



Annual Report 2014

tesa, Hamburg

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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,

The year 2014 was once again an extraordinarily successful one for tesa SE. Sales grew by 4.4%, outperforming the market. The operating result saw a slight rise again, despite ongoing investment activity. The EBIT margin reached 17.0% (previous year: 16.9%). All units and regions across the company contributed to achieving this result, showing that we are still on the right track. We are growing with innovative products that offer our industrial customers and consumers impressive added value.

At the same time, we made further advances in the development of structures in our growth markets – for example, by installing another large coating unit at our plant in China in order to be able to supply customized products to customers in the local electronics industry even faster. Another polymerization system is scheduled to go into operation at the Hamburg plant shortly, allowing us to even better utilize the potential offered by our ACX technology. We tapped into additional customer groups in 2014 with the products manufactured based on this innovative method, for which there are numerous areas of application, especially in the building and construction industry, but also in the automotive sector. All of these projects will strengthen our competitiveness on a lasting basis.

In the consumer business, which focuses mainly on Europe and Latin America, we expanded on our success with new products and assortments for the hardware and home improvement store segment, and especially bathroom items. We also launched an international TV campaign that generated an excellent response, boosting our name recognition in important focus countries as a first step.

Construction of our new “one tesa” company headquarters with a research and technology center is nearing the final stage. The interior finishing work is moving ahead swiftly and on schedule, so specific moving dates have now been set for the relevant units in 2015. This investment is worthwhile for two reasons: It secures our long-term growth while also physically bringing international marketing and R&D together, improving our ability to meet our markets’ ever-changing requirements even faster.

Although this year will once again bring some economic uncertainty, our financial strength, broad portfolio of innovations, and continuation of important investments in our long-term development put us in an excellent starting position to be able to continue the success of past years in 2015 as well.

tesa owes its success first and foremost to our people, who prove their passion for the company and the tesa brand through their hard work and dedication each and every day. My special thanks goes out to them. 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 4,000 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 Korea 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).

Currently, tesa is constructing a new headquarters, near the Hamburg airport, with an integrated research and technology center. At approximately € 160 million, the move marks the largest investment in the history of tesa 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 the tesa Group can meet the ever-changing requirements of its markets even faster and more flexibly. The relocation is scheduled for 2015.

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, tablets, 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 centerpiece of 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 tesa 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 industrial retail business, we supply technical retailers with state-of-the-art product ranges.

Consumer Business

Innovative product solutions for consumers account for about one-fourth 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 various applications, including 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. In the craftsmen business segment, tesa concentrates on customized product ranges and marketing concepts for professional craftsmen, such as painters and finishers.

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

Worldwide growth was positive in 2014, slightly outperforming the previous year, although the outlook became increasingly clouded over the course of the year due to geopolitical crises. While the mature national economies continued their muted recovery, growth slowed in a number of emerging economies.

The **European** economy was stagnant in 2014. The unrest in Ukraine in particular dampened investors' willingness to invest and brought sustained high levels of uncertainty on the market. Interest rate cuts and a renewed bond-buying program by the ECB led to the devaluation of the euro. This enhanced the competitiveness of companies based in the Eurozone, somewhat alleviating the unfavorable foreign trade effects. Positive growth was achieved, but final performance fell short of the optimistic expectations announced at the start of the year.

The **German** economy saw moderate growth in 2014. While Germany has always functioned as the Eurozone's economic driver in recent years, with the highest growth rates in the monetary union, growth slowed in 2014. Economic sanctions imposed on Russia by the EU dampened exports and investment activity. The economy was supported by low unemployment, low interest rates, low inflation, and the weaker euro.

The **U.S.** economy experienced positive development in 2014. First-quarter performance lagged behind the previous year due to severe weather. Economic activity picked up after that, a fact that was reflected in increases in investment volumes and consumer spending.

In **Japan**, investment activity and consumer spending declined. This is attributable to the consumption tax hike enacted in April 2014. The government launched an economic stimulus package to counteract the negative effects on demand. Exports decreased despite the devaluation of the yen. A further increase in the tax rate had been planned for 2015 to cover government debt, but was postponed.

Economic growth in **China** fell short of the targets forecast for 2014. The industrial sector posted the lowest growth since 2008, and domestic demand remained low. The country's central bank and government have adopted reforms in an effort to achieve sustainable growth instead of high short-term growth rates.

The picture that emerges for the other growth markets is a mixed one. In **India**, reforms had a positive effect on economic development, boosting exports. In **Brazil**, on the other hand, there appeared to be deadlock on the issue of reforms. **Russia** is under pressure due to the conflict with Ukraine.

Economic sanctions and the drop in the price of oil led to the devaluation of the ruble and to a decline in investment spending.

Sales Market Development

2014 was marked by recovery in the industrial sales markets in Europe and further strengthening of growth in Asia and America. A slight positive trend emerged in Europe over the course of the year. Asia and North America continued to benefit from good economic development, while Latin America suffered from the instability of local currencies and real growth slowed.

The automotive industry – an important sales market for adhesive tape manufacturers – saw a positive growth rate in 2014. The U.S. market experienced an upward trend, and China continues to drive growth, although there have been recent signs of some cooling. Europe remains an important sales market for the automotive industry, maintaining its position in terms of production through stability.

The electronics industry saw positive development in 2014, as in the past. The trend toward increasingly flatter and more lightweight devices continues, favoring the use of adhesive tapes. The shift from feature phones to smartphones is also ongoing, while market growth in the tablet segment has slowed to a relatively low level. New Chinese manufacturers are playing an ever more important role, challenging established original equipment manufacturers (OEMs) for market share and increasingly tapping into new sales markets even outside China. Asia, with its important production sites for the electronics industry, remains a key sales market for adhesive tapes.

The market for the business with consumers and the commercial business with professional craftsmen saw positive development in Europe. The situation in the private sector improved from the previous year, although the economic situation in Southern Europe remains tough. The German DIY segment was marked by market consolidation in 2014, with further signs of a shift toward online buying in this sector, as elsewhere.

Procurement Market Development

Supply on the procurement markets was largely stable in 2014. tesa expanded its supplier base in 2014, thereby reducing the risks to the Group's business. The calming of the overall economy across parts of Europe and moderate growth in the Asian markets brought stability to the supply of raw materials throughout the year.

The markets were relatively balanced in terms of supply and demand, with no major fluctuations in price developments that affected tesa. This

meant that the development of raw material prices remained stable in 2014.

In 2015, tesa plans to qualify further alternative sources in Asia, Europe, and North America, with the objective of securing the company's competitiveness and innovative drive and ensuring that it has a reliable supply. The supply of resins presents the only risk for 2015. The risk stems from a decrease in production capacity and reduced availability of raw materials among resin producers. These effects are being countered through good supplier loyalty activities and measures to qualify alternative suppliers. Other substantial delivery bottlenecks due to structural factors within the industry are not expected in 2015.

Prices on the markets for raw materials are expected to be influenced by several market effects in 2015. While petroleum-based raw materials (with sufficient production capacity) will adjust in the long term to the declining price of oil and the positive trend in the price of natural rubber is also expected to continue, we assume that the shortage of necessary resins will bring significant price increases in this area in 2015.

On the whole, tesa expects to see a moderate price increase on the procurement market. However, due to its long-term pricing and volume contracts, tesa believes it is well prepared for such a scenario.

Research and Development

In the 2014 fiscal year, as in the past, our research and development activities focused on methods of producing adhesive tapes without using solvents. At the technology center, we developed a method that can be used to integrate solvent-free reactive components into an adhesive tape. This results in reactive adhesive tapes that achieve the necessary stability even at very low temperatures. When used with subsequent curing, this method now allows us to bond even sensitive plastics and coated materials that were previously impossible to work with at conventional temperatures.

For the electronics industry, we developed new technologies for barrier tapes with unusually high resistance to humidity. This keeps the sensitive organic electronics in both rigid and flexible organic light-emitting diode (OLED) displays in TVs, computers, mobile phones and advanced solar cells functional over the product's entire life span.

Technological advances in mobile devices have brought tougher requirements for speaker cones in smartphones and tablets. In the 2014 fiscal year, we responded to this by developing laminates that enable outstanding acoustics and long speaker cone life spans through a combination of multi-

ple layers of special films and innovative adhesive masses with special damping characteristics. Our R&D activities also resulted in solutions for mobile phones that hold the case together even when the phone is dropped and prevent water from penetrating to the inside of the device.

Products with particular ecological characteristics require adhesive tapes with the same general features. To accommodate the use of compostable packaging systems, our labs produced new adhesive masses during this reporting year; the masses can be combined with compostable film backings to yield high-performance tapes. We also developed technologies for adhesive tapes made exclusively from renewable raw materials.

In modern design, construction, and engineering, and especially in automotive engineering, there is an increasing trend toward using materials that allow for enhanced stability while also reducing weight. In many cases, these materials are no longer suitable for bonding through traditional techniques such as welding. With this in mind, we developed technologies for adhesive tape systems that can be used in load-bearing structures and meet our customers' requirements with regard to stability, material combinations, and processing methods for lightweight construction. These innovations are already undergoing testing within development departments in the automotive industry and being used in initial concept studies for new vehicle models.

Responsibility

In 2014, as in years past, we emphasized making a significant contribution to social development and further developing our environmental management system. Since 2001, we have consistently advanced the development of our environmental management system and regularly met and even exceeded our ambitious environmental protection goals. Our production sites have lowered emissions of volatile organic compounds (VOCs) by more than half worldwide since 2001 and have considerably reduced waste, CO₂ emissions, and solvent consumption. All production sites are certified under the ISO 14001 international environmental standard.

This reporting year, tesa's environmental management activities once again continued to focus on reducing energy use and CO₂ emissions. We made advances in our energy management at the Hamburg and Offenburg sites by installing state-of-the-art energy monitoring systems. We have been generating our own ecofriendly electricity with a combined cooling heat and power (CCHP) system in Offenburg since July 2014 and plan to begin doing so in Hamburg in 2015. Plans call for the energy management system at both sites to undergo ISO 50001 certification during the first quarter of 2015.

We deliberately focus on identifying the ecological value drivers in the production process. To further improve the environmental compatibility of individual products, we use the environmental footprint method to analyze their impact on the environment across the entire product lifecycle. For example, we review whether there are eco-friendlier alternatives for specific product components or packaging items.

Based on the results of a survey of employees, we completely overhauled our social responsibility activities this year. Through the "tesa verbindet" ("tesa connects") initiative, we give back in the form of donations, supporting memberships, and sponsorships. Our employees also support nonprofit and charitable projects outside of their day-to-day work: In 2014, tesa employees got involved to support social causes ("tesa hilft" and "tesa spendet" – "tesa helps" and "tesa donates", respectively), education ("tesa fördert", or "tesa supports"), and environmental protection ("tesa schützt", or "tesa protects"):

- In terms of social causes, "tesa helps" cooperates with various organizations, including the "tatkräftig – Hände für Hamburg" initiative, which aims to support social, environmental, and cultural institutions. In 2014, seven teams from Hamburg participated in this initiative, with a total of about 100 employees taking part.
- "tesa donates" contributes in the form of donations of products and funds. Examples include efforts to aid the victims of Typhoon Haiyan in the Philippines and participation in the Course des Héros (Heroes Race) in France.
- In the field of education, we contribute our expertise as a technology group as part of activities in the "tesa supports" category, cooperating with the nonprofit organization Initiative Naturwissenschaft & Technik (Science & Technology Initiative). Our specialists offer young people in Hamburg insight into professional fields and careers at tesa.
- Via "tesa protects", volunteers from tesa are working to conserve the Niedersächsische Elbtal UNESCO biosphere reserve, in the state of Lower Saxony, as part of a long-term partnership (corporate volunteering). Our employees get involved through activities such as planting campaigns aimed at reforesting the area with oak seedlings, helping to preserve this species-rich and ecologically sensitive riparian forest landscape.

We document all of these activities in an annual progress report, accessible at www.tesa.de/responsibility.

II. Results of Operations

Results of operations in the tesa Group

	2013	2014	Change	
	in € million	in € million	in € million	in %
Sales	1,038.5	1,076.3	37.8	3.6
Costs of goods sold	-526.0	-538.4	-12.4	2.4
Gross profit	512.5	537.9	25.4	5.0
Marketing and selling expenses	-244.4	-258.3	-13.9	5.7
Research and development expenses	-41.7	-45.4	-3.7	8.9
General administrative expenses	-48.8	-53.1	-4.3	8.8
Other operating income	36.2	39.0	2.8	7.7
Other operating expenses	-38.0	-36.7	1.3	-3.4
Operating result (EBIT, without special factors)	175.8	183.4	7.6	4.3
Special factors	18.0	0.0	-18.0	100.0
Operating result (EBIT)	193.8	183.4	-10.4	-5.4
Financial income	1.0	3.5	2.5	250.0
Financial costs	-8.7	-6.5	2.2	-25.3
Financial result	-7.7	-3.0	4.7	-61.0
Profit before tax	186.1	180.4	-5.7	-3.1
Taxes on income	-53.4	-56.8	-3.4	6.4
Profit after tax	132.7	123.6	-9.1	-6.9

For fiscal year 2014, the tesa Group reported lower profit after tax, at € 123.6 million, corresponding to a decrease of € 9.1 million.

Sales increased by € 37.8 million, to € 1,076.3 million. Taking into account the increase in the costs of goods sold, which were up € 12.4 million, gross profit improved by 5.0%, rising to € 537.9 million.

The increase of € 7.6 million in the operating result (EBIT, without special factors), which ended the year at € 183.4 million, was also affected by other aspects, especially the increase of € 13.9 million in marketing and selling expenses, which stood at € 258.3 million. This higher figure was the result of increased activities in the European and Asian sales markets. Research and development expenses also rose by € 3.7 million, to a total of € 45.4 million, and general administrative expenses were up € 4.3 million, at € 53.1 million.

At the same time, other operating income rose € 2.8 million, to € 39.0 million, while other operating expenses decreased by € 1.3 million, to € 36.7 million.

The special factors totaling € 18.0 million that had arisen in the previous year concerned other operating income resulting from the closure of a production site in Singapore.

As a result, EBIT declined by 5.4%, to € 183.4 million.

The financial result improved by € 4.7 million, primarily due to currency gains realized during this fiscal year.

Profit before tax declined from € 186.1 million to € 180.4 million, a decrease of € 5.7 million.

Taxes on income rose by a disproportionately high amount in comparison to the profit before tax.

During the last fiscal year, tesa once again saw highly positive development. Sales grew by 3.6%, exceeding the forecasts. A number of factors were responsible for this, chief among them the company's good development in the automotive and electronics growth markets. The operating result (EBIT, without special factors) and the EBIT margin also surpassed expectations in fiscal year 2014.

Business Development by Region

Organic growth in the tesa Group totaled 4.4% in the 2014 fiscal year (previous year: 8.5%).

Europe

Development in Europe showed significant recovery in 2014, leading to organic growth of 4.0% in sales. In the process, the consumer business achieved particularly positive growth rates. At current exchange rates, tesa posted sales of € 622.3 million in Europe (previous year: € 603.5 million). The share of Group sales dropped to 57.9% (previous year: 58.1%).

Americas

In the Americas, tesa's sales figures for 2014 were up slightly from the previous year, with the positive development on the automotive market being a contributing factor once again this year. Adjusted for exchange rate effects, the region as a whole posted a 2.0% increase in sales. At current exchange rates, the sales figure saw only a slight increase, rising 0.5% to € 142.5 million (previous year: € 141.9 million). The share of Group sales declined slightly, to 13.2%.

Africa / Asia / Australia

In 2014, as in past years, tesa achieved positive sales results in Asia. The main growth market this year was China. On the whole, sales grew by 6.4% (adjusted for exchange rate effects). At current exchange rates, sales in the region, at € 311.5 million, were up 6.3% from the previous year's sales of € 293.1 million. The share of Group sales rose to 28.9% (previous year: 28.2%).

Business Development by Division

Industry

The Industry division saw highly positive development in the past fiscal year, achieving organic growth of 4.5% in sales. This effect was spurred by both our direct business and our retail business in all regions. The business in Asia, the U.S., and Europe showed especially dynamic growth. There was a nominal increase of 3.8% in sales, which stood at € 793.0 million (previous year: € 764.3 million). The share of overall sales attributed to the Industry division rose to 73.7% (previous year: 73.6%).

In our business with the **electronics industry**, we achieved significant growth once again. The growth drivers in this segment were special adhesive strips and functional adhesive tapes; these products are essential to the industrial process of manufacturing mobile devices. For example, manufacturers are using removable strips of adhesive tape to affix batteries in place, making them fast and easy to replace. Functional adhesive tapes perform functions such as shielding and grounding various voltages in advanced smartphones and tablets.

In the **automotive sector**, demand from Asia, North and South America, and Europe has risen further. We achieved success with our labeling systems that feature laser technology, which are resistant to heat, abrasion, and chemicals and leave visible traces if there is any attempt at tampering. Another category that saw robust demand was our adhesive tape die cuts for covering holes in automotive manufacturing; these individually customized sealing solutions optimize the production process, reducing costs. All over the world, we launched new products for wire harnessing in vehicle interiors.

Sales of products for the **printing industry** saw positive development, primarily spurred by our new versions of Softprint solutions for flexo printing. These Softprint products are used to bond printing plates to the printing cylinder. Ease of application and especially secure bonding in critical areas

ensure the quality of the printing process. At the same time, the new versions have made it easier to remove the products once printing is complete.

In the **pharmaceuticals industry**, a new business segment, we more than doubled our sales of medicated patches and rapidly dissolving oral films, which we manufacture under contract for the market. We also signed new contracts with our customers to secure additional sales potential for the years to come. In addition, we achieved noteworthy growth in the volume of incoming orders for both development projects involving patentable original preparation and generics for well-known customers. Our Transfilm®, Rapidfilm® and Mucofilm® technologies have been well received by customers.

Sales of products for global protection against counterfeiting and tampering saw significantly positive development within the **tesa scribos®** business segment. Another contributing factor was the new tesa® dtect app, which trademark owners can use to build product authenticity check features into their own smartphone apps. To accomplish this, tesa scribos® linked its own security database with the World Customs Organization (WCO) in order to provide retailers, consumers, and customs authorities all over the world with authenticity data on behalf of trademark owners. This makes it possible to tell genuine products apart from counterfeits in real time.

In the **building supply** business segment, products based on the patented ACXplus technology continued their success story. In this area, we are focusing on ultra-durable, weatherproof adhesive bonding used in both interior and exterior applications in the construction industry. Adhesive bonding of glass partitions was once again a major application for the use of the ACXplus product range. This technology enables various kinds of glass-on-glass bonding as well as affixing of glass panels to aluminum frames and in "H" profiles.

The industrial **retail business** grew despite weak overall economic performance in the United States and Europe. The growth drivers here were innovative mounting tapes, including the successful ACXplus product range. On the sales side, we were able to expand the business with specialized technical retailers. These selected, qualified retail partners focus on advising customers and selling adhesive tapes that are optimally tailored to customers' intended uses.

Consumer

The business in products for consumers and professional craftsmen, which is focused on Europe and Latin America, saw positive development once again, with organic growth of 4.6% in sales. In nominal terms, sales rose by

3.6%, to € 256.7 million (previous year: € 247.8 million). As a result, the Consumer division contributed a share of 23.8% (previous year: 23.9%) of the total sales during this reporting year.

We succeeded in expanding our market share in both of the strategic business segments for the Consumer & Craftsmen division – in the consumer business, solutions for DIY (do it yourself) enthusiasts and products for the office supply and stationery segment, and, in the craftsmen segment, the product range geared toward professional craftsmen.

In the international hardware and home improvement store business, tesa won over new consumers with an innovative merchandising concept and via “secondary placement” in stores, appealing to consumers through combined offers. For example, when a customer is buying paint at a home improvement store, they are also offered the suitable tesa masking tapes at the same time. Particular growth drivers in this area included precision masking tapes, which are ultra-flat, enable accurate painted edges and prevent paint bleed-through. We developed a new range of mounting tapes – the Powerbond line – specifically for consumers, thereby gaining significant market share. Our range of products for bathroom applications, including hooks and storage systems based on waterproof Powerstrips and the innovative Powerbutton technology, also generated high demand among consumers.

In Germany, we launched an integrated brand campaign that includes TV ads and systematic use of digital channels for dialogue with consumers. In light of our successful partnership with leading online retailers as well, we were once again able to increase our sales in the online segment.

In France, Spain, Portugal, and Eastern Europe, the marketing concepts we launched under the new brand image helped to ensure that leading retail partners, both within specific regions and Europe-wide, increasingly included our products in their product ranges. Our European TV ads also proved extremely successful, raising the name recognition of the tesa brand. At the same time, we succeeded in entering the market in Argentina with a full range of tesa products in hardware and home improvement stores as well as office supply and stationery stores.

Employees

Our human resources activities during this reporting year focused on the relaunch of the competency model and on inpat management.

The tesa Key Competencies Model now acts, for the first time, as a standardized model of skills and competencies for all employees and managers worldwide. It forms the basis for future activities involving recruitment, train-

ing, succession planning, and staff promotions. The model was created with extensive international input from many employees and has met with a great deal of interest throughout the company. We plan to use the model to further professionalize our succession planning activities and to shape and further develop our company’s open culture with an eye to the tesa Strategy 2020. To this end, we worked with our employees to identify the key competencies that are necessary in order to achieve our corporate goals now and into the future and create a clear distinction between us and our competitors. To incorporate the insights gleaned during this process into our staff management activities as well, we plan to integrate the competency model into annual employee performance reviews worldwide.

As part of our approach to internationalization (“inpat management”), we are pursuing the goal of giving an increasing number of talented employees from our international affiliates the opportunity to spend a period of six months to three years at tesa’s corporate headquarters, getting to know the tesa corporate culture and how the company works. These employees are enrolled in a systematic program in which they receive comprehensive support and culture-specific assistance so that they can quickly become accustomed to living and working in a new and different place. The number of employees who participate in the program or have indicated an interest is rising steadily, and feedback from the program has been overwhelmingly positive.

The employees of tesa SE spent the past fiscal year preparing for the upcoming move to the newly constructed corporate headquarters with integrated research and technology center (the “one tesa” project). The move will take place in 2015, marking a milestone in our company’s long-term growth. The company hopes that physically bringing the business units and R&D together starting in 2015 will play a significant role in helping tesa respond faster and more flexibly to the requirements of the markets. Numerous planning details were mapped out with the representatives of employees during this reporting year. The factors involved in the design and layout of the building included consideration of a modern employer branding concept.

At the end of fiscal year 2014, the total number of employees stood at 4,081 (previous year: 3,819).

III. Financial Position

Cash flow statement

in € million	2013	2014	Change
Cash and cash equivalents as of Jan. 1	166.5	208.9	42.4
Gross cash flow	161.8	150.2	-11.6
Change in net working capital	-11.6	-24.0	-12.4
Net cash flow from operating activities	150.2	126.2	-24.0
Net cash flow from investing activities	-64.6	-74.5	-9.9
Free cash flow	85.6	51.7	-33.9
Net cash flow from financing activities	-38.2	-78.2	-40.0
Exchange rate-related change in cash and cash equivalents	-5.0	12.0	17.0
Net change in cash and cash equivalents	42.4	-14.5	-56.9
Cash and cash equivalents as of Dec. 31	208.9	194.4	-14.5

Cash flow from operating activities decreased by € 24.0 million, to € 126.2 million, as compared to the previous year. **Investing activities** accounted for a net balanced outflow of € 74.5 million. These expenditures were largely attributable to investments in property, plant and equipment and intangible assets. **Free cash flow** decreased by a total of € 33.9 million, to € 51.7 million. The negative **cash flow from financing activities**, in the amount of € 78.2 million, was mainly due to a dividend payment of € 66.3 million to the shareholders. As of the end of the fiscal year, **cash and cash equivalents** had decreased by € 14.5 million, to € 194.4 million.

Key Financial Indicators

The **return on sales** – based on the operating result – dropped from 18.7% in the previous year to 17.0% in 2014. Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in a decrease, from 21.6% in the previous year to 19.4% in 2014.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, decreased to 38.1% in 2014 (previous year: 48.2%); the return on **net operating assets** declined significantly, from 46.8% to 37.0%.

The **net profit**, measured against sales proceeds, decreased from 12.8% in the previous year to 11.5%. The **earnings per share** declined from € 5.14 to € 4.79.

The **equity ratio** decreased by 3.5 percentage points, to 50.0%. The ratio of equity to non-current assets is 124.5% (previous year: 162.9%).

Capital Expenditure

In this reporting year, tesa invested a total of € 99.6 million in intangible assets and property, plant and equipment. Of this figure, € 91.3 million was allocated to locations in Germany. The sum of € 2.7 million was invested in the rest of Europe, € 1.4 million in the Americas, and € 4.2 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, substantial investments in expanding capacity were the main reasons for high capital expenditure. 2014 was marked primarily by spending on major strategic projects aimed at technological and capacity expansions, which will largely be concluded in 2015.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 36.0 million.

Further investments of € 51.2 million were made in 2014 for ongoing construction activities to build the new tesa company headquarters with integrated research and technology center at the site near the Hamburg airport. As the construction activity progresses and the project nears completion, the volume invested in this project in 2015 is expected to be similar to that spent in 2014. Remaining payments will follow with the final completion of the project in 2016.

IV. Balance Sheet Structure

Balance sheet structure of the tesa Group

	2013	2014	Change	
Assets	in € million	in € million	in € million	in %
Non-current assets	295.8	404.2	108.4	36.6
Inventories	175.6	185.3	9.7	5.5
Other current assets	220.6	223.4	2.8	1.3
Cash and cash equivalents	208.9	194.4	-14.5	-6.9
Total	900.9	1,007.3	106.4	11.8
Equity and liabilities (in € million)				
Equity	481.8	503.4	21.6	4.5
Non-current provisions	174.4	244.2	69.8	40.0
Non-current liabilities	8.4	5.5	-2.9	-34.5
Current provisions*	75.9	102.8	26.9	35.4
Current liabilities*	160.4	151.4	-9.0	-5.6
Total	900.9	1,007.3	106.4	11.8

*) The previous year's figures were adjusted based on reclassifications pursuant to IAS 37.

As compared with the previous year, total assets increased, rising by 11.8% to € 1,007.3 million.

On the assets side, non-current assets rose by € 108.4 million. The primary reason for this was the increase in investments in property, plant and equipment. Please see the remarks on capital expenditure for further information.

Inventories increased by a disproportionate amount as set against the development of sales, rising by € 9.7 million to € 185.3 million.

Other current assets increased by € 2.8 million, particularly due to the increase in trade receivables and other current assets even as securities declined.

Cash and cash equivalents decreased by € 14.5 million, to € 194.4 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 € 21.6 million increase in equity, the € 69.8 million increase in non-current provisions, and the € 26.9 million increase in current provisions. The change in equity is mainly attributable to the net profit after tax of € 123.6 mil-

lion, positive currency exchange effects in the amount of € 13.6 million, and the dividend payment of € 66.3 million to the shareholders.

The increase in non-current provisions primarily comprises increases in provisions for pensions and similar obligations due to the significant decrease in the discount interest rate.

The increase in current provisions is chiefly due to the increase in provisions for personnel as well as for licenses and other provisions.

The non-current liabilities decreased in particular as a result of lower financial liabilities.

The decrease in the current liabilities is primarily ascribed to the decrease in trade payables.

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, under 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 appropriate provisions for covering the financial impact of liability risks and any potential loss or damage events by taking out insurance within the scope possible and in accordance with economic considerations.

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 financial risks via active treasury management on the basis of globally applicable guidelines in the area of corporate treasury. The overriding goal is to safeguard the financial power of the Group and be able to meet financial obligations at all times. Within the scope of financial management, tesa ensures the solvency of the Group on a continuous basis, con-

trols 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 counterparty limits are used across the Group, as managed by Beiersdorf. 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 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

Geopolitical risks and their impact on the overall economic mood will have a lasting impact on tesa's business, particularly in Europe, in 2015. On the whole, the trend is expected to remain stable in Europe, although the Ukraine conflict may have further negative effects on the markets in the region, especially in Eastern Europe.

By contrast, significantly positive impetus is expected in North America, particularly from the automotive industry, and the development of the electronics industry in Asia is also viewed positively.

tesa continues to view the business with the electronics industry as attractive, and expects to see significant growth rates in this segment in 2015 as well. Because this business is heavily project-oriented, however, the risks associated with it remain high. The automotive sector will be able to assert itself with global customers as a second growth environment. The business in the pharmaceutical industry is also expected to achieve further positive growth.

The slight economic recovery in Southern Europe continues. After the losses sustained there in past years, this will have a positive effect on the development of the business in the area of distribution and in the end consumer business.

2014 was marked by significant volatility in currency exchange rates. In particular, the significantly stronger U.S. dollar will influence the development of tesa's business in 2015, as in the previous year. Classic financial instruments are used to hedge against these risks.

tesa is continuing to invest in innovative technologies at its production sites all over the world. The capital expenditure volume will be above the total write-downs. Construction of the new "one tesa" company headquarters will have a particular impact on the total amount of the investments made in 2015 as well. Financing for the investments in 2015 has been secured.

Growth is expected to slightly outperform the market in the coming year, as in the year before. This applies to the business with both consumers and industrial customers. Continued investment in research and development, and thus in innovative products, will further strengthen our market position. Development of results is expected to be slightly negative due to the effort and expense expected in connection with the company's relocation in 2015, so we expect the operating EBIT margin to fall slightly below the figure for fiscal year 2014.

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 10, 2015
Executive Board

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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.