

Notes to the Consolidated Financial Statements

General

The Freudenberg Group is an international industrial group active as a supplier to the automotive, mechanical engineering, textile and clothing industries throughout the world. The Group's portfolio also includes mechanical household cleaning and laundry care products.

The consolidated financial statements of Freudenberg & Co. Kommanditgesellschaft (in the following Freudenberg & Co.), Weinheim, for 2006 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) effective at the balance sheet date. The statements are in accordance with the directives of the EU concerning group accounting. Comparative figures for the previous financial year were based on the same principles.

Freudenberg & Co. has availed itself of the right as laid down in Sec. 315a (3) HGB (Handelsgesetzbuch, "German Commercial Code") to set up its consolidated financial statements in accordance with IFRS.

The presentation of the income statement for the 2006 financial year has been changed from classification of expenses by nature to classification of expenses by function (cost of sales method). The same presentation has been used for comparative figures for the 2005 financial year.

The application of the following new and amended standards was binding for the first time for the 2006 financial year: the amendment to IAS 19 ("Employee Benefits"), the amendment to IAS 21 ("The Effects of Changes in Foreign Exchange Rates – Net Investment in Foreign Operations"), the amendment to IAS 39 ("Fair Value Option and Cash Flow Hedge Accounting"), the amendments to IAS 39 and IFRS 4 ("Financial Guarantee Contract") and IFRS 6 ("Exploration for and Evaluation of Mineral Resources"). The following interpretations were also binding for the first time: IFRIC 4 ("Determining Whether an Arrangement Contains a Lease"), IFRIC 5 ("Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds") and IFRIC 6 ("Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"). The new and amended standards were not relevant to the Freudenberg Group or had no or only an immaterial effect on the consolidated financial statements.

From the 2007 financial year, the application of the following new and amended standards, which Freudenberg has not applied at an earlier date on a voluntary basis, becomes binding: the amendments to IAS 1 ("Presentation of Financial Statements") and IFRS 7 ("Financial Instruments: Disclosures"). In addition, the application of the following interpretations is binding from January 1, 2007: IFRIC 7 ("Applying the Restatement Approach under IAS 29: Financial Reporting in Hyperinflationary Economies"), IFRIC 8 ("Scope of IFRS 2") and IFRIC 9 ("Reassessment of Embedded Derivatives"). These new and amended standards and interpretations are not expected to have any material effect on the consolidated financial statements.

In addition, the IASB has published the following standards and interpretations which have not yet become effective and have not yet been endorsed by the EU under the comitology procedure: IFRS 8 ("Operating Segments"), IFRIC 10 ("Interim Financial Reporting and Impairment"), IFRIC 11 ("Group and Treasury Share Transactions") and

IFRIC 12 (“Service Concession Arrangements”). This standard and these interpretations are not relevant to the Freudenberg Group or are not expected to have any effect on the consolidated financial statements.

The Group currency is the euro. All amounts are indicated in million euros.

Companies included in the consolidation

Apart from Freudenberg & Co., 95 German and 252 foreign companies in which Freudenberg & Co. directly or indirectly holds a majority of the voting rights or the financial and business policy of which Freudenberg & Co. has the right to determine in accordance with articles of association, statuts or contracts are **fully consolidated** in the consolidated financial statements.

In addition, one German and 37 foreign companies have been consolidated by the **pro-rata method**. Their overall effect on the consolidated financial statements is not significant.

In accordance with the stipulations concerning **associated companies**, 2 German and 9 foreign companies are shown in the consolidated financial statements.

The significant shareholdings of the Freudenberg Group are listed on pages 82-85. A list of all shareholdings is filed with the Mannheim commercial register.

In the year under review, 15 companies were included in the consolidated financial statements as fully consolidated affiliates for the first time. 24 companies which had previously been fully consolidated were no longer included as fully consolidated affiliates due to sale, liquidation or merger. The timing of the initial consolidation was determined on the basis of the date when the Freudenberg Group started to exercise financial control.

5 companies consolidated by the pro-rata method were included in the consolidated financial statements on a pro-rata basis for the first time in 2006.

With one acquisition and one disposal, the number of associated companies remained the same as the preceding year.

The changes in consolidated companies had the following effects on the assets, liabilities, financial position and earnings of the Group.

	[million €]
Non-current assets	33.9
Current assets	-14.1
Non-current liabilities	21.3
Current liabilities	-1.5
Sales	-58.6

Consolidation methods

The acquisition costs of the shareholdings concerned are set off against the pro-rata share in the fair value of the equity capital of the companies concerned as of the date of acquisition according to the purchase method. Assets and liabilities are also included in the consolidated balance sheet at their fair values as of the acquisition date. Any remaining differences are shown as goodwill. An impairment test is carried out on such goodwill items at least once per year and impairment losses are shown if the value of such assets is found to have been impaired.

Intercompany profits and losses, sales, expenses and income and all receivables and payables between consolidated companies are eliminated. Deferred taxes are set up on consolidation transactions affecting net income.

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

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

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 treated in the same way as goodwill arising in connection with Group companies.

Accounting and valuation principles

The consolidated financial statements are based on the annual accounts of Freudenberg & Co. and the consolidated companies. All the annual accounts concerned were drawn up as of December 31, 2006.

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

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

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

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

Systematic depreciation is based on the following useful lives:

Software	3 - 8 years
Patents and licenses	depending on contract term

An impairment test is carried out on goodwill at least once per year and an impairment loss is shown if the value of such assets is found to have been impaired.

For the impairment test, the value in use of the cash-generating unit to which the goodwill is allocated is determined in accordance with IAS 36 on the basis of a five-year budget, applying the discounted cash flow method. The discount rates used are based on the WACC (“weighted average cost of capital”) determined separately for each cash-generating unit. An impairment loss is recognized if the carrying value of the cash-generating unit is in excess of discounted future cash flows.

Impairments of capitalized goodwill are shown under other expenses in the consolidated income statement.

Provided that such assets meet the requirements of IAS 38, internally generated intangible assets are carried as assets at production cost and are depreciated on a systematic basis over their useful lives, if their useful lives are finite.

If the useful life of intangible assets is not considered to be finite, no systematic depreciation is effected. An intangible asset may be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the Group.

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

Expenditure for repairs and maintenance is generally shown as expenses. Such expenditure is only capitalized if future economic benefits in connection with such expenditure are probable and the acquisition or production cost can be reliably valued.

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

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

Buildings	max. 50 years
Machinery and equipment	5 - 25 years
Other fixtures, fittings and office equipment	4 - 20 years

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

Taxable grants and tax-free investment subsidies, normally paid by public bodies, are set off against acquisition or production cost.

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

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

Participations are shown at acquisition cost or, if lower, at fair value.

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

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

Inventories are shown at acquisition or production cost or at net realizable value, where this is lower. Inventories of raw materials and consumables and merchandise are valued by the weighted average cost method. Production cost includes directly attributable costs as well as production and material overheads and depreciation.

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 non-current or current assets are available for sale. Such securities are therefore recorded at the market value as of the balance sheet date. Value changes are shown under equity without an effect on net income.

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

Non-current assets and groups of assets held for sale are shown separately in the balance sheet if they are available for immediate sale in their present condition and the sale of such assets is highly probable within the next twelve months. Such assets are shown at the lower of fair value less costs to sell and book value. Systematic depreciation is no longer effected on such assets. Liabilities included in a disposal group are shown separately under liabilities.

The criteria for the distinction between equity instruments and financial liabilities are stated in IAS 32. According to IAS 32.16 and 17, a financial instrument cannot be considered to be an equity instrument if the financial assets received by the reporting entity place it under a potential obligation to make payments. If the reporting entity does not have an unconditional right to refuse making payments, the financial instrument must be classed as a financial liability under IAS 32.19. In view of the special nature of the provisions in its Partnership Agreement and the structure of the partners in the Freudenberg Group, it can be stated that Freudenberg & Co. has an unconditional right to refuse payment in the event of termination or withdrawal by a partner. An obligation of Freudenberg & Co. to make payments which could be detrimental to the classification of its capital as equity instruments could only arise in a highly improbable extreme case and therefore need not be considered in accordance with IAS 32.25. The balance sheet of Freudenberg & Co. as at December 31 in accordance with IFRS therefore shows the Partners' capital as equity.

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

Deferred taxes are calculated on temporary differences between the tax balance sheets of individual companies and the consolidated balance sheet, taking into account the applicable national income tax rates valid on the date of realization and already in force on the balance sheet date. In addition, deferred tax assets are recognized for tax 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 income taxes concerned are levied by the same tax authority and concern the same period.

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

Liabilities are shown at their face value or at the repayment or settlement value, where this is higher. Non-current 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 the control over the contractually agreed rights to a financial asset, the asset concerned is derecognized. Financial liabilities are removed from the balance sheet when the obligation is discharged or cancelled, or expires.

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

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

In connection with the drawing-up of the consolidated balance sheet, it has been necessary to make assumptions and estimates concerning certain assets and liabilities (for example, as regards the useful life of assets with a finite useful life or the parameters for determining pension liabilities). Actual future figures may deviate from these estimates.

In individual cases, the figures for the previous year used in this report have been restated to improve comparability.

Currency translations

The balance sheets of all companies included in the consolidated financial statements which are not located in the Eurozone are drawn up in the national currencies concerned. This is normally the currency of the primary economic environment in which the companies concerned operate (concept of functional currency).

In the accounts of individual companies, foreign-currency receivables and liabilities are translated at the exchange rates as of the balance sheet date.

Goodwill created as a result of acquisitions on or after March 31, 2004, is carried as an asset of the economically independent foreign companies concerned in their respective functional currencies.

The financial statements of companies located in hyperinflationary economies are restated in accordance with IAS 29.

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

- Balance sheet items are translated at the middle rate as of the balance sheet date.
- Income statement items are translated at average annual exchange rates.
- Differences arising from the use of different exchange rates are recognized without an effect on net income.

The same principles are used in the case of associated companies consolidated by the equity method.

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

Country	Currency	Closing rate		Average exchange rate	
		Dec. 31, 2005	Dec. 31, 2006	2005	2006
Brazil	BRL	2.7567	2.8138	3.0021	2.7455
China	CNY	9.5515	10.2915	10.1344	10.0499
Great Britain	GBP	0.6870	0.6714	0.6832	0.6819
Japan	JPY	139.1300	156.6500	136.9190	146.7520
Sweden	SEK	9.3930	9.0430	9.2981	9.2523
USA	USD	1.1834	1.3181	1.2380	1.2631

Differences arising from the use of different exchange rates compared with the previous year are shown in the statement of changes in intangible, tangible and financial assets with respect to non-current assets and in the development of equity with respect to equity.

(1) Intangible assets

Changes in intangible assets from January 1 to December 31, 2005

[million €]	Concessions and licenses	Goodwill	Payments made on account	Total
ACQUISITION/PRODUCTION COST				
Status Jan. 1, 2005	227.3	414.3	2.0	643.6
Changes in consolidated companies	-0.3	2.0	0.0	1.7
Exchange rate differences	8.1	23.6	0.1	31.8
Additions	11.2	12.0	0.1	23.3
Disposals	-21.5	-7.3	-1.8	-30.6
Reclassifications	1.5	-0.3	-0.3	0.9
Status Dec. 31, 2005	226.3	444.3	0.1	670.7
DEPRECIATION				
Status Jan. 1, 2005	106.9	162.4	1.7	271.0
Changes in consolidated companies	-0.3	-0.1	0.0	-0.4
Exchange rate differences	3.8	7.8	0.1	11.7
Additions – systematic	24.5	0.0	0.0	24.5
Impairment losses	0.0	4.6	0.0	4.6
Disposals	-20.5	-3.5	-1.8	-25.8
Reclassifications	0.2	-0.2	0.0	0.0
Status Dec. 31, 2005	114.6	171.0	0.0	285.6
Book value Dec. 31, 2005	111.7	273.3	0.1	385.1
Book value Dec. 31, 2004	120.4	251.9	0.3	372.6

Changes in intangible assets from January 1 to December 31, 2006

[million €]	Concessions and licenses	Goodwill	Payments made on account	Total
ACQUISITION/PRODUCTION COST				
Status Jan. 1, 2006	226.3	444.3	0.1	670.7
Changes in consolidated companies	11.7	10.5	0.0	22.2
Exchange rate differences	-6.3	-19.0	0.0	-25.3
Additions	12.9	2.8	0.6	16.3
Disposals	-6.2	-2.8	-0.1	-9.1
Reclassifications	0.1	-0.1	0.0	0.0
Status Dec. 31, 2006	238.5	435.7	0.6	674.8
DEPRECIATION				
Status Jan. 1, 2006	114.6	171.0	0.0	285.6
Changes in consolidated companies	-1.2	-0.1	0.0	-1.3
Exchange rate differences	-2.4	-5.7	0.0	-8.1
Additions – systematic	22.5	0.0	0.0	22.5
Impairment losses	1.0	0.8	0.0	1.8
Disposals	-5.3	-2.8	0.0	-8.1
Reclassifications	0.1	0.0	0.0	0.1
Status Dec. 31, 2006	129.3	163.2	0.0	292.5
Book value Dec. 31, 2006	109.2	272.5	0.6	382.3
Book value Dec. 31, 2005	111.7	273.3	0.1	385.1

(2) Tangible assets

Changes in tangible assets from January 1 to December 31, 2005

[million €]	Land and buildings	Machinery and equipment	Other fixtures, fittings and office equipment	Payments made on account	Work in progress	Total
ACQUISITION/PRODUCTION COST						
Status Jan. 1, 2005	774.0	1,943.9	557.6	19.2	98.6	3,393.3
Changes in consolidated companies	1.0	7.4	1.9	-0.1	0.4	10.6
Exchange rate differences	29.2	89.0	17.6	0.0	4.9	140.7
Additions	28.4	122.2	90.8	16.1	84.7	342.2
Write-ups/revaluations	0.0	0.1	0.0	0.0	0.0	0.1
Disposals	-8.3	-93.1	-56.3	-2.1	-8.6	-168.4
Reclassifications	16.6	68.1	17.0	-19.0	-84.2	-1.5
Status Dec. 31, 2005	840.9	2,137.6	628.6	14.1	95.8	3,717.0
DEPRECIATION						
Status Jan. 1, 2005	304.2	1,188.2	401.6	0.0	0.1	1,894.1
Changes in consolidated companies	0.1	0.5	0.3	0.0	0.0	0.9
Exchange rate differences	10.1	56.1	12.4	0.0	0.0	78.6
Additions – systematic	22.5	119.9	60.3	0.0	0.0	202.7
Impairment losses	0.0	1.5	0.0	0.0	0.0	1.5
Write-ups/revaluations	0.0	-0.6	0.0	0.0	0.0	-0.6
Disposals	-0.5	-73.6	-43.5	0.0	0.0	-117.6
Reclassifications	3.4	-6.3	2.3	0.0	0.0	-0.6
Status Dec. 31, 2005	339.8	1,285.7	433.4	0.0	0.1	2,059.0
Book value Dec. 31, 2005	501.1	851.9	195.2	14.1	95.7	1,658.0
Book value Dec. 31, 2004	469.8	755.7	156.0	19.2	98.5	1,499.2

Changes in tangible assets from January 1 to December 31, 2006

[million €]	Land and buildings	Machinery and equipment	Other fixtures, fittings and office equipment	Payments made on account	Work in progress	Total
ACQUISITION/PRODUCTION COST						
Status Jan. 1, 2006	840.9	2,137.6	628.6	14.1	95.8	3,717.0
Changes in consolidated companies	1.1	3.1	-0.2	0.0	-0.2	3.8
Exchange rate differences	-19.5	-61.8	-11.5	-0.2	-3.9	-96.9
Additions	17.4	106.2	62.0	16.7	78.9	281.2
Write-ups/revaluations	0.1	0.0	0.0	0.0	0.0	0.1
Disposals	-8.5	-84.2	-44.3	-0.9	-4.0	-141.9
Reclassifications	19.2	45.0	12.3	-18.7	-60.3	-2.5
Status Dec. 31, 2006	850.7	2,145.9	646.9	11.0	106.3	3,760.8
DEPRECIATION						
Status Jan. 1, 2006	339.8	1,285.7	433.4	0.0	0.1	2,059.0
Changes in consolidated companies	0.1	1.0	-0.2	0.0	-0.1	0.8
Exchange rate differences	-7.5	-41.5	-8.3	0.0	0.0	-57.3
Additions – systematic	24.1	119.9	60.1	0.0	0.0	204.1
Impairment losses	1.1	1.7	0.0	0.0	1.0	3.8
Write-ups/revaluations	-0.1	0.0	-0.1	0.0	0.0	-0.2
Disposals	-1.6	-65.8	-35.8	0.0	-1.0	-104.2
Reclassifications	1.0	-3.5	0.8	0.0	0.0	-1.7
Status Dec. 31, 2006	356.9	1,297.5	449.9	0.0	0.0	2,104.3
Book value Dec. 31, 2006	493.8	848.4	197.0	11.0	106.3	1,656.5
Book value Dec. 31, 2005	501.1	851.9	195.2	14.1	95.7	1,658.0

Government grants totaling 11.6 million euros (2005: 11.1 million euros) for tangible assets, which mainly concern investment promotion, are netted against acquisition costs.

Leased assets (finance leases)

Leased assets are posted as follows under non-current assets (January 1 to December 31, 2005):

[million €]	Intangible assets	Land and buildings	Other tangible assets	Total
ACQUISITION/PRODUCTION COST				
Status Jan. 1, 2005	0.5	51.2	11.0	62.7
Changes in consolidated companies	0.0	0.0	-0.6	-0.6
Exchange rate differences	0.0	0.2	0.1	0.3
Additions	0.0	0.5	0.6	1.1
Disposals	-0.4	-4.4	-0.8	-5.6
Reclassifications	0.0	0.0	-0.1	-0.1
Status Dec. 31, 2005	0.1	47.5	10.2	57.8
DEPRECIATION				
Status Jan. 1, 2005	0.1	7.7	7.3	15.1
Changes in consolidated companies	0.0	0.0	-0.2	-0.2
Exchange rate differences	0.0	0.0	0.0	0.0
Additions – systematic	0.0	0.8	0.6	1.4
Impairment losses	0.0	0.0	0.0	0.0
Disposals	0.0	-1.2	-0.5	-1.7
Reclassifications	0.0	0.0	-0.1	-0.1
Status Dec. 31, 2005	0.1	7.3	7.1	14.5
Book value Dec. 31, 2005	0.0	40.2	3.1	43.3
Book value Dec. 31, 2004	0.4	43.5	3.7	47.6

Leased assets are posted as follows under non-current assets (January 1 to December 31, 2006):

[million €]	Intangible assets	Land and buildings	Other tangible assets	Total
ACQUISITION/PRODUCTION COST				
Status Jan. 1, 2006	0.1	47.5	10.2	57.8
Changes in consolidated companies	0.0	0.0	0.0	0.0
Exchange rate differences	0.0	-0.1	-0.2	-0.3
Additions	0.0	0.0	0.9	0.9
Disposals	0.0	0.0	-1.6	-1.6
Reclassifications	0.0	0.0	-0.1	-0.1
Status Dec. 31, 2006	0.1	47.4	9.2	56.7
DEPRECIATION				
Status Jan. 1, 2006	0.1	7.3	7.1	14.5
Changes in consolidated companies	0.0	0.0	0.0	0.0
Exchange rate differences	0.0	0.0	-0.1	-0.1
Additions – systematic	0.0	0.8	0.7	1.5
Impairment losses	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	-1.3	-1.3
Reclassifications	0.0	0.0	0.0	0.0
Status Dec. 31, 2006	0.1	8.1	6.5	14.7
Book value Dec. 31, 2006	0.0	39.3	2.7	42.0
Book value Dec. 31, 2005	0.0	40.2	3.1	43.3

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

[million €]	Up to 1 year	1 to 5 years	Over 5 years	Dec. 31, 2005	Up to 1 year	1 to 5 years	Over 5 years	Dec. 31, 2006
Finance leases								
Minimum lease payments	3.6	28.8	6.0	38.4	3.5	27.2	4.9	35.6
Discount	0.2	2.7	0.5	3.4	0.2	2.6	0.3	3.1
Present value	3.4	26.1	5.5	35.0	3.3	24.6	4.6	32.5
Operating leases								
Minimum lease payments	43.0	64.7	18.2	125.9	45.2	73.6	20.5	139.3

Lease payments totaling 65.9 million euros (2005: 65.0 million euros) under operating leases were recognized with an effect on net income.

(3) Investments valued at equity

The values last published by the two most significant associated companies in their consolidated annual reports, as at March 31, 2006 and March 31, 2005, were as follows:

March 31, 2006 [million ¥]	Sales	Net income	Assets	Liabilities
NOK Corporation, Tokyo, Japan	450,630	29,445	471,015	223,338
Japan Vilene Company Ltd., Tokyo, Japan	51,864	2,448	55,302	22,321
March 31, 2005 [million ¥]				
NOK Corporation, Tokyo, Japan	407,041	37,414	417,617	221,414
Japan Vilene Company Ltd., Tokyo, Japan	49,364	2,379	53,329	23,509

These associated companies were consolidated on the basis of their interim financial statements as at December 31, 2006.

As at December 31, 2006, the market values of the shareholdings were 576.2 million euros (90,269.0 million ¥) (2005: 887.3 million euros / 123,444.8 million ¥) for NOK Corporation and 68.4 million euros (10,721.9 million ¥) (2005: 97.9 million euros / 13,622.1 million ¥) for Japan Vilene Company Ltd.

(4) Inventories

Inventories break down as follows:

[million €]	Dec. 31, 2005	Dec. 31, 2006
Raw materials and consumables	206.0	206.1
Work in progress	76.2	82.1
Finished goods and merchandise	414.1	411.1
Payments made on account	3.8	3.8
	700.1	703.1

After eliminating negative exchange rate effects and changes in consolidated companies (totaling 23.8 million euros), there was a rise of about 4 percent in inventories.

Write-downs of inventories totaling 5.7 million euros (2005: 1.1 million euros) were posted as expenses in the reporting year.

As in the previous year, only insignificant write-ups were effected on inventories in accordance with the requirements for reversal of write-downs.

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

(5) Receivables

[million €]	Residual term up to 1 year	Residual term more than 1 year	Dec. 31, 2005	Residual term up to 1 year	Residual term more than 1 year	Dec. 31, 2006
Trade receivables	765.0	–	765.0	803.5	–	803.5
Accounts receivable from associated companies	2.5	–	2.5	3.4	–	3.4
Accounts receivable from other companies in which an investment is held	7.3	–	7.3	18.2	–	18.2
Miscellaneous receivables	100.4	36.3	136.7	108.6	37.9	146.5
Other assets	110.2	36.3	146.5	130.2	37.9	168.1
Receivables	875.2	36.3	911.5	933.7	37.9	971.6

The increase in receivables and other assets was chiefly due to the rise in trade receivables as a result of strong sales growth in the fourth quarter of 2006.

In the year under review, value adjustments to receivables totaling 1.6 million euros (2005: 4.2 million euros) were released and value adjustments in the amount of 6.9 million euros (2005: 10.0 million euros) were set up.

The other assets include pension plan assets in excess of the corresponding pension obligations in the amount of 13.9 million euros (2005: 15.1 million euros).

The other assets also include emission rights received at no charge with an amount of 1.1 million euros (2005: 1.0 million euros). These emission rights were issued on the basis of the Greenhouse Gas Emissions Trading Act and the Allocation Act.

Furthermore, the other assets include other tax receivables and liability insurance claims.

The claims for reimbursement in connection with recognized provisions, which are included in other assets, are shown in the list of provisions.

(6) Securities and cash at bank and in hand

[million €]	Dec. 31, 2005	Dec. 31, 2006
Securities	4.4	6.5
Checks and cash in hand	2.3	3.4
Cash at banks	186.1	180.5
	192.8	190.4

(7) Non-current assets held for sale and disposal groups

This item includes assets in connection with the sale of part of the Group's spare parts business in one division. It is highly probable that this sale will be realized in the first half of 2007.

The book values of the assets included in the disposal group break down as follows:

[million €]	Dec. 31, 2006
Intangible and tangible assets	0.9
Inventories	8.6
Trade receivables	5.0
	14.5

For the intangible and tangible assets and inventories, total depreciation of 7.6 million euros has been recognized in connection with the classification as assets held for sale. Of this amount, 4.8 million euros are included in cost of sales and 2.8 million euros in administration expenses.

(8) Equity

The development of equity is shown on page 41.

Partners' capital consists of:

[million €]	Dec. 31, 2005	Dec. 31, 2006
General Partners' capital	–	–
Limited Partners' capital	450.0	450.0
	450.0	450.0

Retained earnings consist of:

[million €]	Dec. 31, 2005	Dec. 31, 2006
Non-distributable Partners' reserves	276.6	306.0
Group reserves	1,103.6	1,155.4
	1,380.2	1,461.4

Non-distributable Partners' reserves are intended to secure the continued existence of the Group and are used especially for capital increases or, should the need arise, to absorb losses.

Group reserves include the reserves and retained earnings of companies included in the consolidated financial statements.

The "other changes" shown in the development of equity include effects in connection with the valuation of participations in associated companies without an effect on net income amounting to 4.5 million euros (2005: 21.5 million euros).

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 rise in minority interests from 126.4 million euros in 2005 to 148.8 million euros in 2006 is mainly the result of the sale of participations in companies of the Burgmann Industries Business Group shown under "other changes" in the development of equity and the allocation of profit for the financial year.

(9) Provisions for pensions

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

The Freudenberg Group pension scheme consists of both defined contribution and defined benefit pension plans. Defined benefit plans include both fixed salary and final salary 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 53.3 million euros (2005: 52.1 million euros). Contributions paid mainly include employers' contributions to the statutory pension scheme.

The value of provisions for defined benefit plans was calculated on actuarial principles by the projected unit credit method. For the German companies, the calculation was based on the following actuarial assumptions:

	Dec. 31, 2005	Dec. 31, 2006
Discount rate	4.5 %	4.5 %
Pension trend	2.0 %	2.0 %

The assumed trend in salaries and wages had no effect on the value of pension obligations as a result of the pension plan regulations.

In the case of the foreign companies, the actuarial assumptions used for the calculations were within the following ranges:

	Dec. 31, 2005	Dec. 31, 2006
Discount rate	4.7 % – 5.8 %	4.3 % – 5.8 %
Salary increases	3.0 % – 4.0 %	2.5 % – 4.5 %
Pension trend	2.5 % – 5.0 %	1.6 % – 3.1 %
Expected return on plan assets	6.0 % – 7.8 %	4.3 % – 8.0 %

Actuarial gains and losses are recognized as expenses if they exceed 10.0 percent of the greater of the present value of pension obligations and the fair value of the pension plan assets (the "corridor approach"). The amount in excess of this figure is expensed over the average remaining working lives of the workforce.

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

[million €]	Dec. 31, 2005	Dec. 31, 2006
Provisions for pensions	362.6	370.3
Other assets	-15.1	-13.9
Net pension obligations	347.5	356.4

Net pension obligations are calculated as follows:

[million €]	Dec. 31, 2005	Dec. 31, 2006
Present value of externally funded defined benefit obligations	279.7	278.4
Fair value of plan assets	-220.6	-240.7
Deficit	59.1	37.7
Present value of unfunded defined benefit obligations	422.2	435.2
Unrecognized actuarial gains/losses	-133.4	-116.5
Unrecognized past service cost	-0.4	-0.1
Amount not recognized as a result of IAS 19.58	0.0	0.1
Net pension obligations	347.5	356.4

Pension expenses consist of the following components:

[million €]	2005	2006
Current service cost	17.7	17.2
Interest cost	32.7	32.5
Expected return on plan assets	-14.1	-15.1
Net actuarial gain/loss recognized	2.8	5.6
Past service cost	1.1	0.3
Losses/gains on curtailment and settlement	-0.7	-0.5
Total pension expenses	39.5	40.0

Pension expenses are included in the personnel expenses allocated to the appropriate functional areas of the income statement.

The actual return on pension plan assets was 19.9 million euros (2005: 21.6 million euros).

In the year under review, defined benefit obligations developed as follows:

[million €]	2005	2006
Present value of defined benefit obligations, Jan. 1	614.4	701.9
Current service cost	17.7	17.2
Interest cost	32.7	32.5
Actuarial gains (-) and losses (+)	48.0	-4.7
Gains (-) and losses (+) on curtailment and settlement	-0.4	-1.7
Past service cost	0.4	0.3
Contributions by plan participants	1.0	1.0
Liabilities extinguished on settlements	-0.4	-0.1
Benefits paid	-32.1	-30.7
Reclassifications/other changes	0.7	8.6
Exchange rate differences	19.9	-10.7
Present value of defined benefit obligations, Dec. 31	701.9	713.6

In the year under review, plan assets developed as follows:

[million €]	2005	2006
Fair value of plan assets, Jan. 1	183.2	220.6
Expected return on plan assets	14.1	15.1
Actuarial gains (+) and losses (-)	7.6	4.8
Contributions by employer	8.3	12.7
Contributions by plan participants	1.0	1.0
Benefits paid	-11.0	-10.2
Reclassifications/other changes	0.4	6.0
Exchange rate differences	17.0	-9.3
Fair value of plan assets, Dec. 31	220.6	240.7

The fair value of plan assets is distributed as follows:

[million €]	2005	2006
Equity instruments	140.9	133.8
Interest-bearing securities	72.6	93.3
Other assets	7.1	13.6
	220.6	240.7

The expected return on plan assets is calculated on the basis of the market prices of plan assets as of the respective date. The development in expected return is chiefly due to the increase in plan assets compared with the previous year.

Over the past five years, the present value of defined benefit obligations, the fair value of plan assets and funded status have changed as follows:

[million €]	2002	2003	2004	2005	2006
Present value of defined benefit obligations	529.2	546.9	614.4	701.9	713.6
Fair value of plan assets	-162.1	-172.1	-183.2	-220.6	-240.7
Funded status	367.1	374.8	431.2	481.3	472.9

In 2007, 12.8 million euros will probably be added to plan assets.

Experience adjustments (gains) to the present value of defined benefit obligations amounted to 4.0 million euros in the period under review (2005: 17.3 million euros). The deviation between actual return and expected return on plan assets was 4.8 million euros in 2006 (2005: 7.6 million euros).

(10) Other provisions

[million €]	Provisions for personnel obligations	Provisions for warranties, guarantees and onerous contracts	Provisions for rebates, bonuses and commissions	Miscellaneous provisions	Total
Status Jan. 1, 2006	227.2	30.0	15.4	84.7	357.3
Increases/accumulation of interest	143.2	17.9	16.5	58.2	235.8
Amounts used	114.2	9.1	14.3	50.2	187.8
Reversal	5.9	6.1	0.4	15.0	27.4
Other changes	-16.2	0.8	0.0	8.0	-7.4
Status Dec. 31, 2006	234.1	33.5	17.2	85.7	370.5
Of which long-term	90.3	1.1	0.5	11.2	103.1
Of which short-term	143.8	32.4	16.7	74.5	267.4
Reimbursement rights connected with provisions and shown in the balance sheet under other assets	0.1	0.0	0.0	0.2	0.3

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

The miscellaneous provisions include provisions for restructuring measures, litigation risks, advertising, environmental protection and auditing expenses.

(11) Liabilities

[million €]	Residual term up to 1 year	Residual term 1 to 5 years	Residual term more than 5 years	Dec. 31, 2005	Residual term up to 1 year	Residual term 1 to 5 years	Residual term more than 5 years	Dec. 31, 2006
Liabilities to banks (= financial debt)	60.6	199.5	6.1	266.2	79.2	193.1	3.3	275.6
Other financial debt	22.4	26.1	5.5	54.0	3.7	33.8	4.6	42.1
Partners' accounts *)	146.0	306.3	–	452.3	169.0	328.9	–	497.9
Financial debt	229.0	531.9	11.6	772.5	251.9	555.8	7.9	815.6
Trade payables	441.6	–	–	441.6	459.1	–	–	459.1
Advance payments received on orders	2.2	–	–	2.2	2.3	–	–	2.3
Liabilities to associated companies	13.1	–	–	13.1	11.7	–	–	11.7
Liabilities to other companies in which an investment is held	3.0	–	–	3.0	3.4	–	–	3.4
Miscellaneous liabilities	236.8	35.0	1.6	273.4	171.4	39.3	2.1	212.8
Other liabilities	255.1	35.0	1.6	291.7	188.8	39.3	2.1	230.2
Liabilities	925.7	566.9	13.2	1,505.8	899.8	595.1	10.0	1,504.9

*) following appropriation of profit for reporting year

Liabilities to banks with a total amount of 4.0 million euros (2005: 1.2 million euros) were secured by charges on real estate or other security. Land and buildings and other tangible assets were used as security.

The average interest rate on long-term liabilities to banks was 3.99 percent (2005: 3.47 percent).

Other financial debt also includes short-term bills of exchange (and commercial papers in 2005) and liabilities in connection with finance leases. The average interest rate on these liabilities is 5.13 percent (2005: 4.65 percent).

The interest rates applicable to Partners' accounts vary between 4.0 percent and 6.0 percent, as in the previous year.

Other liabilities include liabilities for other taxes, outstanding wages and salaries, holiday pay and special bonuses.

Contingent liabilities and other financial obligations

[million €]	Dec. 31, 2005	Dec. 31, 2006
Contingent liabilities		
Liabilities in connection with bills	13.6	23.5
Liabilities in connection with guarantees	10.3	16.2
Liabilities in connection with warranty agreements	0.7	0.2
Collateral for third-party liabilities	0.8	0.0
	25.4	39.9
Other financial obligations		
Obligations arising from leasing contracts*)	125.9	139.3
Purchase obligations connected with intangible assets	0.1	0.2
Purchase obligations connected with tangible assets	11.5	17.1
	137.5	156.6

*) see also notes on leased assets under "tangible assets"

Derivative financial instruments

The parent company Freudenberg & Co. is responsible for all the financing activities of the Freudenberg Group and also operates the cash management system for the entire Group. The Group companies obtain the financing they require via cash pools or intercompany loans provided by the parent company or, in some countries, in the form of bank loans guaranteed by the parent company.

The limits of action, responsibilities and control procedures in connection with derivative financial instruments are laid down in a binding form in internal directives for Group companies. Freudenberg & Co. does not expose itself to additional financial risks through speculation with derivative financial instruments but uses such instruments only for hedging, and therefore reducing, risks in connection with underlying transactions. Future transactions are only hedged if there is a high probability of occurrence.

Freudenberg & Co. uses derivative financial instruments for hedging interest rate and foreign exchange risks. In the case of derivative financial instruments used for hedging foreign exchange risks, the greater part of the positions is held in US dollars.

Fair values are determined on the basis of quoted prices, accepted market information systems or discounted cash flows.

Derivative financial instruments for hedging recognized assets or liabilities (fair value hedges) 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 flows (cash flow hedges) are also stated in the balance sheet at fair value, but changes in the fair value of such instruments are recognized without effect on net income under retained earnings, taking into consideration the applicable income taxes. Such changes are recognized in the income statement when the underlying transactions concerned are effected. Ineffective portions of hedge transactions are always recognized in the income statement.

Credit risk

Freudenberg & Co. only concludes derivative financial instruments with first-class international and national banks of good financial standing. Credit risks are minimized by dividing hedges between several banks.

Currency risk

Risks connected with exchange rate fluctuations are mainly hedged by currency futures. There is no significant currency risk position.

Interest rate risk

Risks resulting from interest rate fluctuations are mainly hedged by long-term interest rate swaps and caps.

The face value of derivatives entered into for interest rate hedging was 244.1 million euros (2005: 240.0 million euros). Apart from one cap with a volume of 30.0 million euros (2005: 30.0 million euros), these derivatives were chiefly long-term interest rate swaps (payer swaps in the amount of 210.0 million euros). As at December 31, 2006, the negative net fair value of these swaps was 2.1 million euros (2005: 10.4 million euros) and the fair value of the cap was 0.0 million euros (2005: positive fair value of 0.1 million euros), resulting in a total negative fair value of 2.1 million euros (2005: 10.3 million euros). These derivatives were used for hedging low interest rates and the cash flow risk of variable-interest payables.

As of December 31, 2006, the face value of currency futures concluded for hedging foreign exchange risks and still open was 22.6 million euros (2005: 59.1 million euros). All these transactions were conventional currency futures. The negative net fair value of all these instruments as of December 31, 2006 was 0.2 million euros (2005: positive fair value of 0.4 million euros).

Of the total volume of derivatives, 90.0 percent (2005: 80.2 percent) had a term of more than one year.

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

[million €]	Dec. 31, 2005	Dec. 31, 2006
Other assets		
Currency futures	0.4	0.0
Interest rate swaps	0.0	0.1
Cap	0.1	0.0
Other liabilities		
Currency futures	0.0	0.2
Interest rate swaps	10.4	2.2

The value changes (gains) in the case of interest rate swaps, amounting to 8.3 million euros (2005: loss of 0.3 million euros), are recognized in equity. The changes in deferred taxes on the temporary differences arising offset this amount by 1.3 million euros (2005: 0.2 million euros).

The interest rate swaps are mainly intended to hedge risks of interest changes with respect to variable-interest loans on a long-term basis.

Interest rate risks mainly arise in the case of long-term items. Falls in long-term interest rates have a negative impact on the fair values shown in the balance sheet for derivative financial instruments concluded for interest rate hedging.

Notes to the Income Statement

(12) Sales

Sales include revenue from the sale of goods amounting to 4,943.6 million euros (2005: 4,741.7 million euros), services in the amount of 63.4 million euros (2005: 66.9 million euros) and licenses in the amount of 30.0 million euros (2005: 22.8 million euros). Other sales totaled 15.8 million euros (2005: 5.2 million euros).

(13) Cost of sales

Cost of sales indicates the cost of goods and services sold. Apart from individual directly attributable costs, such as personnel expenses and material expenses, overheads, including depreciation, are also shown under cost of sales.

(14) Research and development expenses

Apart from personnel and material expenses, research and development expenses chiefly include the cost of licenses and patents created in the course of development projects.

(15) Other income

Other income mainly includes income from the sale of non-current assets and income from secondary business. Exchange rate and currency gains are set off against exchange rate and currency losses and shown under other expenses.

(16) Other expenses

Among other items, other expenses include losses on the sale of non-current assets and exchange rate and currency losses in the amount of 6.3 million euros (2005: exchange rate and currency gains amounting to 11.8 million euros), which were set off against exchange rate and currency gains.

(17) Interest and similar expenses

Interest expenses include interest on Partners' accounts totaling 25.2 million euros (2005: 23.1 million euros).

(18) 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 sheets and commercial balance sheets of individual companies, on adjustments to uniform valuation within the Group and on consolidation transactions.

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

Income taxes break down as follows:

[million €]	2005	2006
Current taxes related to the reporting period	79.4	94.1
Current taxes related to other periods	1.1	-0.7
Deferred taxes	0.3	-4.1
	80.8	89.3

The amount of deferred tax expenses relating to changes in tax rates was 0.7 million euros (2005: 0.1 million euros).

The amount of deferred tax expenses relating to transactions recognized directly under equity in the reporting year was -2.8 million euros (2005: not significant).

As of December 31, 2006, tax losses carried forward amounted to 209.4 million euros (2005: 210.6 million euros). Deferred tax assets totaling 20.2 million euros (2005: 30.3 million euros) were recognized in respect of tax losses carried forward. Deferred tax assets were not recognized in respect of tax losses carried forward with a total amount of 189.2 million euros (2005: 180.3 million euros) as it is not expected that these losses will be usable.

In the reporting year, tax losses carried forward totaling 7.0 million euros (2005: 15.5 million euros) for which no deferred tax assets had been recognized were used.

Deferred taxes concern temporary differences and tax losses carried forward with the following amounts:

[million €]	Deferred tax assets Dec. 31, 2005	Deferred tax liabilities Dec. 31, 2005	Deferred tax assets Dec. 31, 2006	Deferred tax liabilities Dec. 31, 2006
Intangible assets	3.7	12.3	3.9	10.8
Tangible assets	4.8	135.0	4.3	127.0
Financial assets	0.0	4.4	0.3	3.8
Inventories	16.6	1.1	16.1	1.0
Receivables	6.3	7.3	4.0	6.6
Other assets	2.0	0.5	1.8	0.4
Provisions for pensions	12.5	0.1	13.8	0.0
Other provisions	26.5	2.0	27.9	4.8
Liabilities	20.1	6.1	21.6	1.2
Other liability items	0.9	2.4	1.2	2.4
Tax losses carried forward	8.4	-	5.3	-
	101.8	171.2	100.2	158.0
Offsetting	-41.8	-41.8	-44.8	-44.8
Balance sheet amount	60.0	129.4	55.4	113.2

No deferred tax liabilities were set up on temporary differences arising from shareholdings totaling 13.1 million euros (2005: 12.8 million euros) as short-term dividend payments are not expected.

Reconciliation of expected income taxes with actual income taxes

Freudenberg & Co. and its German subsidiaries are subject to the municipal trade tax on income. In addition, many German subsidiaries registered as corporations are subject to corporation tax. Income realized in other countries is taxed at the rates applicable in the countries concerned. The tax rate of 33 percent (2005: 37 percent) used for calculating the expected tax expense is based on the structure of the Freudenberg Group relevant for taxation. It is calculated as the weighted average of the tax rates for the regions in which the Group realized its main income.

[million €]	2005	2006
Profit before income taxes	283.0	308.4
Expected income tax expense	-104.7	-101.8
Different tax rates:		
in Germany	-4.4	5.4
in other countries	10.9	3.7
Tax portion of:		
non-taxable income	22.8	26.9
non-deductible expenses	-16.1	-24.4
Prior-period taxes	1.1	-0.7
Tax portion of tax losses carried forward and used for which no deferred tax assets were recognized	5.7	2.3
Other taxation effects	3.9	-0.7
Actual income tax expense	-80.8	-89.3
Effective tax rate (percent)	28.6	29.0

(19) Profit attributable to minority interests

[million €]	2005	2006
Profit	14.9	17.6
Loss	0.0	-1.0
	14.9	16.6

(20) Partners' taxes

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

The Partnership Agreement places Freudenberg & Co. under an obligation to ensure the payment of taxes on the profits earned which are to be paid by the Partners. The tax burden for fiscal 2006 (including deferred tax) was 12.6 million euros (2005: -1.0 million euros).

(21) Other information on the income statement

[million €]	2005	2006
Raw materials, consumables and merchandise purchased	1,922.5	1,999.2
Services purchased	171.8	163.6
Material expenses	2,094.3	2,162.8

[million €]	2005	2006
Wages and salaries	1,216.0	1,213.9
Social security contributions and costs of pensions and assistance	308.1	321.0
Personnel expenses	1,524.1	1,534.9

Notes to the Cash Flow Statement

The cash flow from operating activities takes into account payments for taxes amounting to 104.3 million euros (2005: 85.8 million euros), dividends received in the amount of 9.9 million euros (2005: 10.2 million euros) – including dividends received from associated companies totaling 9.5 million euros (2005: 9.8 million euros) – as well as interests paid of 49.6 million euros (2005: 51.5 million euros) and interests received of 5.5 million euros (2005: 4.5 million euros).

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

Application of Sec. 264 (3), HGB (Handelsgesetzbuch, “German Commercial Code”), Sec. 264b, HGB and Sec. 5 (6), PublG (Publizitätsgesetz, “German Disclosures Act”) in connection with Sec. 264 (3), HGB

The following German companies of the Group took advantage of the exemption provisions of Sec. 264 (3), HGB, Sec. 264b, HGB and Sec. 5 (6), PublG in connection with Sec. 264 (3), HGB:

ASTO Beteiligungs-GmbH, Weinheim
Burgmann Industries GmbH & Co. KG, Wolfratshausen
Chem-Trend (Deutschland) GmbH, Maisach/Gernlinden
Chem-Trend Holding GmbH, Weinheim
Dichtomatik Vertriebsgesellschaft für technische Dichtungen mbH, Hamburg
DS Holding-GmbH, Weinheim
Espey Burgmann GmbH, Moers
Externa Handels- und Beteiligungsgesellschaft mit beschränkter Haftung, Heddesheim
FHP Export GmbH, Weinheim
FHP Holding GmbH, Weinheim
Freudenberg Dichtungs- und Schwingungstechnik GmbH & Co. KG, Weinheim
Freudenberg Dichtungs- und Schwingungstechnik GmbH, Berlin
Freudenberg Finance GmbH, Weinheim
Freudenberg Gesellschaft für Industriebeteiligungen mbH, Weinheim
Freudenberg Immobilien Management GmbH, Weinheim
Freudenberg IT Beteiligungs-GmbH, Weinheim
Freudenberg Mechatronic Components GmbH & Co. KG, Weinheim
Freudenberg Mechatronics GmbH & Co. KG, Weinheim
Freudenberg NOK Mechatronics GmbH & Co. KG, Weinheim
Freudenberg O-Ring GmbH & Co. KG, Weinheim
Freudenberg Politex Holding GmbH, Weinheim
Freudenberg Process Seals GmbH & Co. KG, Viernheim
Freudenberg Schwingungstechnik Industrie GmbH & Co. KG, Velten
Freudenberg Simmerringe GmbH & Co. KG, Weinheim
Freudenberg Simrit GmbH & Co. KG, Weinheim
Freudenberg Spezialdichtungsprodukte GmbH & Co. KG, Weinheim
Freudenberg Stanz- und Umformtechnik GmbH & Co. KG, Weinheim
Freudenberg Venture Capital GmbH, Weinheim
Freudenberg Vliesstoffe KG, Weinheim
FV Holding GmbH, Weinheim
Integral Accumulator GmbH & Co. KG, Weinheim
Klüber GmbH, Weinheim
Klüber Lubrication München Kommanditgesellschaft, Munich
Lederer GmbH, Öhringen
OKS Spezialschmierstoffe GmbH, Munich
Vibracoustic GmbH & Co. KG, Weinheim
Vileda Gesellschaft mit beschränkter Haftung, Weinheim

Further notes

Research and development

In the year under review, expenses for research and development activities amounted to 204.2 million euros (2005: 198.6 million euros). Of this amount, 29.1 million euros (2005: 27.5 million euros) were charged to third parties. The figure includes government grants for research and development projects totaling 1.5 million euros.

Workforce

In the year under review, an average of 33.542 (2005: 33.420) persons were employed in the following functions:

2006	Germany	Other countries	Total
Production	6.992	14.376	21.368
Sales	1.934	3.590	5.524
Research and development	1.427	829	2.256
Administration	1.414	2.980	4.394
	11.767	21.775	33.542

The above figures include a pro-rata share of the employees of companies consolidated on a pro-rata basis totaling 2.468 (2005: 2.071).

Related party disclosure

Relations with other participations and associated companies were as follows:

2005	Sales	Receivables	Payables
[million €]			
Other participations	9.7	19.2	27.7
Associated companies	12.3	2.4	12.9
	22.0	21.6	40.6

2006	Sales	Receivables	Payables
[million €]			
Other participations	29.2	29.1	18.6
Associated companies	14.3	3.3	11.6
	43.5	32.4	30.2

The total remuneration of members of the Board of Partners amounted to 0.3 million euros (2005: 0.4 million euros).

The total remuneration of members of the Management Board amounted to 2.5 million euros (2005: 2.8 million euros). Provisions for pensions for members of the Management Board amounted to 11.2 million euros (2005: 12.9 million euros).

The remuneration paid to former members of the Management Board or their surviving dependants totaled 4.8 million euros (2005: 3.6 million euros). Provisions for pensions for former members of the Management Board and their surviving dependants amounted to 34.2 million euros (2005: 29.8 million euros).

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

Dr. Dr. Peter Bettermann, Speaker of the Management Board of Freudenberg & Co., and Dr. Hans-Jochen Hüchting, Member of the Board of Partners, are also shareholders of Freudenberg Stiftung GmbH, Weinheim (in the following "Freudenberg Stiftung"). Mr. Andreas Freudenberg is a member both of the Board of Partners of Freudenberg & Co. and of the Committee of Freudenberg Stiftung.

Freudenberg Stiftung is a foundation established with the object of holding a donated participation of 12.5 million euros (2005: 12.4 million euros) in Freudenberg & Co. and using the income from this participation for benevolent and charitable purposes. Any surplus liquid funds held by the foundation are invested in Freudenberg & Co. at normal market conditions and the income from these funds is used for the purposes of the foundation.

There were no major events after the balance sheet date up to March 27, 2007 (the date when the annual report was approved for publication by the Board of Partners).

Weinheim, March 27, 2007

FREUDENBERG & CO.
KOMMANDITGESELLSCHAFT
Management Board