

United Nations Global Compact

Communication on Progress Freudenberg Group 2013 | 2014



Content

I. Statement of continued support from the Speaker of the Board of Management	5
II. The Freudenberg Group	7
i. Group profile	7
ii. We all take care	7
iii. Freudenberg Innovation Award	8
iv. Risk management	9
III. Human rights and labor	11
IV. Environmental protection	19
V. Anti-corruption	22
VI. Social responsibility	24



I. Statement of continued support from the Speaker of the Board of Management



Dear Sir or Madam

The Freudenberg Group signed the UN Global Compact in January 2014. Making a public commitment to the universal principles of the initiative is an important step for us. Our company's 165-year history is founded on responsible conduct which thus forms an integral part of our business activities. Our Guiding Principles, and in particular those addressing "Responsibility", "Innovation" and "Long Term Orientation", bear witness to that.

As a technology company, progress for Freudenberg has always meant change driven by innovative products and processes. This has been illustrated very clearly this year by both the winner and one of the finalists in the Freudenberg Innovation Award. We present further examples demonstrating our commitment to the development and diffusion of environmentally-friendly technologies in the chapter on "Environmental protection".

Our skilled and motivated employees safeguard the long-term success of the company. That is why Freudenberg implements a very broad range of programs and measures to support and encourage their development. One example of such action is the talent management process we introduced throughout the Group this year. A key element of this process is fostering employees from different cultural backgrounds and of different ages and genders. Every Business Group has therefore drawn up a diversity statement.

Occupational health and safety is an important issue at Freudenberg that receives strong support and is brought vividly to life – both through initiatives across the Group and through individual commitment. Thanks to this approach there has been a steady decline in the number of accidents in the Freudenberg Group in recent years

and we have achieved a very low level compared to our industry peers. This success reflects our achievements in other areas, too, where we have also set our sights on continuous improvement.

Environmental protection is a vital element of our activities. We have driven forward the introduction of environmental protection management systems across our Group. An environmental management system pursuant to ISO 14001 or EMAS is now in place at over 80 percent of our production locations. We are working hard to systematically improve our environmental performance with regard to raw materials, production processes and our products themselves. Numerous new products from Freudenberg, for example, help to conserve resources.

This is the Freudenberg Group's first Communication on Progress for the Global Compact and it provides an overview of our activities in the last fiscal year with respect to human rights, anti-corruption, labor, environmental protection and social responsibility. The Freudenberg Group expressly commits to supporting implementation of the ten principles of the UN Global Compact and to keep driving these efforts forward during the current year.

*Dr. Mohsen Sohi
Speaker of the Board of Management,
Freudenberg Group*

II. The Freudenberg Group

We ^{all} take care!

i. Group profile

Freudenberg is a global technology company supplying innovative products and services to customers in various markets and sectors of industry.

The Group harnesses its outstanding technical expertise to deliver tailor-made solutions to customers in the passenger car and commercial vehicle industry, mechanical and plant engineering, textile and apparel, construction, mining and heavy industry, energy, chemical, and the oil and gas sectors. Customer groupings also include companies in the medical technology, civil aviation, rail vehicles and semiconductor sectors.

Freudenberg develops and manufactures seals, vibration control technology components, filters, nonwovens, surface treatment products, release agents and specialty lubricants, medical technology and mechatronic products. The company develops software solutions and IT services primarily for small- and medium-sized enterprises. Consumers enjoy the benefits of Freudenberg's state-of-the-art household products marketed under the vileda®, O-Cedar®, Wettex®, Gala® and SWASH® brands.

Creativity, quality, diversity and innovative strength are the cornerstones of the company. Freudenberg believes in diverse teams and the excellence of its workforce of some 40,000. Around the world, employees from many different cultures work productively together. Despite their diversity, there is one thing that they all have in common – the values which have become a deeply embedded culture in the course of the company's long history. They provide clarity for our employees, reliability for our business partners and coherence for the entire Group. Customer value, financial solidity, entrepreneurship, trust, respect, responsibility and a long term orientation – that is what defines Freudenberg worldwide.

Freudenberg sees itself as an enterprise of entrepreneurs. Operational business is in the hands of independent companies whose management conducts business under their own responsibility. These individual companies in turn belong to Business Groups.

Freudenberg has two parent companies: Freudenberg & Co. Kommanditgesellschaft is the Group's strategic parent company. Under its roof, Freudenberg SE is the parent company of the various Business Groups and holds responsibility for managing business operations.

Freudenberg is a family company. It is owned by some 320 heirs to the founding father Carl Johann Freudenberg.

ii. We all take care

Back in 2002, Freudenberg launched the "We all take care" initiative based on the [Freudenberg Group Guiding Principles](#). The initiative calls on every employee to proactively engage in improving environmental protection, occupational health and safety. Other important issues embraced by the initiative are a commitment to social responsibility and site risk management. In this way, every employee plays a personal role in putting the "Responsibility" Guiding Principle into practice in the working environment. All employees can access the details of successful projects via the Freudenberg intranet, thus accelerating improvement processes. The initiative is one of the items on the agenda of the Corporate Health, Safety, Security and Environment (HSE) Meeting, and its evolution is therefore supported at top management level and by Business Group HSE management.

Every year, Freudenberg honors employees who have demonstrated particular success, progress and outstanding performance by conferring the "We all take care" Award.



The following projects were among the winners projects in 2013:

Heart beating for life and health

In many countries, cardiovascular diseases are the most common cause of death. Blood vessels “calcify,” whereby the blood circulation is disrupted, often with fatal consequences such as strokes and heart attacks. Arterial sclerosis is the official term for the disease. The occupational medicine and preventive healthcare department at Freudenberg Service KG offered to examine the personal risk of heart attack for Freudenberg associates at the locations served by the department. Almost 600 associates took up the offer during the course of 2012.

Giving back to society

With the hope of bringing a little joy to people living under challenging circumstances, associates at Freudenberg Filtration Technologies in India visited various charities in the Pune area during the Diwali holidays. Diwali is the most important Indian holiday and marks the annual start of the Hindu lunar calendar. The holiday has a significance similar to Christmas in western cultures. Companies organize traditional festive meals for associates and their families. Since 2010, Freudenberg Filtration Technologies in Pune has done things differently. Employees spend a free day during Diwali at a social institution, selecting the charity in their region that they wish to help and deciding what activities they would like to organize. The company provides support in planning and implementing these projects.

iii. Freudenberg Innovation Award

The Freudenberg Innovation Award is the Freudenberg Group’s highest award for innovation and recognizes particularly successful innovations. The Freudenberg Innovation

Award was presented for the first time in 2014 and will be awarded every two years from now onwards.

This new, internal prize emphasizes the importance of innovation for Freudenberg. On one level, it acknowledges the outstanding achievements of employees. On a broader level, the Award will help to initiate fresh ideas within the New Business Development Division.

All types of innovation are given equal consideration for the Freudenberg Innovation Award: Product, material, process and service. In a two-stage evaluation process, the jury initially selects five finalists before deciding on the overall winner. Among the most important selection criteria are the degree of innovation, customer benefits and commercial potential. Further significant criteria include the contribution made to environmental protection and occupational health and safety.

The following projects that reached the final round of this year’s Freudenberg Innovation Award are of special significance with regard to energy saving and safety:

Proven energy savings enabled by high-tech lubrication (awardee)

The power consumption of industrial plants is often enormous. “Energy efficiency solutions” help to increase both efficiency and cost-effectiveness. To begin with, an innovative measurement and evaluation process identifies energy-saving potential within the system. Smooth-running specialty lubricants are subsequently used in place of conventional oils to reduce friction between individual components, resulting in proven reduced energy consumption and increased performance.

Ultra-thin nonwovens let the ions flow

The modern world relies totally on electricity: Hardly anything works without it. Whether in cell phones, laptops or electric cars, rechargeable batteries are vital. They need to be powerful, reliable and safe as well. A wafer-thin yet extremely durable nonwoven separator, equipped with a functional ceramic material impregnation, keeps the plus and minus poles permanently separated. This minimizes the risk of short circuits or even battery fires while allowing the ions and thus the current to flow freely.

iv. Risk management

Freudenberg is exposed to numerous risks inseparably associated with entrepreneurial action. A risk management system for the timely identification and control of risks and the prompt initiation of countermeasures to safeguard the company is in place throughout the Freudenberg Group. This decentralized system is oriented to the organizational structure of the Group. The Group’s organizational guideline on risk management forms the framework for the risk management system and is specifically adjusted to the requirements of the business units. The organizational structure of the Freudenberg Group underwent a thorough review in 2013 and adjustments were made in some areas.

The companies of the Freudenberg Group supply information on the current status of major risks under a regular reporting procedure by which the most important risk prevention or risk reduction measures are listed for each risk and any early warning indicators reviewed. New findings are incorporated in the Freudenberg Group’s risk management process via a regular exchange of experience with other companies and external experts, thereby ensuring the further development of the risk management system. Developments that could threaten the continued

existence of the Freudenberg Group are identified in good time by the risk management system.

On the procurement market, Freudenberg faces risks relating to the availability of raw materials and their price trends, particularly steel, crude oil derivatives and rubber. Freudenberg companies respond to these risks with targeted purchasing activities and by reviewing the utilization of substitute raw materials and alternative production processes. Long-term contracts are concluded where feasible and meaningful.

Various measures to safeguard liquidity are in place which allow Freudenberg to react swiftly to unexpected liquidity-related risks. Such risks are hedged by the Group’s solid banking and shareholders’ financing and its high liquid reserves. The company has an above-average equity ratio, a stable level of Partners’ reserves and comprehensive credit lines.

Internal guidelines for companies in the Freudenberg Group clearly specify that derivative financial instruments may not be used for speculative purposes, but only for hedging risks in connection with underlying transactions and associated financing operations.

III. Human rights and labor

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
Principle 2: Companies should make sure that they are not complicit in human rights abuses.
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labor;
Principle 5: the effective abolition of child labor, and
Principle 6: the elimination of discrimination in respect of employment and occupation.

CORPORATE PRINCIPLES
AND OMBUDS OFFICE

Corporate principles

The [Freudenberg Group's Guiding Principles](#) express the Group's long-standing position with respect to human rights and labor. The Guiding Principles are *Value for Customers, Leadership, Responsibility, Innovation, People and Long Term Orientation*. These principles serve as the basis and yardstick for all of the Group's actions. Their implementation in day-to-day business is monitored on a regular basis.

The *People* and *Responsibility* Guiding Principles are of particular relevance in the context of human rights and labor. These principles articulate the Freudenberg Group's commitment with respect to human rights, promoting and maintaining a diverse workforce, and ensuring that employees have equal opportunity and are treated with fairness and integrity. Specifically, these principles state:

People

As a family company, we are devoted to our employees' well-being and personal development. We reject all forms of discrimination and harassment and show understanding and respect in our dealings with each other. We promote a multi-cultural environment where employees work together in worldwide teams to enrich our culture and capability. We believe in the value of enduring relationships with customers, suppliers and industrial partners.

Responsibility

Our company and its family shareholders together are committed to protecting the environment and being responsible corporate citizens in all countries and communities in which we do business. We take all possible care to ensure the safety of the workplace and of our products.

As a family company, we strive for the highest standards of personal behavior. Fairness and integrity guide our conduct amongst ourselves, towards our business partners and the general public.

Management Principles

The Freudenberg Group has social responsibilities to all its staff, both in Germany and abroad. No one single standard can be applied here: what is needed is a flexible response attuned to the laws, customs, needs and possibilities obtaining in each individual country. Discrimination and exploitation of the weak and helpless have no place in our company.

The Group's business policy requires adherence to behavioral principles with which both the partners and the staff feel able to identify:

We, too, have to hold our own against fierce competition. Success has to come from performance; we shall not agree to any business where illegal or unethical means are utilized.

We will not manufacture any products intended for harming people (e.g. weapons).

A responsible attitude to the environment and the safety of our staff are important corporate objectives, and must not be restricted to letter-of-the-law compliance with the relevant statutory requirements.

The **Management Principles** are one element of the [Freudenberg Group's Business Principles](#). For more information on the Business Principles, please refer to **Chapter V. Anti-corruption**.

Compliance with the relevant laws and other statutory provisions and with the applicable versions of the Business Principles and Guiding Principles of the Freudenberg Group as well as compliance with the non-contradictory supplementary in-house customs (e.g. codes of conduct, employee manuals) and external local customs (together referred to as "Corporate Principles") are indispensable requirements for the good cooperation of all Group employees and a binding basis for the relationship with third parties, in particular suppliers, customers and authorities. The Corporate Principles are binding on all employees and must be actively practiced and implemented at all levels, starting with the members of the Management Board of Freudenberg & Co. Kommanditgesellschaft and the members of the Board of Management of Freudenberg SE, the members of the management of the respective Business Groups, and by all other line superiors.

Infringements are not accepted and are corrected or punished, proceeding from the Management Board / Board of Management through the management bodies of the Business Groups down to the respective superiors. This applies in particular to cases of bribery and corruption, infringements of anti-trust provisions, breaches of relevant regulations under environmental, safety and labor laws (e.g. infringement of the principle of equality) and violations of the personal rights of employees (e.g. personal disparagement, sexual harassment).

The Ombuds Office

Work which is produced by disregarding the Corporate Principles or conduct which contradicts them is undesirable. To that end, an Ombuds Office was set up at Freudenberg SE to provide every employee with a channel of communication for reporting and investigating such infringements.

The Ombuds Office began work in May 2010, initially with three members, and has in the meantime established itself in the Group as a point of contact. A fourth member located in Shanghai joined the ombuds team in 2013. The Ombuds Office records the information communicated to it, checks its contents for truth and the associated infringements of the Corporate Principles, and works together with various offices in the Group to correct – insofar as still possible – the imminent infringement or one that has actually taken place, and prevent comparable infringements through appropriate action; where necessary, the infringement identified is punished.

The members of the Ombuds Office report direct to the Audit Committee of the Supervisory Board of Freudenberg SE. The Ombuds Office draws up an annual report on its activities during the preceding year for submission to the Audit Committee of the Supervisory Board of Freudenberg SE.

A total of 25 new complaints from America, Asia and Europe were processed and brought to a close in 2013. Apart from processing cases of infringements against applicable labor law, the work of the Ombuds Office focused in particular on cases of discrimination.

In 2013, interviews with members of the Ombuds Office team were published in the "Freudenberg Magazine" (a journal for Freudenberg employees) and in the intranet. The Ombuds Office gave a presentation during the conference of the Group youth works council and also at induction events for new employees.

EMPLOYEE REPRESENTATION

Freudenberg signed a [Global Agreement on Social Dialog](#) with the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) and Industriegewerkschaft Bergbau, Chemie, Energie (Mining, Chemical and Energy Industrial Union - IG BCE) recognizing the international standards and conventions of the International Labor Organization (ILO). An annual exchange on social dialog issues has been taking place between the Board of Management and employee representatives since ICEM and other trade unions merged in 2012 to form [IndustriALL](#).

The guidelines for the Freudenberg Group are the existing international conventions of the ILO, in particular the following conventions

- ensuring equal opportunities and equal treatment on the job in accordance with ILO Conventions 100 and 111;
- safeguarding freedom of association and the respect for basic trade union rights in accordance with ILO Conventions 87 and 98;

- prohibiting forced labor according to the definitions included in ILO Conventions 29 and 105;
- prohibiting child labor according to the definitions included in ILO Convention 138 and 182.

The right of the employees in the Freudenberg Group to freely join trade unions of their choice, to elect workers' representatives and to represent their interests in negotiations concerning collective bargaining agreements is acknowledged. The basis for this is the ban on discrimination against shop-floor or trade union representatives included in ILO Convention 135.

Freudenberg European Works Council (FEBR)

A regular informal exchange takes place with the representatives of the Group Works Council, the Freudenberg European Works Council and the plant works councils.

1996 saw the establishment of the first employee representational body on the basis of a European directive and a voluntary agreement - the Freudenberg Euro-Forum, where delegates from employer representations in countries throughout Europe were able to discuss international issues with the Group Management Board.

As part of the parent company's restructuring and the founding of Freudenberg SE, an agreement to establish a new body for employee representation, the Freudenberg European Works Council (FEBR), was concluded in March 2012 following the appropriate consultation process involving employee representatives. Once constituted, the FEBR replaced the old Freudenberg Euro-Forum. The FEBR has more extensive information and consultation powers than the older body, as compliance is needed with both national and European legislation.

In order to maintain the standards achieved to date, the efforts of the new body will focus in particular on joint responsibility, support and monitoring of compliance with the above-mentioned Global Agreement on Social Dialog as well as joint support and monitoring of occupational health and safety principles.

PERSONNEL DEVELOPMENT

Top Employer

Freudenberg & Co. was named a Top Employer in Germany in 2013 and repeated this achievement in 2014.

To be certified as a Top Employer, companies must meet the high standards set by a multi-stage certification process which determines whether a company displays an above-average performance in respect of employee orientation. Based on a comprehensive survey, the Top Employers Institute assesses the performance of Corporate HR in the fields of personnel strategy, personnel policy and practice, monitoring and communication of working conditions, and personnel development. The entire evaluation process and all the information submitted by the participants is audited by an independent external auditor on the basis of international standards.

Companies fulfilling the requirements for certification are given individual feedback including an HR benchmark report. Once certified as a Top Employer, companies can use the official certification seal for a one-year period and also enjoy special benefits (e.g. their corporate profile is published on the Top Employer website and they are featured in a Financial Times special report).

Fair Company

The Freudenberg Group was awarded the Fair Company quality seal back in 2009.

The Fair Company quality seal is an initiative of *karriere.de*, a portal run by the German business publications "Handelsblatt" and "Wirtschaftswoche". Fair Company represents a voluntary undertaking on the part of the participating companies to comply with certain rules as regards fair working conditions for career entrants. These rules include the following:

- Fair Companies do not substitute interns, "volunteers", student assistants, long-term temporary workers, etc. for permanent employees.
- Fair Companies offer internships mainly for professional orientation during the training phase.
- Fair Companies pay interns adequate compensation.
- Fair Companies are transparent and communicate their participation in the initiative.

"Praktikantenspiegel"

The Freudenberg Group received the "Top Praktikum 2013" award.

The "Praktikantenspiegel" is an employer study conducted by the HR consultant CLEVIS and focuses on strategic HR management issues. The two dimensional structure of the study allows for a separation of brand image and employer quality. Only current and alumni interns take part in the survey, thus providing a representative evaluation of companies based on a scientifically profound questionnaire with over 100 items. The findings are presented in a four-field matrix (the four identified employer types are classified as "Star", "Hidden Champion", "Pretender", "Challenger"), thus distinguishing the study quite significantly from linear employer listings.

The Freudenberg Group received the "Top Praktikum 2013" award and was classified as a "Star" company with regard to employer quality and brand image. 68

interns rated Freudenberg in 2013 and the company ranked seventh out of the top ten best employers for interns.

Work-life balance

The benefit@work online service portal offers quality-assured services for the family and home, particularly when it comes to caring for children and seniors or looking after the home and garden. All Freudenberg employees in the Weinheim region can use the services provided by benefit@work. The organization is reviewing the expansion of these services to other locations.

The objective is to improve Freudenberg's performance as a family-friendly employer. The service portal helps employees achieve a better work-life balance.

Talent management process

Freudenberg rolled out a new talent management process throughout the Group in 2013. The objective is to establish a uniform standard for talent management across the entire Freudenberg Group to achieve comparability in the assessment process and to facilitate personnel development beyond the boundaries of individual Business Groups.

The concept covers standardized assessment systems and is based on coordinating skills profiles and potentials definitions. Individual agreements on the next development steps are drawn up on the basis of these appraisals with a view to preparing employees for future tasks.

The first Global Talent Management Conference with the participation of all Business Groups took place in February 2013. The Business Groups presented their Level 1 managers and their high potentials. Regional Talent Dialogues to discuss development perspectives through-

out the Group for identified talents from the respective regions took place in the fall in North America, South America, China and India.

A Regional Talent Dialogue for Europe is planned for 2014.

Regional activities

The Freudenberg Group organizes leadership training for management talent in all regions. The Freudenberg Leadership Development Program for Level 1 managers has already become a tradition in Germany. The first leadership training for management talent at **Freudenberg's European companies** took place in the year under review.

The Freudenberg Leadership Development Program brings together employees from all Business Groups. One aim is to create the framework for participants to establish a close and durable network. In order to further strengthen and expand this effect, the first "alumni day" for the Freudenberg Leadership Development Program was held in the year under review.

In 2013, Freudenberg continued the leadership program launched in **North America** in 2012. The program aims, among other things, to promote diversity. 20 employees with different cultural backgrounds took part in three one-week modules held at various Freudenberg locations in North America and designed to teach leadership skills and illustrate the value of diverse teams.

Freudenberg organized the third leadership program for middle management in **South America**. New elements such as the skills profiles of the Group's talent management process were added to the program in the year under review. The objective is to gain an insight into the management performance of each participant and to define both

individual and collective development plans. The program also encourages networking among the participants. 20 participants successfully completed the program in February 2014.

The fluctuation rate on the Chinese labor market in 2013 was again extremely high. While personnel turnover at Freudenberg in **China** is below the national average, there is nevertheless potential for improvement, particularly at production locations, because production operatives account for 80 percent of fluctuation.

As a result of the situation on the Chinese job market, the time and effort required to recruit, induct, train and retain employees is high. In personnel work, talent management with a view to supporting Freudenberg's sustainable growth in China has evolved into a key issue. The following projects were implemented or introduced in the year under review:

The fourth Freudenberg China Talent Summit, a two-year program for management talent featuring intensive training modules, challenging project work and the targeted communication of perspectives throughout the Freudenberg Group, commenced in 2013. The program prepares high potentials in China for their first management posts. Candidates from earlier programs now hold senior management positions in China. The programs include contributions from international managers.

A pension plan for China was launched on January 1, 2014. This plan is designed to give Freudenberg employees in China the opportunity to contribute to a company pension scheme. Freudenberg is thus rewarding the performance and loyalty of its employees and strengthening their identification with the company.

In the year under review, a project team also began work on drafting a program to reduce the fluctuation rate among production operatives and strengthen their identification with Freudenberg.

In **India**, Freudenberg consolidated various training initiatives introduced at all organizational levels in 2011 and 2012. During the year under review, special learning kits were distributed to all employees who had previously taken part in these programs with a view to underpinning the effectiveness of the training with the help of follow-up learning material. At the same time, 2013 saw the introduction of coaching programs for line managers aimed at transferring responsibility for the development of team members to them, with the HR department assuming a supporting role.

In addition, several training programs were carried out in various departments.

DIVERSITY MANAGEMENT

At Freudenberg, diversity has been on the agenda for a long time: The Group's Guiding Principle on "People" states: "We promote a multi-cultural environment..." The benefits of diversity in a corporation are not just obvious in top management. On many levels, different experiences, perspectives and specialist skills generate ideas that can boost creativity and innovations. A company with a diverse workforce stands a better chance of understanding different customers.

Cooperating with partners from different cultures and harnessing the strengths of this diversity have a long tradition at Freudenberg. The Group's first joint venture was set up in the USA back in 1950, when Freudenberg and an American partner established a company producing

nonwovens based in Massachusetts. This was followed by many projects involving close and strong collaboration in various parts of the world. Their success is based on a kind of cooperation that also fosters diversity within a company. Mutual respect and trust make it possible to honor different cultural identities, to live the spirit of friendship and to share knowledge with friends.

Apart from the advantages that put diversity on the agenda, many countries in the Western world have another reason for increasing diversity in a business context. Demographic trends are changing labor markets. Societies are aging and the numbers of well-trained young specialists and managers are therefore falling. So corporations are contacting experienced associates and immigrants from other parts of the world, even more than in the past, as well as improving the work-life balance for young mothers to help them combine a career with a family.

However, diversity cannot be taken as a given. It must be nurtured and supported, misunderstandings must be resolved. Consequently, Freudenberg launched the first diversity training for management potentials in the USA. The aim is to systematically strengthen the participants' entrepreneurial skills and to make sure they encourage diversity in their future management positions.

One key element of the talent management process is a diversity statement issued by each Business Group presenting the composition of management with regard to gender diversity, cultural diversity and generation diversity.

OCCUPATIONAL HEALTH AND SAFETY

Freudenberg is committed to the well-being and personal development of its employees. Occupational health and

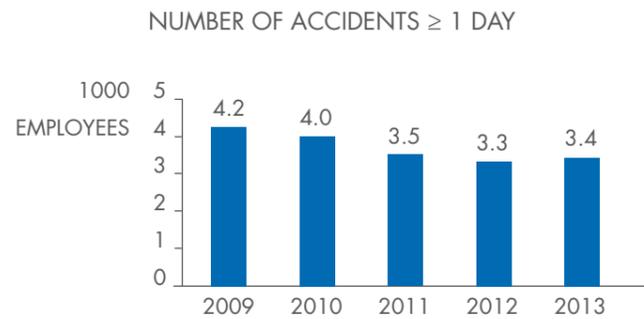
safety is encouraged and practiced at all hierarchy levels on the basis of internal guidelines.

Health protection, occupational safety and process safety are part of the day-to-day working routine. The strong commitment of all Freudenberg associates is lived within the whole Group and is the responsibility of everybody.

This approach has made it possible to bring down the number of accidents in the Freudenberg Group to a low level compared to industry peers. Existing measures are being intensified and promising new approaches introduced to continuously improve this accident record.

Success in the field of occupational safety is representative of other areas where Freudenberg is also seeking continuous improvement. Apart from environmental protection this applies in particular to health protection, where the company is stepping up its efforts with regard to preventive health management projects.

The global roll out of the revised 1996 HSE guideline is scheduled for 2014. One focus of the updated version will be the integration of health protection.



Preventive health care

The Group further expanded preventive health care management in the year under review. Various programs implemented Freudenberg's health care principles throughout the company. Internal surveys on health care infrastructure served to identify improvement potential and define corresponding measures. Health care performance indicators, such as the sickness rate, have been recorded since 2011. The transparency brought by this process has already led to a series of improvement projects.

Particular attention was devoted to addressing the challenges associated with demographic change. One key issue for the Business Groups was designing workplaces to ergonomic standards. Freudenberg Sealing Technologies has drawn up a guideline on ergonomics setting out criteria and recommendations for designing and equipping the Business Group's workplaces. In addition, employees attend training sessions on ergonomics.

How to cope with psychological stress was another focus of health care efforts. Freudenberg Home and Cleaning Solutions in the UK, for example, implemented an anti-stress project. Employees were shown how to identify and appropriately manage stress both on a personal level and among their colleagues.

Occupational safety

Occupational safety measures focus on changing the behavior of all employees. One example of these efforts is the numerous projects implemented under the "We all take care" environmental protection and occupational health and safety initiative. One of the winning projects in 2013 was a scheme at Freudenberg Nonwovens called "Trainees take care of safety" which encourages trainees to start mastering workplace safety at an early stage in

their working lives. Working in a team, the trainees developed proposals to deal with unsafe work situations, and then implemented these ideas cost-effectively and with a minimum of red tape.

Based on the consolidation at-equity, the total number of accidents resulting in more than one day's absence in the year under review amounted to 111 (previous year: 102). The corresponding LDI rate (LDI is the acronym for Lost Day Incident, i.e. all accidents at work involving at least one day's absence per 1,000 employees) was 3.4 (previous year: 3.3). Referred to one million working hours, the rate was 1.9 (previous year: 1.8). The number of serious accidents fell from seven to six.

IV. Environmental protection

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Freudenberg is committed to protecting the environment and assumes responsibility for making the company's activities as environmentally compatible as possible.

That includes using the natural resources we need for our processes, products and services as carefully and sparingly as possible. The protection of the environment is strongly positioned in Freudenberg's business practices. It is our target to continuously reduce the consumption of resources through optimized business processes. We also follow this principle in the redesign and modernization of buildings, the manufacture of products and the use of our products by customers.

Various raw materials and processes used in production have a differing impact on the environment and the workplace. The aim is to continuously reduce negative effects. In the selection and further development of raw materials, processes and methods, Freudenberg is committed to protecting its employees and the environment. This applies both to storing and processing raw materials and to the disposal of production residue. Many product developments are subjected to a stage-gate process which among other things ensures that new products have a better environmental performance than their predecessors. There has, for example, been a noticeable reduction in the use of formaldehyde in binders in recent years. The more stringent statutory requirements introduced during this period have been met.

The Oeko-Tex criteria were adopted as an internal threshold in 2012. The long-term objective is to ban formaldehyde from Freudenberg products.

Under the implementation program for REACH (European Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals), REACH coordinators have been appointed at all of Freudenberg's European Business Groups. The coordinators meet once or twice a year, the agenda at these meetings includes a discussion of current developments or the reaction of customers and suppliers to the REACH regulation and regulations of a similar nature.

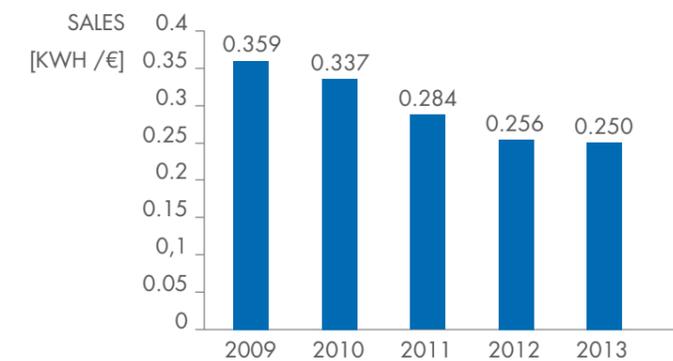
Internal and external audit processes monitor the implementation of HSE programs by the Business Groups, for example in respect of fire protection. The objective is to raise awareness for fire protection and prevent production interruptions and delivery shortfalls. The findings of the audits are systematically evaluated and measures implemented throughout the relevant Business Groups.

EXAMPLES OF PRODUCT DEVELOPMENTS

One example is Purtext®, a textile impregnation that – unlike fluorocarbon-based textile finishes – does not contain any substances that are considered in any way dangerous, either to humans or the environment. At Freudenberg Home and Cleaning Solutions, new products undergo an evaluation process during the development stage to assess sustainability performance. New products must perform better than their predecessors.

The LESS (Low Emission Sealing Solutions) package developed by Freudenberg Sealing Technologies stands for environmentally-friendly, resource-conserving mobility. The package features advanced sealing technology that helps save fuel and reduce emissions, thus harnessing the maxi-

ENERGY CONSUMPTION



mum engine efficiency potential, and also includes mature series solutions for alternative fuels as well as alternative drivetrain concepts, such as electric cars.

One specific product from the LESS package is the Levitex gas-lubricated mechanical seal. Lower frictional losses reduce CO₂ emissions per kilometer by as much as one gram.

Freudenberg Sealing Technologies innovates in numerous areas, from design and materials production through to mature, finished products. One promising new product is a cell frame seal, a mounting structure for large pouch-type cells in lithium-ion batteries which is currently at the design analysis stage.

The Levitex gas-lubricated mechanical seal comes extremely close to the vision of a friction-free seal. The slide ring interacts with a counter-ring to form a cushion of air, resulting in 90 percent less frictional loss than a conventional crankshaft seal ring. This reduces CO₂ emissions by 0.5 to 1 gram/km during driving. Furthermore, longer operating times are possible due to decreased wear.

The newly-developed Gamesa G11X nacelle seal is the first nacelle seal for wind turbines. It was installed for the first time on the Canary Islands in April 2013. The seal ensures a constant pressure in the nacelle and can close extreme gaps caused by nacelle deformation. The seal has a long service life of 20 years and can be replaced even under extreme conditions.

During the course of 2013, Freudenberg Nonwovens invested in several projects in the automotive sector with a view to positioning new innovative products in the marketplace. Innovations of note included the development of a separator for lithium-ion batteries and the market launch

of Lutraflor®, a particularly lightweight and ecologically sustainable automotive carpet material. Going forward, Lutraflor® is to help secure market share in the automotive carpeting segment in the face of anticipated market changes.

EXAMPLES OF PROCESSES AND METHODS

Freudenberg Nonwovens commissioned a regranulation unit at its Kaiserslautern facility in 2013. This unit allows materials rejected from the production process to be reused down to the last fiber. Furthermore, Freudenberg Politex Nonwovens has reduced CO₂ emissions from staple fiber nonwoven production in Novedrate, Italy, by a further 4 percent.

Under the MatRessource initiative, the Federal Ministry of Education and Research granted funding worth €2.2 million in 2013 to EagleBurgmann and six further industrial partners and research institutes to develop new technologies aimed at improving resource efficiency. The aim of the EkoDiSc project is to develop a new diamond silicon carbide material system. In order to facilitate applications in series-production, EagleBurgmann plans to achieve a significant reduction in the cost of manufacturing the new material compared with DiamondFace® technology while preserving the same robustness and a comparable reduction in friction losses.

Freudenberg Politex Nonwovens, headquartered in Novedrate, Italy, is the world leader in the production and marketing of polyester nonwovens, mainly used as reinforcements for bituminous roofing membranes. A broad range of products is furthermore sold to the construction industry for different applications. Technical polymers used as bitumen modifiers round off the product program.

A large share of these products are manufactured with recycled polyester obtained in-house from post-consumer PET bottles. This integrated production cycle not only recycles waste, but also significantly reduces CO₂ emissions.

Freudenberg Politex Nonwovens continued its efforts to optimize the supply chain; these efforts included reducing raw material consumption and implementing programs to optimize processes, improve energy efficiency and enhance product quality.

The "Zero Landfill" project was rolled out at all of the Business Group's sites. The objective is to recycle waste and reduce landfill. The project will run for several years. The first progress was reported in 2013. Landfill at the facility in Colmar, France, was cut by 12 percent year-on-year.

Energy management

Many site projects and Business Group initiatives oriented to the Freudenberg "Responsible Conduct" guideline focus on sustainable energy use with a view to reducing the environmental impact of business activities. Energy managers have begun their work at many Business Groups and initiated numerous improvements to existing plant such as heating systems, compressors, ventilation and steam generation units. Some Freudenberg sites have begun to introduce a certified energy management system pursuant to DIN EN ISO 50001 in order to achieve a sustainable reduction in energy consumption.

Key environmental data

In 2013, Freudenberg consumed 1.5 million megawatt hours (previous year: 1.5 million megawatt hours). The break-down by sources of energy is as follows:

- Outsourced energy supplies (power, steam and district heat generated outside Freudenberg; 0.94 million megawatt hours)
- Natural gas (0.53 million megawatt hours)
- Fuel oil (0.03 million megawatt hours)

This energy consumption of 1.5 million megawatt hours translates into costs totaling approximately €122 million. Energy costs accounted for 2.0 percent of total sales (previous year: 2.1 percent).

The introduction of management systems relating to occupational health and safety (OHSAS 18001) and environmental protection (ISO 14001 or EMAS) continued in the 2013 financial year. 86 percent of Freudenberg Group production facilities now operate an occupational health and safety management system pursuant to OHSAS 18001 and 86 percent of Freudenberg Group production sites operate an environmental protection management system pursuant to ISO 14001 or EMAS.

There was one event with a significant environmental impact in 2013 (previous year: one event):

A fire broke out in the production hall of the SurTec do Brasil Ltda. facility in São Bernardo do Campo, Brazil. No one was injured. The production building was damaged and production was interrupted. The supply chain was not affected. No wastewater or any water used to extinguish the fire was released. The fire was caused by an electrical fault.

V. Anti-corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Back in 1887, the company's founder Carl Johann Freudenberg set out his principles for conducting business when his sons entered the family enterprise. These principles formed the basis for the ten Business Principles later drawn up by the Freudenberg Group; these principles are a guide for both the company's Partners and employees. One of them states that success has to come from performance; Freudenberg does not agree to any business where illegal or unethical means are utilized.

The Freudenberg Group's Guiding Principles were derived from these Business Principles in 1999, and define the values for our behavior towards our employees, business partners, stakeholders, and third parties. The Guiding Principles clearly state that Freudenberg, as a family company, strives for the highest standards of personal behavior, and that fairness and integrity guide our conduct among ourselves, towards our business partners and towards the general public. The Business Principles and the Guiding Principles are made known to all new employees worldwide, and are also published on our homepage. Please refer to **Chapter III., Human rights and labor**, for further information on the Guiding Principles.

Some business units have issued their own Codes of Conduct based on our Business Principles and Guiding Principles, or included compliance elements in their general terms and conditions of purchase. Freudenberg Chemical Specialities, for example, has issued a Code of Conduct that is binding on all managers and employees. Infringements can lead to disciplinary measures and even result in termination of employment. The Code

of Conduct sets out the behavior expected from every employee when conducting business, regardless of the function or position. It serves as a guideline for appropriate behavior when dealing with ethical and legal issues and, for this purpose, not only contains details of anti-corruption guidelines but also includes practical examples, e.g. correct behavior in response to invitations.

Furthermore, values and principles was one of the main topics at the DIALOG management event that took place in Weinheim in 2011, during which more than 300 managers discussed the values and principles of the Freudenberg Group. Corruption was identified as one of the biggest challenges for companies. The discussion at the DIALOG event culminated in a keener common understanding of values and of management principles, both of which were subsequently transmitted throughout the Group at numerous follow-up events.

This included face-to-face training in Germany and at international locations; in 2013, for example, over 250 managers in China attended a total of nine such seminars – which among other things featured case studies – organized by German and Chinese attorneys. The topics covered ranged from Freudenberg's values and principles to national and international laws and legal requirements, particularly with reference to gifts and invitations.

Finally, Freudenberg cooperated with a leading supplier of e-learning tools to develop such a tool on anti-corruption; the tool is available to all employees on the Freudenberg intranet and includes a final test. It will be integrated into a learning management system in 2014 and serves to communicate the kind of behavior that is compliant with statutory and regulatory requirements. There are brief examples of typical situations, which illustrate how employees can recognize corruption and how

they should behave in such situations. Employees are asked to assess the case studies and are given immediate feedback on their evaluations.

Anti-corruption measures and the validation of their effectiveness are firmly anchored in the risk management system and in the work of the Methods and Processes organizational unit. The objective in both cases is to identify corrupt actions, to review the effectiveness of the measures taken, and to improve these measures, if necessary.

One of the key tasks of Methods and Processes is to verify company cash flows and to scrutinize "entertainment expenses" items. The Board of Management is notified immediately in the event that the auditing process identifies an irregularity.

As part of the risk management procedure, all management bodies are required to assess risks and report regularly on measures taken. No cases of corruption have been identified since these two procedures were introduced.

VI. Social responsibility

The Freudenberg Group sees its social responsibility as an integral part of its corporate governance and practices this responsibility both inside the company and externally.

In the 2013 financial year, many of the Group's companies, sites and employees around the world again engaged in local projects and initiatives in the spirit of responsible corporate citizenship. In addition, numerous internal assistance and support programs are available to the Group's own employees.

The following examples illustrate the long-term nature of these local projects: In the year under review, many young people again completed their training at Freudenberg's nonprofit training center opened in 2009 in Nagapattinam in the Indian state of Tamil Nadu south of Chennai, and successfully found employment. The Nagapattinam region, with a population chiefly comprising low-income



agricultural workers and fishermen, was hardest hit by the tsunami in 2004. To give the young people in the area a sustainable basis for a better future and to meet the above-average need for high-quality training, the training center gives young people the opportunity to complete dual study courses that are unique in India to train as welders, plumbers, engine mechanics and machine fitters.

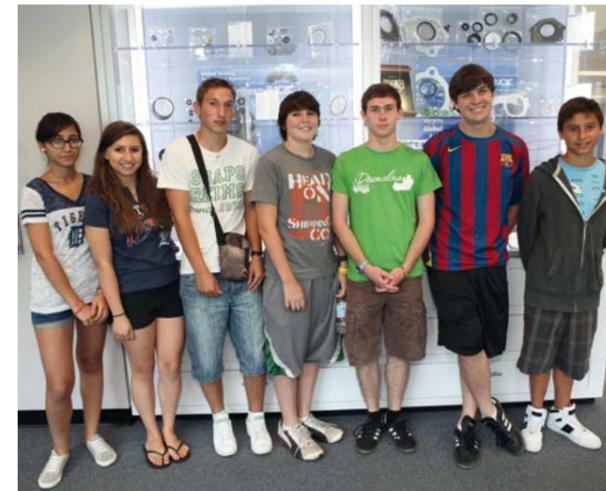
Once they have completed their training, the young people stand a good chance of earning their own living while helping to improve the region's infrastructure.



An elementary school was rebuilt with Freudenberg's help and opened in 2009 in Haijin, a town in Sichuan province, China, almost completely destroyed by an earthquake in May 2008. The building provides some 300 students with the right setting for a successful start to their education. Freudenberg employees visit the school each year and organize various activities such as the summer school project, extra tuition and a Christmas party. Over 70 Freudenberg employees volunteered for the 2013 one-week summer camp and taught the children English, Chinese culture and sport.

TANNER

Freudenberg's international youth exchange program "TANNER" was launched in 1999. The first participants, children of Freudenberg associates all over the world, have now already started out on their careers. Many of the young people who have taken part in this exciting youth exchange program are already benefiting from their TANNER experience in training posts or their first jobs. Aged between 14 and 20, participants travel alone to a Freudenberg site, encounter new people and lifestyles, make new friends and learn to find their way



around in a foreign language. Today's international world of work calls for all these skills.

Since the program was launched in 1999, 928 children of employees have spent time with host families at Freudenberg locations all over the world and gained a first-hand insight into a different culture. As a result, the young participants, their parents and host families have a greater sense of belonging to the worldwide Freudenberg community. Friendships are made and great personal efforts are undertaken to continue these contacts well beyond the end of the stay – across national borders, professional levels, corporate departments and companies. A close-knit network of TANNER contacts around the world provides professional support for this special form of international cooperation within the Freudenberg Group.

In 2013, 66 young people gathered valuable experience in a foreign country under Freudenberg's TANNER youth exchange program. A collective exchange in Parets del Valles, Spain, involving seven young people, was a special highlight in the year under review.

6,000 employees = 6,000 trees

To moderate the rapid course of global warming, attributed to the increasing emission of greenhouse gases, it is necessary to bind the accumulated CO₂. This can be done, for example by planting trees. That is how the idea was born at EagleBurgmann to **plant one tree for each employee all over the world**. But how do you plant 6,000 trees worldwide? At EagleBurgmann, there are two possibilities:

Within the scope of a joint project, employees can plant trees at one of the company's location. It is irrelevant whether the trees are planted at the site itself or in an area restored to nature in collaboration with forestry offices, authorities, etc. The second possibility to participate in the campaign is by way of donation. This is particularly true for locations in the EagleBurgmann group where trees cannot be planted due to the situation and the climatic conditions.



Legal notice

Freudenberg & Co. KG
Höhnerweg 2-4
69469 Weinheim, Germany

Published by Corporate Communications
A service for Corporate Health, Safety, Security, Environment

QUESTIONS CONCERNING CONTENT SHOULD BE ADDRESSED TO:

Ismet Kutay
Phone: +49 6201 805853
ismet.kutay@freudenberg.de
www.freudenberg.com

