2002 Annual Report

The Freudenberg Group

Freudenberg

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Innovation

"As a multinational company of German origin competing in global markets, our established tradition of innovation and renewal benefits our customers.

Constant innovation in everything we do is essential for our long term financial success. We are leaders in continuous improvement, and our culture rewards creativity and initiative by all our employees."

The constant development and improvement of products in union with our customers for their benefit is a central goal of all companies in the Freudenberg Group. That is why innovation is anchored in our Guiding Principles. The Guiding Principles are a condensed version of the Group's Business Principles, summarized for all our associates and the public at large.

Freudenberg has set out to bring about a noticeable acceleration in the pace of innovation, joining forces with customers to this end. The 2002 Annual Report illustrates innovative progress during the past fiscal year.

Highlights

The Freudenberg Group*	1998	1999	2000	2001	2002
	GCC**	GCC	GCC	IAS	IAS
Sales (million €)					
Germany	1,104	1,001	1,068	**1,007**	**969**
EU (excluding Germany)	987	1,068	1,124	**1,131**	**1,153**
Other European countries	162	160	197	**185**	**204**
North America	876	1,109	1,335	**1,278**	**1,235**
Latin America	120	98	136	**118**	**88**
Far East	103	110	193	**185**	**181**
Other regions	54	74	101	**105**	**88**
Total sales	**3,406**	**3,620**	**4,154**	**4,009**	**3,918**
Net income	89	105	117	**134**	**137**
Cash flow from operating activities	143	291	288	**345**	**355**
Net investment	313	308	242	**217**	**270**
Depreciation and amortization	198	211	224	**238**	**202**
Balance sheet total	2,426	2,759	2,926	**3,399**	**3,276**
Partners' equity	939	1,146	1,208	**1,549**	**1,503**
Personnel expenses	1,130	1,208	1,311	**1,269**	**1,264**
Workforce (Dec. 31)	29,289	29,667	30,118	**27,578**	**27,693**
Workforce (annual average)	28,720	29,459	30,179	**28,063**	**27,728**

Business Areas	1998	1999	2000	2001	2002
Sales (million €)					
Seals & Vibration Control Technology	1,489	1,768	2,037	**2,024**	**2,028**
Nonwovens	804	808	967	**964**	**924**
Household Products	426	458	495	**516**	**526**
Specialties and Others	933	839	913	**757**	**685**
Workforce (Dec. 31)					
Seals & Vibration Control Technology	14,636	15,997	16,256	**15,564**	**15,871**
Nonwovens	5,525	5,571	5,781	**5,382**	**5,320**
Household Products	1,729	1,718	1,750	**1,815**	**1,971**
Specialties and Others	7,399	6,381	6,331	**4,817**	**4,531**

* 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 concerned, shareholdings over 50% in full.

**GCC=German Commercial Code

The Freudenberg Group

Parent Company Freudenberg & Co.			
Seals and Vibration Control Technology Business Area	**Nonwovens Business Area**	**Household Products Business Area**	**Specialties and Others Business Area**
Business Groups	**Business Groups**	**Business Group**	**Business Groups**
Seals and Vibration Control Technology Europe Seals and Vibration Control Technology North America Vibracoustic Europe	Nonwovens Freudenberg Politex Nonwovens	Household Products	Specialty Lubricants Building Systems IT Services **Divisions** Systems and Tool Engineering Research Services Service Support

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

Most companies in the Group supply products to various branches of industry. With a share of 43 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, and is a leader in automotive interior filters, also supplying carrier materials for automobile carpeting, engine compartments and headliners. Specialty lubricants produced by the Freudenberg subsidiary Klüber are used in automotive anti-friction bearings as well as 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 materials for roofing felts or for sound absorption 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 as well as the nora® brand rubber floorcoverings found in more than 120 airports all over the world.

The service companies in the Freudenberg Group provide systems and tool engineering, operate industrial parks, relocate machinery and plant and perform 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; the business is owned by some 300 heirs to the founding father Carl Johann Freudenberg. The Partnership Agreement is oriented to the continuity and financial independence of the enterprise. 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 dealings with customers, associates and the environment. Values such as long-term personal relations, conscientiousness and trust play an important role. Innovative strength, prudent entrepreneurship and the ability for constant change have been the foundation of the company's success for the last 150 years.

Freudenberg sees itself as an enterprising corporation. In other words, operative business is the responsibility of autonomous companies and the Business Groups that make up the various Business Areas, whose managers conduct business on their own authority. The Parent Company Freudenberg & Co. acts as a management holding with Corporate Functions (Departments) controlling, coordinating and monitoring the activities of the Group and providing advice and support to Group companies. The Management Board is jointly responsible for the management of the Freudenberg Group.

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2002 Annual Report

The Freudenberg Group

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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. Wolfram Freudenberg
Stuttgart

Dr. Maria Freudenberg-Beetz
Weinheim

Dr. Bettina Hahne
Wangen/France

Dr. Christoph Schücking
Frankfurt
(from June 29, 2002)

Prof. Dr. Walter Sigle
Stuttgart
(until June 29, 2002)

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*

Seals and Vibration Control Technology Business Area

Business Groups	Management
Seals and Vibration Control Technology Europe	Jörg Sost (Chairman) Dr. Herbert Fehrecke Michael Preisler
Seals and Vibration Control Technology North America (Freudenberg-NOK General Partnership)	Dr. Mohsen Sohi (President & CEO) Ludger Neuwinger-Heimes
Vibracoustic Europe (50% shareholding)	Reinhard Schütz (Chairman) Dr. Frank Gropengießer Norbert Schebesta

Nonwovens Business Area

Business Groups	Management
Nonwovens	Thomas Kehl (Speaker) Dr. Christoph Josefiak Walter Schwarz
Freudenberg Politex Nonwovens (50% shareholding)	Dr. Riccardo Sollini (Chairman) Dr. Bernhard Klein

Household Products Business Area

Business Group	Management
Household Products	Dr. Hans-Georg Franke (Chairman) Dr. Klaus Peter Meier Dr. Alexander Moker Gerhard Schmitt

Specialties and Others Business Area

Business Groups	Management
Specialty Lubricants	Hanno D. Wentzler (Chairman) Dr. Jörg Matthias Großmann Dr. Dieter Köttgen Claus Langgartner
Building Systems	Dr. Rüdiger Fischer Jochen Schlitt
IT Services	Günter Fichtner Dr. Ralf Krieger

Divisions	
Systems and Tool Engineering	Willy Friebus Thomas Faulstich
Research Services	Dr. Thomas Barth
Service Support	Dr. Ditmar Flothmann

*Status: June 1, 2003

Report of the Board of Partners

During fiscal 2002, 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. The risk situation and risk management were also topics considered by the Board of Partners.

In fiscal 2002, four meetings of the Board of Partners were held as scheduled. 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 29, 2002 Prof. Dr. Walter Sigle stepped down from the Board of Partners. We would like to thank him for many years of dedicated service. The Partners' Meeting of June 29, 2002 elected Dr. Christoph Schücking as a new member of the Board of Partners.

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

The consolidated financial statements for 2002 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 auditors' findings.

Weinheim, April 16, 2003

For the Board of Partners

Freudenberg

Dr. Reinhart Freudenberg
Chairman

Foreword of the Management Board

For the Freudenberg Group, the economic climate in 2002 was once again a difficult one. The situation in the sectors supplied by the Group can be summarized as follows: the downturn in the German construction sector which began in 1995 continued largely unabated, the mechanical engineering sector experienced the sharpest fall for many years and the textile industry, already in the throes of a prolonged structural crisis, only stabilized slightly. In the automotive industry, vehicle sales fell slightly in both Western Europe and the NAFTA (North American Free Trade Agreement) zone. The retail trade faced a noticeable drop in sales, particularly in Germany, and the electronics industry remained stable.

Against this backdrop, the Freudenberg Group continued with its strategy to streamline its portfolio, strengthen its performance for customers and improve its competitive position. During the period under review, the company shut down the last remaining leather plant, the final link with Freudenberg's original business, which had been making substantial losses for several years. The Flexible PCBs Division was restructured and integrated in the global Nippon Mektron organization. In several other Business Areas, the portfolio was rounded off. In total, acquisitions and disinvestments led to a decline in sales totaling 18 million Euro. The impact of exchange rate developments was considerably more severe; as a result, Freudenberg Group sales for the 2002 financial year were down by about 2 percent. Adjusted for these effects, sales rose by over 1 percent on the previous year.

The consolidated financial statements of Freudenberg & Co. Kommanditgesellschaft were drawn up according to the International Accounting Standards (IAS) for the first time in 2002, and conform to the European Union directives concerning consolidated accounting. In 2001, net income according to IAS amounted to 134 million Euro, rising to 137 million Euro during the year under review. Cash flow from operating activities rose by 10 million Euro to 355 million Euro.

A major corporate highlight in 2002 was the Dialog 2002 senior management meeting. Some 220 senior managers from all over the world came to Weinheim to discuss customer orientation and health, safety and the environment – two themes anchored in the Group's Guiding Principles – in working groups and forums. The meeting culminated in a series of new initiatives and projects to further enhance the quality and performance of our customer service as well as the "We all take care" initiative with the goal of achieving a substantial cut in the number of accidents at work by encouraging the participation of as many Freudenberg associates as possible. In 2002, there was a further drop in the accident rate, which went down to 14 accidents per 1,000 employees (16 per 1,000 in 2001).

The equity ratio pursuant to IAS remained unchanged at 46 percent. Under its annual review in fall 2002, Moody's confirmed the A3 rating awarded to Freudenberg for the first time in 2001, and classified the outlook as stable.

Dr. Dr. Peter Bettermann

Dr. Albert W. Pürzer

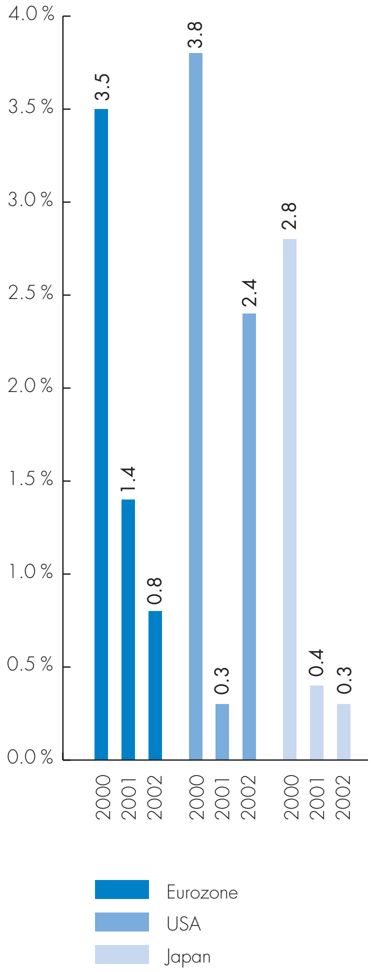
Dr. Hans-Jochen Hüchting

Dr. Ernst Schön

Dr. Peter Stehle

Management Report of the Freudenberg Group

Report of the Management Board



Development in gross domestic product in percent

In 2002, the Freudenberg Group reported sales of 3,918 million Euro (2001: 4,009 million Euro). The net income amounted to 137 million Euro (2001: 134 million Euro). At December 31, 2002 the Group's workforce totaled 27,693, 115 higher than year-end 2001.

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

Global economic situation

Economic developments in the eurozone were subdued, with growth in gross domestic product running at a mere 0.8 percent. With growth of only 0.2 percent, Germany was on the verge of stagnation. In contrast, the US economy regained its footing, reporting 2.4 percent growth. The trend in Japan was also positive – the recession has been overcome and the Japanese economy has returned to growth, albeit at a modest level of 0.3 percent. China once again enjoyed strong growth, with gross domestic product rising by just under 8 percent. The motor for this growth was fixed asset investment, which increased by 24 percent.

The situation in the sectors supplied by the Freudenberg Group was as follows: the West European automobile market sold 14.4 million vehicles, slightly down on the previous year but nevertheless better than forecast. In the NAFTA (North American Free Trade Agreement) zone, vehicle sales fell slightly to 19.5 million units. The relatively small drop is primarily due to strong price competition and the associated discounts and sales incentives. Passenger car sales in Brazil also decreased.

The decline in the German construction industry continued with a drop in sales of almost 6 percent. There are no signs of an end to the downturn that commenced in 1995. The mechanical engineering sector was slightly less hard hit, although the 4 percent fall in production is the worst since 1993. The textile industry worldwide is also going through a severe structural crisis; the clothing industry in particular was affected by a double-digit percentage fall in orders. The situation for the information and communication industry in Western Europe was stable, while the market in Germany shrank by 1.3 percent. The downward trend in the German retail sector continued unabated, with sales falling by 2.2 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 industry. Just under one-quarter of all goods are final products such as vileda® brand mechanical household cleaning products or nora® brand rubber floorcoverings.

The proportion of Freudenberg sales accounted for by the domestic German market has been declining steadily for several years. In 2002, 24.7 percent of Group sales came from Germany (2001: 25.1 percent). Sales to other EU Member States amounted to 1,153 million Euro, or 29.4 percent of total sales (2001: 28.2 percent). North America remained the largest single market, accounting for a share of 31.5 percent (2001: 31.9 percent). Sales to the Far East stagnated at 4.6 percent. As a result of various cooperation projects, particularly with the Japanese partners JVC and NOK, the lion's share of sales from Freudenberg's activities in Asia is not consolidated. If sales by the Japanese partners were included in Freudenberg's sales on a pro-rata shareholding basis, then Asia would account for 17.5 percent of total Group sales.

Consolidated sales

At 3,918 million Euro, the consolidated sales of the Freudenberg Group were 2 percent down on the previous year. This decline is principally due to considerable conversion-related exchange rate influences. Adjusted for these effects, acquisitions and disinvestments, sales in fiscal 2002 are over 1 percent higher than the previous year.

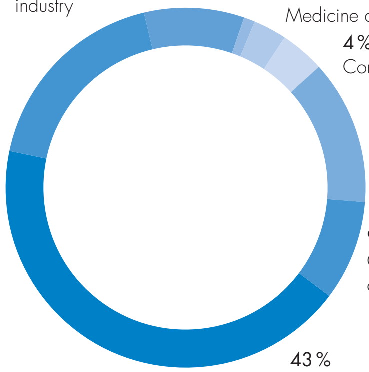
The consolidated group

At year-end 2002, the Freudenberg Group comprised 320 companies in 44 different countries. 237 companies were fully consolidated, including 71 production companies and 95 sales companies.

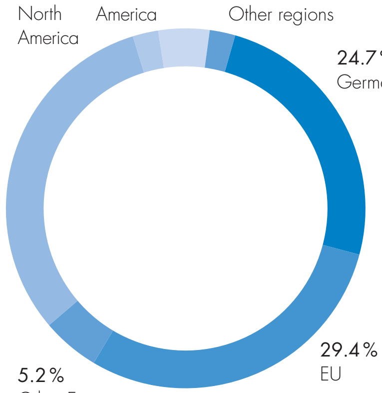
The most important changes in the consolidated group were as follows: the spare parts business of the American seals and vibration control technology activities was further strengthened by the purchase of Nu-Seals, Inc., San Luis Obispo and Transcom, Inc., Brunsville. Celin ApS, which owns 46.2 percent of Meillor S.A. (already consolidated), was also acquired effective January 1, 2002. Freudenberg therefore now owns all the shares in Meillor S.A.

The activities of the Business Areas in the field of fuel cell development were bundled in the newly established company named Freudenberg Fuel Cell Components Technology oHG.

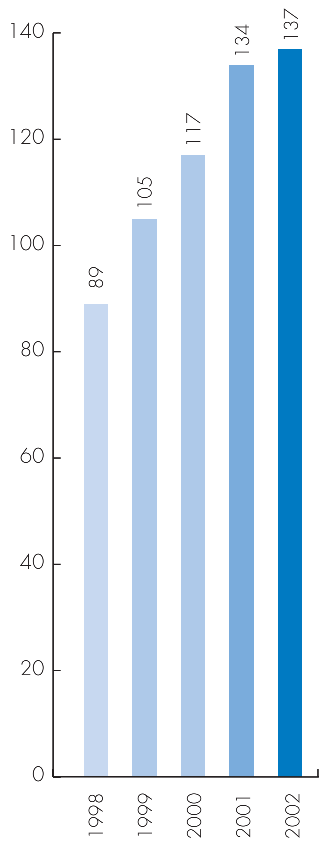
Restructuring of the Flexible PCBs Division was completed effective October 1, 2002. The joint venture partner Nippon Mektron took over a further 5 percent of the shares of Freudenberg Mektec Europa GmbH and assumed managerial control of the Mektec group.



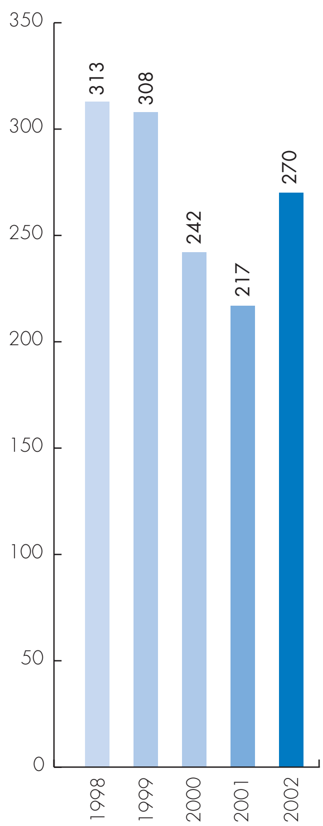
Sales structure by sectors in percent



Sales by regions in percent



*Net income in million Euro**



Net investment in million Euro

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 2,688 million Euro, 1 percent less than the previous year. The most important minority shareholdings held by Freudenberg concern the Japanese company NOK Corporation (Freudenberg share: 23 percent) and Japan Vilene Company (Freudenberg share: 22 percent), both registered in Tokyo.

NOK Corporation manufactures seals and vibration control technology products, flexible PCBs, lubricants and specialty chemicals. The company has a workforce of some 13,000 at 40 sites worldwide. Sales in 2002 totaled 2,017 million Euro, adjusted for currency effects 7 percent higher than the previous year.

Japan Vilene Corporation (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 1,530. Sales in 2002 fell by 15 percent (8 percent adjusted for exchange rate influences) to 406 million Euro.

The proven partnership between Freudenberg and these two Japanese companies has already lasted more than 40 years. During the course of cooperation, numerous joint activities have been launched in the USA, the Far East and Europe.

Financing and net income

In fiscal 2002, cash flow from operating activities rose to 355 million Euro (2001: 345 million Euro). The substantially higher level of investment including acquisitions was again financed in full from operative cash flow. The balance sheet total decreased by 4 percent to 3,276 million Euro chiefly as a result of exchange rate developments. The share of partners' equity remained at 46 percent**. Provisions for pensions amounting to 331 (340) million Euro accounted for a further 10 percent (10) of the balance sheet total. Net income rose slightly to 137 (134) million Euro.

Investment and personnel expenses

Net investment by the Group totalled 270 (217) million Euro. In addition to charges for acquisitions, investment during the reporting period focused on the Seals and Vibration Control Technology, Nonwovens and Household Products Business Areas; major projects concerned an abrasives plant in Germany and expansion at a US site. The Group's personnel expenses, including pension contributions and provisions for partial retirement, came to 1,264 (1,269) million Euro.

* IAS figures from 2001

** For further details on the effects of IAS accounting methods, please refer to the Notes on the Consolidated Financial Statements, p. 52.

Prospects for 2003

The determined pursuit of our primary goal to focus all efforts on continually enhancing performance for our customers has convincingly proved its worth during the last two years of weak economic activity. This encourages us to continue along this path. We will vigorously pursue the projects and programs launched in 2002 to bring customer orientation, quality enhancement and productivity gain forward even further.

Our efforts in 2003 will also focus on intensifying innovation in even closer union with our customers and in accelerating the pace at which innovation reaches market maturity. To this end, funds for research and development will be increased further and the process chain systematically analyzed. Apart from developing new, improved products and production methods for existing business fields, attention will also be devoted to mechatronic products, PET recycling, fuel cell components and nanotechnology for improved surface properties.

The Iraq war and its consequences together with the impact of SARS on the situation in South East Asia currently preclude a meaningful forecast for sales and profit in 2003. Even regardless of the risks derived from these two factors, a substantial improvement in the economic situation during the current fiscal year is hardly likely.

On the other hand, business in the first quarter of 2003, the streamlining/restructuring of low-return sectors (leather, flexible PCBs in Europe) and the resulting growth in market shares due to improved efficiency nevertheless indicate the possibility of avoiding a material slump in sales and earnings despite critical economic developments. At the moment, uncertainty is too high to allow any forecast of a more positive nature.

Given the present uncertainties, the focus on continuous improvement and intensified innovation becomes all the more important. This holds especially true given that, as a component supplier, the **risks** of our business essentially lie in the performance of our major customer groupings. These are primarily the automotive and the mechanical engineering industries, as well as the textile and clothing industry and the construction sector. Our ever-growing and unceasing efforts to offer customers innovative and reliable products and value services creating substantial benefits counteract economic risks in the branches of industry we serve.

These measures are flanked by a global **risk management system** (based on the risk management procedures already in force for several years) introduced at all Freudenberg sites and practice-tested in 2002. The system complies with the German Law on Monitoring and Transparency in Companies (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich). Our special focus concerns the prevention and management of product liability risks. The risk analysis concludes there are currently no risks to the continued existence of the Freudenberg Group. 2002 saw the publication of several standards relating to corporate management and governance (the German **Corporate Governance** Code, legislation concerning further reform of stock corporation law and accounting law and a law on transparency and disclosure). Freudenberg already complies with the majority of the provisions set out in these standards (formally only applicable for publicly-held corporations). We have decided to implement the remaining provisions during 2003, where meaningful and applicable for the Freudenberg Group.

Manufacturing Simmerrings for ABS brake systems

Seals and Vibration Control Technology Business Area

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 2002, the total workforce of the Business Area was 15,871. Sales amounted to 2,028 million Euro.

A specific feature of this Business Area is 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 to seals and vibration control technology issues, and creating a "virtual" company with sales of some 4 billion Euro and a workforce of well over 20,000. Freudenberg holds a share of 23 percent in NOK.

"Together with our customers and suppliers, we are constantly improving our processes and performance to ensure that we remain among the world's best."

Freudenberg Seals and Vibration Control Technology – Business Profile

"Innovation, communication, worldwide teamwork, quality, Growtth®* and profit are all essential to our success."

Freudenberg-NOK General Partnership – Missions & Values

"We are adopting unconventional methods to attain new levels of performance. At Vibracoustic this is often the starting point for the creation of marketable developments. The successful development of pneumatic springs for luxury-class automobiles up to series production is one of the latest examples of this approach."

Vibracoustic – Visions

* Growtth® is an improvement program designed to promote teamwork and with the designated goal of enabling employees to continually improve and optimize processes and work methods across departmental and divisional lines.

Inserts: Truck engine test rig, Technical Development Center, Freudenberg Seals and Vibration Control Technology

Freudenberg Seals and Vibration Control Technology Europe

Simrax Compact Seal

Freudenberg Seals and Vibration Control Technology Europe is the **Technology Specialist** for customers in the automobile industry, automotive component suppliers and the general industry sector. With automobile production in 2002 only slightly down on 2001, the West European automotive industry fared better than expected, while the general industry sector felt the effects of weak domestic economic developments. Against this difficult backdrop, Freudenberg Seals and Vibration Control Technology further expanded its market position by gaining new market shares; sales rose by 30 million Euro to 927 million Euro. At year-end 2002, the company had a workforce of 9,021.

The automobile industry accounts for approximately half of the sales posted by Freudenberg Seals and Vibration Control Technology. Gains were most substantial in sales to major component suppliers as automotive manufacturers outsourced complete systems such as gear or steering systems. There is strong demand from customers for both sensor Simmerrings combining classical sealing properties with electronic functions, and for sealing packages. In cooperation with the Japanese partner NOK, the global network was expanded further and new production facilities in India and China were successfully commissioned. Development of the lean and focused production partnerships in Eastern Europe was very satisfactory.

With regard to the general industry sector, **Simrit** brand business was characterized by growth in Eastern Europe, France, England and Italy. e-business activities (Simrit Online) were developed further.

With **Freudenberg Process Seals**, Freudenberg Seals and Vibration Control Technology has opened a special sales channel to meet the particular requirements of customers in the chemicals and process technology sector, and continues to expand the range of services offered to these customers.

The **"Customer Value First"** campaign launched in 2001 has effectively intensified cooperation between customers and Freudenberg Seals and Vibration Control Technology at all levels. The company was again named "Supplier of the Year" by General Motors in recognition of its good all-round performance and the quality of its brake hoses. Freudenberg Seals and Vibration Control Technology also received a quality award from Fiat.

The Divisions of Freudenberg Seals and Vibration Control Technology performed well in fiscal 2002. Growth in the **Simmerrings and Damper Seals** Division was largely due to above-average developments in sensor technology business. These advanced applications are being expanded further.

Sales in the **Specialized Seal Products** Division were approximately on a par with the previous year. New products with integrated electronic components were developed by the Actuator Section. There was substantial demand for pressure accumulators produced by Integral Accumulator, particularly from agricultural machinery manufacturers. A new development center will be built at the Remagen facility in 2003.

Business in the **Merkel Freudenberg Fluidtechnic** Division was affected by very restrained demand on the part of major customers, particularly in Germany. Business by the new "Merkel Xpress" service, which offers customers an express sealing spare parts service using special technology, grew by over 60 percent.

The **O-Rings** Division was particularly successful with its high-performance applications business which includes coated O-rings. A coating center is being set up in Oberwihl. In addition, the range of services offered to customers has been extended.

In the **Brakes** Division, sales of high-precision brake seals and brake hoses increased. Partner production of brake hoses will begin in Romania in 2003. Start-up of hybrid hose business had a positive impact. These components consisting of flexible and rigid sections of the brake system are delivered to customers ready for assembly.

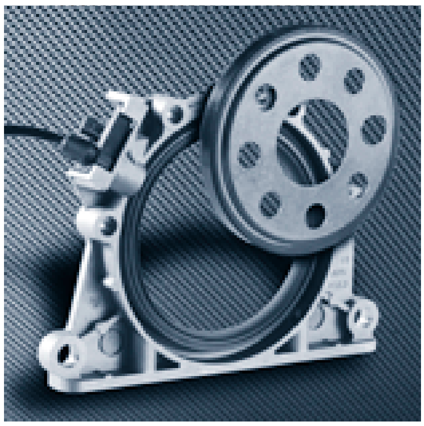
Innovative cylinder head gaskets produced by the **Freudenberg Meillor Flat Gaskets** Division were very well received by customers in 2002. Successful French passenger car models are fitted with Meillor cylinder head gaskets. Meillor has developed new cylinder head gasket solutions for the high-compression, high-performance diesel engines of the future. Thanks to the partnerships with NOK-Ishino in Japan and America, customers can also benefit from Freudenberg's global competence in this field.

The **Industrial Vibration Control Technology** Division experienced a weak first half of 2002; by year-end, however, the downturn had been almost entirely offset. The Division strengthened its intensive activities in France and Scandinavia, tapping additional potential. Freudenberg vibration control technology particularly proved its worth in construction and agricultural machinery, wind plants and rail vehicles.

In fiscal 2002, Freudenberg Seals and Vibration Control Technology reinforced its competence in liquid seals and multi-component seals by acquiring a share in **Lederer**.

Prospects: In 2003, Freudenberg Seals and Vibration Control Technology expects to gain from the positive effects of the systematic focus on market segments, benefiting from the use of customer potential and continuous improvements in all areas.

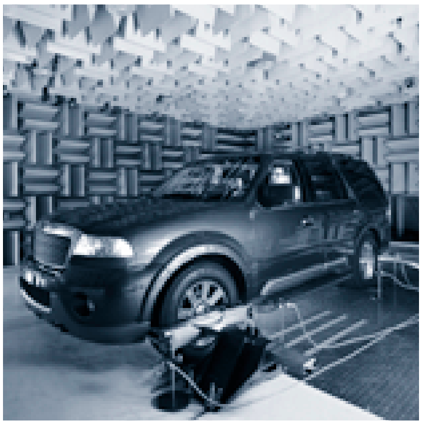
www.freudenberg-ds.com



Simmerring module with sensor

Freudenberg-NOK General Partnership

(Seals and Vibration Control Technology North America)



Tests in the acoustic lab

Freudenberg-NOK General Partnership is a joint venture between the Japanese company NOK (25 percent) and Freudenberg (75 percent). The company produces seals and vibration-control parts for the automotive sector and the general industry sector. Its main market is America. The feared slump in the automotive market in the NAFTA (North American Free Trade Agreement) zone did not materialize. The fall was slight at 1.8 percent. Against this backdrop, FNGP succeeded in raising sales by around 5 percent to Dollar 811 million (854 million Euro). The company had a workforce of 5,666 at the end of 2002.

The **Sealing** sector recorded the highest absolute increase in sales throughout the entire Business Group. This is attributable to increased unit sales by American automobile producers, achieved through incentives to buyers, and by taking over the High Quality Plastics business, which contributed additional market share and secured access to new markets.

The introduction of new products and an aggressive marketing campaign enabled **Corteco**, which is active in the after-sales market, to boost sales by 12 percent. The campaign to increase awareness of the Corteco brand has so far been successful. In the **O-Rings and Sealing Products Sales** Division, the 167 percent growth in sales is due almost exclusively to the acquisition of the two special O-ring manufacturers Nu-Seals and Transcom. The economic weakness in the heavy machinery industry meant that sales by **Simrit** were only slightly up on the previous year. The drop in sales by **Vibracoustic** is explained by the transfer of TVD operations to the VCT joint venture and the loss of a major contract. The **Technical Elastomers & Components** Sector improved sales by 14 percent, while sales in the **Brazil** Division rose by 5 percent in local currency. During 2002, Freudenberg-NOK Componentes Brasil Ltd. (FNCB) was fully integrated into FNGP. Though the severe erosion in the value of the Brazilian Real versus other major currencies prevented FNCB from achieving a positive operating result in 2002, an export-led growth should contribute to future growth.

Innovation: By improving existing products and intensifying research into cutting-edge new technologies such as fuel cells, strong efforts have been initiated to become a real global partner for global customers together with Freudenberg Seals and Vibration Control Technology Europe and NOK.

Prospects: In order to minimize the economic impact of the feared slump in North American automotive sales, short-term cost control plans will be implemented. Since many of FNGP's competitors are already coping with severe financial difficulties, FNGP has the opportunity to gain market share and solidify its position as the Technology Specialist in the market it serves.

www.fngp.com

Vibracoustic (Europe)

Vibracoustic is a joint venture between Freudenberg & Co. Kommanditgesellschaft, Weinheim and Phoenix AG, Hamburg, in which each partner holds a 50 percent share. Vibracoustic is a technology specialist for vibration control systems in the automotive industry. Despite a drop in the number of vehicles produced by the European automobile industry in 2002, sales by Vibracoustic Europe increased by 3 percent to 384 million Euro. Apart from a further increase in demand for advanced vibration-control components for automotive construction, the complete product program and the balanced customer portfolio contributed to these positive developments. The Suspension Struts, Engine Mounts and Chassis Divisions were the growth motors. At year-end 2002, Vibracoustic had a workforce of 1,878, 44 fewer than the previous year.

In the **Drive Train** Division, sales fell by 2 percent on the year-earlier figure as demand for embedded torsional vibration dampers for petrol engines declined. In future, growth impetus will come from decoupling pulleys for the fast-growing diesel engines and drive shaft components business.

The **Engine Mounts** Division reported a 12 percent increase in sales. This pleasing development is primarily due to success with platform models such as the Volkswagen Polo.

With a 5 percent rise in sales, the **Chassis** Division consolidated its market position. Innovative solutions for multi-link rear axles and new global platform projects underpin these positive developments.

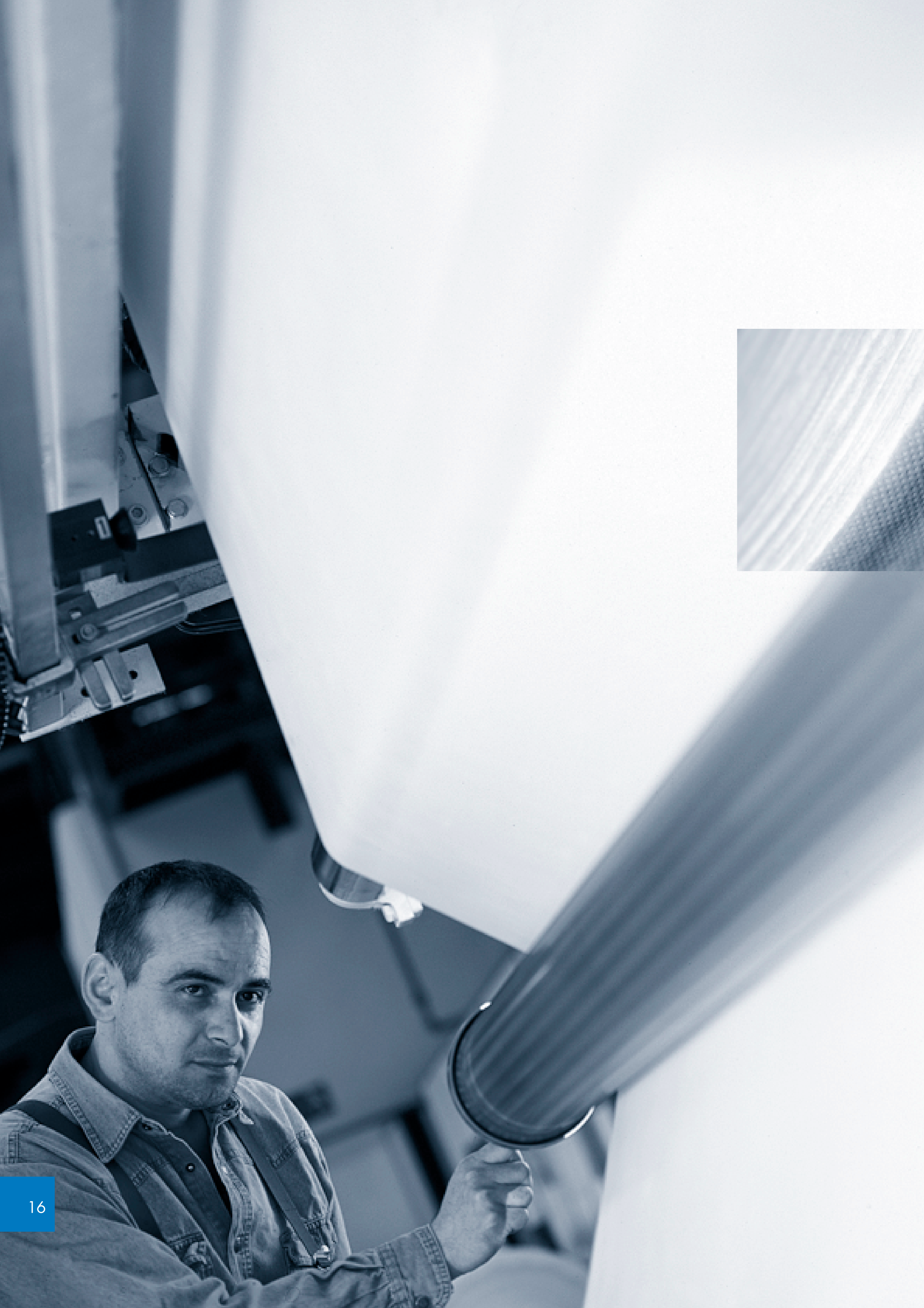
In the innovative **Suspension Struts** Division, business with pneumatic spring modules expanded by 74 percent as a result of growing demand for pneumatic spring systems for luxury vehicles and SUVs. The optional use of pneumatic springs in the DaimlerChrysler E Class also brings additional potential in the top medium-class segment.

Vibracoustic introduced **innovations** management last year. The innovations management system includes projects such as very rapid vulcanization, which has the potential to shorten the production process. The new process has already been successfully tested on a series-produced hydromount. A second innovation is pneumatic spring damping where a pneumatic spring is combined with a damping mechanism that also uses air.

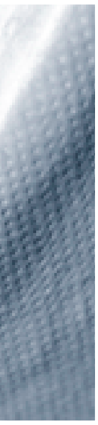
Prospects: Despite the unfavorable economic conditions for the automobile industry, Vibracoustic expects to see a moderate rise in sales in 2003. Two new production plants in China for torsional vibration dampers and engine and chassis components will be established in 2003 in cooperation with the partners Vibracoustic Japan and PHC of Korea. Additionally, the present facility in India will be extended and the market position in the USA strengthened.

www.vibracoustic.com

Torsional vibration damper with decoupled pulley
(Strategic Business Area Drive Train)



Nonwovens Business Area



The Nonwovens Business Area comprises the Business Groups Freudenberg Nonwovens and Freudenberg Politex Nonwovens. Sales in 2002 totaled 924 million Euro. At year-end the Business Area had a total workforce of 5,320.

Freudenberg has maintained a close cooperation with the Japanese company Japan Vilene Corporation (JVC) since 1960. Both companies are often active in joint ventures in Asia (outside Japan). Freudenberg holds a share of 22 percent in JVC.

"Freudenberg Nonwovens will be an innovative, quality-driven, preferred global partner for technically demanding applications."

Freudenberg Nonwovens – Vision

"The organization of the Freudenberg Politex Group is driven by a constant innovation and multicultural spirit that enables the Group to be competitive in the global market, thanks to the pursuit of continuous improvements."

Freudenberg Politex Nonwovens – Mission

Freudenberg Nonwovens

Interlining rolls at a garment manufacturer

Freudenberg Nonwovens is one of the world's leading manufacturers of nonwoven materials primarily used in the clothing industry, the automobile industry and for electrical and electronic applications. In 2002, the situation in the clothing industry in many industrialized countries remained difficult. The same applied for the situation in the semi-conductor and telecommunication industry and in the construction sector. In contrast, developments on the automotive market were better than expected. Against this economic backdrop, Freudenberg Nonwovens reported sales of 846 million Euro, 39 million Euro or 4 percent less than the previous year. Adjusted for exchange rate influences and the effects of acquisitions/disinvestments, sales are some 4 million Euro up on 2001. To consolidate its leading position or expand market leadership, Freudenberg Nonwovens began to implement a facility concept in 2002, enhancing efficiency and cost leadership, thus safeguarding jobs. At year-end 2002, Freudenberg Nonwovens had a total workforce of 5,011, 62 fewer than the previous year.

The **Interlinings** Division reported a 12 percent decline in sales, primarily due to falling demand and unfavorable exchange rates. The Division acquired Access of Wuppertal/Germany, adding the manufacture and distribution of complete accessory packages to its range of products and services for the clothing industry.

The **Tuft** Division successfully launched a new plant in the USA, thus strengthening its position as a leading producer of backing materials for carpets.

In the **Hygiene/Medical** Division, closure of one facility and falling sales in North America, the economic crisis in Argentina and lower sales volumes in Germany resulted in a 10 percent fall in sales.

The 9 percent rise in sales in the **Filters** Division is chiefly due to high demand for micronAir® brand climate control filters and automotive interior filters in Europe.

Although the **Technical Nonwovens** Division reported sales down by 14 percent, this is due to disinvestments. Adjusted for these effects, Technical Nonwovens reported a slight increase in sales.

A new adhesive called PowerDot® represents one technical **innovation** at Freudenberg Nonwovens. Interlinings using PowerDot® no longer have to be specially selected to suit different outer fabrics to obtain optimum bonding and reliable quality. PowerDot® helps clothing manufacturers to bring their collections to market faster.

Prospects: Freudenberg Nonwovens expects to see slight growth in sales in 2003, although rising raw material prices will increase the pressure on margins. This growth will be based on the strategy to enhance competitiveness through modernization and innovation and to focus on strong-growth market segments.

www.freudenberg-nonwovens.com

Freudenberg Politex Nonwovens

Freudenberg Politex is a joint venture between the Italian company Politex and the German Freudenberg Group with each partner holding 50 percent of the shares. The company produces polyester nonwovens, primarily sold as reinforcement for bituminous roofing membranes, as well as wadding used as a thermal insulator in the garment industry and as padding in the furniture industry. Freudenberg Politex produced a good performance in difficult economic conditions, reporting only a slight decline in sales which ran at 156 million Euro, 2 percent down on the previous year. Adjusted for conversion-related exchange rate influences, sales were on a par with the previous year. The workforce remained stable at 617 (2001: 618).

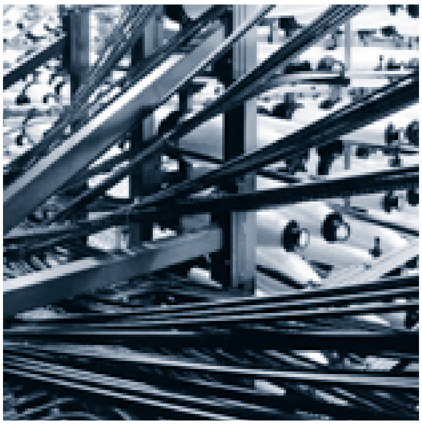
Developments in the **roofing** market varied from region to region. Demand in the USA suffered heavily from a worsening economic situation in the construction sector. The market in Western Europe remained flat, while sales in Eastern Europe rose substantially. Developments in the markets of the Middle East and Asia were also very satisfactory. Given these varying trends, Freudenberg Politex was exposed to fluctuating demand and strong price pressure. The company responded by improving quality standards and service. Coupled with the wide range of products and the continuing success of fibreglass reinforced felt, Freudenberg Politex was able to strengthen its leadership in the global PET roofing market.

Wadding is sold chiefly to the garment and furniture industries. Both sectors were under pressure in 2002, particularly in the two main Freudenberg Politex markets of Italy and Poland. As a consequence, sales volumes declined, although the market position was maintained. The market responded well to the new thermo-acoustic nonwoven Ecozero used for various insulation applications in the construction industry.

Outstanding **innovation** at Freudenberg Politex concerned a plant for exhaust treatment ("bio-scrubber") based on a new technology using the absorption properties of mussel shells. The plant in Novedrate/Italy allows a 96 percent reduction in airborne emissions and a 91 percent reduction in odor emissions.

Prospects: With Freudenberg Politex markets unlikely to show signs of substantial recovery in 2003, prospects are cautiously optimistic. The company will act further to strengthen its position. Growth in sales volumes in both Divisions is expected in 2003.

www.freudenbergpolitex.com



Nonwovens production in Italy

The new Rapid AttrActive makes cleaning easier

Household Products Business Area

Vileda production in China

The Household Products Business Area comprises one Business Group – Freudenberg Household Products, best known for its vileda® products. In 2002, this Business Area posted sales of 526 million Euro with a workforce of 1,971.

"The organization and spirit of our company are innovative and multi-cultural, based on trust and honesty, mutual respect and a commitment to continuous improvement."

Freudenberg Household Products – Overall Mission

Freudenberg Household Products

The cloths are easy to change

Freudenberg Household Products is a leading international manufacturer of brand household cloths and cleaning articles. The company's best-known brand is vileda®. As the global consumer climate continued to cool, there was only slight growth in the market for mechanical cleaning products. Many competitors were hit hard by the growing emergence of retail brands. Given this situation, Freudenberg Household Products was able to expand its market leadership in many countries. The launch of a new floor cleaning system in the USA brought substantial market expansion, albeit at the expense of classical products such as the sponge mop. In the year under review, Freudenberg Household Products increased sales by 2 percent to 526 million Euro. Adjusted for exchange rate influences and acquisitions, sales rose by 3 percent. At year-end 2002, Freudenberg Household Products had a workforce of 1,971, 156 more than the previous year.

In the **Consumer** Division, West European sales companies played a key role in the sales increase. Double-digit growth was recorded in Eastern Europe and Asia/Pacific. The North America region was affected by a sharp decline in sponge mop sales in the USA which could not be entirely offset by positive developments in Mexico and Canada. A clear favorite was the improved wet mop system, with TV commercials broadcast for the first time in the USA.

The **Professional** Division reported above-average growth of 6 percent. All countries contributed to the increase in sales. Success in the Professional Division is also due to the introduction of the SWEP high-speed floor cleaning system.

On July 1, 2002 Freudenberg Household Products launched a joint venture with the Australian company Hills Industries to produce and market outdoor and indoor clothes driers in Europe. Both companies hold a 50 percent stake in the joint venture registered in Wales.

Innovation at Freudenberg Household Products centers on making cleaning easier and more comfortable. A new wet cleaning system called "Rapid AttrActive" is designed to make it easier to get rid of dirt without going through a full cleaning routine. The new cleaning equipment has a tank for water and the cleaning agent attached to the pole. By pressing a mechanism on the handle of the "Rapid AttrActive", the right quantity of cleaning agent is sprayed onto the floor. A cloth attached to the mop head absorbs the water and the dirt.

Prospects: Freudenberg Household Products does not expect any major changes in the market situation in 2003. Further weakening of the US Dollar against the Euro will have a negative impact on the company's growth. Adjusted for exchange rate influences, Freudenberg Household Products expects to see accelerated growth, particularly from the introduction of new products such as "Rapid AttrActive" and the clothes driers.

www.vileda.com

vileda®cloths (top) can handle any job

Clothes driers (bottom) are a new addition to the portfolio

Computer Center, Tape Library (automated data archive system), Freudenberg IT

Specialties and Others Business Area

In 2002, the Specialties and Others Business Area comprised the Business Groups Klüber (Specialty Lubricants), Freudenberg Building Systems and Freudenberg IT as well as the Divisions Freudenberg Mektec (Flexible PCBs), Freudenberg Leather, Freudenberg Systems and Tool Engineering, Freudenberg Research Services and Freudenberg Service Support. In 2002, the Business Area recorded sales totaling 685 million Euro with a year-end workforce of 4,531.

"Innovation and step-by-step improvement are considered to be equally important. We always strive for improvement and innovative solutions."

Klüber – Guidelines for Leadership & Teamwork

"We systematically use the options inherent in our materials to manufacture innovative, high-quality, environmentally compatible products, enabling us to supply complete, problem-solving packages going above and beyond present-day applications of our materials."

Freudenberg Building Systems – Strategic Success Factors

"We convert advanced information and communications technology and proven procedures into innovative services and products, generating focused benefit for our customers."

Freudenberg IT

Valve for carbon filter actuator (top), Freudenberg Mektec

Klüber lubricants meet the highest demands (center)

Evaluating the properties of Evolon fiber (bottom), Freudenberg Research Services

Klüber Lubrication

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

Klüber offers a unique range of specialty lubricants and tribological solutions coupled with know-how from over 70 years research and development work and practical experience with customers. In 2002, the company reported sales of 262 million Euro and had a workforce at year-end of 1,473, 51 higher than the previous year. In an economic climate characterized by continued stagnating demand for lubricants and by negative currency effects, Klüber won additional market shares and increased sales by 4 percent compared with the year-earlier figure. Growth was strongest in the automotive sector as well as the food and textile industries. Klüber purchased the MADOL product line in the USA in 2002 to strengthen business with the textile industry.

Klüber again expanded its global production and sales capacities in 2002. In order to meet growth targets, the company began expansion at its main plant in Munich. The first of three expansion phases has been completed. Extending research and development capacities safeguards the location in the long term and creates new jobs. Klüber also expects to see growth in the NAFTA (North American Free Trade Agreement) zone, and therefore began construction of a new plant in Querétaro/Mexico in October 2002. Production is scheduled to commence in fall 2003 and the plant will serve customers in North, Central and South America as well as the local market.

Klüber stepped up its activities in Asia. Both the new sales company in Shanghai and the sales organizations in Australia, South East Asia and India were instrumental in improving the sales situation. In Japan, further shares in the minority holding NKL (NOK Klüber Lubrication) were purchased.

In 2002, Klüber finalized more than 35 product **innovations**. These included a synthetic special oil for use in tablet presses. The new product has been specially developed and tested for compatibility with bronze guide rails, upper and lower punches of hardened steel and contact with cast iron. Thanks to this innovative product, the reject rate from discoloring for high-quality pharmaceutical products can be drastically reduced.

Prospects: Following a successful first quarter, Klüber expects to see stable growth during the current fiscal year despite negative exchange rate effects.

www.klueber.com

Freudenberg Building Systems

Freudenberg Building Systems manufactures high-quality rubber floorcoverings under the nora® brand name and shoe components. The largest market is the construction industry where conditions on many regional markets and in almost all market segments were significantly worse than forecast. The situation was particularly bad in the German construction industry. Against this backdrop, sales by Freudenberg Building Systems fell by 4 percent to 145 million Euro. At year-end 2002, the company had a workforce of 920.

Compared with competitors, Freudenberg Building Systems nevertheless produced a good performance. Positions on core markets, particularly global market leadership for rubber **floorcoverings**, were maintained or even expanded. Investments made in recent years on the strategically important markets in Asia, and in particular on the Chinese market, have proved their worth. The market position was substantially expanded. In Shanghai, Freudenberg Building Systems provided the floorcoverings for the stations of the prestigious Transrapid mag-lev railway. The Euro exchange rate had a negative impact in Asia and, more particularly, the USA.

The **Shoe Components** Division, which mainly produces orthopedic shoe products, also struggled with a slight market downturn. Sales by Freudenberg Building Systems in this sector fell by some 2 percent. The company nevertheless remained the market leader in Europe for orthopedic shoe products and repairs.

The cost-cutting program launched in March of last year has been successful.

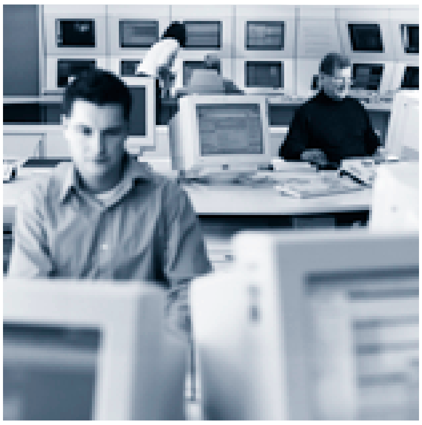
Prospects: Conditions in the construction industry will continue to deteriorate. Nevertheless, Freudenberg Building Systems forecasts a rise in sales during the current fiscal year. The company expects to see a substantial improvement in competitiveness as cost-cutting projects and focused customer orientation take effect. Above-average growth is predicted for the USA and Asia.

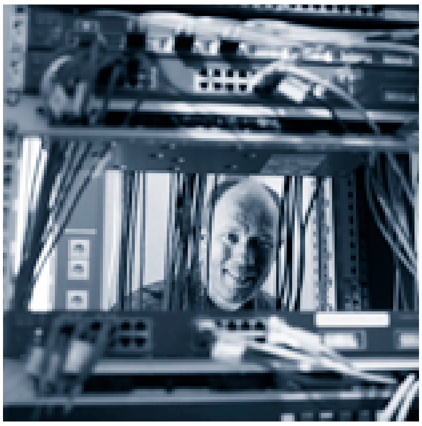
www.nora.com

Training (top) is part of the Freudenberg Building Systems Service

Rubber floorcoverings (bottom) are also ideal for stairs

Freudenberg IT





The help desk is always busy (top)

Hardware has to be flexible (bottom)

Freudenberg IT is an IT service provider specializing in business organization, information processing and the operation of business management systems. The company is active in a sector characterized by slow economic conditions and very restrained investment behavior. Nevertheless, Freudenberg IT produced a stable performance atypical of the sectoral trend. Sales in 2002 amounted to 52 million Euro (2001: 50 million Euro). While internal sales (sales to other companies in the Freudenberg Group) fell slightly, external sales rose, accounting for a share of approximately 40 percent. At year-end, Freudenberg IT had a workforce of 361.

Freudenberg IT continued to sharpen its profile as an integration and portal expert. As First Customer for SAP Enterprise Portal and by setting up the Freudenberg Group portal, Freudenberg IT and its consultancy subsidiary **e-Freudenberg** have acquired extensive know-how, generating a competitive edge. Effective January 1, 2003, e-Freudenberg GmbH was integrated into Freudenberg IT KG to improve the coordination of business management and IT services and to offer attractive service packages.

ADICOM AG, in which Freudenberg IT acquired a majority stake in 2001, has made its MultiResourceManagement (MRM) software fully Internet-compatible and enhanced graphic presentation. For customers, problem-free migration to the new system is possible. Following an order from a major German logistics corporation to compile suppliers' time sheets, Freudenberg IT-ADICOM have become one of the five largest companies in this segment.

Prospects: During the current fiscal year, Freudenberg IT will intensify its marketing activities to enhance familiarity with the company's name. There will be profitable expansion of ADICOM business, and the activities of the entire company will become more international.

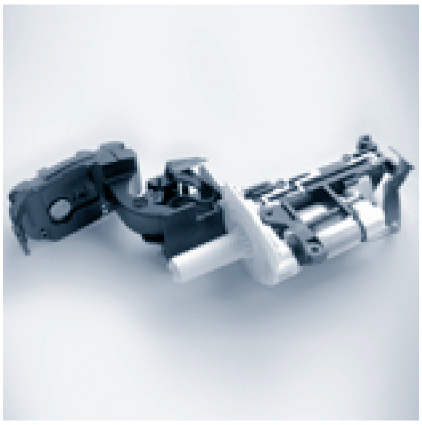
www.freudenberg-it.com

Freudenberg Mektec

Freudenberg Mektec is a joint venture with the Japanese company Nippon Mektron. Freudenberg Mektec manufactures flexible PCBs, flexible multilayer circuit boards and fineline products for use in telecommunications, data technology, automotive products, metering and control technology and consumer goods. The crisis in the European electronics industry continued in 2002. Sales by Freudenberg Mektec plummeted by 30 percent in the telecommunications sector and 55 percent in the data technology segment, a negative development which could not be offset by rises in sales to automotive customers and the general industry sector of 10 respectively 30 percent. Sales fell by 45 million Euro to 40 million Euro.

In order to safeguard the long-term prospects for the PCB business, the partners Freudenberg and Nippon Mektron have initiated far-reaching restructuring measures. In view of the migration of telecommunication and computer producers to Asia, Freudenberg Mektec will in future concentrate on the automotive industry, mechanical engineering, medical and sensor technology and household goods, and will be integrated more closely into the Nippon Mektron international alliance. Nippon Mektron has therefore acquired a majority (55 percent) stake in the joint venture with plants in Erkelenz and Weinheim/Germany and Budweis/Czech Republic with a total workforce of 415. Both partners will continue to hold a 50 percent share in the Hungarian facility at Pécel with its workforce of 128.

www.mektec.com



Flexible PCBs in equipment to measure glucose levels in the blood

Freudenberg Leather

Sculpture of a tanner outside the visitors' pavilion at the "Zwischen Dämmen" plant in Weinheim

Leather production at Freudenberg ceased with the closure of the Weinheim tannery on September 30, 2002. This step became necessary as the small Leather Division had been reporting a high loss for several years and was also hit by the BSE crisis and foot-and-mouth disease. Towards the end, Freudenberg was only active on the niche market for superlative calf leather. The luxury segment, however, has been particularly hard hit by the weak global economy and consumer uncertainty following the events of September 11, 2001. As a result, there was no chance to return to profit, either in the short or in the long term.

In 2002, the Leather Division posted sales of 16 million Euro. Closure of the tannery, working off orders and clearing finished goods proceeded to plan, and all stock was sold.

New jobs (38 with other Freudenberg Group companies) were found for 64 of the 121 employees. By mutual agreement, a further 20 employees terminated their contracts of employment (partial retirement, retirement, re-training, parental leave).

Freudenberg Systems and Tool Engineering

Freudenberg Systems and Tool Engineering is a service company in the Freudenberg Group specializing in systems and tool engineering. In 2002, sales by the company amounted to approximately 40 million Euro. The decline in sales compared with the previous year is primarily due to organizational changes: In October 2001, the **Industrial Engineering** Subdivision with a workforce of just under 400 was transferred to Freudenberg Service Support. The company took over tool engineering at Freudenberg's Neuenburg and Langres facilities. Adjusted for disposals and additions, sales rose by 3 percent compared with the previous year. At year-end 2002, the company had a workforce of 443, 33 higher than 2001, of which 30 were employed in tool engineering at Langres.

The **Systems Engineering** Subdivision has developed a clear profile as a know-how developer for the Freudenberg Group. After a poor start, orders improved towards the end of the year and were in line with forecasts.

In the **Tool Engineering** Subdivision, the first six months of the year were difficult, chiefly since a smaller number of new product dimensions were required for the seals business.

At the Weinheim facility, Freudenberg Systems and Tool Engineering is responsible for **training** in all Group companies and with external companies. In September 2002, 99 young people began their training in Weinheim.

Prospects: For the current fiscal year, Freudenberg Systems and Tool Engineering expects to see positive developments and intends to further strengthen its position as a development partner for the Freudenberg Group.

www.faw-freudenberg.de

In Weinheim, Freudenberg Systems and Tool Engineering trains young people in promising professions

Freudenberg Research Services

Taking measurements at Freudenberg Research Services

Freudenberg Research Services is the technology "nerve center" of the Freudenberg Group, cooperating with the different Business Groups as a project partner for R&D. In a generally stagnant market environment, the company reported sales of 23 million Euro in 2002, representing an increase of 4 percent on the previous year. While internal sales with companies in the Freudenberg Group stagnated, projects with external customers increased. In addition to many small orders, major projects from external clients included development-stage investigations and analyses for a filling material manufacturer as well as development work and compounding for an automobile supplier. External orders accounted for 9 percent of sales.

Performance by the **Services** Subdivision was on a par with the previous year. Rising demand from external customers for damage analysis had a positive impact. In the **Development** Subdivision, the economic situation led to a decline in internal orders, while slight growth in sales for external orders was registered. In the **Patents, Brands and Information** Subdivision, sales were slightly up on the previous year.

The workforce totaled 215, representing a slight rise. One of the company's main objectives is to encourage young people with a scientific or technical background to join the Freudenberg Group. In 2002, 6 employees were placed in other Group companies.

Prospects: For the current fiscal year, Freudenberg Research Services expects to see moderate growth. Acquisition activities both within the Group and on the external market will be intensified. A special focus will be recruiting young scientific talent.

www.ffd-kg.de

Freudenberg Service Support

Freudenberg Service Support provides technical services and support for the Freudenberg Group and external customers. The company is an industrial park operator, and also erects plant and performs maintenance on buildings and machinery. Freudenberg Service Support is currently responsible for some 660,000 square meters of industrial site at 9 Freudenberg facilities. Sales in 2002 totaled 116 million Euro, 17 million Euro higher than the previous year. Adjusted for the take-over of the **Industrial Engineering** Subdivision of Freudenberg Systems and Tool Engineering and additional services (infrastructure and utilities), sales fell by 5 million Euro to some 95 million Euro. At year-end, Freudenberg Service Support had a workforce of 833.

The company's activities center on the **Weinheim facility**, where Ruhrgas AG completed construction of the new natural gas pipeline from Viernheim to Weinheim during 2002. Commissioning took place as planned on October 1, 2002. Under the gas delivery contract concluded with Ruhrgas AG in 2001, natural gas is delivered directly from supplier to consumer, resulting in substantial cost savings. Under the project to convert the "Müllheimer Tal" site, a former Freudenberg plant, into a residential estate, demolition work was completed in 2002 and site development work commenced.

Together with Freudenberg IT KG, Freudenberg Service Support was involved in the project to tie in the "Zwischen Dämmen" site with the Viernheim telecommunications exchange of Deutsche Telekom AG. The new line provides a second link with the public data networks and offers enhanced failure protection.

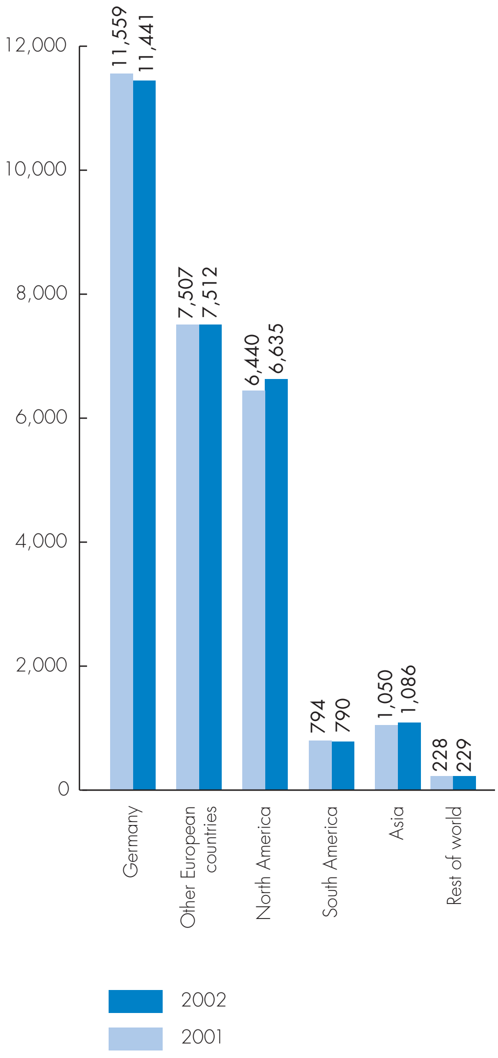
www.fse-kg.de

Industrial relocation is one of the services provided by Freudenberg Service Support


BOLEY



simrit
simrit

Workforce by regions

Human Resources

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 of the Freudenberg Group. They have made a valuable contribution to safeguarding existing jobs and creating new ones.

On December 31, 2002 the Freudenberg Group employed 27,693 people, 115 more than the previous year. The increase is primarily attributable to higher manpower in North America (plus 195) and Asia (plus 36), while the workforce in Germany declined by 118. The low payroll of 1,086 in Asia is due to the partnership strategy, particularly regarding the partnerships with NOK and JVC whose participations are not consolidated. Personnel expenses of the Freudenberg Group in 2002 amounted to 1,264 million Euro.

At Freudenberg, human resources work is the responsibility of the Business Groups and Divisions in keeping with the organizational structure of the Group. Based on the systematic decentralized principle, the Human Resources/Principles/Senior Executives Corporate Function, together with individual sections of the Freudenberg Group, work on the implementation of the FUEL (Freudenberg Unfolds Entrepreneurial Leadership) HR development concept, designing personnel management tools in line with company and market profiles. FUEL and the majority of the other HR concepts are designed to offer flexible implementation within an overall framework defining the standard of HR work within the Group.

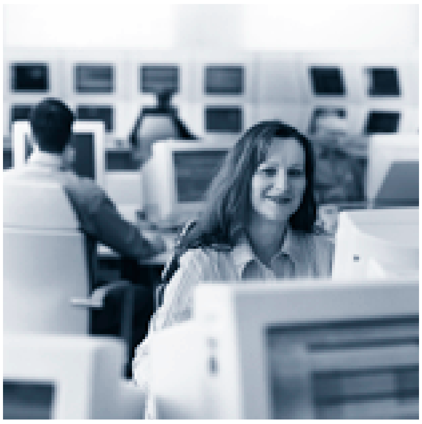
In addition, the **Social Services** Corporate Function assists German companies in the Freudenberg Group with all matters relating to pensions, housing loan assistance and welfare assistance. In 2002, the Freudenberg housing assistance fund established in 1949 supported 59 associates in purchasing or building residential property. The fund has provided assistance for 12,892 properties since it was established.

Over 500 young people were **training** at Freudenberg's German companies in 2002, 180 having commenced their apprenticeships in September 2002. The spectrum of training ranges from a two-year commercial or technical course to the dual system of learning at universities of cooperative education. The quality of training at Freudenberg is well respected, as is confirmed by the fact that some of the other companies located in Weinheim train their young people at Freudenberg.

Today, there is competition for talent at all levels, and Freudenberg has therefore stepped up its personnel marketing activities. These range from the joint presence of Freudenberg companies at universities or graduate recruitment fairs to open days for prospective trainees as well as leaflets and brochures aimed at different target groups.

The **TANNER** youth exchange scheme was established when the Freudenberg Group celebrated its 150th anniversary in 1999. The scheme offers the children and grandchildren of Freudenberg employees the chance to gain first-hand experience of different cultures by spending time with a guest family (also from the Freudenberg Group) abroad. Since the program was launched, 349 young people have traveled with TANNER. Last year, 75 youngsters journeyed abroad, with Sweden and Italy (14 places each) the most popular host countries.

Apart from FUEL, a second key element of HR development at Freudenberg is the creation of an open feedback culture, doing away with the anonymous approach to personnel communication. This approach is incomparably more ambitious than conventional performance assessment which, per se, is only based on the past. Open feedback identifies opportunities for continuous business-oriented achievement enhancement. The feedback process was initiated at management board level and has met with a very positive response throughout the Group. The method has also been well received in other cultural spheres. The 360° feedback pilot project implemented in China last year was a recognized success.



Freudenberg Systems and Tool Engineering (far left)

Freudenberg IT help desk (left)

Environmental Protection and Occupational Safety

Environmental protection and occupational safety have a long tradition at Freudenberg, not least for reasons of prudent resource management. In 1993, the Freudenberg Group published the first guidelines for environmental protection and occupational safety valid at the Group's locations throughout the world. During subsequent years, a management system for environmental protection and occupational safety at all sites was introduced, with continuous updates reflecting far-sighted decisions by the Management Board. Duties and responsibilities have been mandated to the management of the Business Groups and Divisions.

The guidelines and action programs of the Freudenberg Group clearly demonstrate that in terms of sustainable development, the same importance is attached to environmental protection and occupational safety as to the Group's economic objectives. The HSE Officers at the Group's sites ensure that local regulations and internal guidelines are part and parcel of every employee's daily routines. All senior staff have a responsibility to heighten their employees' awareness of environmental protection and occupational safety and bring home the need for proactive personal participation. These requirements apply for all Freudenberg facilities worldwide where the Group has operative control. At all other locations, appropriate agreements with partners are sought.

The Environmental Protection and Occupational Safety Corporate Function reports direct to the Management Board, providing the Business Groups and Divisions with support, preparing decisions taken by the Management Board, evaluating findings and results, and promoting communication and feedback throughout the Group. Companies and sites can access the relevant working documents via the Intranet, promoting the interdisciplinary use of know-how.

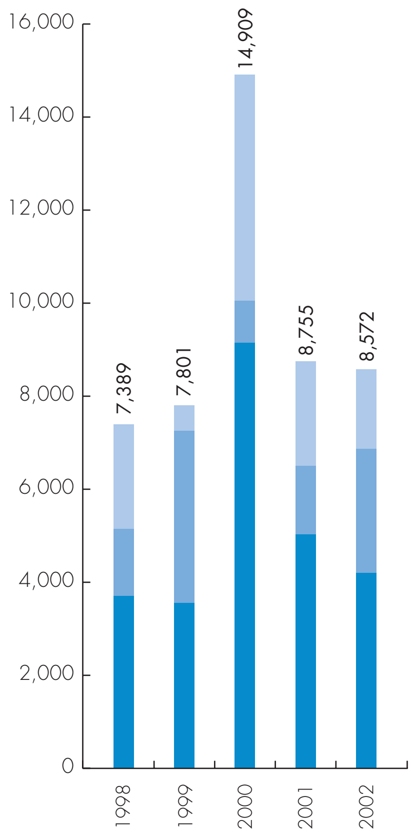
Informing and advising customers

Three-quarters of all Freudenberg products are processed further by our customers before reaching the market. The Freudenberg Group is well aware that it shares responsibility with customers for environmental protection and occupational safety. All relevant issues are clarified in advance with customers. Freudenberg companies also manufacture several end products (vileda®, nora®) that not only meet stringent environmental standards and safety requirements, but also show excellent durability.

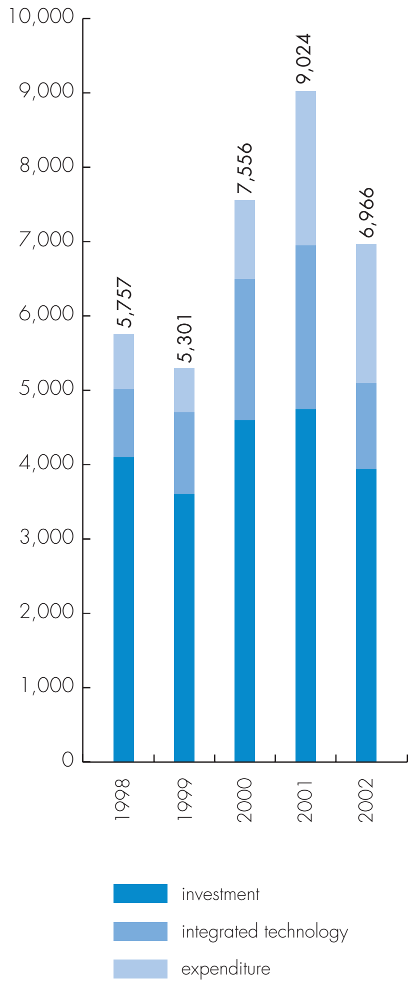
Investment in environmental protection and occupational safety

In line with potential dangers and impact, investment focuses on occupational safety, airborne emissions, waste water and soil conservation.

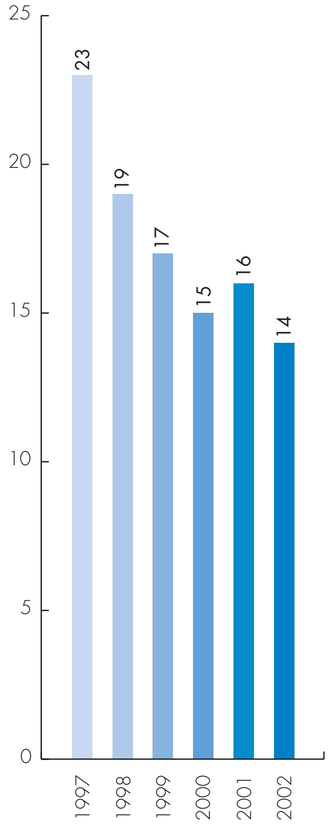
While in the past investment mainly concerned technical measures at the end of the production process such as exhaust air treatment, nowadays measures are being integrated into the production process itself. For example, a closed process water circuit is now often the preferred option to downstream waste water treatment. The non-capitalized expenditure detailed in the investment graph, for example, concerns the refurbishment of drains or the replacement of asbestos cement.



Net investment in environmental protection thousand Euro



Net investment in occupational safety thousand Euro



Accident rate
Accidents per 1,000 employees

Environmental impact

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.

Weinheim, the Group's largest facility with some 6,700 employees, has its own sewage treatment plant and its own landfill. Valuable empirical feedback on how production processes affect waste water treatment and landfilling is gathered here. This information, together with other data, is distributed throughout the world via an international internal network and has an impact on daily working procedures.

Further success in accident prevention

The accident statistics at the Group's plants throughout the world have been falling for years, and are already well below industry averages (with mandatory reporting applying for all accidents resulting in more than three days absence from work). Accident figures went up again for the first time in 2001, and a concerted effort was made in 2002 to improve the situation. It is now a stated objective of the Freudenberg Group to bring the accident rate at all facilities to below 10 per 1,000 employees as soon as possible. In 2002, the company requested all production sites to reorganize their occupational safety management systems to comply with the internationally recognized OHSAS 18001 standard during the course of 2003. An independent audit conducted during 2004 will confirm compliance. Special measures were agreed with the Environmental Protection and Occupational Safety Corporate Function for facilities with a disproportionately high number of accidents, and implemented. In 2002, efforts focused on plants in Italy, France and Mexico.

Eco-audits by independent inspectors

By 2003, Group production facilities will have been certified by independent inspectors for compliance with the ISO 14001 international environment standard. By the end of 2002, 70 plants had already been inspected, representing well over 50 percent of all facilities. Plants taken over by the Group have a 4-year transition period.

The first certification was issued in Italy in 1995. Several plants in Asia, South America and the USA have also received certification.

Preventive action

It is a fundamental principle at 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 widely from country to country. Freudenberg has therefore developed an approach that satisfies the company's own standards as well as meeting market requirements. A list of substances has been drawn up and has been available on the Intranet for Freudenberg development engineers and chemicals safety experts since 2000.

In 2002, many sites again gave high priority to using non-critical substances where possible. This is an important aspect of sustainable development in the Freudenberg Group.

"We all take care"

The new "We all take care" corporate initiative launched at a meeting of senior Freudenberg executives from all over the world in 2002 highlights the importance of environmental protection and occupational safety at Freudenberg. Even though Freudenberg's accident statistics bear scrutiny compared with other companies, every accident is one too many. The "We all take care" initiative is therefore intended to motivate every manager and every employee to participate in a vigorous and dedicated improvement process in the spirit of the company's "Responsibility" Guiding Principle, with the aim of substantially reducing the number of accidents at work. The initiative will honor the success, progress and achievements of those who participate. Occupational safety will become anchored more strongly in the hearts and minds of Freudenberg associates.

To achieve this goal, all sites around the world are requested to report projects concerned with any aspect of occupational safety, environmental protection and product safety. There should be at least one project per site per year. As an additional motivation, the Management Board has introduced the "We all take care" Award together with other accolades for exemplary action. These awards will be conferred at Business Group level by expert juries and the Management Board. The idea behind the awards is that good projects set an example for others and stimulate new ideas. The "We all take care" Award will be presented for the first time in 2004.

Poster for the "We all take care" initiative

Innovative flat cabling for car seats, Freudenberg NOK Mechatronics (main photo)

Gas diffusion layer for fuel cells, Freudenberg Fuel Cell Components Technology (top insert)

Working with a scanning electron microscope, Freudenberg Research Services (bottom insert)

Innovation

In line with Freudenberg's decentralized structure, customer- and product-oriented research and development are primarily the responsibility of the Business Groups and Divisions. Freudenberg Research Services handle basic research commissioned by other companies in the Group or by external clients. In addition, the newly-established companies Freudenberg NOK Mechatronics, Freudenberg Fuel Cell Components Technology, Freudenberg Venture Capital and first*PET commenced operating during the period under review.

Last year, Freudenberg Research Services continued its work on the **development of new and improved elastomers.** Apart from improving mechanical properties, particularly durability, medium compatibility (e.g. additives/amines in oils), enhanced temperature resistance and reduced dynamic hardening, environmental compatibility was also a top priority. New elastomer blends with significantly improved mechanical properties that do not form nitrosamines during and post vulcanization were presented in 2002. A further focus of work concerned reducing the zinc compounds required for vulcanization by replacing them with nano-scale products.

Work on developing new **polyurethane materials** succeeded in manufacturing blends with extremely low release levels of low-molecular components during use, a requirement often formulated by the automotive industry.

As regards the manufacture of coatings, efforts were stepped up to develop water-based systems (latex mixtures) that do not contain any solvents. In one application, a solvent-based bonding adhesive could be replaced by an environmentally-compatible plasma treatment. This marks the continuation of efforts to bring about a reduction in heavy metals used in elastomers and bonding adhesives.

The **6th Framework Programme for Research and Technological Development (2002 – 2006) of the European Union** was passed in 2002. Freudenberg participated in expressions of interest in future EU-funded research and development projects submitted by many groups composed of scientific institutions and industrial enterprises, thus making a proactive contribution to formulating a concrete EU working program. The focal themes were **fuel cells** and **nanotechnology**. These themes were also the subject of applications for research and development filed with the Federal Ministry for Education and Research in 2002.

Compared with previous years, the projects for which funding is requested under either the EU or the German government scheme center more strongly on medium- and long-term topics as well as being of a more pronounced interdisciplinary nature with a higher financial profile. These research projects are in line with the company's self-image to focus innovation on a higher-expenditure, longer time horizon.

Freudenberg NOK Mechatronics was established last year as a new technology development company by the long-standing partners Freudenberg and NOK. The goal is to adapt present knowledge of flexible PCB integration technology to the needs of the automobile industry. 3D integration technology is a combination of large-area flexible PCBs and diverse materials such as seals, nonwoven, plastic or metal supports, etc. The integration of diodes, switches, sensors, electronics, etc. 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 or roof modules.

Freudenberg Fuel Cell Components Technology (FFCCT) 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 classical 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.

Freudenberg Venture Capital was established to identify 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. More than 200 enquiries were processed in 2002, some 50 of which were reviewed jointly with the relevant Business Areas.

first*PET is planned as a joint venture between the Freudenberg Group, Weinheim, and the Rethmann Group, Selm, for the global recycling of PET beverage bottles. The company produces high-quality PET materials from used PET bottles thanks to an innovative technology. Both partners contribute their extensive know-how in the fields of PET bottle recycling, waste logistics and nonwovens manufactured from recycled materials. Almost 16 million Euro was invested in the new Kaiserslautern plant, creating 33 new jobs. The project receives funding from the European Union and the state of Rheinland-Pfalz.

Financial Report – Consolidated Financial Statements

Consolidated Balance Sheet as at December 31, 2002

[million €]	Notes	Dec. 31, 2001	Dec. 31, 2002
Assets			
Intangible assets		225.0	264.0
Tangible assets		1,334.1	1,252.6
Financial assets		276.2	281.2
Fixed assets	**(1)**	**1,835.3**	**1,797.8**
Inventories	(2)	619.6	599.0
Trade receivables	(3)	646.6	621.8
Miscellaneous receivables and other assets	(3)	188.7	173.7
Securities and cash at bank and in hand	(4)	72.3	36.7
Current assets		**1,527.2**	**1,431.2**
Prepayments and deferred charges		**9.3**	**10.1**
Deferred taxes		**26.8**	**37.3**
		3,398.6	**3,276.4**
Equity and liabilities			
Partners' capital		250.0	250.0
Retained earnings		1,298.9	1,253.0
Partners' equity	**(5)**	**1,548.9**	**1,503.0**
Minority interests	**(5)**	**147.7**	**116.5**
Provisions for pensions and similar obligations	(6)	339.5	330.6
Other provisions	(7)	303.7	307.1
Provisions		**643.2**	**637.7**
Financial debt		519.2	458.0
Trade payables		261.8	273.3
Other liabilities		199.7	194.4
Liabilities	**(8)**	**980.7**	**925.7**
Deferred income		**0.5**	**5.3**
Deferred taxes		**77.6**	**88.2**
		3,398.6	**3,276.4**

Consolidated Income Statement

from January 1 to December 31, 2002

[million €]	Notes	2001	2002
Sales		4,008.9	3,917.8
Changes in inventories of finished goods and work in progress and other own work capitalized	(9)	11.5	6.7
Gross performance		**4,020.4**	**3,924.5**
Other operating income	(10)	158.6	141.9
Material expenses	(11)	-1,651.7	-1,583.6
Personnel expenses	(12)	-1,269.3	-1,264.3
Depreciation and amortization of tangible and intangible fixed assets		-237.8	-202.3
Other operating expenses	(13)	-760.5	-759.6
Profit from operations		**259.7**	**256.6**
Financial result	(14)	-18.9	-11.1
Profit before income taxes		**240.8**	**245.5**
Income taxes	(15)	-90.9	-93.7
Minority interests	(16)	-16.0	-14.8
Net income		**133.9**	**137.0**
Partners' taxes	*(17)*	*7.9*	*-22.0*

Cash Flow Statement

[million €]	2001	2002
Net income	133.9	137.0
Minority interests in profits/losses	16.0	14.8
Depreciation on fixed assets	237.8	202.6
Increase in provisions	34.2	11.1
Other expenditure and income not affecting payment	-7.2	-10.6
Profit on disposal of fixed assets	-35.3	-10.1
Changes in inventories, trade receivables and other assets	14.7	-45.5
Changes in trade payables and other liabilities	-49.0	55.8
Cash flow from operating activities	**345.1**	**355.1**
Cash inflow from disposals of tangible and intangible fixed assets	29.7	26.2
Cash outflow for acquisition of tangible and intangible fixed assets	-244.3	-243.6
Cash flow from investments in and disposal of financial assets	0.1	1.6
Cash flow from acquisition and disposal of consolidated companies	50.2	-70.8
Cash flow from investing activities	**-164.3**	**-286.6**
Payments to partners and minority shareholders	-46.8	-66.6
Change in financial debt	-94.9	-35.8
Cash flow from changes in loans and investments held as fixed assets	-0.6	-0.1
Cash flow from financing activities	**-142.3**	**-102.5**
Changes in cash and cash equivalents with effect on payments	**38.5**	**-34.0**
Changes in cash and cash equivalents from changes in consolidated companies	4.5	0.7
Changes in cash and cash equivalents from exchange rate differences	-0.3	-2.5
Cash and cash equivalents at beginning of year	**29.6**	**72.3**
Cash and cash equivalents at end of year	**72.3**	**36.5**
Securities held as current assets	0.0	0.2
Total liquid assets	**72.3**	**36.7**

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, 2001	**245.4**	**1,222.4**	***0.0***	**1,467.8**	**135.0**	**1,602.8**
Capital increase	4.6			4.6		4.6
Net income		133.9		133.9	16.0	149.9
Application of profit		-41.4		-41.4	-6.5	-47.9
Exchange rate differences		-22.2	*-22.2*	-22.2	4.3	-17.9
Other changes		6.2		6.2	-1.1	5.1
at December 31, 2001	**250.0**	**1,298.9**	***-22.2***	**1,548.9**	**147.7**	**1,696.6**
Net income		137.0		137.0	14.8	151.8
Application of profit		-51.6		-51.6	-3.2	-54.8
Exchange rate differences		-122.7	*-122.7*	-122.7	-16.0	-138.7
Other changes		-8.6		-8.6	-26.8	-35.4
at December 31, 2002	**250.0**	**1,253.0**	***-144.9***	**1,503.0**	**116.5**	**1,619.5**

The effects of the market valuation of financial instruments are included in the retained earnings and are not significant.

Statement of Changes in Fixed Assets

[million €]	Intangible assets	Tangible assets	Financial assets	Total
Purchase/production cost				
Status Jan. 1, 2002	**395.6**	**3,080.8**	**62.7**	**3,539.1**
Changes in consolidated companies	-1.5	-17.5	-1.5	-20.5
Exchange rate differences	-28.4	-181.8	-0.3	-210.5
Additions	89.9	197.2	19.6	306.7
Write-ups/revaluations	0.0	0.2	0.0	0.2
Disposals	-8.0	-121.8	-5.1	-134.9
Reclassifications	1.0	-2.3	0.0	-1.3
Status Dec. 31, 2002	**448.6**	**2,954.8**	**75.4**	**3,478.8**
Depreciation				
Status Jan. 1, 2002	**170.6**	**1,746.7**	**0.4**	**1,917.7**
Changes in consolidated companies	-4.2	-13.2	0.0	-17.4
Exchange rate differences	-9.7	-103.3	-0.1	-113.1
Additions – systematic	33.0	169.3	0.0	202.3
Impairment losses	0.0	0.0	0.3	0.3
Write-ups/revaluations	0.0	0.0	0.0	0.0
Disposals	-5.0	-96.1	0.0	-101.1
Reclassifications	-0.1	-1.2	0.0	-1.3
Status Dec. 31, 2002	**184.6**	**1,702.2**	**0.6**	**1.887.4**
Accumulated equity adjustment	**0.0**	**0.0**	**206.4**	**206.4**
Book value Dec. 31, 2002	**264.0**	**1,252.6**	**281.2**	**1,797.8**
Book value Dec. 31, 2001	225.0	1,334.1	276.2	1,835.3

Notes to the Consolidated Financial Statements

General

The consolidated financial statements of Freudenberg & Co. Kommanditgesellschaft, Weinheim, have been drawn up for 2002 for the first time in in accordance with International Accounting Standards (IAS, in future IFRS) and the interpretations of the Standing Interpretations Committee (SIC) 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 is a partnership, it does not meet the requirements of Section 292a of the German Commercial Code concerning exemption. Freudenberg & Co. Kommanditgesellschaft therefore also draws up and publishes financial statements in accordance with the German Commercial Code.

The first-time application of IAS has resulted in the following main changes in accounting, valuation and consolidation methods compared with the requirements of the German Commercial Code:

- The useful lives and depreciation methods, which are based on tax principles, have been amended to reflect the economic life of assets within the company. Special tax depreciations and transfers from special items with an equity portion have been eliminated.

- In accordance with IAS 17, leased tangible assets are capitalized as assets if the risks and rewards incident to ownership are transferred to Freudenberg companies. The resulting liability is also shown in the balance sheet.

- Receivables and payables denominated in foreign currencies are converted at the closing rate at the balance sheet date.

- Deferred taxes are determined by the liability method in accordance with IAS 12. Deferred tax assets in connection with losses carried forward are shown as assets if it is expected that such losses will be utilized by the company in the future.

- Tax items resulting from taxes on the results of Freudenberg Group companies attributable to the partners in Freudenberg & Co. Kommanditgesellschaft are not shown.

- In accordance with IAS 19, provisions for pensions are determined by the projected unit credit method taking into account trends in salaries and pensions.

- Provisions without obligations to a third party (e.g. provisions for maintenance expenses), may be included in the consolidated financial statements in accordance with the German Commercial Code. The requirements of IAS that these provisions are not allowed to be shown as liabilities is observed. Medium and long-term liabilities are discounted if the amount of such discount is significant.

- Derivative financial instruments are shown at fair value. Changes in the value of derivatives for future cash flows are shown as a separate item, with no effect on net income, under partners' equity. Changes in the value of derivatives for hedging balance sheet items are recorded with an effect on net income.

- Exchange rate differences resulting from the translation of financial statements are taken into account with no effect on net income.

- Minority interests are shown as a separate item not included in partners' equity.

The valuation adjustments made as a result of the transition from the German Commercial Code requirements to IAS lead to the following changes in partners' equity and net income:

	[million €]
Partners' equity in accordance with German Commercial Code as at January 1, 2001:	**1,208.1**
Changed useful lives and depreciation methods for tangible and intangible fixed assets and elimination of tax depreciation	360.8
Change in valuation of pension obligations	-37.2
Presentation of minority interests outside partners' equity	-137.9
Other effects	74.0
Partners' equity in accordance with IAS as at January 1, 2001	**1,467.8**
Partners' equity in accordance with German Commercial Code as at December 31, 2001	**1,314.9**
Changed useful lives and depreciation methods for tangible and intangible fixed assets and elimination of tax depreciation	351.0
Change in valuation of pension obligations	-20.9
Presentation of minority interests outside partners' equity	-148.8
Other effects	52.7
Partners' equity in accordance with IAS as at December 31, 2001	**1,548.9**
Net income 2001 in accordance with German Commercial Code	**148.3**
Minority interests	-16.0
Effects of the revaluation of fixed assets	-5.9
Effects of the revaluation of provisions	15.5
Non-recognition of partners' taxation	-7.9
Other effects	-0.1
Net income 2001 in accordance with IAS	**133.9**

Companies included in the consolidation

Apart from Freudenberg & Co. Kommanditgesellschaft, 69 German and 167 foreign companies in which Freudenberg & Co. Kommanditgesellschaft directly or indirectly holds a majority of the voting rights are fully consolidated in the consolidated financial statements.

In addition, 10 German and 33 foreign companies have been consolidated by the pro-rata method. Their overall effect on the consolidated financial statements is not significant.

8 German and 10 foreign companies have not been included because they are only of minor importance.

In accordance with the stipulations concerning associated companies, 4 German and 9 foreign companies are shown in the consolidated financial statements.

The main shareholdings of the Freudenberg Group are listed in "Major Group companies and shareholdings" on pages 77 – 79.

In the year under review, 27 companies were included in the consolidated financial statements as fully consolidated affiliates for the first time. 5 companies which had previously been **fully consolidated** were no longer included as a result of sale, liquidation or merger.

Apart from an increase in the number of companies as a result of the establishment of new companies, especially the spare parts business of Seals and Vibration Control Technology North America in particular was reinforced by the acquisition of 100 percent of the shares in Nu-Seals, Inc. (with effect from June 1, 2002) and Transcom, Inc. (with effect from July 1, 2002) for a total of 17.4 million Euro. In addition, the Freudenberg stake in Meillor S.A. was raised to 100 percent by acquiring Celin ApS, which holds 46.2 percent of the shares in Meillor.

3 companies were consolidated by the **pro-rata method** for the first time in 2002.

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. 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 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.

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 book value 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. Inter-company 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. Kommanditgesellschaft and the consolidated companies. All the annual accounts concerned were drawn up as of December 31.

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 impairment of assets has been complied with both for fixed and for current assets. The updated acquisition or production cost represents the upper limit of valuation in such cases.

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

Systematic depreciation is based on the following useful lives:

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

In the income statement, depreciation on goodwill carried as fixed assets 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 purchase 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 always shown as expenses. Such expenditure is only capitalized if it results in an extension or significant improvement in the asset concerned.

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

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

Assets with a limited useful life are depreciated over their expected useful lives. Movable fixed assets and industrial buildings are depreciated in accordance with actual use. This approach normally corresponds to straight-line depreciation.

Systematic depreciation is chiefly 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.

In accordance with IAS 17, fixed assets leased under finance leases are recognized as assets 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 purchase cost or 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 purchase 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 sale. Such securities are therefore recorded at the fair value as of the balance sheet date.

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

Provisions for pensions and similar obligations 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 sheet and the commercial balance sheet, taking into account the applicable national income tax rates. 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 result in an outflow of resources with a probability of more than 50 percent. 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 repayment or settlement value. 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 of 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, cancelled or expires.

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 investments held as current assets.

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.

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. The resulting exchange rate differences (exchange rate gains 44.1 million Euro and exchange rate losses 39.6 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 hyper-inflationary economies.

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

- Balance sheet items are translated at the middle rate as of the balance sheet date.
- Profit and loss account items are translated at average annual exchange rates.
- Differences arising from the use of different exchange rates for the balance sheet and the profit and loss account 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, 2001	Dec. 31, 2002	2001	2002
Argentina	ARS	1.4994	3.5260	0.8922	3.1141
Brazil	BRL	2.0574	3.7112	2.0974	2.8709
Great Britain	GBP	0.6088	0.6502	0.6197	0.6295
Japan	JPY	115.7200	124.1900	108.8310	118.0980
USA	USD	0.8820	1.0415	0.8922	0.9506

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
Purchase/production cost				
Status Jan. 1, 2002	**89.1**	**304.0**	**2.5**	**395.6**
Changes in consolidated companies	-1.0	-0.5	0.0	-1.5
Exchange rate differences	-6.1	-21.8	-0.5	-28.4
Additions	41.5	44.2	4.2	89.9
Write-ups/revaluations	0.0	0.0	0.0	0.0
Disposals	-4.1	-3.5	-0.4	-8.0
Reclassifications	1.1	-0.1	0.0	1.0
Status Dec. 31, 2002	**120.5**	**322.3**	**5.8**	**448.6**
Depreciation				
Status Jan. 1, 2002	**55.6**	**112.6**	**2.4**	**170.6**
Changes in consolidated companies	-0.9	-3.3	0.0	-4.2
Exchange rate differences	-3.8	-5.6	-0.3	-9.7
Additions – systematic	13.4	19.6	0.0	33.0
Impairment losses	0.0	0.0	0.0	0.0
Write-ups/revaluations	0.0	0.0	0.0	0.0
Disposals	-2.1	-2.9	0.0	-5.0
Reclassifications	0.0	-0.1	0.0	-0.1
Status Dec. 31, 2002	**62.2**	**120.3**	**2.1**	**184.6**
Book value Dec. 31, 2002	**58.3**	**202.0**	**3.7**	**264.0**
Book value Dec. 31, 2001	33.5	191.4	0.1	225.0

Tangible assets

[million €]	Land and buildings	Machinery and equipment	Other fixtures, fittings and office equipment	Payments made on account	Work in progress	Total
Purchase/production cost						
Status Jan. 1, 2002	**680.2**	**1,806.3**	**508.4**	**20.5**	**65.4**	**3,080.8**
Change in consolidated companies	0.5	-18.1	0.5	-0.4	0.0	-17.5
Exchange rate differences	-36.7	-119.5	-19.6	-0.9	-5.1	-181.8
Additions	28.0	79.4	38.9	15.1	35.8	197.2
Write-ups/revaluations	0.0	0.1	0.1	0.0	0.0	0.2
Disposals	-9.0	-78.6	-32.3	-0.5	-1.4	-121.8
Reclassifications	13.7	50.3	4.2	-19.4	-51.1	-2.3
Status Dec. 31, 2002	**676.7**	**1,719.9**	**500.2**	**14.4**	**43.6**	**2,954.8**
Depreciation						
Status Jan. 1, 2002	**276.3**	**1,096.0**	**374.4**	**0.0**	**0.0**	**1,746.7**
Change in consolidated companies	-0.8	-14.4	2.0	0.0	0.0	-13.2
Exchange rate differences	-13.2	-75.4	-14.7	0.0	0.0	-103.3
Additions – systematic	21.1	105.6	42.6	0.0	0.0	169.3
Impairment losses	0.0	0.0	0.0	0.0	0.0	0.0
Write-ups/revaluations	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	-5.1	-62.9	-28.1	0.0	0.0	-96.1
Reclassifications	0.0	-0.7	-0.5	0.0	0.0	-1.2
Status Dec. 31, 2002	**278.3**	**1,048.2**	**375.7**	**0.0**	**0.0**	**1,702.2**
Book value Dec. 31, 2002	**398.4**	**671.7**	**124.5**	**14.4**	**43.6**	**1,252.6**
Book value Dec. 31, 2001	403.9	710.3	134.0	20.5	65.4	1,334.1

Government grants totaling 3.5 million Euro for tangible assets are included in the consolidated financial statements.

Leased assets (finance leases)

Leased assets are posted as follows under tangible fixed assets:

[million €]	Land and buildings	Other fixed assets	Total
Purchase/production cost			
Status Jan. 1, 2002	**27.5**	**7.1**	**34.6**
Change in consolidated companies	0.0	0.0	0.0
Exchange rate differences	-0.1	-0.1	-0.2
Additions	2.6	0.5	3.1
Write-ups/revaluations	0.0	0.0	0.0
Disposals	-0.7	-2.6	-3.3
Reclassifications	0.0	0.6	0.6
Status Dec. 31, 2002	**29.3**	**5.5**	**34.8**
Depreciation			
Status Jan. 1, 2002	**4.2**	**4.3**	**8.5**
Change in consolidated companies	0.0	0.0	0.0
Exchange rate differences	0.0	0.0	0.0
Additions – systematic	1.0	1.0	2.0
Impairment losses	0.0	0.0	0.0
Write-ups/revaluations	0.0	0.0	0.0
Disposals	-0.2	-2.0	-2.2
Reclassifications	0.0	0.2	0.2
Status Dec. 31, 2002	**5.0**	**3.5**	**8.5**
Book value Dec. 31, 2002	**24.3**	**2.0**	**26.3**
Book value Dec. 31, 2001	23.3	2.8	26.1

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.

	Up to 1 year [million €]	1 to 5 years [million €]	Over 5 years [million €]	Total [million €]
Finance leases				
Minimum lease payments	3.3	9.4	14.9	27.6
Discount	0.8	2.9	3.2	6.9
Present value	2.5	6.5	11.7	20.7
Operating leases				
Minimum lease payments	15.8	23.6	5.9	45.3

Minimum operating lease payments totaling 14.4 million Euro were recognized with an effect on net income.

Financial assets

[million €]	Shares in affiliated companies	Shares in associated companies	Other participations	Loans to other participations	Loans to companies in which an investment is held	Securities held as fixed assets	Other loans	Total
Purchase/production costs								
Status Jan. 1, 2002	**1.4**	**42.7**	**3.3**	**1.0**	**0.0**	**4.2**	**10.1**	**62.7**
Change in consolidated companies	-0.1	0.0	0.0	0.0	0.0	-0.1	-1.3	-1.5
Exchange rate differences	0.0	0.0	-0.1	0.0	0.0	-0.2	0.0	-0.3
Additions	0.1	2.6	15.6	0.0	0.0	0.6	0.7	19.6
Write-ups/revaluations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	-2.7	-0.9	0.0	0.0	-0.5	-1.0	-5.1
Reclassifications	0.0	0.0	1.0	-1.0	0.0	0.0	0.0	0.0
Status Dec. 31, 2002	**1.4**	**42.6**	**18.9**	**0.0**	**0.0**	**4.0**	**8.5**	**75.4**
Depreciation								
Status Jan. 1, 2002	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.3**	**0.0**	**0.4**
Change in consolidated companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate differences	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1
Additions – systematic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment losses	0.1	0.0	0.0	0.0	0.0	0.2	0.0	0.3
Write-ups/revaluations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	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	0.0
Status Dec. 31, 2002	**0.1**	**0.0**	**0.1**	**0.0**	**0.0**	**0.4**	**0.0**	**0.6**
Accumulated equity adjustment	**0.0**	**206.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**206.4**
Book value Dec. 31, 2002	**1.3**	**249.0**	**18.8**	**0.0**	**0.0**	**3.6**	**8.5**	**281.2**
Book value Dec. 31, 2001	1.4	256.6	3.2	1.0	0.0	3.9	10.1	276.2

(2) Inventories

Inventories break down as follows:

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Raw materials and consumables	171.0	163.8
Work in progress	70.1	60.4
Finished goods and merchandise	375.5	372.6
Payments made on account	3.0	2.2
	619.6	**599.0**

The fall in inventories was the result of exchange rate changes. As of the balance sheet date, write-down of inventories totaled 53.7 million Euro.

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

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Trade receivables	646.6	621.8
(of which with a residual term of more than 1 year)	(0.3)	(0.6)
Accounts receivable from affiliated companies	5.0	7.3
(of which with a residual term of more than 1 year)	(–)	(–)
Accounts receivable from associated companies	20.6	19.5
(of which with a residual term of more than 1 year)	(–)	(–)
Accounts receivable from other companies in which an investment is held	1.3	2.8
(of which with a residual term of more than 1 year)	(–)	(–)
Other assets	161.8	144.1
(of which with a residual term of more than 1 year)	(27.0)	(24.1)
	835.3	**795.5**

The fall in receivables and other assets is mainly the result of exchange rate changes. The amount shown for trade receivables takes into account write-downs totaling 16.5 million Euro made to allow for the risk of uncollectible amounts. The other assets include tax claims in the amount of 44.9 million Euro and pension plan assets in excess of the pension obligations of the pension plans concerned totaling 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

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Securities	–	0.2
Checks, cash on hand and cash at Bundesbank	3.1	2.1
Cash at banks	69.2	34.4
	72.3	**36.7**

(5) Partners' equity and minority interests

The development of partners' equity and minority interests is shown on page 50.

Partners' capital consists of:

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
General partners' capital	–	–
Limited partners' capital	250.0	250.0
	250.0	**250.0**

Retained earnings consist of:

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Partners' reserves	395.1	417.9
Group reserves	903.8	835.1
	1,298.9	**1,253.0**

Partners' reserves were increased by appropriation from the profit for the 2002 financial year in accordance with the Partnership Agreement. Group reserves were reduced by exchange rate fluctuations.

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 decline in minority interests from 147.7 million Euro in 2001 to 116.5 million Euro in 2002 is connected with the acquisition by the Group of the remaining shares in Meillor S.A., France.

(6) Provisions for pensions and similar obligations

The provisions for pensions mainly concern German companies. This item includes obligations arising from current pensions and future pension entitlements as well as obligations similar to pensions.

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 1.7 million Euro in 2002.

The value of provisions was calculated on actuarial principles by the projected unit credit method. For the German companies, a discount rate of 5.75 percent and a pension increase trend of 2.0 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 percent of the greater of the present value of pension obligations and the fair value of the pension plan assets. 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:

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Provisions for pensions	339.5	330.6
Other assets	-13.8	-17.7
Net pension obligations	**325.7**	**312.9**

Net pension obligations are calculated as follows:

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Present value of externally funded pension obligations	203.2	204.9
Fair value of plan assets	-202.1	-162.1
Deficit	**1.1**	**42.8**
Present value of unfunded pension obligations	330.6	324.3
Unrecognized actuarial gains/losses	-6.0	-53.1
Unrecognized past service cost	0.0	-1.1
Net pension obligations	**325.7**	**312.9**

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

	2001 [million €]	2002 [million €]
Net pension obligations at Jan. 1	**329.9**	**325.7**
Change in consolidated companies/reclassifications	-15.5	-9.8
Exchange rate differences	2.2	-2.2
Pension expenses	30.5	27.0
Pension payments/contributions to pension funds	-21.4	-27.8
Net pension obligations at Dec. 31	**325.7**	**312.9**

Pension expenses consist of the following components:

	2001 [million €]	2002 [million €]
Current service cost	14.1	10.3
Interest cost	26.0	24.7
Expected return on plan assets	-10.6	-9.2
Net actuarial gain/loss recognized	0.0	0.0
Past service cost	1.0	1.1
Losses/gains on curtailment and settlement	0.0	0.1
Total pension expenses	**30.5**	**27.0**

Pension expenses are included in personnel expenses in the income statement.
The actual return on pension plan assets was -8.2 million Euro.

(7) Other provisions

Other provisions break down as follows:

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Tax provisions	57.9	56.0
Other provisions	245.8	251.1
	303.7	**307.1**

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, 2002	**104.8**	**24.8**	**12.0**	**104.2**	**245.8**
Increases/accumulation of interest	76.0	15.4	9.0	58.2	158.6
Amounts used	50.6	8.9	8.3	41.3	109.1
Reversal	6.5	6.4	1.5	18.1	32.5
Other changes	1.9	0.7	-1.1	-13.2	-11.7
Status at Dec. 31, 2002	**125.6**	**25.6**	**10.1**	**89.8**	**251.1**
Reimbursement rights connected with provisions and shown in the balance sheet under other assets	1.5	0.0	0.1	0.7	2.3

The other provisions are chiefly of a short-term nature.

(8) Liabilities

[million €]	Dec. 31, 2001	Residual term up to 1 year	Residual term 1 to 5 years	Residual term more than 5 years	Dec. 31, 2002
Liabilities to banks	153.0	71.1	20.7	–	91.8
Other financial debt (incl. leasing)	35.6	12.6	6.5	11.7	30.8
Partners' accounts*	330.6	66.3	269.1	–	335.4
Financial debt and partner's accounts	**519.2**	**150.0**	**296.3**	**11.7**	**458.0**
Advance payments received on orders	2.9	2.0	–	–	2.0
Trade payables	261.8	273.3	–	–	273.3
Liabilities to subsidiaries	0.3	–	–	–	–
Liabilities to associated companies	10.3	5.9	1.1	–	7.0
Liabilities to other companies in which an investment is held	0.7	1.5	–	–	1.5
Other liabilities	185.5	136.8	42.1	5.0	183.9
(of which for tax)	(38.3)				(31.0)
	980.7	**569.5**	**339.5**	**16.7**	**925.7**

Liabilities to banks with a total amount of 1.2 million Euro (2001: 1.6 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 4.32 percent (2001: 5.53 percent).

* after appropriation of profit for year

Contingent liabilities and other financial obligations

Contingent liabilities	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Liabilities in connection with bills	6.5	1.7
Liabilities in connection with guarantees	2.7	8.6
Liabilities in connection with warranty agreements	–	2.0
Provision of security for third-party liabilities	0.2	0.8

Other financial obligations	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Obligations arising from rental and leasing contracts, due in 2003	47.0	45.3
Purchase obligations connected with investments	10.3	11.9
Total	**57.3**	**57.2**

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 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. Such changes are recognized in the income statement when the underlying transactions concerned are effected.
As of December 31, 2002, the face value of currency futures concluded for hedging foreign exchange risks and still open was 17.3 million Euro (as against 132.3 million Euro in the previous year). All these transactions were conventional currency futures. The positive fair value of all these instruments as of December 31, 2002 was 2.5 million Euro. The face value of derivatives entered into for currency and interest rate risk was 90.1 million Euro (as against 50.0 million Euro in the previous year). The positive net fair value of all these instruments as of December 31, 2002 was 2.9 million Euro. Of the total volume of derivatives, 16.1 % had a term of more than one year. The following positive fair values of derivative financial instruments are included in other assets:

	Dec. 31, 2001 [million €]	Dec. 31, 2002 [million €]
Currency risk fair value hedges	–	2.5
Currency risk cash flow hedges	0.3	2.9

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	2001 [million €]	2002 [million €]
Reduction in inventories of finished goods and work in progress	-6.9	-7.9
Other own work capitalized	18.4	14.6
	11.5	**6.7**

(10) Other operating income

Other operating income mainly includes income from the reversal of provisions, from currency and exchange rate gains, from the disposal of financial assets and from miscellaneous business.

(11) Material expenses	2001 [million €]	2002 [million €]
Raw materials, consumables and merchandise purchased	1,500.5	1,427.8
Services purchased	151.2	155.8
	1,651.7	**1,583.6**

(12) Personnel expenses	2001 [million €]	2002 [million €]
Wages and salaries	1,012.6	1,011.1
Social security contributions and costs of pensions and assistance	256.7	253.2
	1,269.3	**1,264.3**

(13) Other operating expenses

Other operating expenses mainly include expenses for outward carriage and other selling expenses, sales promotion, repairs and maintenance, travel expenses and outsourced services.

(14) Financial result	2001 [million €]	2002 [million €]
Income from investments in associated companies	11.1	13.7
Income from investments in other companies	0.2	0.6
Write-down of financial assets	–	-0.3
Income from investments	**11.3**	**14.0**
Income from other securities and investments held as fixed assets	0.7	0.7
Other interest and similar income	9.2	8.0
Interest and similar expenses	-40.1	-33.8
Interest result	**-30.2**	**-25.1**
Financial result	**-18.9**	**-11.1**

Interest expenses include interest on partners' accounts totaling 19.2 million Euro (previous year: 18.6 million Euro).

(15) Income taxes

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 sheet and the commercial balance sheet, 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:

	2001 [million €]	2002 [million €]
Current taxes related to the reporting period	84.8	84.4
Current taxes related to other periods	6.1	9.7
Deferred taxes	0.0	-0.4
	90.9	**93.7**

Deferred tax income relating to changes in tax rates amounted to 0.1 million Euro (2001: -0.1 million Euro).

Deferred taxes totaling -2.5 million Euro concern transactions recognized directly under partners' equity.

As of December 31, 2001, tax losses carried forward amounted to 141.4 million Euro (2001: 181.4 million Euro). Deferred tax assets were recognized in respect of losses carried forward totaling 6.9 million Euro (2001: 11.4 million Euro).

Deferred tax assets were not recognized in respect of losses carried forward with a total amount of 134.6 million Euro (2001: 170.0 million Euro) as it is not expected that these losses will be usable.

In the reporting year, tax losses carried forward totaling 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, 2001		**Dec. 31, 2002**	
	Deferred tax assets [million €]	**Deferred tax liabilities [million €]**	**Deferred tax assets [million €]**	**Deferred tax liabilities [million €]**
Intangible and tangible assets	9.1	129.9	6.9	136.9
Financial assets	1.2	4.4	2.8	5.8
Inventories	12.7	2.8	14.4	1.1
Receivables	3.1	8.9	5.9	3.4
Other current assets	4.8	3.8	0.3	4.6
Provisions for pensions	21.3	5.2	21.1	2.2
Other provisions	24.5	0.0	28.3	0.0
Liabilities	26.6	2.0	22.8	1.7
Other liability items	1.5	0.4	1.3	0.3
Tax losses carried forward	1.8		1.3	
	106.6	**157.4**	**105.1**	**156.0**
Offsetting	-79.8	-79.8	-67.8	-67.8
Balance sheet amount	**26.8**	**77.6**	**37.3**	**88.2**

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 32 percent used for calculating the expected tax expense is based on the structure of the Freudenberg Group relevant for taxation.

	2001 [million €]	2002 [million €]
Profit before income taxes	240.8	245.5
Expected income tax expense	**-77.1**	**-78.6**
Different tax rates		
In Germany	-2.2	-2.8
In other countries	-3.5	-10.0
Tax portion of:		
– non-taxable income	7.1	13.7
– non-deductible expenses	-16.5	-10.5
Prior-period tax expense	-6.1	-9.7
Other taxation effects	7.4	4.2
Actual income tax expense	**-90.9**	**-93.7**
Effective tax rate (per cent)	37.8	38.2

(16) Minority interests	**2001**	**2002**
	[million €]	**[million €]**
Profit	-17.4	-15.9
Loss	1.4	1.1
	-16.0	**-14.8**

(17) Partners' taxes

In accordance with a mandatory requirement of IAS, taxes on the profits of Freudenberg Group companies attributable to the partners in Freudenberg & Co. Kommanditgesellschaft are **not** recognized as tax expense for the current year but are treated as a withdrawal of profit by the partners. It has therefore been necessary to change the presentation previously used.

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 2002 (including deferred tax) was -22.0 million Euro (2001: +7.9 million Euro).

Notes to the Cash Flow Statement

The cash flow from operating activities takes into account payments for taxes amounting to 100.4 million Euro (previous year: 112.5 million Euro) plus interest expenditure of 33.8 million Euro (previous year: 39.7 million Euro) and interest income of 8.0 million Euro (previous year: 9.8 million Euro).

Payments to partners and minority shareholders include withdrawals by partners in Freudenberg & Co. Kommanditgesellschaft 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 99.8 million Euro for research and development.

In the year under review, an average of 27,728 (previous year: 28,063) persons were employed in the following functions:

2002	**Germany**	**Other countries**	**Total**
Production	7,239	11,096	18,335
Sales	1,503	2,356	3,859
Research and development	1,108	733	1,841
Administration	1,747	1,946	3,693
	11,597	**16,131**	**27,728**

The above figures include a pro-rata share of the employees of companies consolidated on a pro-rata basis totaling 2,622 (previous year: 2,884) persons.

The total remuneration of members of the Board of Partners amounted to 0.1 million Euro.

The total remuneration of members of the Management Board amounted to 2.6 million Euro. Total provisions for pensions for members of the Management Board amounted to 12.8 million Euro.

The remuneration paid to former members of the Management Board or their surviving dependents totaled 2.6 million Euro. Total provisions for pensions for former members of the Management Board and their surviving dependants amounted to 25.8 million Euro.

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

There were no further major events up to March 14, 2003, when the annual report was approved for publication by the Board of Partners.

Weinheim, March 17, 2003

Freudenberg & Co.
Kommanditgesellschaft
Management Board

Auditors' Report

To Freudenberg & Co. Kommanditgesellschaft:

We have audited the consolidated financial statements of Freudenberg & Co. Kommanditgesellschaft, comprising balance sheet, income statement, statement of changes in equity, cash flow statement and notes for the financial year from January 1, 2002, to December 31, 2002. The Management Board of the company is responsible for the presentation and content of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). It is our duty, based on the results of the audit we have conducted, to form an opinion on the consolidated statement of accounts.

We conducted our audit of the consolidated financial statements with due regard to the principles governing the auditing of accounts in Germany laid down by the German Institute of Statutory Auditors (IDW) also taking into account the International Standards on Auditing (ISA). These provisions and principles stipulate that the audit shall be planned and performed in such a way that an assessment may be made with sufficient certainty as to whether the consolidated financial statements are free from material misstatements. In determining the audit procedures to be employed, account was taken of information on the company's business activities and the commercial and legal environment in which it operates and of the likelihood of errors arising. In the course of the audit, the evidence supporting the amounts and disclosures in the consolidated financial statements was verified on the basis of random checks. The audit also covered an assessment of the accounting principles applied, and any material judgments made by the Management Board, and an evaluation of the overall adequacy of the presentation of the consolidated financial statements. It is our opinion that our audit provides us with a reasonably sure basis for our assessment.

In our opinion, the consolidated financial statements in accordance with IFRS give a true and fair view of the assets and liabilities, financial position, profits and losses and cash flows of the financial year. Our audit, which also covered the group management report prepared by the Management Board for the 2002 financial year, did not give rise to any reservations. In our opinion, the consolidated management report gives an accurate representation of the state of affairs of the group and accurately sets out the risks of future development.

Mannheim, March 17, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

von Hohnhorst
Wirtschaftsprüfer
(Certified Public Accountant)

Reineke
Wirtschaftsprüfer
(Certified Public Accountant)

Major Group Companies and Shareholdings

at Dec. 31, 2002

No.	Name of company	Country	Share of capital in %
I. Affiliated companies			
1	Freudenberg & Co. Kommanditgesellschaft, Weinheim	Germany	
	Production companies Germany		
2	Freudenberg Anlagen- und Werkzeugtechnik KG, 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	Freudenberg Não-Tecidos Ltda. & Cia., Jacarei	Brazil	100.00
9	Freudenberg S.A.S., Mâcon	France	100.00
10	Meillor S.A., Nantiat	France	100.00
11	Freudenberg Nonwovens LP, Greetland	United Kingdom	100.00
12	Freudenberg Technical Products LP ,North Shields	United Kingdom	75.00
13	Klüber Lubrication Italia S.a.s. di G. Pieri, Milan	Italy	100.00
14	Marelli & Berta S.a.s. di H. Freudenberg, Sant´ Omero	Italy	100.00
15	SIMRAX B.V., Kerkrade	Netherlands	60.00
16	Freudenberg Simrit Kufstein, Ges.m.b.H. & Co. KG, Kufstein	Austria	100.00
17	Freudenberg Household Products A.B., Norrköping	Sweden	100.00
18	Freudenberg Gygli AG, Zug	Switzerland	100.00
19	Freudenberg España S.A., Telas sin Tejer, S.en C., Barcelona	Spain	100.00
20	Freudenberg Ibérica S.A., S.en C.,Parets del Vallés	Spain	100.00
21	Klüber Lubrication GmbH Ibérica S.en C.,Barcelona	Spain	100.00
22	Freudenberg Nonwovens (Pty.) Ltd., Cape Town	South Africa	100.00
23	Freudenberg Far Eastern Spunweb Comp. Ltd., Tayuan, Taoyuan	Taiwan	60.18
24	Tésneni a pruzne elementy k.s., Ceperka	Czech Republic	100.00
25	Freudenberg Nonwovens Limited Partnership, Durham	USA	100.00
26	Freudenberg Spunweb Company, Durham	USA	100.00
27	Freudenberg-NOK General Partnership, Plymouth	USA	75.00
28	Klüber Lubrication North America LP, Londonderry	USA	100.00
29	Summit Industrial Products Inc., Tyler	USA	100.00

No.	Name of company	Country	Share of capital in %
Sales companies Germany			
30	Access Textil Vertriebs GmbH, Wuppertal	Germany	63.29
31	Dichtomatik Vertriebsgesellschaft für technische Dichtungen mbH, Hamburg	Germany	75.19
32	FHP Export GmbH, Weinheim	Germany	100.00
33	Freudenberg Simrit KG, Weinheim	Germany	100.00
34	Vileda Gesellschaft mit beschränkter Haftung, Weinheim	Germany	100.00
Sales companies other countries			
35	Freudenberg Pty. Ltd., Thomastown	Australia	100.00
36	FHP Vileda S.C.S., Verviers	Belgium	100.00
37	Freudenberg Household Products (Suzhou) Co., Ltd., Suzhou	China	100.00
38	Klüber Lubrication (Shanghai) Co. Ltd., Shanghai	China	100.00
39	Freudenberg Danmark A/S, Risskov	Denmark	100.00
40	Freudenberg Simrit OY, Espoo	Finland	100.00
41	FHP Vileda S.A., Asnières	France	100.00
42	Freudenberg Simrit S.A.S, Mâcon	France	100.00
43	FHP Hellas S.A., Kifisia-Athens	Greece	100.00
44	Freudenberg Household Products LP, Rochdale	United Kingdom	100.00
45	Freudenberg Household Products Ltd.,Hong Kong	Hong Kong	100.00
46	Freudenberg Nonwovens India Pvt. Ltd., Mumbai	India	100.00
47	FHP di R. Freudenberg S.A.S., Milan	Italy	100.00
48	Freudenberg S.p.A., Milan	Italy	100.00
49	Japan Lutravil Company Ltd., Osaka	Japan	60.18
50	Freudenberg Household Products INC., Boucherville (Québec)	Canada	100.00
51	Freudenberg Telas sin Tejer S.A. de C.V., Mexico City	Mexico	100.00
52	FHP Vileda Sp. z o.o., Warsaw	Poland	100.00
53	Vileda Ibérica S.A., S.en C., Parets del Vallés	Spain	100.00
54	Freudenberg Vilene Tela Sanayi ve Ticaret A.S., Istanbul	Turkey	100.00
55	Freudenberg Háztartási Cikkek Kereskedelmi BT, Budapest	Hungary	100.00
56	Freudenberg Building Systems Inc., Lawrence	USA	100.00
57	Freudenberg Household Products LP, River Grove	USA	100.00

No.	Name of company	Country	Share of capital in %
Administration and other companies			
	Germany		
58	Carl Freudenberg KG, Weinheim	Germany	100.00
59	Freudenberg Beteiligungs-GmbH, Weinheim	Germany	100.00
60	Freudenberg Forschungsdienste KG, Weinheim	Germany	100.00
61	Freudenberg Haushaltsprodukte KG, Weinheim	Germany	100.00
62	Freudenberg IT KG, Weinheim	Germany	100.00
63	Freudenberg Politex Holding GmbH, Weinheim	Germany	100.00
64	Freudenberg Service KG, Weinheim	Germany	100.00
65	Handels- und Verwaltungsgesellschaft	Germany	75.19
	Erich Wagner & Co. (GmbH & Co.), Hamburg		
II.	**Joint ventures**		
	Germany		
66	Freudenberg Politex GmbH, Weinheim	Germany	50.00
67	Vibracoustic GmbH & Co. KG, Weinheim	Germany	50.00
68	Vibracoustic Neuenburg GmbH & Co. KG, Neuenburg	Germany	50.00
	Other countries		
69	Freudenberg & Vilene Int. Ltd.,Hong Kong	Hong Kong	50.00
70	Corfina S.p.A., Pinerolo	Italy	50.00
71	Korea Vilene Co., Ltd., Pyungtaek	Korea	45.00
72	Freudenberg Vitech L.P., Lowell	USA	50.00
III.	**Associated companies**		
	Other countries		
73	Japan Vilene Company Ltd., Tokyo	Japan	22.49
74	NOK Corporation, Tokyo	Japan	22.89