund for employees of Carl Freudenberg KG successor companies. In 2003, the housing support fund set up in 1949 assisted 33 employees in purchasing or building residential property by granting direct loans. 348 consultations were conducted by the independent real estate financing service. 63 loans relating to residential properties with a total volume of 540,000 Euro were granted to associates from the drawdown residential properties loan agreement. The housing fund also provides advice to associates who wish to save through a savings and loan agreement and arranges special acquisition fee terms. In the year under review, 468 residential property loan agreements for a total of 6.7 million Euro were concluded. Assistance has been provided for some 13,000 properties since the institution was first set up.

Unterstützungskasse Freudenberg e.V. (Freudenberg relief fund) provides hardship assistance to employees. Payments are voluntary and are usually granted in exceptional circumstances such as sickness, disability or other acute hardship. Apart from financial assistance, the relief fund also offers employees assistance in dealing with various welfare problems, including a weekly debt counseling surgery. In 2003, hardship relief totaling 227,560 Euro was granted in 360 cases.

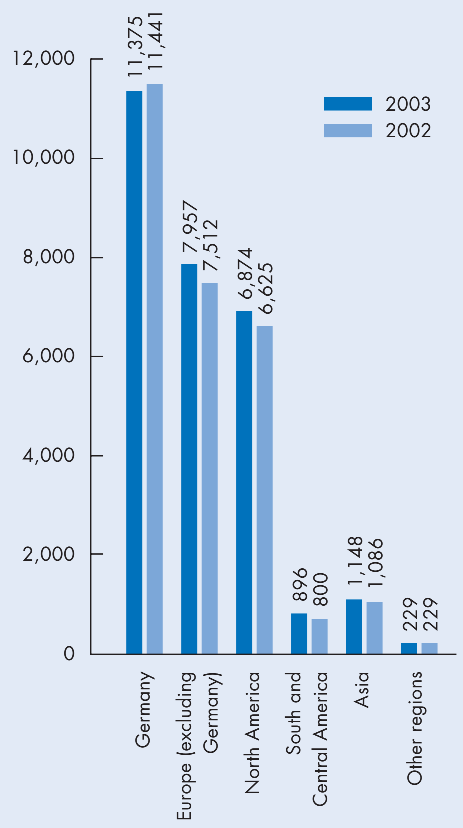
**The TANNER youth exchange scheme**

The TANNER youth exchange scheme was launched in 1999 to mark the occasion of the company's 150th anniversary. It offers employees' children and grandchildren the opportunity to encounter new cultures by staying for between two and four weeks with the family of another employee in a foreign country. Terror warnings as well as the SARS epidemic in Asia thwarted several visits. Nevertheless, 67 (2002: 75) young people stayed with host families in 2003.

**The Freudenberg Stiftung**

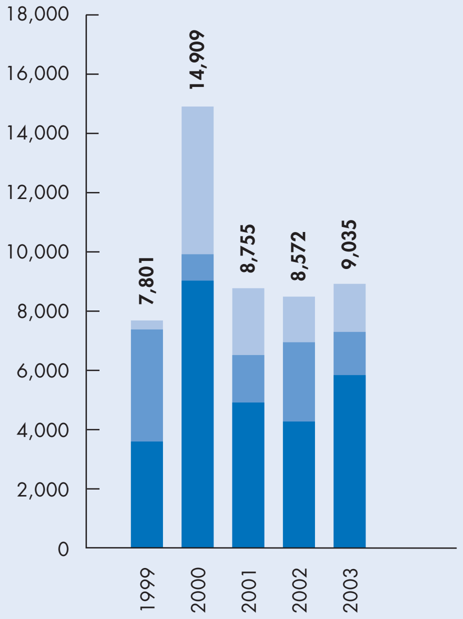
The Freudenberg Stiftung was founded in 1984 when members of the Freudenberg family transferred shares in the company valued at 5.2 million Euro to a non-profit foundation. According to the statutes of the foundation, the returns on its capital are used to promote science, the humanities and education as well as strengthening peaceful coexistence in the community. Each year, the foundation awards grants of some two million Euro to projects concerned with cultural minorities, youths who have finished school but not yet started work, and work for the mentally ill. In addition, the Freudenberg Stiftung plays a central role in the civis media awards. The civis Media Award for German Radio and Television was initiated by the German Federal Government Commissioner for Migration, Refugees and Integration, together with the ARD public broadcasting network spearheaded by Westdeutscher Rundfunk, and the Freudenberg Stiftung. The Award honors radio and TV programs that speak up for cultural diversity and respect for others and denounce racism and cultural exclusion in Germany. The Award has now been extended to include the civis europe European Television Award and the civis Youth Video Award.

**Workforce by regions**

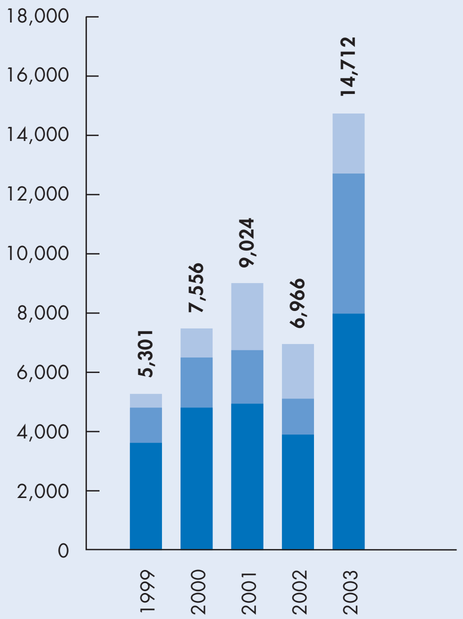


# Environmental Protection and Occupational Safety

**Net investment in environmental protection (thousand Euro)**




**Net investment in occupational safety (thousand Euro)**




expenditure
integrated technology
investment

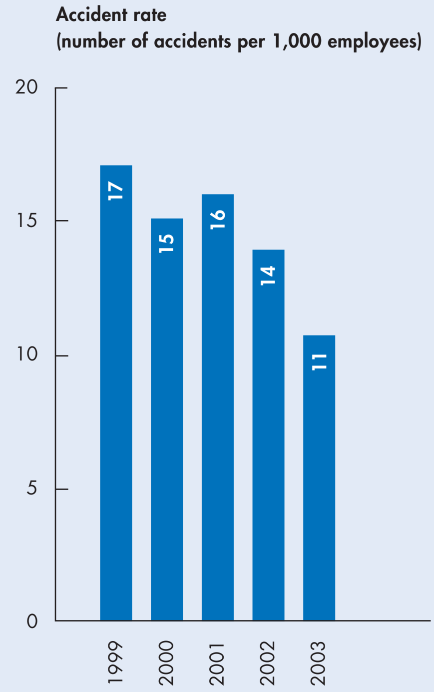
In 2003, investment in occupational safety by the Freudenberg Group ran at 15 million Euro, more than double the prior-year figure (2002: 7 million). At 9 million Euro, investment in environmental protection was approximately half a million Euro higher than 2002.

**The "We all take care" initiative**

The "We all take care" initiative provides ongoing confirmation of Freudenberg's commitment to environmental protection and occupational safety. The initiative was launched at the "Dialog 2002" meeting of Freudenberg top management from all over the world. The goal is to bring the "Responsibility" Guiding Principle to life. Progress has already been made in this respect, as the substantial 24 percent cut in the accident rate for 2003 confirms. During the year under review, the six HSE (Health, Safety, Environment) Groups began their work on the themes of the initiative: safe materials, product safety, environmental protection and facility risks, safety culture, machine safety and health as a managerial task. Each of these Groups will become a competence center for its theme, forming a network throughout the Freudenberg Group and launching projects in the Business Areas. The beginning of 2003 also saw the start of a global communication campaign at all Freudenberg sites publicizing the initiative and initiating projects. Posters, leaflets, articles in all staff and site magazines as well as information on the FIX portal, the Group-wide intranet, introduced associates to the initiative in 19 languages and encouraged them to participate. People at Freudenberg are being motivated to support "We all take care" and to bring the improvement process forward.

Freudenberg Group sites reported a total of 274 environmental protection and occupational health projects under the "We all take care" initiative during 2003. Each Business Group and all HSE Groups presented an award in their specific field. A jury then selected the four winners of the "Freudenberg We all take care Award" from these projects.

The 1st prize was awarded to Korea Vilene Company in Pyungtaek for the "Daily safety-man" project, where one associate each day is nominated as safety representative. The task is to locate unsafe machines, unsafe working conditions and unsafe behavior and to take appropriate action. The 2nd prize went to Freudenberg Research Services in Weinheim for holistic risk assessment at the workplace. The 3rd prize was conferred on two winners: the Reichelsheim facility of Freudenberg Seals and Vibration Control Technology for developing an adjustable safety bar on mills and to Vibracoustic for its health at work project.




**Substantial cut in the accident rate**
The “We all take care” initiative triggered a drop in the number of accidents at work resulting in more than three days’ absence: the accident rate (number of accidents per 1,000 employees) fell from 14.1 in 2002 to 10.7. The total number of accidents therefore fell by 24 percent to 305. The German sites were particularly successful: here, the accident rate fell to 7.3, below the company’s internal interim target of less than 10 for the first time.

However, the number of serious accidents cast a shadow on this pleasing development. This figure rose from 13 to 15 in the year under review, with one fatal accident. Every serious accident is reported in detail to the Management Board. The main accident causes are identified and global minimum standards for occupational safety with a view to achieving a substantial cut in these numbers have been established. Furthermore, it has been decided to introduce an occupational health and safety management system pursuant to OHSAS 18001 at all sites. 9 facilities have already been certified.

**Eco-audit at 70 percent of all sites**
By the end of 2003, 88 sites in the Freudenberg Group had been certified to ISO 14001, representing 70 percent of all production facilities. Referred to sites operated by Freudenberg alone, the share of certified sites rises to 77 percent. However, the target to certify all sites to ISO 14001 by the end of 2003 could not be met.

**Environmental impact and prevention strategy**
The raw materials and processes used to manufacture products have a varying impact on the environment and the workplace. At Freudenberg, processes for making nonwovens and rubber products play the largest role.

It is a fundamental principle in the Freudenberg Group to avoid using critical materials where possible. If their use is unavoidable to comply with technical specifications, special precautions must be taken. Risk assessment for the various materials differs from country to country. Freudenberg has therefore developed an approach that satisfies the company’s own standards as well as meeting local market requirements. A list of substances has been drawn up and is available to development engineers and chemicals safety experts worldwide via the intranet.

In 2003, many sites again gave high priority to using non-critical substances only. This is an important aspect of sustainable development in the Freudenberg Group. The network set up by the “Safe Materials” HSE Group will reinforce this process.

Anna Reinhardt, Process Engineer,
Freudenberg NOK Mechatronics KG

# Innovation

In 2003, Freudenberg Group expenditure in research and development totaled 140 million Euro. This represents a slight increase on the previous year (138 million Euro). A comparison of the figures for 1999 and 2003 shows that Freudenberg has increased expenditure in research and development by some 30 million Euro. During the year under review, 1,969 associates were employed in research and development throughout the Freudenberg Group, compared with 1,841 in the previous year.

**Innovation offensive launched**

The ability for permanent innovation is of vital importance to the Freudenberg Group. The Management Board therefore introduced an innovation offensive in 2003 aimed at initiating specific measures, particularly in the fields of communication and methods. The "Innovation Forum" is a series of events to identify and enhance possible synergy potential among the Business Groups. The target groups for these Innovation Forums are research and development managers and other associates who can contribute to improving the innovation process. The host Business Group presents its innovations at the event. Each event is complemented by a Developers Roundtable, an informal communication platform for all associates from research and development and associated departments. The developers generally meet on the evening of the Innovation Forum. In December 2003, Freudenberg Research Services presented over 50 projects at the first Innovation Forum.

In 2003, the parent company Freudenberg & Co. issued the first invitation to an exchange of experience among several Business Groups aimed at bringing the methods competence of innovation management systems already in place in some Business Groups into play in a Group-wide context. This exchange of experience will be extended and continued during the current year.

**Participation in R+D support programs**

Freudenberg has filed several proposals under the 6th Framework Programme for Research and Technological Development (2002 – 2006) of the European Union. In 2003, applications in the subject fields of fuel cell technology filed by Freudenberg Fuel Cell Components Technology and microsystems filed by Freudenberg Mektec passed evaluation by the EU expert committees and have qualified for consultations with the EU concerning research support. The projects are classified as medium- to long-term innovative technological development and have a duration of four years.

2003 was characterized by the strained financial situation in Germany which had a direct impact on research support from the Federal Ministry of Education and Research. Funds from the Ministry for a Freudenberg Research Services nanotechnology project were only granted after a protracted delay. Under this project, Freudenberg Research Services will simultaneously work on several topics put forward by various Business Groups over a three-year period.

**Freudenberg NOK Mechatronics**

Freudenberg NOK Mechatronics is a technology development company set up by the long-standing partners Freudenberg and NOK to adapt and focus present knowledge of flexible printed-circuit board integration technology. This technology is a combination of large-area flexible printed-circuit boards and diverse materials such as seals, or nonwoven, plastic and metal supports. The integration of diodes, switches, sensors and electronics creates an intelligent wiring technology. Activities focus on developing technologies, materials and products to integrate 3D intelligent electronics in mechanical systems such as seat, cockpit, door and roof modules. The company developed as planned in 2003. A pilot plant will be completed in 2004 and production of the first series will commence.

**www.fnm-kg.de**

**Freudenberg Fuel Cell Components Technology**

Freudenberg Fuel Cell Components Technology was established to bundle the various activities of Freudenberg companies in the field of fuel cells. Together with the partners NOK, JVC and FNGP, the company is working on innovative products allowing the combination of traditional Freudenberg technologies and novel fuel cell technology. The global team develops components such as fuel cell seals, gas diffusion layers and filters based on nonwovens. Activities are developing as planned.

**Freudenberg Venture Capital**

Freudenberg Venture Capital identifies companies on the market with the technology and know-how to enhance existing Freudenberg products or to generate new products in cooperation with Freudenberg. Freudenberg Venture Capital provides such companies with risk capital and supports them in realizing their projects. 177 enquiries were processed in 2003, 33 of which were jointly reviewed with Business Groups. Freudenberg Venture Capital is conducting intensive discussions with two partners.

**www.freudenberg-venture.de**

# Consolidated Financial Statements

# Consolidated Balance Sheet as at December 31, 2003

| [ million € ] | Note | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|---|
| | | | |
| **Assets** | | | |
| Intangible assets | | 264.0 | 235.7 |
| Tangible assets | | 1,252.6 | 1,266.1 |
| Financial assets | | 281.2 | 267.6 |
| **Fixed assets** | (1) | **1,797.8** | **1,769.4** |
| Inventories | (2) | 599.0 | 598.3 |
| Trade receivables | (3) | 621.8 | 619.2 |
| Miscellaneous receivables and other assets | (3) | 173.7 | 173.3 |
| Securities and cash at bank and in hand | (4) | 36.7 | 178.6 |
| **Current assets** | | **1,431.2** | **1,569.4** |
| **Prepayments and deferred charges** | | **10.1** | **10.4** |
| **Deferred taxes** | | **37.3** | **31.2** |
| | | **3,276.4** | **3,380.4** |
| | | | |
| **Equity and liabilities** | | | |
| Partners' capital | | 250.0 | 250.0 |
| Retained earnings | | 1,253.0 | 1,189.6 |
| **Partners' equity** | (5) | **1,503.0** | **1,439.6** |
| **Minority interests** | (5) | **116.5** | **145.3** |
| Provisions for pensions | (6) | 330.6 | 333.2 |
| Other provisions | (7) | 307.1 | 284.3 |
| **Provisions** | | **637.7** | **617.5** |
| Financial debt | | 458.0 | 613.4 |
| Trade payables | | 273.3 | 281.0 |
| Other liabilities | | 194.4 | 193.0 |
| **Liabilities** | (8) | **925.7** | **1,087.4** |
| **Deferred income** | | **5.3** | **4.8** |
| **Deferred taxes** | | **88.2** | **85.8** |
| | | **3,276.4** | **3,380.4** |

# Consolidated Income Statement

from January 1 to December 31, 2003

| [ million € ] | Notes | 2002 | 2003 |
|---|---|---|---|
| Sales | | 3,917.8 | 3,867.0 |
| Changes in inventories of finished goods, work in progress and own work capitalized | (9) | 6.7 | 26.5 |
| **Gross performance** | | **3,924.5** | **3,893.5** |
| Other operating income | (10) | 141.9 | 141.4 |
| Material expenses | (11) | -1,583.6 | -1,604.0 |
| Personnel expenses | (12) | -1,264.3 | -1,264.9 |
| Depreciation and amortization of tangible and intangible fixed assets | | -202.3 | -208.1 |
| Other operating expenses | (13) | -759.6 | -766.6 |
| **Profit from operations** | | **256.6** | **191.3** |
| Financial result | (14) | -11.1 | -6.8 |
| **Profit before income taxes** | | **245.5** | **184.5** |
| Income taxes | (15) | -93.7 | -76.3 |
| Minority interests | (16) | -14.8 | -15.0 |
| **Consolidated profit** | | **137.0** | **93.2** |
| *Partners' taxes* | *(17)* | *-22.0* | *-1.6* |

# Cash Flow Statement

| [ million € ] | 2002 | 2003 |
|---|---|---|
| | | |
| Consolidated profit | 137.0 | 93.2 |
| Minority interests in profits/losses | 14.8 | 15.0 |
| Depreciation on fixed assets less write-ups | 202.6 | 207.8 |
| Changes in provisions | 11.1 | -6.6 |
| Other expenditure and income not affecting payment | -10.6 | -20.0 |
| Profit on disposal of fixed assets | -10.1 | -8.7 |
| Changes in inventories, trade receivables and other assets | -45.5 | -20.0 |
| Changes in trade payables and other liabilities | 55.8 | 6.5 |
| **Cash flow from operating activities** | **355.1** | **267.2** |
| | | |
| Cash inflow from disposals of tangible and intangible fixed assets | 26.2 | 19.3 |
| Cash outflow for acquisition of tangible and intangible fixed assets | -243.6 | -242.9 |
| Cash flow from investments in and disposal of financial assets | 1.6 | 27.6 |
| Cash flow from acquisition and disposal of consolidated companies | -70.8 | -24.8 |
| **Cash flow from investing activities** | **-286.6** | **-220.8** |
| | | |
| Payments to partners and minority shareholders | -66.6 | -50.5 |
| Changes in financial debt | -35.8 | 147.3 |
| Cash flow from changes in loans and securities held as fixed assets | -0.1 | 0.0 |
| **Cash flow from financing activities** | **-102.5** | **96.8** |
| | | |
| **Changes in cash and cash equivalents with effect on payments** | **-34.0** | **143.2** |
| Changes in cash and cash equivalents from changes in consolidated companies | 0.7 | 0.1 |
| Changes in cash and cash equivalents from exchange rate differences | -2.5 | -2.3 |
| **Cash and cash equivalents at beginning of year** | **72.3** | **36.5** |
| **Cash and cash equivalents at end of year** | **36.5** | **177.5** |
| Securities held as current assets | 0.2 | 1.1 |
| **Total liquid assets** | **36.7** | **178.6** |

# Development of Partners' Equity

including minority interests

| [ million € ] | Partners' capital | Retained earnings | *of which exchange rate differences* | Partners' equity | Minority interests | Partners' equity and minority interests |
|---|---|---|---|---|---|---|
| **at January 1, 2002** | **250.0** | **1,298.9** | ***-22.2*** | **1,548.9** | **147.7** | **1,696.6** |
| Consolidated profit | | 137.0 | | 137.0 | 14.8 | 151.8 |
| Appropriation of profit | | -51.6 | | -51.6 | -3.2 | -54.8 |
| Exchange rate differences | | -122.7 | *-122.7* | -122.7 | -16.0 | -138.7 |
| Derivative financial instruments | | 6.1 | | 6.1 | | 6.1 |
| Other changes | | -14.7 | | -14.7 | -26.8 | -41.5 |
| **at December 31, 2002** | **250.0** | **1,253.0** | ***-144.9*** | **1,503.0** | **116.5** | **1,619.5** |
| | | | | | | |
| Consolidated profit | | 93.2 | | 93.2 | 15.0 | 108.2 |
| Appropriation of profit | | -29.9 | | -29.9 | -8.7 | -38.6 |
| Exchange rate differences | | -111.7 | *-111.7* | -111.7 | -15.2 | -126.9 |
| Derivative financial instruments | | -5.1 | | -5.1 | | -5.1 |
| Other changes | | -9.9 | | -9.9 | 37.7 | 27.8 |
| **at December 31, 2003** | **250.0** | **1,189.6** | ***-256.6*** | **1,439.6** | **145.3** | **1,584.9** |

# Statement of Changes in Fixed Assets

| [ million € ] | Intangible assets | Tangible assets | Financial assets | Total |
|---|---|---|---|---|
| **Acquisition/production cost** | | | | |
| **Status Jan. 1, 2003** | **448.6** | **2,954.8** | **75.4** | **3,478.8** |
| Changes in consolidated companies | 10.6 | 119.4 | 15.9 | 145.9 |
| Exchange rate differences | -27.2 | -165.0 | -0.3 | -192.5 |
| Additions | 18.5 | 238.6 | 9.0 | 266.1 |
| Write-ups/revaluations | 2.8 | 5.2 | 0.0 | 8.0 |
| Disposals | -11.5 | -134.3 | -11.1 | -156.9 |
| Reclassifications | 1.1 | -6.4 | -1.0 | -6.3 |
| **Status Dec. 31, 2003** | **442.9** | **3,012.3** | **87.9** | **3,543.1** |
| **Depreciation** | | | | |
| **Status Jan. 1, 2003** | **184.6** | **1,702.2** | **0.6** | **1,887.4** |
| Changes in consolidated companies | 1.8 | 75.3 | 13.1 | 90.2 |
| Exchange rate differences | -9.3 | -95.1 | -0.2 | -104.6 |
| Additions - systematic | 34.1 | 165.3 | 0.0 | 199.4 |
| Impairment losses | 4.4 | 4.3 | 0.0 | 8.7 |
| Write-ups/revaluations | 0.8 | 0.0 | 0.1 | 0.9 |
| Disposals | -8.8 | -109.9 | 0.0 | -118.7 |
| Reclassifications | -0.4 | 4.1 | 0.0 | 3.7 |
| **Status Dec. 31, 2003** | **207.2** | **1,746.2** | **13.6** | **1,967.0** |
| **Accumulated equity adjustment** | **0.0** | **0.0** | **193.3** | **193.3** |
| **Book value Dec. 31, 2003** | **235.7** | **1,266.1** | **267.6** | **1,769.4** |
| Book value Jan. 1, 2003 | 264.0 | 1,252.6 | 281.2 | 1,.797.8 |

# Notes to the Consolidated Financial Statements

**General**
The consolidated financial statements of Freudenberg & Co. Kommanditgesellschaft, Weinheim, for 2003 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) effective at the balance sheet date. The statements are in accordance with the directives of the European Union concerning group accounting. Comparative figures for the previous financial year were based on the same principles.
As Freudenberg & Co. Kommanditgesellschaft (referred to below as "Freudenberg & Co.") is a partnership, it does not meet the requirements of Section 292a of the German Commercial Code concerning exemption. Freudenberg & Co. therefore also draws up and publishes financial statements in accordance with the German Commercial Code.
The Group currency is the Euro. All amounts are indicated in million Euro.

**Companies included in the consolidation**
Apart from Freudenberg & Co., 77 German and 173 foreign companies in which Freudenberg & Co. directly or indirectly holds a majority of the voting rights or the financial and business policy of which Freudenberg & Co. has the right to determine in accordance with articles of association or contracts are fully consolidated in the consolidated financial statements.

In addition, 7 German and 29 foreign companies have been consolidated by the pro-rata method. Their overall effect on the consolidated financial statements is not significant.

In accordance with the stipulations concerning associated companies, 3 German and 10 foreign companies are shown in the consolidated financial statements.

12 German and 11 foreign companies have not been included because they are only of minor importance.

The main shareholdings of the Freudenberg Group are listed on pages 69–71.

In the year under review, 23 companies were included in the consolidated financial statements as fully consolidated affiliates for the first time. 9 companies which had previously been **fully consolidated** were no longer included as a result of sale, liquidation or merger. The timing of the initial consolidation was determined on the basis of the date when the Freudenberg Group started to exercise financial control.

Apart from an increase in the number of companies as a result of the establishment of new companies and spin-offs, the Freudenberg stake in the Politex group was raised by 8.48 %. As a result, the 7 Politex companies, which had previously been consolidated by the pro-rata method, were fully consolidated with effect from January 1, 2003.

The **pro-rata method** was applied for the consolidation of 2 companies for the first time in 2003. 2 companies were merged with another company consolidated by the pro-rata method. As already mentioned, the 7 companies of the Politex group were fully consolidated.

With 3 additions and 3 disposals, the number of **associated companies** remained the same compared with the preceding year.

The changes in consolidated companies did not significantly affect the assets, liabilities, financial position or earnings of the Group.

**Consolidation methods**
The acquisition costs of the shareholdings concerned are set off against the pro-rata share in the fair value of the equity capital of the companies concerned as of the date of acquisition according to the purchase method. Assets and liabilities are also included in the consolidated balance sheet at their fair values as of the acquisition date. Any remaining differences are shown as goodwill and generally written off over a period of 15 years.

Intercompany profits and losses, sales, expenses and income and all receivables and payables between consolidated companies are eliminated. Deferred taxation is assessed on consolidation transactions affecting net income.

Joint venture companies are consolidated on a pro-rata basis using the same principles.

The equity values calculated for associated companies are based on the revaluation method. In such cases, adjustments have been made to individual accounts to reflect differences from the valuation methods used in the consolidated financial statements where such adjustments could be determined at reasonable cost. Intercompany profits were insignificant in the case of these companies.

The differences arising from the acquisition of shareholdings in associated companies form part of the book value of the shareholding in the associated company concerned. Such differences are principally written off as goodwill over a period of 15 years. Depreciation of the differences is included in the accumulated equity adjustment.

**Accounting and valuation principles**
The consolidated financial statements are based on the annual accounts of Freudenberg & Co. and the consolidated companies. All the annual accounts concerned were drawn up as of December 31, 2003.

In accordance with IAS 27, the accounts of the individual companies to be included in the consolidated financial statements have been drawn up applying uniform accounting and valuation methods.

The requirement for the reversal of the impairment of assets has been complied with both for fixed and for current assets. Unless individual standards call for a different valuation, the updated acquisition or production cost represents the upper limit of valuation in such cases.

Borrowing costs are not capitalized as part of acquisition or production cost.

Acquired intangible assets are capitalized at acquisition cost and depreciated on a systematic basis.

Systematic depreciation is based on the following useful lives:

| | |
|---|---|
| Software | 3-8 years |
| Patents and licenses | depending on contract term |
| Goodwill | generally 15 years |

In the income statement, depreciation on capitalized goodwill is shown under depreciation of tangible and intangible assets.

Internally generated intangible assets are carried as assets at production cost and depreciated in a systematic fashion over their useful lives, provided that such assets meet the requirements of IAS 38.

Tangible assets are capitalized at acquisition or production cost. In the case of assets produced by Group companies, production cost also includes directly attributable cost as well as pro-rata overheads and depreciation.

Expenditure for repairs and maintenance is generally shown as expenses. Such expenditure is only capitalized if it results in an extension or significant improvement in the asset concerned.

Movable fixed assets and industrial buildings are depreciated in accordance with actual use. This approach normally corresponds to straight-line depreciation.

Systematic depreciation is effected on the basis of the following useful lives:

| | |
|---|---|
| Industrial buildings | max. 50 years |
| Machinery and equipment | 5 to 25 years |
| Other fixtures, fittings and office equipment | 4 to 20 years |

In addition, an impairment loss is recognized if the net selling price or value in use of an asset falls below the book value. If the impairment of an asset reflected by a write-down in the past is reduced or eliminated, the impairment loss is reversed. The updated acquisition or production cost represents the upper limit of valuation in such cases.

Taxable grants and tax-free investment subsidies received in connection with fixed assets, normally paid by public bodies, are set off against acquisition or production costs.

In accordance with IAS 17, fixed assets leased under finance leases are recognized as assets and written off over their economic useful life if substantially all the risks and rewards associated with the ownership of the leased asset lie with the lessee. Such assets are carried at the fair value of the leased asset at the inception of the lease or, if lower, at the present value of the minimum lease payments. A liability of the same amount is also shown on the balance sheet.

In the case of operating leases, lease payments are recognized as expenses.

Shares in non-consolidated affiliated companies and other participations are shown at acquisition cost or at amortized cost.

Shares in associated companies are stated at their updated pro-rata equity values.

Interest-free and low-interest loans are shown at their discounted values.

Inventories are shown at Group acquisition or production cost using the permitted simplification procedures or at the market value, where this is lower. Manufacturing cost includes directly attributable costs as well as production and material overheads and depreciation. Where necessary, adjustments are made to reflect lower sales market prices.

Receivables and other assets are recognized at amortized cost, which is approximately equivalent to the fair value of the assets concerned. Interest-free receivables with terms of more than one year are shown at their discounted values. Foreign-currency receivables are converted using the exchange rate as of the balance sheet date.

In principle, securities carried as fixed or current assets are available for disposal. Such securities are therefore recorded at the market value as of the balance sheet date. Value changes are shown under partners' equity with no effect on net income.

Cash at bank or in hand is shown at its nominal value.

Partners' equity is shown following the appropriation of profit by the parent company.

Provisions for pensions are determined by the projected unit credit method using actuarial principles, taking into account future income and pension adjustments.

Deferred taxes are calculated on temporary differences between the tax balance sheets of individual companies and the consolidated balance sheet, taking into account the applicable national income tax rates valid on the date of realization and already in force on the balance sheet date. In addition, deferred tax assets are recognized for losses carried forward if it is likely that such losses will be usable by the company. Deferred tax assets and liabilities are only set off against each other in cases where the taxes concerned are charged and collected by the same tax authority and concern the same period.

The other provisions allow for all recognizable risks and uncertain obligations towards third parties which will probably result in an outflow of resources which can be reliably estimated. Such provisions are recognized at their most probable settlement value and discounted if they concern long-term risks and obligations and the amount of such discount is significant. Reimbursement rights in this connection are shown separately under other assets.

Liabilities are shown at their face value or at the repayment or settlement value, where this is higher. Long-term liabilities are discounted if the amount of such discount is significant. Liabilities repayable in foreign currencies are shown at the exchange rate as of the balance sheet date.

The term “financial instrument” is used to refer to any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. A distinction is made between primary and derivative financial instruments.

Regular purchase or sale is recognized at the settlement date, i.e. the delivery of the asset concerned. In the event of the loss of control over the contractually agreed rights to a financial asset, the asset concerned is derecognized. Financial liabilities are removed from the balance sheet when the obligation is discharged or cancelled, or expires.

Sales and other operating income are recognized at the fair value of the consideration received or receivable when the services are performed or the goods or products concerned are delivered.

The cash flow statement is broken down into cash flows from operating, investing and financing activities. Effects arising from changes in the group of consolidated companies and the effects of exchange rate fluctuations have been eliminated from the cash flow statement. The influence of these effects on the amount of funds at hand is indicated separately. The liquidity shown in the cash flow statement includes cash on hand, checks and cash at banks plus securities held as current assets.

**Currency translations**
In the accounts of individual companies, foreign currency receivables and liabilities are translated at the exchange rates as of the balance sheet date. Currency translation differences amounting to -3.2 million Euro (2002: 4.5 million Euro) are shown in the income statement.

The restatement of financial statements in accordance with IAS 29 was not necessary as the Group has no major subsidiaries located in hyperinflationary economies.

In the consolidated financial statements, the financial statements of all companies not located in the Eurozone are translated in accordance with the following principles:

- Balance sheet items are translated at the middle rate as of the balance sheet date.
- Income statement items are translated at average annual exchange rates.
- Differences arising from the use of different exchange rates for the balance sheet and the income statement are recognized with no effect on net income.

Differences arising from the translation of net assets at exchange rates differing from those effective at the end of the previous year are set off against equity capital without any effect on net income.

The exchange rates of major currencies used for currency conversion developed as follows:

| Country | Currency | Closing rate | | Average exchange rate | |
|---|---|---|---|---|---|
| | | Dec. 31, 2002 | Dec. 31, 2003 | 2002 | 2003 |
| Argentina | ARS | 3.5260 | 3.7004 | 3.1141 | 3.3661 |
| Brazil | BRL | 3.7112 | 3.6439 | 2.8709 | 3.4781 |
| Great Britain | GBP | 0.6502 | 0.7070 | 0.6295 | 0.6932 |
| Japan | JPY | 124.1900 | 134.8500 | 118.0980 | 131.7390 |
| USA | USD | 1.0415 | 1.2610 | 0.9506 | 1.1419 |

Differences arising from the use of different exchange rates compared with the previous year are shown in the “Statement of Changes in Fixed Assets” with respect to fixed assets and in the “Development of Partners' Equity” with respect to equity.

## (1) Fixed assets

### Intangible assets

| [ million € ] | Concessions and licences | Goodwill | Advance payments made | Total |
|---|---|---|---|---|
| **Acquisition/production cost** | | | | |
| **Status Jan. 1, 2003** | **120.5** | **322.3** | **5.8** | **448.6** |
| Changes in consolidated companies | 9.0 | 1.6 | 0.0 | 10.6 |
| Exchange rate differences | -5.5 | -21.1 | -0.6 | -27.2 |
| Additions | 13.6 | 0.9 | 4.0 | 18.5 |
| Write-ups/revaluations | 0.0 | 2.8 | 0.0 | 2.8 |
| Disposals | -9.6 | 0.0 | -1.9 | -11.5 |
| Reclassifications | 4.6 | -2.4 | -1.1 | 1.1 |
| **Status Dec. 31, 2003** | **132.6** | **304.1** | **6.2** | **442.9** |
| **Depreciation** | | | | |
| **Status Jan. 1, 2003** | **62.2** | **120.3** | **2.1** | **184.6** |
| Changes in consolidated companies | 1.8 | 0.0 | 0.0 | 1.8 |
| Exchange rate differences | -2.1 | -6.8 | -0.4 | -9.3 |
| Additions – systematic | 15.7 | 18.4 | 0.0 | 34.1 |
| Impairment losses | 2.9 | 1.5 | 0.0 | 4.4 |
| Write-ups/revaluations | 0.0 | 0.8 | 0.0 | 0.8 |
| Disposals | -8.8 | 0.0 | 0.0 | -8.8 |
| Reclassifications | -0.3 | -0.1 | 0.0 | -0.4 |
| **Status Dec. 31, 2003** | **71.4** | **134.1** | **1.7** | **207.2** |
| **Book value Dec. 31, 2003** | **61.2** | **170.0** | **4.5** | **235.7** |
| Book value Jan. 1, 2003 | 58.3 | 202.0 | 3.7 | 264.0 |

**Tangible assets**

| [ million € ] | Land and buildings | Machinery and equipment | Other fixtures, fittings and office equipment | Payments made on account | Work in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition/production cost** | | | | | | |
| **Status Jan. 1, 2003** | **676.7** | **1,719.9** | **500.2** | **14.4** | **43.6** | **2,954.8** |
| Change in consolidated companies | 25.5 | 87.7 | 5.2 | 0.2 | 0.8 | 119.4 |
| Exchange rate differences | -35.5 | -107.0 | -17.9 | -0.2 | -4.4 | -165.0 |
| Additions | 22.0 | 104.9 | 42.3 | 26.8 | 42.6 | 238.6 |
| Write-ups/revaluations | 5.2 | 0.0 | 0.0 | 0.0 | 0.0 | 5.2 |
| Disposals | -7.7 | -69.2 | -55.2 | -0.7 | -1.5 | -134.3 |
| Reclassifications | 0.0 | 29.6 | 11.4 | -15.4 | -32.0 | -6.4 |
| **Status Dec. 31, 2003** | **686.2** | **1,765.9** | **486.0** | **25.1** | **49.1** | **3,012.3** |
| **Depreciation** | | | | | | |
| **Status Jan. 1, 2003** | **278.3** | **1,048.2** | **375.7** | **0.0** | **0.0** | **1,702.2** |
| Change in consolidated companies | 6.9 | 64.9 | 3.5 | 0.0 | 0.0 | 75.3 |
| Exchange rate differences | -12.0 | -69.6 | -13.5 | 0.0 | 0.0 | -95.1 |
| Additions – systematic | 19.9 | 103.8 | 41.6 | 0.0 | 0.0 | 165.3 |
| Impairment losses | 0.0 | 4.3 | 0.0 | 0.0 | 0.0 | 4.3 |
| Write-ups/revaluations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | -2.6 | -55.0 | -52.3 | 0.0 | 0.0 | -109.9 |
| Reclassifications | 0.0 | 0.0 | 4.1 | 0.0 | 0.0 | 4.1 |
| **Status Dec. 31, 2003** | **290.5** | **1,096.6** | **359.1** | **0.0** | **0.0** | **1,746.2** |
| **Book value Dec. 31, 2003** | **395.7** | **669.3** | **126.9** | **25.1** | **49.1** | **1,266.1** |
| Book value Jan. 1, 2003 | 398.4 | 671.7 | 124.5 | 14.4 | 43.6 | 1,252.6 |

Government grants totaling 3.8 million Euro (2002: 3.5 million Euro) for tangible assets are netted against acquisition costs.

## Leased assets (finance leases)

Leased assets are posted as follows under tangible fixed assets:

| [ million € ] | Land and buildings | Other fixed assets | Total |
|---|---|---|---|
| **Acquisition/production cost** | | | |
| **Status Jan. 1, 2003** | **29.3** | **5.5** | **34.8** |
| Change in consolidated companies | 0.0 | 0.0 | 0.0 |
| Exchange rate differences | -0.3 | 0.0 | -0.3 |
| Additions | 0.7 | 3.2 | 3.9 |
| Write-ups/revaluations | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | -1.1 | -1.1 |
| Reclassifications | -2.2 | -0.1 | -2.3 |
| **Status Dec. 31, 2003** | **27.5** | **7.5** | **35.0** |
| **Depreciation** | | | |
| **Status Jan. 1, 2003** | **5.0** | **3.5** | **8.5** |
| Change in consolidated companies | 0.0 | 0.0 | 0.0 |
| Exchange rate differences | 0.0 | 0.0 | 0.0 |
| Additions – systematic | 1.1 | 3.0 | 4.1 |
| Impairment losses | 0.0 | 0.0 | 0.0 |
| Write-ups/revaluations | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | -0.9 | -0.9 |
| Reclassifications | -0.1 | -0.1 | -0.2 |
| **Status Dec. 31, 2003** | **6.0** | **5.5** | **11.5** |
| **Book value Dec. 31, 2003** | **21.5** | **2.0** | **23.5** |
| Book value Jan. 1, 2003 | 24.3 | 2.0 | 26.3 |

The finance lease contracts were concluded at arms-length business conditions. Such leases normally include purchase options. The lease contracts do not provide for any contingent rent payments or restrictions.

The operating leases do not provide for any significant purchase or extension options or restrictions.

| [ million € ] | Up to 1 year | 1 to 5 years | Over 5 years | Total Dec. 31, 2002 | Up to 1 year | 1 to 5 years | Over 5 years | Total Dec. 31, 2003 |
|---|---|---|---|---|---|---|---|---|
| **Finance leases** | | | | | | | | |
| Minimum lease payments | 3.3 | 9.4 | 14.9 | 27.6 | 2.5 | 9.8 | 9.9 | 22.2 |
| Discount | 0.8 | 2.9 | 3.2 | 6.9 | 0.8 | 2.5 | 1.3 | 4.6 |
| Present value | 2.5 | 6.5 | 11.7 | 20.7 | 1.7 | 7.3 | 8.6 | 17.6 |
| | | | | | | | | |
| **Operating leases** | | | | | | | | |
| Minimum lease payments | 15.8 | 23.6 | 5.9 | 45.3 | 21.0 | 25.2 | 6.0 | 52.2 |

Minimum lease payments totaling 15.3 million Euro (2002: 14.4 million Euro) were recognized as other operating expenses with an effect on net income.

## Financial assets

| [ million € ] | Shares in affiliated companies | Loans to affiliated companies | Shares in associated companies | Other participations | Securities held as fixed assets | Other loans | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition/production cost** | | | | | | | |
| **Status Jan. 1, 2003** | **1.4** | **0.0** | **42.6** | **18.9** | **4.0** | **8.5** | **75.4** |
| Change in consolidated companies | 0.5 | 0.1 | 0.0 | 14.8 | 0.6 | -0.1 | 15.9 |
| Exchange rate differences | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 | 0.0 | -0.3 |
| Additions | 1.4 | 0.0 | 4.3 | 2.4 | 0.1 | 0.8 | 9.0 |
| Write-ups/revaluations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | -1.0 | 0.0 | -5.9 | 0.0 | -0.4 | -3.8 | -11.1 |
| Reclassifications | -0.4 | 0.0 | 0.0 | 0.0 | -0.9 | 0.3 | -1.0 |
| **Status Dec. 31, 2003** | **1.9** | **0.1** | **41.0** | **36.0** | **3.2** | **5.7** | **87.9** |
| **Depreciation** | | | | | | | |
| **Status Jan. 1, 2003** | **0.1** | **0.0** | **0.0** | **0.1** | **0.4** | **0.0** | **0.6** |
| Change in consolidated companies | 0.1 | 0.0 | 0.0 | 13.0 | 0.0 | 0.0 | 13.1 |
| Exchange rate differences | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 | 0.0 | -0.2 |
| Impairment losses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Write-ups/revaluations | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reclassifications | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Status Dec. 31, 2003** | **0.2** | **0.0** | **0.0** | **13.0** | **0.4** | **0.0** | **13.6** |
| **Accumulated equity adjustment** | **0.0** | **0.0** | **193.3** | **0.0** | **0.0** | **0.0** | **193.3** |
| **Book value Dec. 31, 2003** | **1.7** | **0.1** | **234.3** | **23.0** | **2.8** | **5.7** | **267.6** |
| Book value Jan. 1, 2003 | 1.3 | 0.0 | 249.0 | 18.8 | 3.6 | 8.5 | 281.2 |

**(2) Inventories**

Inventories break down as follows:

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Raw materials and consumables | 163.8 | 164.4 |
| Work in progress | 60.4 | 64.4 |
| Finished goods and merchandise | 372.6 | 365.5 |
| Payments made on account | 2.2 | 4.0 |
| | **599.0** | **598.3** |

As of the balance sheet date, write-down of inventories totaled 67.3 million Euro (2002: 53.7 million Euro).

Inventories with a book value of 184.1 million Euro are shown on the balance sheet at the lower market value as the net selling price was below the acquisition or production cost.

Only insignificant write-ups were effected on inventories in accordance with the statutory requirements.

The inventories shown are not subject to any significant restrictions on title or disposal.

**(3) Receivables and other assets**

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Trade receivables | 621.8 | 619.2 |
| (of which with a residual term of more than 1 year) | (0.6) | (0.7) |
| Accounts receivable from affiliated companies | 7.3 | 6.7 |
| (of which with a residual term of more than 1 year) | (–) | (–) |
| Accounts receivable from associated companies | 19.5 | 6.4 |
| (of which with a residual term of more than 1 year) | (–) | (0.8) |
| Accounts receivable from other companies in which an investment is held | 2.8 | 4.0 |
| (of which with a residual term of more than 1 year) | (–) | (–) |
| Other assets | 144.1 | 156.2 |
| (of which with a residual term of more than 1 year) | (24.1) | (16.9) |
| Miscellaneous receivables and other assets | 173.7 | 173.3 |
| | **795.5** | **792.5** |

The slight fall in receivables and other assets is mainly the result of exchange rate changes.
The other assets include tax claims in the amount of 44.3 million Euro (2002: 44.9 million Euro) and pension plan assets in excess of the pension obligations of the pension plans concerned totaling 14.2 million Euro (2002: 17.7 million Euro).
The claims for reimbursement in connection with recognized provisions, which are included in other assets, are shown in the list of provisions.

### (4) Securities and cash at bank and in hand

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Securities | 0.2 | 1.1 |
| Checks, cash in hand and cash at Bundesbank | 2.1 | 1.6 |
| Cash at banks | 34.4 | 175.9 |
| | **36.7** | **178.6** |

The increase in cash at banks is mainly due to the take-up of loans secured by borrower's note with a total value of 150.0 million Euro.

### (5) Partners' equity and minority interests

The development of partners' equity and minority interests is shown on page 42.

**Partners' capital** consists of:

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| General partners' capital | – | – |
| Limited partners' capital | 250.0 | 250.0 |
| | **250.0** | **250.0** |

**Retained earnings** consist of:

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Non-distributable partners' reserves | 417.9 | 417.9 |
| Group reserves | 835.1 | 771.7 |
| | **1,253.0** | **1,189.6** |

Non-distributable partners' reserves remain unchanged because the appropriation of profit to partners' reserves in accordance with the Partnership Agreement was offset by withdrawals and transfers in the same amount. The fall in Group reserves was chiefly due to exchange rate effects.

**Minority interests**

Minority interests include the shares of third parties outside the Freudenberg Group in the equity capital of consolidated subsidiaries following adjustment to the accounting principles of the Freudenberg Group. The increase in minority interests from 116.5 million Euro in 2002 to 145.3 million Euro in 2003 is mainly the result of the acquisition of further shares in the Freudenberg Politex Nonwovens Group which was previously consolidated by the pro-rata method and has been fully consolidated since 2003.

**(6) Provisions for pensions**

The provisions for pensions mainly concern German companies. This item includes obligations arising from current pensions and future pension entitlements.
The Freudenberg Group pension scheme consists of both defined contribution and defined benefit pension plans. In the case of the defined contribution plans, there are no additional obligations apart from the payment of contributions. Contributions paid are expensed under personnel expenses and amounted to 2.4 million Euro in 2003 (2002: 1.7 million Euro).

The value of provisions for defined benefit plans was calculated on actuarial principles by the projected unit credit method. For the German companies, a discount rate of 5.5 percent (2002: 5.75 percent) and a pension increase trend of 2 percent (2002: 2 percent) were taken into account. The assumed trend in salaries and wages had no effect on the value of pension obligations. In the case of the foreign companies, these assumptions were adapted to reflect conditions in the country concerned in each case.

Actuarial gains and losses are recognized as expenses if they exceed 10 per cent of the greater of the present value of pension obligations and the fair value of the pension plan assets (the "corridor" approach). The amount in excess of this figure is expensed over the average remaining working lives of the workforce.

Net pension obligations are shown in the following items of the balance sheet:

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Provisions for pensions | 330.6 | 333.2 |
| Other assets | -17.7 | -14.2 |
| **Net pension obligations** | **312.9** | **319.0** |

Net pension obligations are calculated as follows:

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Present value of externally funded pension obligations | 204.9 | 208.7 |
| Fair value of plan assets | -162.1 | -172.1 |
| **Deficit** | **42.8** | **36.6** |
| Present value of unfunded pension obligations | 324.3 | 338.2 |
| Unrecognized actuarial gains/losses | -53.1 | -53.2 |
| Unrecognized past service cost | -1.1 | -2.6 |
| **Net pension obligations** | **312.9** | **319.0** |

In the reporting year, net pension obligations developed as follows:

| [ million € ] | 2002 | 2003 |
|---|---|---|
| **Net pension obligations at Jan. 1** | **325.7** | **312.9** |
| Change in consolidated companies/reclassifications | -9.8 | -4.2 |
| Exchange rate differences | -2.2 | 1.1 |
| Pension expenses | 27.0 | 36.2 |
| Pension payments/contributions to pension plan | -27.8 | -27.0 |
| **Net pension obligations at Dec. 31** | **312.9** | **319.0** |

Pension expenses consist of the following components:

| [ million € ] | 2002 | 2003 |
|---|---|---|
| Current service cost | 10.3 | 13.7 |
| Interest cost | 24.7 | 29.7 |
| Expected return on plan assets | -9.2 | -13.2 |
| Net actuarial gain/loss recognized | 0.0 | 4.6 |
| Past service cost | 1.1 | 1.6 |
| Losses/gains on curtailment and settlement | 0.1 | -0.2 |
| **Total pension expenses** | **27.0** | **36.2** |

Pension expenses are included in personnel expenses in the income statement.

The actual return on pension plan assets was 9.4 million Euro (2002: 8.2 million Euro).

### (7) Other provisions

Other provisions break down as follows:

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Tax provisions | 56.0 | 34.9 |
| Other provisions | 251.1 | 249.4 |
| | **307.1** | **284.3** |

**Other provisions**

| [ million € ] | Provisions for personnel obligations | Provisions for warranties, guarantees and contractual losses | Provisions for rebates, bonuses and commissions | Miscellaneous provisions | Total |
|---|---|---|---|---|---|
| **Status at Jan. 1, 2003** | **125.6** | **25.6** | **10.1** | **89.8** | **251.1** |
| Increases/accumulation of interest | 75.3 | 13.0 | 16.1 | 38.5 | 142.9 |
| Amounts used | 58.1 | 15.4 | 9.4 | 37.8 | 120.7 |
| Reversal | 3.2 | 1.3 | 0.5 | 11.2 | 16.2 |
| Other changes | 0.2 | 0.2 | 0.2 | -8.3 | -7.7 |
| **Status at Dec. 31, 2003** | **139.8** | **22.1** | **16.5** | **71.0** | **249.4** |
| Reimbursement rights connected with provisions and shown in the balance sheet under other assets | 0.1 | 0.0 | 0.0 | 0.8 | 0.9 |

The other provisions include provisions of a long-term nature totaling 51.9 million Euro.

The provisions for personnel obligations mainly include provisions for holiday pay, partial retirement, social security contributions and other long-term personnel provisions.

**(8) Liabilities**

| [ million € ] | Residual term up to 1 year | Residual term 1-5 years | Residual term more than 5 years | Dec. 31, 2002 | Residual term up to 1 year | Residual term 1-5 years | Residual term more than 5 years | Dec. 31, 2003 |
|---|---|---|---|---|---|---|---|---|
| Liabilities to banks (= financial debt) | 71.1 | 20.7 | – | 91.8 | 50.8 | 28.2 | 152.8 | 231.8 |
| Other financial debt *incl. leasing* | 12.6 | 6.5 | 11.7 | 30.8 | 6.4 | 7.3 | 8.6 | 22.3 |
| Partners' accounts *) | 66.3 | 269.1 | – | 335.4 | 81.4 | 277.9 | – | 359.3 |
| **Financial debt** | **150.0** | **296.3** | **11.7** | **458.0** | **138.6** | **313.4** | **161.4** | **613.4** |
| **Trade payables** | **273.3** | **–** | **–** | **273.3** | **281.0** | **–** | **–** | **281.0** |
| Advance payments received on orders | 2.0 | – | – | 2.0 | 3.6 | – | – | 3.6 |
| Liabilities to subsidiaries | – | – | – | – | 1.7 | – | – | 1.7 |
| Liabilities to associated companies | 5.9 | 1.1 | – | 7.0 | 7.2 | 0.3 | – | 7.5 |
| Liabilities to other companies in which an investment is held | 1.5 | – | – | 1.5 | 1.6 | – | – | 1.6 |
| Miscellaneous liabilities | 136.8 | 42.1 | 5.0 | 183.9 | 158.2 | 19.3 | 1.1 | 178.6 |
| (of which for tax) | | | | (31.0) | | | | (44.6) |
| **Other liabilities** | **146.2** | **43.2** | **5.0** | **194.4** | **172.3** | **19.6** | **1.1** | **193.0** |
| | **569.5** | **339.5** | **16.7** | **925.7** | **591.9** | **333.0** | **162.5** | **1,087.4** |

The increase in liabilities to banks was chiefly due to taking up loans secured by borrower's note.

Liabilities to banks with a total amount of 1.5 million Euro (2002: 1.2 million Euro) were secured by charges on real estate or other security. Only tangible assets were used as security.

The average interest rate on long-term liabilities to banks was 3.42 percent (2002: 4.32 percent).

Other financial debt also includes bills of exchange, all of which are of a short-term nature, and liabilities in connection with finance leases. The average interest rate on these liabilities is 3.71 percent.

The interest rates applicable to partners' accounts vary between 4.0 and 6.0 percent.

*) after appropriation of profit for the year

**Contingent liabilities and other financial obligations**

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| **Contingent liabilities** | | |
| Liabilities in connection with bills | 1.7 | 2.2 |
| Liabilities in connection with guarantees | 8.6 | 5.4 |
| Liabilities in connection with warranty agreements | 2.0 | 2.0 |
| Provision of security for third-party liabilities | 0.8 | 0.8 |
| | **13.1** | **10.4** |
| **Other financial obligations** | | |
| Obligations arising from leasing contracts | 45.3 | 52.2 |
| Purchase obligations connected with intangible assets | 0.2 | 0.6 |
| Purchase obligations connected with tangible assets | 11.7 | 13.6 |

**Derivative financial instruments**
The limits of action, responsibilities and verification procedures in connection with derivative financial instruments are laid down in a binding form in internal directives for Group companies. In particular, financial futures and derivatives must not be used for speculative purposes but only for hedging risks in connection with underlying transactions and associated financing operations. Hedging is restricted to transaction risks.

Derivative financial instruments for hedging recognized assets or liabilities are shown in the balance sheet at fair value. Changes in the fair value are recorded in the income statement. Financial instruments for hedging future cash flow are also stated in the balance sheet at fair value, but changes in the fair value of such instruments are recognized without effect on net income under retained earnings, taking into consideration the applicable taxes on income. Such changes are recognized in the income statement when the underlying transactions concerned are effected.

Freudenberg & Co. uses derivative financial instruments for hedging interest rate, currency and interest rate, and foreign exchange risks.

The face value of derivatives entered into for interest rate hedging was 240.0 million Euro (2002: – million Euro). As at December 31, 2003, the negative net fair value of these derivatives was 3.1 million Euro (2002: – million Euro).

These derivatives were used for hedging against increases in interest rates, which have reached a historic low.

The face value of derivatives entered into for currency and interest rate risk was 16.8 million Euro (2002: 90.1 million Euro).

The positive net fair value of these instruments as of December 31, 2003 was 4.8 million Euro (2002: 2.9 million Euro). As of December 31, 2003, the face value of currency futures concluded for hedging foreign exchange risks and still open was 47.6 million Euro (2002: 17.3 million Euro). All these transactions were conventional currency futures. The positive net fair value of these instruments as of December 31, 2003 was 0.3 million Euro (2002: 2.5 million Euro).

Of the total volume of derivatives, 84.4 percent (2002: 16.1 percent) had a term of more than one year.

The following positive and negative fair values of derivative financial instruments are included in other assets and other liabilities respectively:

| [ million € ] | Dec. 31, 2002 | Dec. 31, 2003 |
|---|---|---|
| Other assets | | |
| Fair value hedges | 2.5 | 5.1 |
| Cash flow hedges | 2.9 | 0.5 |
| Other liabilities | | |
| Cash flow hedges | 0.0 | 3.6 |

Interest rate risks mainly arise in the case of long-term items. There are no significant risks as a result of changes in interest rates.

# Notes to the Income Statement

### (9) Changes in inventories of finished goods and work in progress and other own work capitalized

| [ million € ] | 2002 | 2003 |
|---|---|---|
| Change in inventories of finished goods and work in progress | -7.9 | 9.1 |
| Other own work capitalized | 14.6 | 17.4 |
| | **6.7** | **26.5** |

### (10) Other operating income

Other operating income mainly concerns income from the reversal of provisions, from the disposal of financial assets and from miscellaneous business. Currency and exchange rate gains totaling 53.0 million Euro (2002: 44.1 million Euro) are also included.
In addition, this position includes income from the reversal of write-downs to receivables in the amount of 2.0 million Euro (2002: 2.3 million Euro).

### (11) Material expenses

| [ million € ] | 2002 | 2003 |
|---|---|---|
| Raw materials, consumables and merchandise purchased | 1,427.8 | 1,436.2 |
| Services purchased | 155.8 | 167.8 |
| | **1,583.6** | **1,604.0** |

### (12) Personnel expenses

| [ million € ] | 2002 | 2003 |
|---|---|---|
| Wages and salaries | 1,011.1 | 999.6 |
| Social security contributions and costs of pensions and assistance | 253.2 | 265.3 |
| | **1,264.3** | **1,264.9** |

### (13) Other operating expenses

Other operating expenses mainly concern expenses for outward carriage and other selling expenses, sales promotion, repairs and maintenance, travel expenses and outsourced services. Currency and exchange rate losses totaling 60.4 million Euro (2002: 44.0 million Euro) are also included. The position includes write-downs to receivables amounting to 7.9 million Euro (2002: 6.3 million Euro).

## (14) Financial result

| [ million € ] | 2002 | 2003 |
|---|---|---|
| Income from investments in associated companies | 13.7 | 24.5 |
| Result from investments in other companies | 0.6 | -0.1 |
| Write-downs of financial assets | -0.3 | – |
| **Income from investments** | **14.0** | **24.4** |
| Income from other securities and investments held as fixed assets | 0.7 | 0.3 |
| Other interest and similar income | 8.0 | 6.0 |
| Interest and similar expenses | -33.8 | -37.5 |
| **Interest result** | **-25.1** | **-31.2** |
| **Financial result** | **-11.1** | **-6.8** |

Interest expenses include interest on partners' accounts totaling 20.2 million Euro (2002: 19.2 million Euro).

## (15) Income tax

This item shows German corporation and municipal trade taxes and similar taxes on income payable in other countries.

The figure also includes deferred taxes on temporary differences between the tax balance sheets and commercial balance sheets of individual companies, on adjustments to uniform valuation within the Group and on consolidation transactions.

Deferred taxes are calculated at the tax rates applicable in the countries concerned.

Income taxes break down as follows:

| [ million € ] | 2002 | 2003 |
|---|---|---|
| Current taxes related to the reporting period | 84.4 | 64.3 |
| Current taxes related to other periods | 9.7 | 2.5 |
| Deferred taxes | -0.4 | 9.5 |
| | **93.7** | **76.3** |

Deferred tax expenses relating to changes in tax rates amounted to -0.5 million Euro (2002: deferred tax income of 0.1 million Euro).

Deferred taxes totaling -1.5 million Euro (2002: -2.5 million Euro) concern transactions recognized directly under partners' equity.

As of December 31, 2003, tax losses carried forward amounted to 186.7 million Euro (2002: 141.4 million Euro). Deferred tax assets totaling 6.9 million Euro (2002: 6.9 million Euro) were recognized in respect of losses carried forward. Deferred tax assets were not recognized in respect of losses carried forward with a total amount of 179.8 million Euro (2002: 134.6 million Euro) as it is not expected that these losses will be usable.

In the reporting year, tax losses carried forward totaling 9.6 million Euro (2002: 4.0 million Euro) for which no deferred tax assets had been recognized were used.

Deferred taxes concern temporary differences in individual balance sheet items and tax losses carried forward with the following amounts:

| | **Dec. 31, 2002** | | **Dec. 31, 2003** | |
|---|---|---|---|---|
| [ million € ] | **Deferred tax assets** | **Deferred tax liabilities** | **Deferred tax assets** | **Deferred tax liabilities** |
| Intangible assets | 3.4 | 0.9 | 5.1 | 0.7 |
| Tangible assets | 3.5 | 136.0 | 2.9 | 117.8 |
| Financial assets | 2.8 | 5.8 | 0.1 | 3.5 |
| Inventories | 14.4 | 1.1 | 10.4 | 0.8 |
| Receivables | 5.9 | 3.4 | 4.6 | 4.6 |
| Other current assets | 0.3 | 4.6 | 0.3 | 0.2 |
| Provisions for pensions | 21.1 | 2.2 | 12.3 | 2.7 |
| Other provisions | 28.3 | 0.0 | 24.0 | 0.9 |
| Liabilities | 22.8 | 1.7 | 18.1 | 1.5 |
| Other liability items | 1.3 | 0.3 | 1.7 | 3.4 |
| Tax losses carried forward | 1.3 | – | 2.0 | – |
| | **105.1** | **156.0** | **81.5** | **136.1** |
| Offsetting | -67.8 | -67.8 | -50.3 | -50.3 |
| **Balance sheet amount** | **37.3** | **88.2** | **31.2** | **85.8** |

**Reconciliation of expected income tax expense with actual income tax expense**
Freudenberg & Co. and its German subsidiaries are subject to the municipal trade tax on income. In addition, many German subsidiaries registered as corporations (rather than as partnerships) are subject to corporation tax. Income realized in other countries is taxed at the rates applicable in the countries concerned. The figure of 35 percent (2002: 32 percent) used for calculating the expected tax expense is based on the structure of the Freudenberg Group relevant for taxation.

| [ million € ] | | 2002 | 2003 |
|---|---|---|---|
| Profit before income tax | | 245.5 | 184.5 |
| **Expected income tax expense** | | **-78.6** | **-64.6** |
| Different tax rates | – in Germany | -2.8 | -4.7 |
| | – in other countries | -10.0 | 5.8 |
| Tax portion of: | – non-taxable income | 13.7 | 10.3 |
| | – non-deductible expenses | -10.5 | -18.2 |
| Prior-period tax expense | | -9.7 | -2.5 |
| Tax claims | | – | 5.4 |
| Other taxation effects | | 4.2 | -7.8 |
| **Actual income tax expense** | | **-93.7** | **-76.3** |
| Effective tax rate (percent) | | 38.2 | 41.4 |

## (16) Minority interests

| [ million € ] | 2002 | 2003 |
|---|---|---|
| Profit | -15.9 | -15.4 |
| Loss | 1.1 | 0.4 |
| | **-14.8** | **-15.0** |

## (17) Partners' taxes

In accordance with a mandatory requirement of IFRS, taxes on the profits of Freudenberg Group companies attributable to the partners in Freudenberg & Co. are **not** recognized as tax expense for the current year but are treated as a withdrawal of profit by the partners.

The Partnership Agreement places Freudenberg & Co. under an obligation to ensure the payment of taxes on the profits earned which are to be paid by the partners. The tax burden for fiscal 2003 (including deferred tax) was -1.6 million Euro (2002: -22.0 million Euro).

# Notes to the Cash Flow Statement

The cash flow from operating activities takes into account payments for taxes amounting to 88.8 million Euro (2002: 100.4 million Euro) plus interest expenditure of 37.5 million Euro (2002: 33.8 million Euro) and interest income of 6.0 million Euro (2002: 8.0 million Euro).

Payments to partners and minority shareholders include withdrawals by partners in Freudenberg & Co. and dividends paid to minority shareholders in Group companies. Payments made in connection with partners' taxes are also included.

# Further notes

The income statement for the financial year shows expenses totaling 139.8 million Euro (2002: 138.2 million Euro*) for research and development.

In the year under review, an average of 28,416 (2002: 27,728) persons were employed in the following functions:

| 2003 | Germany | Other countries | Total |
|---|---|---|---|
| Production | 6,988 | 11,641 | 18,629 |
| Sales | 1,516 | 2,413 | 3,929 |
| Research and development | 1,210 | 759 | 1.969 |
| Administration | 1,739 | 2,150 | 3,889 |
| | **11,453** | **16,963** | **28,416** |

The above figures include a pro-rata share of the employees of companies consolidated on a pro-rata basis totaling 2,498 (2002: 2,622) persons.

*) The 2002 figure for research and development expenses has been adjusted to reflect a change in cost allocation.

The total remuneration of members of the Board of Partners amounted to 0.1 million Euro (2002: 0.1 million Euro).

The total remuneration of members of the Management Board amounted to 1.7 million Euro (2002: 2.6 million Euro). Total provisions for pensions for members of the Management Board amounted to 14.4 million Euro (2002: 12.8 million Euro).

The remuneration paid to former members of the Management Board or their surviving dependants totaled 2.1 million Euro (2002: 2.6 million Euro). Total provisions for pensions for former members of the Management Board and their surviving dependants amounted to 25.4 million Euro (2002: 25.8 million Euro).

The members of the Board of Partners and Management Board of Freudenberg & Co. are listed on page 2.

In addition to their functions as members of the Management Board of Freudenberg and Co., Dr. Dr. Peter Bettermann and Dr. Hans-Jochen Hüchting are also shareholders of Freudenberg Stiftung GmbH, Weinheim.

Freudenberg Stiftung GmbH is a foundation established with the object of holding a donated participation of 5.2 million Euro (2002: 5.2 million Euro) in Freudenberg & Co. and using the income from this participation for benevolent and charitable purposes. Any surplus liquid funds held by the foundation are invested in Freudenberg & Co. at normal market conditions and the income from these funds is used for the purposes of the foundation.

The following major events after the balance sheet date took place up to March 12, 2004, when the annual report was approved for publication by the Board of Partners:

With effect from February 27, 2004, Freudenberg acquired substantial areas of business of the Burgmann group with headquarters in Wolfratshausen. The sales of this group total about 300 million Euro and the companies employ about 3,300 associates. The acquisition has added high-grade mechanical seals to the Freudenberg seals and vibration control technology range.

In addition, Freudenberg acquired the Chem-Trend group with headquarters in Howell, Michigan, USA, in February 2004. The annual sales of this group amount to about 95 million Euro, with a workforce of about 400. By acquiring the world leader in special release agents, Freudenberg has reinforced its specialities business area.

Weinheim, March 15, 2004

FREUDENBERG & CO.
KOMMANDITGESELLSCHAFT
Management Board

# Independent Auditor's Report

To Freudenberg & Co. Kommanditgesellschaft:

We have audited the consolidated financial statements, comprising the balance sheet, the income statement, notes, the statements of changes in equity and cash flows prepared by Freudenberg & Co. Kommanditgesellschaft, Weinheim, for the business year from January 1 to December 31, 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB ["Handelsgesetzbuch: German Commercial Code"] and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the consolidated financial statements are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion the consolidated financial statements give a true and fair view of the financial position of Freudenberg & Co. Kommanditgesellschaft, Weinheim, as of December 31, 2003 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Management Board for the business year from January 1 to December 31, 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group´s position and suitably presents the risks of future development.

Mannheim, March 15, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| von Hohnhorst | Weiß |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# Major Group Companies and Shareholdings

at Dec. 31, 2003

| No. | Company | Country | Share of capital (%) |
|---|---|---|---|
| **I. Affiliated companies** | | | |
| 1 | Freudenberg & Co. Kommanditgesellschaft, Weinheim | Germany | |
| | | | |
| | **Production companies, Germany** | | |
| 2 | Freudenberg Anlagen- und Werkzeugtechnik GmbH, Laudenbach | Germany | 100.00 |
| 3 | Freudenberg Bausysteme KG, Weinheim | Germany | 100.00 |
| 4 | Freudenberg Dichtungs- und Schwingungstechnik KG, Weinheim | Germany | 100.00 |
| 5 | Freudenberg Vliesstoffe KG, Weinheim | Germany | 100.00 |
| 6 | Klüber Lubrication München Kommanditgesellschaft, Munich | Germany | 100.00 |
| | | | |
| | **Production companies, other countries** | | |
| 7 | Freudenberg S.A. Telas sin Tejer, Villa Zagala | Argentina | 100.00 |
| 8 | Klüber Lubrication Benelux S.A., Dottignies | Belgium | 100.00 |
| 9 | Freudenberg Não-Tecidos Ltda. & Cia., Jacarei | Brazil | 100.00 |
| 10 | Klüber Lubrication Lubrificantes Especiais Ltda. & Cia., Barueri | Brazil | 100.00 |
| 11 | Freudenberg Politex S.A., Colmar | France | 58.48 |
| 12 | Freudenberg S.A.S., Mâcon | France | 100.00 |
| 13 | Meillor S.A., Nantiat | France | 100.00 |
| 14 | Freudenberg Nonwovens LP, Greetland | United Kingdom | 100.00 |
| 15 | Freudenberg Technical Products LP, North Shields | United Kingdom | 75.00 |
| 16 | Freudenberg Politex s.r.l., Novedrate | Italy | 58.48 |
| 17 | Klüber Lubrication Italia S.a.s. di G. Pieri, Milan | Italy | 100.00 |
| 18 | Marelli & Berta S.a.s. di H. Freudenberg, Sant´ Omero | Italy | 100.00 |
| 19 | SIMRAX B.V., Kerkrade | Netherlands | 60.00 |
| 20 | Freudenberg Simrit Kufstein Ges.m.b.H. & Co. KG, Kufstein | Austria | 100.00 |
| 21 | Klüber Lubrication Austria Ges.m.b.H., Salzburg | Austria | 100.00 |
| 22 | Freudenberg Flexibile de Frana S.R.L., Ploestil | Romania | 100.00 |
| 23 | Freudenberg Household Products A.B., Norrköping | Sweden | 100.00 |
| 24 | Freudenberg Gygli AG, Zug | Switzerland | 100.00 |
| 25 | Freudenberg España S.A., Telas sin Tejer, S.en C., Barcelona | Spain | 100.00 |
| 26 | Freudenberg Ibérica S.A., S.en C., Parets del Vallés | Spain | 100.00 |
| 27 | Klüber Lubrication GmbH Ibérica S.en C., Barcelona | Spain | 100.00 |
| 28 | Freudenberg Nonwovens (Pty.) Ltd., Cape Town | South Africa | 100.00 |
| 29 | Freudenberg Far Eastern Spunweb Comp. Ltd., Tayuan, Taoyuan | Taiwan | 60.18 |
| 30 | Tésneni a pruzne elementy k.s., Ceperka | Czech Republic | 100.00 |
| 31 | Klüber Lubrication Yaglama Ürünleri Sanayi ve Ticaret A.S., Istanbul | Turkey | 100.00 |

| No. | Company | Country | Share of capital (%) |
|---|---|---|---|
| 32 | Freudenberg-NOK General Partnership, Plymouth | USA | 75.00 |
| 33 | Freudenberg Nonwovens Limited Partnership, Durham | USA | 100.00 |
| 34 | Freudenberg Spunweb Company, Durham | USA | 100.00 |
| 35 | Klüber Lubrication North America LP, Londonderry | USA | 100.00 |
| | | | |
| | **Sales companies, Germany** | | |
| 36 | Access Textil Vertriebs GmbH, Wuppertal | Germany | 63.29 |
| 37 | Dichtomatik Vertriebsgesellschaft für technische Dichtungen mbH, Hamburg | Germany | 75.19 |
| 38 | FHP Export GmbH, Weinheim | Germany | 100.00 |
| 39 | Freudenberg Simrit KG, Weinheim | Germany | 100.00 |
| 40 | Vileda Gesellschaft mit beschränkter Haftung, Weinheim | Germany | 100.00 |
| | | | |
| | **Sales companies, other countries** | | |
| 41 | Klüber Lubrication Australia Pty. Ltd., Melbourne | Australia | 100.00 |
| 42 | FHP Vileda S.C.S., Verviers | Belgium | 100.00 |
| 43 | Freudenberg Household Products (Suzhou) Co., Ltd., Suzhou | China | 100.00 |
| 44 | Freudenberg Danmark A/S, Risskov | Denmark | 100.00 |
| 45 | Freudenberg Simrit OY, Espoo | Finland | 100.00 |
| 46 | Corteco-Meillor SAS, Nantiat - La Couture | France | 100.00 |
| 47 | Freudenberg Simrit S.A.S, Mâcon | France | 100.00 |
| 48 | FHP Hellas S.A., Kifisia-Athens | Greece | 100.00 |
| 49 | Freudenberg Household Products LP, Rochdale | United Kingdom | 100.00 |
| 50 | Klüber Lubrication China Ltd., Hong Kong | Hong Kong | 100.00 |
| 51 | Freudenberg Nonwovens India Pvt. Ltd., Mumbai | India | 100.00 |
| 52 | FHP di R. Freudenberg S.A.S., Milan | Italy | 100.00 |
| 53 | Freudenberg S.p.A., Milan | Italy | 100.00 |
| 54 | Japan Lutravil Company Ltd., Osaka | Japan | 60.18 |
| 55 | Freudenberg Household Products Inc., Boucherville (Québec) | Canada | 100.00 |
| 56 | Freudenberg Telas sin Tejer S.A. de C.V., Mexico City | Mexico | 100.00 |
| 57 | Freudenberg Simrit AS, Skytta | Norway | 100.00 |
| 58 | FHP Vileda Sp. z o.o., Warsaw | Poland | 100.00 |
| 59 | Freudenberg Simrit A.B., Stockholm | Sweden | 100.00 |
| 60 | Vileda Ibérica S.A., S.en C., Parets del Vallés | Spain | 100.00 |
| 61 | Freudenberg Simrit Kft., Budapest | Hungary | 100.00 |
| 62 | Freudenberg Building Systems Inc., Lawrence | USA | 100.00 |
| 63 | Freudenberg Household Products LP, Northlake | USA | 100.00 |

| No. | Company | Country | Share of capital (%) |
|---|---|---|---|
| | **Administration and other companies, Germany** | | |
| 64 | Carl Freudenberg KG, Weinheim | Germany | 100.00 |
| 65 | Freudenberg Beteiligungs-GmbH, Weinheim | Germany | 100.00 |
| 66 | Freudenberg Forschungsdienste KG, Weinheim | Germany | 100.00 |
| 67 | Freudenberg Haushaltsprodukte KG, Weinheim | Germany | 100.00 |
| 68 | Freudenberg IT KG, Weinheim | Germany | 100.00 |
| 69 | Freudenberg Politex Holding GmbH, Weinheim | Germany | 100.00 |
| 70 | Freudenberg Service KG, Weinheim | Germany | 100.00 |
| 71 | Handels- und Verwaltungsgesellschaft Erich Wagner & Co. (GmbH & Co.), Hamburg | Germany | 75.19 |
| | | | |
| **II. Joint ventures** | | | |
| | **Germany** | | |
| 72 | Eagle Euroseals GmbH, Hamburg | Germany | 50.00 |
| 73 | Vibracoustic GmbH & Co. KG, Weinheim | Germany | 50.00 |
| | **Other countries** | | |
| 74 | Freudenberg & Vilene Int. Ltd., Hong Kong | Hong Kong | 50.00 |
| 75 | Corfina S.p.A., Pinerolo | Italy | 50.00 |
| 76 | Korea Vilene Co., Ltd., Pyungtaek | Korea | 45.00 |
| 77 | Freudenberg Vitech L.P., Lowell | USA | 50.00 |
| | | | |
| **III. Associated companies (according to equity method)** | | | |
| | **Other countries** | | |
| 78 | Japan Vilene Company Ltd., Tokyo | Japan | 22.49 |
| 79 | NOK Corporation, Tokyo | Japan | 22.89 |

# The Freudenberg Group*

| | | | |
|---|---|---|---|
| **Parent Company**<br>Freudenberg & Co. | | | |
| **Seals and Vibration Control Technology Business Area** | **Nonwovens Business Area** | **Household Products Business Area** | **Specialties and Others Business Area** |
| **Business Groups**<br>Seals and Vibration Control Technology Europe<br>Seals and Vibration Control Technology America<br>Vibracoustic Europe<br>Burgmann Industries | **Business Groups**<br>Nonwovens<br>Freudenberg Politex Nonwovens | **Business Groups**<br>Household Products | **Business Groups**<br>Chemical Specialities<br>Building Systems<br>IT Services<br><br>**Divisions**<br>Research Services<br>Service Support |

Freudenberg is an internationally-oriented family company with a broad range of products spanning seals and vibration control components, nonwovens, mechanical household cleaning products and chemical specialities.

Most companies in the Group supply products to various branches of industry. With a share of 41 percent, the automotive industry is the largest customer grouping, followed by the general industry sector. Freudenberg has acquired a reputation as a Technology Specialist for seals and vibration control technology, holds a leading position in the field of automotive interior filters, and also supplies backing for automotive carpeting, engine compartment insulation and auto headliners. Freudenberg lubricants and release agents are used in the automotive industry and many other applications.

A further important sector for Freudenberg is the textile and clothing industry. Freudenberg nonwovens keep garments in good shape, are fitted in power station filters, separate the anode from the cathode in high-performance batteries and insulate cables. In the construction industry, Freudenberg nonwovens are used as carrier material for roofing felts or for insulation and soundproofing in metal-profile ceilings.

Some 25 percent of Freudenberg products are sold direct to final users. The best-known are household products, sold worldwide under the vileda® brand name, or the nora® brand rubber floorcoverings found in over 150 airports all over the world.

The service companies in the Freudenberg Group operate industrial parks, relocate industrial businesses and carry out research commissions. As an IT service provider, Freudenberg has over 25 years' experience in the application, operation and further development of SAP systems. The service companies are active both inside the Freudenberg Group and externally, with external activities enjoying growing success.

Freudenberg is a family company; it is owned by some 300 heirs to the founding father Carl Johann Freudenberg. The Partnership Agreement secures the financial independence of the company. The executive bodies of the limited partnership – the Management Board, the Board of Partners and the Partners Meeting – have responsibilities similar to those of the Executive Board, the Supervisory Board and the Shareholders Meeting in German corporations.

For Freudenberg, the term "family company" refers to more than just the shareholder structure. Freudenberg sets high standards in its contacts with customers, associates and the environment. Values such as long-standing personal relations, conscientiousness and trust play an important role. Combined with innovative strength, prudent entrepreneurship and the ability for constant change, these values have been a foundation for success for more than 150 years.

Freudenberg sees itself as an enterprising corporation. Operative business is the responsibility of stand-alone companies whose management conducts business autonomously. The individual companies are allocated to one of several Business Groups which in turn belong to one of four Business Areas. The parent company Freudenberg & Co. acts as a management holding. The parent company's Corporate Functions (departments) control, coordinate and monitor the activities of the Group and provide advice and support to Group companies.

The Management Board is jointly responsible for the management of the Freudenberg Group.

**www.freudenberg.com**

*as at June 1, 2004

# Editorial Information

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**Cover photo:** Representatives of the winning projects for the "We all take care Award" at the ceremony in Hermannshof, Weinheim (from left to right):
Dr. Friedel Brink-Spalink, Freudenberg Forschungsdienste KG
Hak Kyung Kim, Korea Vilene Co. Ltd
Andreas Kurch, Vibracoustic GmbH & Co KG
Winfried Heiser, Freudenberg Spezialdichtungsprodukte KG
(see page 34 for further information on the projects)

**List of abbreviations used in the Annual Report**

| | |
|---|---|
| ABS | Anti-blocking system |
| ARD | Arbeitsgemeinschaft der öffentlich-rechtlichen Rundfunkanstalten der Bundesrepublik Deutschland (German national TV network) |
| CEO | Chief Executive Officer |
| € | Euro |
| EU | European Union |
| FAW | Freudenberg Systems and Tool Engineering |
| FCS | Freudenberg Chemical Specialities |
| Freudenberg-ds | Freudenberg Seals and Vibration Control Technology |
| FFD | Freudenberg Research Services |
| FNGP | Freudenberg-NOK General Partnership |
| FNM | Freudenberg NOK Mechatronics |
| FSE | Freudenberg Service Support |
| GCC | German Commercial Code |
| HSE | Health, Safety, Environment |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IDW | Institut der Wirtschaftsprüfer (German Institute of Public Auditors) |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| ISA | International Standards on Auditing |
| ISO | International Organization for Standardization |
| IT | Information technology |
| JVC | Japan Vilene Company |
| KG | Kommanditgesellschaft (limited partnership) |
| OHSAS | Occupational Health and Safety Management System |
| SARS | Severe Acute Respiratory Syndrome |
| TANNER | Travel And Navigate New Exciting Roads |
| THF | Technischer Handel Freudenberg |
| UK | United Kingdom |
| USA | United States of America |
| WDR | Westdeutscher Rundfunk (German regional TV network) |
| www | world wide web |

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