



Annual Report 2012

tesa, Hamburg

Contents

Corporate Governance	2
Foreword by the Executive Board	3
Management Report	
I. Business Parameters	4
II. Results of Operations	8
III. Financial Position	11
IV. Balance Sheet Structure	12
V. Report on post-balance sheet date events	13
VI. Risk Report	13
VII. Outlook	14
VIII. Report by the Executive Board Regarding Dealings with Affiliated Companies	15

Corporate Governance

Corporate Governance at tesa

tesa welcomes and supports the German Corporate Governance code. The declaration of compliance of Beiersdorf AG is available permanently at www.Beiersdorf.com.

Audit Opinion

The consolidated financial statement of the tesa Group, prepared in accordance with International Financial Reporting Standards (IFRS), was audited by the audit firm Ernst & Young GmbH, which issued its certification without any reservations.

Foreword by the Executive Board

Ladies and Gentlemen,

tesa SE continued its positive development in 2012. Sales grew by 5.7%. I am especially pleased to note that our company has passed the one-billion-euro mark for the first time ever, which represents an important new milestone. At the same time, the operating result once again increased disproportionately, and the EBIT margin reached 12.9% (previous year: 11.5%). The continuity of this pleasing development shows that we are on the right track: Our strategy is a solid, lasting one that forms the basis for sustained success.

This year, as in years past, the major growth driver was the booming business in products for the automotive industry in the United States and the electronics industry in Asia. To support our long-term growth and be able to offer market-driven solutions for future generations of devices to customers even faster than before, we have pushed ahead with the expansion of our R&D activities in China.

We have also strengthened our presence in growth markets in the consumer business, which focuses mainly on Europe and Latin America. For example, we have developed our structures in Russia and set important trends with product ranges and marketing initiatives tailored specifically to the needs of the rapidly growing middle class in both countries. In other countries, we have tapped into new sales channels. For example, we launched a high-quality Powerstrips hook and storage range across several countries in Europe; the products are geared specifically to the bathroom and offered using an innovative merchandising and display concept.

We have also taken consistent steps to further develop and build our new business segments based on new production technologies, reaching additional important goals. In our production of drug patches for the pharmaceuticals industry, we completed validation phases with perfect results,

going on to produce our first goods for the market. Additional products manufactured based on the ACX technology developed at tesa are also being specified by customers in the construction and building industry as part of our activities in the emerging Building Supply business unit, as in other areas.

September marked the start of another highlight in tesa's history: the construction of the new tesa headquarters, with an integrated research and technology center, in Norderstedt, near the Hamburg airport. This investment serves a dual purpose, both securing our long-term growth and – by bringing together all of these departments, which were previously physically separate from each other – considerably streamlining communication channels between market management and R&D. This will improve communications and help ensure that we are able to meet the changing requirements of our markets even faster and more flexibly.

Based on this strong starting position – healthy economic growth, combined with innovations and projects that open up new market opportunities for us and strengthen our competitiveness on a lasting basis – we are starting out the new fiscal year in a spirit of confidence, even though the debt crisis in the eurozone has not yet passed and still presents some uncertainties in terms of the development of the overall economy.

The basis for our success rests with our employees all over the world, who devote their energy and passion to their company and its strong brand each and every day. I would like to express my heartfelt gratitude to everyone for their hard work and dedication. I would also like to thank our customers, business partners, and not least our shareholder Beiersdorf for their trusting cooperation.



Thomas Schlegel
Chairman of the Executive Board

Management Report

I. Business Parameters

General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group. It employs approximately 3,800 people and operates in more than 100 countries. tesa SE is a wholly owned subsidiary of Beiersdorf AG and the direct or indirect parent company of the 53 tesa affiliates.

Regions and Major Locations

tesa operates worldwide, with the main focus concentrated on Europe, followed by the business regions of Africa / Asia / Australia and the Americas. In addition to tesa SE, the affiliates in China, the United States, Italy, and Singapore are among the largest single companies in the tesa Group. The tesa Group has production facilities in Europe (Germany and Italy), North America (United States), and Asia (China and Singapore).

This past fall, work got under way on the construction of the new tesa headquarters with an integrated research and technology center (“one tesa”), in Norderstedt, near the Hamburg airport. At € 160 million, the move marks the largest investment in tesa’s history and is intended to support the company’s long-term growth. Bringing together these departments, which were previously physically separate from each other, will streamline communication channels between market management and R&D. This will help ensure that tesa can meet the rapidly changing requirements of its markets even faster and more flexibly.

Industrial Business

tesa earns about three-quarters of its sales with products for industrial and commercial customers.

In the industrial segment, tesa offers system solutions for customers in the electronics, printing and paper, building and construction, and automotive industries in particular. The company’s strategic focus is especially on developing and expanding profitable lines of business in technologically advanced fields of application. Our system solutions are used to optimize and enhance the efficiency of production processes, as customized protection and packaging systems, and as fastening solutions in construction-related applications. This includes special product ranges for roll offset and

flexo printing and for mounting electronic components in smartphones, mobile phones, digital cameras, and LCD flat screens. Forgery-proof laser-printed labels and systems for bundling and affixing cables or mounting emblems and decorative elements are among the products used in the automotive industry. tesa also offers innovative solutions with flexible uses to protect products from tampering and counterfeiting. The key feature in these applications is the tesa PrioSpot®, a special self-adhesive label that can be used to store visible and concealed security features and combine them with other security technologies using laser technology. One promising new market that tesa is developing for the future is being handled by Labtec GmbH. This tesa affiliate develops and manufactures medicated patches, termed “transdermal therapeutic systems,” and oral films – films containing an active ingredient that dissolve in the mouth without added liquid – for the pharmaceuticals industry.

In the professional retail business, we supply technical retailers with state-of-the-art product ranges for professional use among customers who work in commercial trades, including building, painting, and finishing.

Consumer Business

Innovative product solutions for consumers in Europe and Latin America account for about one-fifth of tesa’s total sales.

In the Consumer division, whose business is focused on Europe and Latin America, tesa markets innovative product solutions intended for daily use in offices and in the home and garden. Under the tesa umbrella brand, DIY stores and superstores as well as paper goods and stationery shops offer end consumers a broad assortment of more than 300 innovative products. The product range includes both handy products for office use, such as the classic tesafilm® transparent adhesive tape, and tailored solutions for specific applications such as energy conservation, renovation, repairs, packaging, and temporary or permanent bonding. In addition, tesa provides solutions and systems for home pest control. Proven examples of tesa’s consumer products include tesamoll® foam for sealing windows and doors; the bonding solution tesa Powerstrips®, which are reliable and yet can be removed without a trace afterward; mounting tapes for indoor and outdoor use; the versatile line of fabric tapes; a wide array of masking tapes and tesa Easy Cover® for clean, professional painting and finishing work; and, last but not least, seasonal or permanent fly screens for any use.

Strategy

Reliable quality, excellent service, a high degree of innovation, and the use of superior technologies are key elements of the philosophy behind the tesa brand and tesa's success. Our activities focus on developing effective and efficient solutions for our customers and our markets.

The company centers on the following areas when developing its innovative, market-driven product systems under the tesa® brand:

- comprehensive knowledge of customer needs, production processes, market requirements, and industry trends,
- comprehensive knowledge of the wishes and needs of end customers and the expectations of partners in the retail trade, so that we can meet their requirements efficiently and offer high sales productivity per unit area, and
- ongoing staff training and continuous improvement of the business processes to enable efficient and rapid implementation.

tesa emphasizes the following goals when managing its business activities at the international level:

- expanding its global structures in its industrial business activities with the aim of offering its customers uniform global solutions with consistently high quality levels, all with outstanding service,
- expanding its international structures in its retail consumer business, with a focus on Europe, especially Eastern Europe, and Latin America in order to supply partners in the retail trade with internationally effective and market-driven product ranges, and
- implementing harmonized global quality standards while incorporating environmentally friendly technological components.

Value Management and Control System

tesa SE's objective is to expand its market share through sustained growth while at the same time boosting its earnings base. In these activities, tesa SE is integrated into the management system for the entire group. tesa SE focuses on continuous, profitable growth in sales volume, with an eye to increasing its earning power over the long term. The benchmarks for this are the operating result (EBIT) combined with the return on sales (ROS) and the return on capital employed (ROCE). Active cost management and the highly efficient use of resources are aimed at generating returns that are internationally competitive.

Economic Environment

Global growth decreased in 2012, suffering in particular from the tense economic situation across broad parts of Europe. Spurred by the euro and national debt crises, the uncertainty surrounding the development of the overall economy also led to a decline in public spending and private investments while curbing consumption at the same time. This weak economic development in the industrialized countries has also affected emerging economies, where it has impeded growth.

Europe saw the heaviest decline in growth rates this past year. The crisis surrounding the euro and various countries' national debt led to recessions across most of Southern Europe. This development was exacerbated by rising unemployment and restrictive fiscal policy, and had an increasing impact on North and Central Europe as well. The bailout and stability measures that had been announced and established by the community of countries that use the euro had a positive effect on the financial markets, with refinancing returning to more favorable conditions for most of the affected countries as the year progressed, bringing improvement in the prospects for future economic development.

The German economy posted stronger growth than the rest of the euro-zone economy as a whole, driven in particular by the country's strong export economy. Ongoing favorable interest rates and the positive development of the labor market spurred investments and private consumption, especially in the first half of the year. As the year progressed, the overall economy began to sag slightly, accompanied by a slight cooling of the labor market, both of which dampened growth in the second half of the year.

In the United States, slow growth on the labor market and political gridlock resulted in low growth in many areas. There were some positive factors driving development, however, particularly high corporate investments and growth in residential construction.

The dynamic growth of the Chinese economy slowed somewhat year on year, as China – one of the world's leading export nations – felt the pinch of declining international demand. The Chinese political leadership enacted fiscal policy measures to stave off inflation while also strengthening the economy. Public expenditures for infrastructure projects were increased, for example. The economy of Asia on the whole experienced strong growth in 2012, as in past years. Japan showed signs of a gradual recovery from the impact of the serious natural disasters the country suffered in 2011.

Sales Market Development

The industrial sales markets were characterized by great variation in terms of development across different regions in 2012. In the wake of the euro crisis, development remained unchanged in Europe on the whole. While the markets in Southern Europe shrank, some of them to a significant degree, the more export-oriented markets in Central and Eastern Europe held steady, with slight growth in some cases. Although the sales markets in North America also showed stable market growth, Asia still remains the engine driving growth.

The electronics industry, which is concentrated in Asia, showed dynamic growth in 2012. Increasing global demand for tablets and smartphones particularly contributed to this development. The adhesive tape applications developed by tesa in this segment range from permanent bonding of electronic components, housing elements, and parts of the optics to sophisticated electrically conductive tapes.

The automotive industry was also able to gain some ground in 2012, albeit without reaching the high growth rates of past years. There was an unmistakable cooling trend on the sales markets in this segment in the second half of the year.

The other direct industrial markets, along with the commercial business with industrial customers and professional craftsmen, featured stable development. The ongoing growth in the market for adhesive tapes in the construction and furnishings industry is especially noteworthy. Products used in this sector include double-sided adhesive tapes for permanent and construction-related bonding in particular, with these solutions increasingly replacing mechanical connections such as screws or nails.

Development in the markets relevant to the end consumer business also varied across regions. Highly dynamic market activity in Latin America and parts of Eastern Europe was set against moderate growth in Western Europe and a crisis-related decline in Southern Europe, where DIY markets were hit especially hard. The business with office supply retailers developed in line with the market.

Procurement Market Development

Compared to the developments on tesa's markets for raw materials in 2011, which were predominantly characterized by massive price increases and across-the-board supply bottlenecks, the situation calmed on the whole as 2012 progressed. The supply on the procurement markets relevant to tesa can now be called very stable. Delivery bottlenecks were the exception

rather than the rule in 2012, and all of them were unforeseen, occurring mainly for technical reasons. This positive development is explained by two underlying trends. First, tesa's suppliers began investing in new and additional production capacity in 2011, with some of these investments taking effect on the market starting in 2012. Besides that, the calming of the overall economy across parts of Europe and in individual raw material markets in China also helped ensure that tesa was able to reduce production bottlenecks in its supplier base in 2012.

The upward curve of prices that had been seen on tesa's markets for raw materials in 2011, with some prices climbing quite steeply, came to a near-complete halt in 2012. On the whole, the development of raw material prices in 2012 was stable, although prices are hovering at a higher level than before the shortage.

tesa expects 2013 to bring the start of production for additional investments made by suppliers with an eye to expansion. That should mean that the specific delivery bottlenecks affecting the adhesive industry in particular are resolved on a lasting basis.

Prices on tesa's markets for raw materials are also expected to show stable development in 2013. In the current economic environment, the industry is being cautious, especially with regard to managing stock and volume contracts. In the event of a fast, unforeseen economic upturn in China and North America in particular, 2013 will bring certain limited price risks. Due to its long-term pricing and volume contracts, tesa believes it is well prepared for such a scenario.

Research and Development

Further development and evolution of solvent-free technologies for producing double-sided adhesive tapes for highly robust, permanent adhesive bonding in the construction segment will continue to be at the focus of tesa's development activities into the future. We have modified the manufacturing processes and compounds used for our high-performance adhesive tapes for construction-related bonding in a way that enables them to create firm, long-lasting bonds even at extreme temperatures. Using the pilot systems in the technology department at the R&D center in Hamburg, we have developed prototypes that adhere firmly and durably even on the specially formulated paints utilized in the automotive industry to repel dirt and adhesives.

In the electronics industry, our heat-activated adhesive films are already successfully in use, delivering highly durable adhesive bonding after curing

through exposure to heat. For bonding temperature-sensitive plastics and coated metals in state-of-the-art smartphones and tablets, we have also developed heat-activated products that can set even at very low processing temperatures, so the devices in which they are used are not damaged. The new adhesive films replace glues, which are significantly more laborious and time-consuming to use.

Prices of raw materials remain high, so securing and broadening the raw materials base used for the company's core product range remains a key objective of our activities in developing preliminary and semi-finished products. We are working on modular material concepts and production processes that can be efficiently managed, which helps to ensure that a competitive supply of raw materials can be used on a global basis, and that alternatives are available right away in the event that a supplier cannot deliver. We are also increasingly testing renewable and recycled raw materials, integrating them into the design of our products if the tests are successful. This is true of both adhesive masses and backing layers made of films, paper, and fabric. For example, we have developed films based on polylactic acid made using materials from renewable sources. These films can be used as backings in single-sided and double-sided tapes.

Responsibility

This year, we once again made significant progress in implementing our global environmental program. During the five-year program from 2007 to 2012, we achieved the ambitious environmental goals we had set for ourselves (VOC reduction, solvent reduction, energy conservation, waste reduction, CO2 reduction). Among other accomplishments, we reduced our global consumption of energy by a considerable margin.

In the area of occupational safety and health, we succeeded in maintaining our level of occupational accidents, which was already very low compared with the rest of the industry. The key activities involved in achieving this are regular inspections of our sites, harmonization of safety standards, on-site training and international sharing of information and experience between technology and engineering managers and safety specialists.

During this reporting year, we deepened the long-term partnership we had embarked on in 2011 with the Niedersächsische Elbtal UNESCO biosphere reserve, in the German state of Lower Saxony. It encompasses various activities that offer tesa employees opportunities to get involved and help preserve the riparian forest landscape, which is home to a wide variety of species, but is highly sensitive to environmental degradation. Fol-

lowing planting activities to kick off the initiative the year before, additional teams of employees got involved in 2012, participating in corporate volunteering activities and planting 750 oak seedlings in all.

After tremendous success the year before, our "Kleben Sie ein Zeichen!" (Tape Up a Sign!) contest entered its second round. A total of 50,000 euros went to support citizen-initiated projects all over Germany aimed at improving the environment at the local and regional level. Additional communication measures allowed us to reach even more people and encourage them to participate. In all, 122 associations, schools, day care centers and pre-schools, initiatives, and even private individuals from Germany and Austria submitted their applications for projects focused on protecting nature and the environment and conserving natural resources. Numerous consumers visited www.zeichen-kleben.de to vote for their favorite projects. The eleven winners were chosen based on the results.

In 2012, tesa was also involved in a large number of other projects that are in accordance with the tesa Corporate Giving Policy. Through donations, sponsorships, and volunteer work, we demonstrated our dedication to disadvantaged children and youth in particular. In the interests of achieving a lasting impact, we continued and expanded on our activities from the previous year. Employees once again participated in projects as part of the "Das macht Schule e.V." initiative, which pairs schools up with companies for renovation and design projects in schools. These projects are then implemented jointly by students, teachers, and employees of the companies involved.

Employees of our affiliate in Poland are supporting the center for deaf children in the city of Poznań. In 2012, they financed books and movies for the facility's library and donated beanbag chairs for the children to sit on. This year also marked the third time that tesa employees in France participated in the Course des Héros (Heroes Race). Alongside athletic achievement, participation is aimed at recruiting additional supporters and collecting donations. tesa France provided its donation to the Fondation Mouvement pour les Villages d'Enfants, a foundation that offers a new home to children from difficult family environments.

II. Results of Operations

Results of operations in the tesa Group

	2011	2012	Change	
	in € million	in € million	in € million	in %
Sales	946.6	1,000.2	53.6	5.7
Cost of goods sold	-527.0	-538.5	-11.5	2.2
Gross profit	419.6	461.7	42.1	10.0
Marketing and selling expenses	-230.3	-235.0	-4.7	2.0
Research and development expenses	-42.8	-44.4	-1.6	3.7
General administrative expenses	-47.7	-51.0	-3.3	6.9
Other operating income	34.6	50.7	16.1	46.5
Other operating expenses	-24.3	-52.7	-28.4	116.9
Operating result (EBIT)	109.1	129.3	20.2	18.5
Financial income	2.2	2.0	-0.2	-9.1
Financial costs	-12.3	-7.8	4.5	-36.6
Financial result	-10.1	-5.8	4.3	-42.6
Profit before tax	99.0	123.5	24.5	24.7
Taxes on income	-34.4	-42.8	-8.4	24.4
Profit after tax	64.6	80.7	16.1	24.9

For fiscal year 2012, the tesa Group reported higher profit after tax, at € 80.7 million, corresponding to an increase of € 16.1 million.

Sales increased by € 53.6 million, to € 1,000.2 million, surpassing the one-billion-euro mark for the first time. Taking into account a lower than proportionate rise in the costs of goods sold, which went up by € 11.5 million, to € 538.5 million, gross profit improved by a significant margin of 10.0%. The increase of € 20.2 million in the operating result (EBIT), which ended the year at € 129.3 million, was also affected by other factors, especially other operating expenses, which rose by € 28.4 million, to € 52.7 million, as well as by the increase of € 16.1 million in other operating income. The increase in other operating expenses was largely due to the loss sustained in the sale of one European affiliate as well as to a restructuring measure in Asia and write-downs on property, plant and equipment. Other operating income primarily rose due to the sale of a property in Germany and as a result of the release of other provisions.

Profit before tax stood at € 123.5 million, rising due to the aforementioned factors and because the financial result improved by € 4.3 million. This improvement was mainly due to the fact that the interest expenditures reflected in the figure in the previous year no longer applied following the findings of an external tax audit performed in Germany.

Taxes on income increased largely in proportion to the profit before tax.

The development of the results of operations is still viewed as being very positive.

Business Development by Region

Europe

Development in Europe in 2012 was primarily influenced by the combined euro crisis and debt crisis in the countries in Southern Europe. Adjusted for exchange rate effects, tesa posted a decline of 2.4% in sales, reaching a total of € 618.1 million (previous year: € 631.0 million) at current exchange rates. The share of Group sales dropped to 61.8% (previous year: 66.7%). The sale of Bandfix AG in August 2012 also brought a structural change with it. Adjusted for this structural effect, the development of sales (adjusted for exchange rate effects) was -1.0%.

The effects of the euro crisis were felt especially keenly across the companies in Southern Europe in 2012, both in the industrial segment and in the business with end consumers.

Americas

In the Americas, tesa's sales figures for 2012 were once again up considerably from the previous year. Above all, a key factor behind this increase was the ongoing positive development of the automotive market. Adjusted for exchange rate effects, the region as a whole posted an increase in sales of 8.8%. At current exchange rates, the sales figure was up by 15.4%, to € 136.7 million (previous year: € 118.5 million). The share of Group sales rose slightly, to 13.7% (previous year: 12.5%).

Africa / Asia / Australia

In 2012, as in past years, tesa achieved highly positive sales development in Asia. Once again, China and Korea were the primary growth markets, and Japan also realized slight growth. On the whole, sales grew by 14.4% (adjusted for exchange rate effects). At current exchange rates, sales in the region,

at € 245.4 million, were up 24.5% from the previous year's sales of € 197.1 million. The share of Group sales rose to 24.5% (previous year: 20.8%).

Business Development by Division

Industry

The Industry division, which contributed a share of 76.6% (previous year: 75.1%) to overall sales, once again saw highly positive development, posting a nominal increase of 7.8% in sales (adjusted for exchange rate effects: +3.9%), with the figure rising to € 766.4 million (previous year: € 711.0 million). This effect was spurred by both our direct business and our retail business in all regions. The business in Asia and the United States was especially dynamic, with growth in these regions still being driven by the automotive and electronics industries.

In the business with the **electronics industry**, a new range of adhesive tapes, some of them ultra-thin, electrically conductive, and heat-dissipating, was an important driving factor. These additional properties are becoming more and more important as the latest generations of smartphones and other consumer electronics devices are equipped with an increasing number of electronic components. We also once again achieved great success with customer-specific foam and film tapes used to bond displays in smartphones.

In the **automotive sector**, we posted strong growth with new varieties of our nonwoven fabric and sleeve products for wrapping and affixing wire harnesses, especially in the United States. The introduction of pre-manufactured adhesive tape die-cuts for temporary coverage of brake discs was successful. These products are primarily used by American and Asian automakers to protect brakes against dust and dirt during transportation of the vehicles. Products to permanently close production-related holes inside the vehicle body once again provided important impetus.

In the **paper industry**, new water-soluble adhesive tapes generated an excellent response. The new tapes can resist calcium carbonate, a substance that is increasingly used in paper production. It affects the adhesion and elasticity of conventional adhesive tapes, thereby reducing the tear resistance of the rolls (webs) of paper. For the Japanese market in particular, we introduced a new variety of our successful EasySplice tape for magazine printing. It prevents tiny paper fibers from adversely affecting the printed image.

For the **pharmaceuticals industry**, a new business segment, we have pushed ahead with building the business by developing our production infrastructure as planned. As part of these activities, we put a new unit for secondary packaging of pharmaceutical patches and an SAP system aligned to the new processes into operation. The goal is to be able to offer optimum service for customers in the pharmaceuticals industry, from development to production, packaging, and shipping of products. We have initiated further contract development activities with well-known customers. We have also granted a manufacturing license for another active ingredient patch developed by our affiliate Labtec. Validation processes in production went perfectly, clearing the way for delivery of the first market-ready goods in 2013.

The business in solutions to **protect against counterfeiting and tampering**, which is centralized at tesa scribos GmbH, has shown very positive development. We have brought in numerous new customers with the recently introduced PrioSpot®. This product, the successor to the Holospot®, integrates a number of new authenticity features, especially openly visible ones, that the consumer can use to quickly and reliably check whether a brand-name item is genuine. Alongside a well-known manufacturer of consumer electronics, companies from the food sector, such as producers of Bordeaux wines, have recently begun relying on the PrioSpot® to protect their high-value name-brand products.

In the **building supply** industry, another new business segment, we achieved significant growth with products based on the patented new ACX technology. In this area, we are focusing on ultra-durable adhesive bonding for the building and construction industry. Our customers use the ACX^{plus} range for various purposes, including to install decorative glass in refrigerators, reinforcement elements in elevators, and profiles during window and door manufacturing. These adhesive tapes are weather-resistant and provide a secure permanent hold, both indoors and outdoors, while also simplifying the manufacturing process.

We also received an important boost from the launch of the new ACX^{plus} products in the **retail business**, which was hard hit by the debt crisis in the eurozone. A new range of ultra-strong filament tapes that make it possible to bundle large loads with relatively little use of materials also generated an excellent response.

Consumer

The business in products for consumers, which is focused on Europe and Latin America, saw positive development this year. At current rates, sales

grew from € 184.2 million last year to € 188.9 million this year, an increase of 2.6% (adjusted for exchange rate effects: 1.6%). This segment contributed a share of 18.9% (previous year: 19.5%) of the total sales during this reporting year.

In our two strategic business segments – solutions for DIY enthusiasts and products for the office supply and stationery segment – we were once again able to increase our market share in many important merchandise categories. The factors contributing to this included product innovations alongside new marketing concepts aimed not only at specialized retailers, but increasingly also at consumers. We achieved disproportionate growth in Eastern Europe, balancing out the developments in Southern Europe in the wake of the debt crisis. Further impetus came from the launch of a product range for consumers on the Brazilian market, with the goal of reaching that country's rapidly growing middle class by offering options tailored to their needs and requirements. We also saw significant growth in sales with our partners in the online retail market.

This year, as in previous years, the major growth driver in the office supply and stationery segment was the highly environmentally friendly products marketed under the EcoLogo sub-brand, which are made predominantly from recycled and biologically based raw materials and support the trend toward sustainability in living and working environments. We extended this successful approach to the home improvement and DIY store segment, where we are setting new trends with eco-friendly masking, repair, and carpet laying tapes. Another line that met with widespread approval was a new range of high-quality Powerstrips hooks that we are using to target bathroom applications, in combination with an innovative marketing concept.

We brought in celebrated strongman Patrick Baboumian to act as our product and brand ambassador for a cooperative marketing initiative for the new range of ultra-strong mounting tapes. Baboumian, who won the title of "Germany's Strongest Man" in 2011, is also featured in a new advertising spot that has been airing on German TV since November. We are also continuing the successful "Kleben Sie ein Zeichen!" (Tape Up a Sign!) campaign, which once again generated an excellent response. In the initiative, we awarded prizes to support especially sensible private environmental projects. The projects were first presented on the Internet, where consumers chose the winners by voting for their favorites.

Employees

One major task in human resources this year was preparing the organization for the changes to come with the planned construction of the new tesa corporate headquarters and research and technology center, which will affect about 800 employees. These activities centered on capacity planning as well as communication, planning, and coordination processes aimed at designing the future working environment together with the bodies that represent employees' interests within the business and with the employees themselves. We will be continuing this process over the next several years, up until the move, which is scheduled for 2015.

With the goal of further developing our open, candid corporate culture as part of the tesa Strategy 2015 and to support the development and spread of an excellent management culture, we overhauled the annual employee performance review process that all supervisors are required to conduct each year both for employees who are subject to collective agreements and those exempt from them. The new concept fosters dialogue between employees and supervisors, eliminating the connection between the review meeting itself and the assessment that is used as the basis for determining the variable components of employees' pay and putting mutual, candid, constructive feedback at the forefront. This creates even more transparency for employees in assessing their skills, abilities, and prospects. We held specific presentations and workshops to prepare managers and employees to work with the new meeting concept.

In cooperation with the Northern Institute of Technology, we developed and launched another international management development program aimed at experienced managers. The goal is to support the practical implementation of the new tesa strategy. Important topics in this regard include intensifying international and cross-function cooperation and broadening knowledge about markets that are important to tesa now and those that will be important in the future. The program has a modular structure and is tailored to the participating managers' duties, and the company management plays an active role in designing the content. The first 15 managers completed the program in November.

The total number of employees is 3,794 (previous year: 3,795).

III. Financial Position

Cash flow statement

in € million	2011	2012	Change
Cash and cash equivalents as of Jan. 1	124.3	101.2	-23.1
Gross cash flow	110.4	114.8	4.4
Change in net working capital	-39.7	18.4	58.1
Net cash flow from operating activities	70.7	133.2	62.5
Net cash flow from investing activities	-52.2	-37.3	14.9
Free cash flow	18.5	95.9	77.4
Net cash flow from financing activities	-43.9	-31.0	12.9
Exchange rate-related change in cash and cash equivalents	2.3	0.4	-1.9
Net change in cash and cash equivalents	-23.1	65.3	88.4
Cash and cash equivalents as of Dec. 31	101.2	166.5	65.3

Cash flow from operating activities rose by € 62.5 million, to € 133.2 million, as compared to the previous year. **Investing activities** accounted for a net balanced outflow of € 37.3 million. These expenditures were largely attributable to investments in property, plant and equipment and intangible assets. **Free cash flow** increased by a total of € 77.4 million, to € 95.9 million.

The negative **cash flow from financing activities**, in the amount of € 31.0 million, was mainly the result of a dividend payment of € 32.3 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had increased by € 65.3 million, to € 166.5 million.

Key Financial Indicators

The **return on sales** – based on the operating result – increased from 11.5% in the previous year to 12.9% in 2012. Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in an increase, from 14.9% in the previous year to 16.5% in 2012.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, increased to 31.5% in 2012 (previous year: 29.0%); the return on **operating assets** rose significantly, from 29.4% to 36.4%.

The **net profit**, measured against sales proceeds, rose from 6.8% in the previous year to 8.1%. The **earnings per share** increased from € 2.50 to € 3.10.

The **equity ratio** rose by 1.1%, to 59.0%. The ratio of equity to non-current assets is 206.3% (previous year: 188.4%).

Capital Expenditure

In this reporting year, tesa invested a total of € 44.7 million in intangible assets and property, plant and equipment. Of this figure, € 30.9 million was allocated to locations in Germany, including initial spending of € 13.3 million on the “one tesa” new building project. The sum of € 3.7 million was invested in the rest of Europe, € 1.5 million in the Americas, and € 8.6 million in Africa / Asia / Australia. The investments in Asia in particular focused heavily on the expansion of production and R&D capacity.

At the tesa plant in Hamburg, further investments were made in the expansion of production for the pharmaceuticals sector. 2012 was also marked by preparations for further major strategic projects aimed at technological and capacity expansions, which will lead to high capital expenditure in the years to come.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 23.2 million.

The company’s expenditures in 2012 already included some spending for the construction of the new tesa company headquarters at the Hamburg airport site, both to purchase the land and for preparatory measures. As the construction activity progresses, investments in this project will increase significantly from 2013 to 2015.

IV. Balance Sheet Structure

Balance sheet structure of the tesa Group

	2011	2012	Change	
Assets	in € million	in € million	in € million	in %
Non-current assets	218.0	222.1	4.1	1.9
Inventories	161.6	166.0	4.4	2.7
Other current assets	228.9	222.2	-6.7	-2.9
Cash and cash equivalents	101.2	166.5	65.3	64.5
Total	709.7	776.8	67.1	9.5
Equity and liabilities (in € million)				
Equity	410.8	458.1	47.3	11.5
Non-current provisions	94.2	86.7	-7.5	-8.0
Non-current liabilities	16.0	11.3	-4.7	-29.4
Current provisions	67.4	89.6	22.2	32.9
Current liabilities	121.3	131.1	9.8	8.1
Total	709.7	776.8	67.1	9.5

As compared with the previous year, total assets increased, rising by 9.5% to € 776.8 million.

On the assets side, non-current assets increased by € 4.1 million. The primary reason for this was the increase in deferred tax assets.

Inventories increased by a disproportionate amount as set against the development of sales, rising by € 4.4 million to € 166.0 million.

Other current assets decreased by € 6.7 million, particularly due to the decrease in trade receivables as well as receivables from income taxes.

Cash and cash equivalents increased by € 65.3 million, to € 166.5 million. Please see the remarks concerning the financial situation for further information.

On the equity and liabilities side, the development is largely characterized by the € 47.3 million increase in equity and by the increase of € 22.2 million in current provisions. The change in equity is mainly attributable to the net profit after tax of € 80.7 million, negative currency exchange effects in the amount of € 2.0 million, and the dividend payment of € 32.3 million to the shareholders.

The increase in current provisions is primarily the result of higher personnel provisions. The increase in current liabilities is chiefly due to the increase in liabilities relating to taxes on income.

The decrease in non-current provisions, which declined by € 7.5 million, primarily concerns the release of other provisions. Non-current liabilities decreased in particular due to lower deferred taxes.

V. Report on Post-Balance Sheet Date Events

No special events having a material impact on the financial results of the fiscal year occurred after the balance sheet date.

VI. Risk Report

As part of its global activities, tesa is faced with a wide variety of risks that are inseparably linked to its corporate activities. Risk management, which is a component of the overall planning, controlling, and reporting systems, is aimed at consistently leveraging opportunities to add value and at reducing identified risks to a level manageable for the organization or avoiding them altogether.

tesa systematically records, analyzes, and monitors global risks using its planning and reporting system, both at a centralized level at tesa SE and locally in the regions.

Management of operational risks is largely decentralized. tesa centrally monitors any overarching international risks associated with production and safety standards, brand management, financing, and value development within the Group. Goal-driven controlling and regular strategy reviews make sure that opportunities and risks are favorably balanced. Beiersdorf AG's internal audit department monitors compliance with the internal controlling system and ensures the integrity of the business processes.

With respect to market risks, tesa regards itself as exposed to both procurement and sales risks. Price and availability risks in the procurement markets are reduced by using supply contracts intended to ensure reliable planning, for example through extended terms and price escalation clauses. tesa reduces dependency on single suppliers by specifically developing alternative sources of procurement.

On the sales side, tesa is exposed to economic risks in the industrial sectors with which tesa earns a high proportion of its sales, especially in the automotive and electronics industries. tesa monitors market trends closely, both centrally and in the regions, in order to be able to intervene and control the risk at an early stage. Furthermore, tesa is exposed to the risk of losing individual customers completely and to a default risk on receivables. However, its broad sales base and diversification mean that tesa does not have single customers that account for such a high share of sales or receivables that their default could threaten the company's existence. The company additionally takes out trade credit insurance to a feasible extent, via the tesa sales organizations, for specific customers identified

as posing an elevated risk due to their company profile or the scope of the receivables.

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard to the quality and safety of our products. They are thus subject to a comprehensive, end-to-end quality assurance system throughout the entire procurement, production, and distribution process. tesa ensures the development of and compliance with the necessary processes by means of periodic internal and external audits in accordance with international standards. The company is fully certified in accordance with ISO 9001, and, where necessary, in accordance with ISO/TS 16949 as well. Occupational health and safety and environmental risks are mitigated by process control checks, and this is also ensured through external certification. tesa has established adequate provisions for covering the financial impact of liability risks and any potential loss or damage events by taking out insurance.

The possibility of the complete failure of one or more production units cannot be excluded and poses a potential threat to the long-term supply capability of the company. tesa counters this risk with a preventive maintenance system, fire protection measures, and appropriate in-depth employee training. As far as it is economically feasible, tesa is also insured against loss or damage that may be incurred despite these precautions.

Continuous innovation and intensive cooperation with customers with the aim of improving their production processes promote the long-term acceptance of tesa's products on the market. Innovative products help to counteract purely price-based competition and reduce the risk of the expansion of private labels in the end consumer business.

tesa reduces research and technology risks by maintaining proprietary basic research facilities and through regular exchange with research institutes. Ongoing market observation and cross-functional decision-making processes for assessing and selecting development projects ensure that development activities are market-oriented.

Technological expertise and maintenance of the tesa® brand as a guarantee of quality and innovation are of particular significance. The legal position associated with this is protected and maintained centrally in cooperation with the operating regions.

tesa manages its financial risks via active treasury management on the basis of globally applicable guidelines in the area of corporate treasury. The overriding goal is to increase the financial power of the Group and be able to meet financial obligations at all times. Within the scope of financial man-

agement, tesa ensures the solvency of the Group on a continuous basis, controls the risks related to financial instruments, and optimizes cash management for the entire Group.

Compliance violations can lead to penalties, sanctions, claims for damages, damage to the company's reputation, and to burdensome legal costs. tesa is increasingly countering the risks associated with these factors, particularly in the area of antitrust law and fair competition, with training programs, by establishing a mandatory global Code of Conduct, and through ongoing compliance monitoring by means of organizational measures.

tesa hedges 75% of the currency risk for freely convertible currencies, where this is economically feasible. The hedges entered into in line with this policy are handled centrally at Beiersdorf AG. Potential risks associated with the investment of liquid funds are fundamentally mitigated through the fact that only short-term investments are made at prime names. Developments in exchange rate risks are monitored regularly.

Because of its very low volume of bank loans, both interest rate risk and liquidity risk are of minor importance for tesa.

As a matter of principle, hedges are used solely to hedge operational activities or financial transactions that are necessary for the business.

tesa constantly monitors the availability, reliability, and efficiency of its IT systems and adapts them to the latest state-of-the-art technology. Technical and organizational measures rule out unauthorized access and data loss to the greatest possible extent.

Performance-based compensation systems help tesa acquire and retain qualified specialists and management personnel, as do focused further education and training programs and the ongoing recruitment and development of young professionals and junior managers.

From today's viewpoint, no other specific risks can be identified for the coming twelve months that could endanger tesa's continued existence, either individually or in their totality.

VII. Outlook

The global variations in the business developments that were already markedly in evidence in 2012 are expected to continue in 2013 as well. Asia is likely to remain the most dynamic region, albeit with activity down slightly from previous years. North America will continue to benefit from the ongoing strong economic situation in the automotive industry there.

The highly successful project initiatives begun in the electronics industry in Asia will probably continue in 2013. We expect growth rates to stay in the double digits in this segment. The other industrial markets should show moderate growth.

The markets in the Southern European countries will continue to weaken in 2013. In Europe, it will probably be possible to compensate for this through further growth in Eastern Europe.

The negative overall outlook for the economic situation in Southern Europe will have a heavy impact on our business in products for private consumers. We expect the repositioning of well-known ranges in the DIY segment to generate new momentum and ongoing positive development on the whole.

In our business with industrial customers, we will continue to focus on high-quality, innovative products. Successful market launches are expected in the pharmaceuticals sector and for ultra-strong bonding applications.

Significant changes in exchange rates over the course of the year affected the results for 2012. As a result, tesa will use simple financial instruments to hedge against currency rate fluctuations in the future, as it already does at present.

We expect capital expenditure and investment to be above the volume of depreciation in the years to come. On the one hand, the company will make further investments in innovative technology to support product development activities. On the other, the decision to build the "one tesa" corporate headquarters will lead to a higher investment volume over the next several years. The financing for the investments has been secured for 2013.

tesa anticipates growth in both customer segments to slightly outperform the market in the coming years. By continuing to invest in innovative products in the areas of R&D and production, we plan to ensure the sustainability of this development and further strengthen our market position. The earnings performance should benefit from this and pick up to some extent.

**VIII. Report by the Executive Board Regarding Dealings
with Affiliated Companies**

In accordance with Section 312 of the Aktiengesetz (German Stock Corporation Act), the Executive Board has issued a report regarding dealings with affiliated companies which contains the following concluding declaration: “According to the circumstances known to us at the time the transactions were executed, or measures were implemented or omitted, tesa SE received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures.”

Hamburg, February 8, 2013

The Executive Board

Contact Information

Published by:

tesa SE

Quickbornstraße 24

D-20253 Hamburg

Tel.: +49 40/4909-101

Fax: +49 40/4909-6060

Additional Informations:

Corporate Communication

Tel.: +49 40/4909-3312

Fax: +49 40/4909-2236

E-Mail: pr@tesa.com

The Annual Report is also available in German.

Both versions are available in the Internet at

www.tesa.com and www.tesa.de.

From Corporate Communications also printed copies can be obtained.