



Annual Report 2010

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 global economy recovered more quickly than expected during the year following the crisis, leading to highly positive development in all regions and all segments of our business. Sales at tesa SE grew by 18.1%, not merely returning to pre-crisis figures, but actually reaching a record level, exceeding our sales in 2008 – previously our most successful year to date – and outperforming overall market growth as well. Furthermore, the EBIT margin also reached a new high, at 11.3%.

This pleasing result shows that the path we took through this phase was the right one. We took specific actions, responding quickly and appropriately to the crisis. All of our capacity adjustment projects were concluded in this reporting year and are now demonstrating their full impact. At the same time, we have steadily pursued our successful strategy. Our important innovation projects were continued as planned, and some of them were finalized. In September 2010, for example, our proprietary new technology for solvent-free coating of double-sided adhesive tapes was officially launched at the tesa plant in Hamburg-Hausbruch. The new technology paves the way for us to enter completely new, attractive business segments in the industrial sector, such as the construction and solar power industries. The cleanroom production unit that was also built at the Hamburg plant is currently undergoing the official process to obtain authorization to manufacture pharmaceutical products. After the process is concluded, in the first half of 2011, we will be free to begin production of drug patches and oral films – both innovative ways to administer medications – for the pharmaceuticals industry. We have also strengthened our structures in the growth

regions by engaging in additional projects. Examples include the official dedication, in June 2010, of a new converting center in Chennai, India, aimed at supplying the fast-growing local electronics and automotive industries with customized product solutions, along with the establishment of a new central warehouse in Singapore and the integration of our affiliates in Asia into a uniform SAP system that is harmonized with the European version. Our goal is to further improve customer service in the booming region of Asia and provide our innovative products to the central markets quickly and efficiently.

The interaction of all of these strategic elements – creation of fast, highly flexible processes; consistent investment in new, groundbreaking business segments and technologies; and expansion of market-driven structures in the growth regions – helps to bolster tesa's long-term competitive edge and forms a strong foundation for future growth.

I would like to express my heartfelt gratitude to all of our employees worldwide. With your hard work and dedication during extraordinarily challenging times, you made our success this year possible – and showed your strong connection with the tesa brand and our company. I would also like to thank our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Thomas Schlegel
Chairman of the Executive Board

Management Report

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 3,600 people and operates in more than 100 countries. tesa SE is a wholly owned subsidiary of Beiersdorf AG and the parent company of the 54 tesa affiliates.

Regions and Major Locations

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

Industrial Business

tesa earns about three-quarters of its sales with products for industrial and commercial customers. In the direct industrial business, our company offers system solutions for customers in the electronics, printing, paper, packaging, and automotive industries in particular. The company’s strategic focus is on developing and expanding especially profitable lines of business in technologically advanced fields of application. Our customers use our system solutions 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 mobile phones, digital cameras, and LCD flat screens. Anti-forgery, 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 patented tesa Holospot® technology, which enables laser-based data storage on a special self-adhesive label. One promising new market that tesa is developing for the future is the pharmaceuticals sector. In this area, tesa 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 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-quarter of tesa’s total sales. Under the tesa umbrella brand, DIY stores and superstores as well as paper goods and stationery shops offer private consumers a broad assortment of more than 300 innovative products for implementing creative ideas and enhancing quality of life around the home, garden, and office. 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 offers 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 paper masking tapes and tesa Easy Cover® for clean, professional painting and finishing work; and, last but not least, seasonal and permanent fly screens for any use.

Strategy

Reliable quality, 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 our customers, for whom tesa develops effective and efficient solutions.

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, appropriate, and rapid implementation.

tesa emphasizes the following areas 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,
- expanding its international structures in its retail consumer business, with a focus on Europe, especially Eastern Europe, in order to supply partners in the retail trade with internationally effective and market-driven product ranges, and
- ensuring harmonized global quality standards while incorporating environmentally friendly technology components.

Value Management and Control System

The tesa Group has set itself the objective of expanding its market share through sustained growth while at the same time boosting its earnings base. Different growth targets have been defined for the individual regions, with Eastern Europe and Asia being the main growth markets.

tesa 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

The global economy has largely overcome the effects of the economic and financial crisis and is on the path to recovery. Developments have varied across the regions that are of primary importance to the tesa Group during this phase.

In the eurozone, the national debt crisis deepened in some countries. The community of nations that use the euro established bailout programs to provide financial support, first to Greece and later to Ireland as well. In return, the governments of those countries were forced to initiate tough austerity measures and structural reforms, both of which dampened domestic demand. The countries hardest hit by the debt crisis continued to suffer from recession conditions.

By contrast, the German economy recovered with surprising vigor, posting considerably stronger growth than the rest of the euro economy as a whole. There was no real estate crisis in Germany and the export sector is in an

excellent position. Favorable interest rates and a positive business outlook continue to spur investments. The economic recovery is also being felt in the labor market, and private consumption is expected to rally to a moderate degree.

In the United States, high unemployment was a major factor slowing the economic upturn. While the 2010 GDP growth rate was close to that seen in previous years, it still fell short of the economy’s potential for growth. As a result, the Federal Reserve continued to support the economy with unconventional measures aimed at boosting liquidity, such as purchases of government bonds.

After strong growth at the start of this reporting year, activity in the dynamic Chinese economy slowed to a certain extent over the rest of the year as a result of actions taken by the Chinese government to prevent overheating and reduce the risk of inflation. Many of the other national economies of Asia have benefited from the highly positive overall development of the economy in China, marking a return to dynamic growth in those countries as well.

Sales Market Development

The upturn on the markets that began at the end of 2009 continued in 2010. Industrial procurement markets made significant gains in all regions, although development still fell short of the levels seen in 2008, before the crisis struck.

The major drivers included the automotive markets, with worldwide production figures up 24% from the previous year, significantly above pre-crisis levels. North America, with a year-on-year increase of nearly 40%, and Asia, where figures rose almost 30%, played a major role in this recovery. Development in Europe was below average, with about 10% more vehicles produced than in the previous year. Alongside this pleasing market development, tesa also benefited from the successful implementation of a large number of projects related to surface protection and permanent adhesive bonding applications.

The electronics market, which focuses on Asia, is enjoying healthy demand and continuing to grow in the double digits. In particular, the volume of smart phones manufactured nearly doubled. In this market segment, as in others, tesa benefited from new applications such as adhesive tapes with light-absorbing properties.

The business in the paper and printing industry, which was less severely affected by the crisis than other sectors, continued to be stable in 2010, with moderate market development. The commercial markets involving

industrial customers and craftsmen, which had been hit harder by the crisis, were also able to make gains in 2010, although sales still remain significantly below pre-crisis levels, especially in Europe.

The construction and furniture industry is increasingly utilizing adhesive tapes for bonding during construction and fabrication. tesa was able to convince a large number of new customers of the benefits of using adhesive tape solutions. The same is also true of the dynamic, fast-growing solar power industry, where adhesive tapes are increasingly being used to affix solar modules. Development in the end consumer business varied across the different regions. Highly dynamic market activity in Latin America and Eastern Europe was set against moderate growth in Western Europe. This segment has not yet been able to return to the levels seen before the crisis, but the business with office supply retailers and DIY and home improvement stores grew by a disproportionate amount.

Procurement Market Development

The situation in the key raw materials markets for the manufacture of adhesive tape was characterized in 2010 by price increases, some of them considerable, and by supply bottlenecks. On the supplier side, significant cutbacks in production capacity had been made during the economic crisis. As the overall economic recovery gained traction in 2010, leading to rapidly climbing demand, supply bottlenecks resulted in several raw materials markets, some of them persisting quite a long time. These effects were further exacerbated by very low stock levels on the whole among suppliers and customers, and by the fact that the recovery set in very rapidly in some industries and some regions.

tesa's suppliers consistently overhauled their product ranges across the board in 2010. For special raw materials in particular, tesa expended considerable effort and resources on qualification processes for alternative raw materials.

These effects accelerated the development of prices, especially for basic raw materials such as natural rubber, solvents, resins, and cotton, which reached historic highs in the second half of the year. Right up to the end of the year there was no sign that this development was easing.

In this purchasing environment, 2010 was marked in particular by measures taken to ensure a secure supply. tesa was able to maintain the supply to its plants and customers in full by applying the company's strategic policy of qualifying alternative sources, which has been in progress for years in some cases, and by entering into long-term volume contracts and pursuing a sus-

tainable supplier development strategy. In this market environment, these measures gave tesa an important competitive edge over others.

tesa expects only marginal price decreases in its procurement markets in 2011 by comparison to the highs currently in effect. Securing a sustainable long-term supply remains the strategic focus of the company's purchasing activities. Substantial expansion investments on the supplier side are not expected until the second half of 2011. The additional supply that will result from this and the possibility that the overall economy will calm somewhat are the only currently conceivable factors that might be able to stabilize or normalize prices and the supply situation on the procurement markets in 2011.

Research and Development

Our technological developments continue to focus on our work on environmentally friendly, solvent-free adhesive masses and production methods. During this reporting year, we successfully began operating an innovative coating unit that enables solvent-free coating for the production of especially high-performance double-sided adhesive tapes. The new method, developed at tesa, has paved the way for us to enter attractive new fields of application in various industrial sectors.

In addition to this manufacturing method, we developed and successfully manufactured new polymer designs that are compatible with the new solvent-free technology and yield additional product properties.

Based on this technology, we began producing powerful, highly durable new double-sided adhesive tapes intended for structural adhesive bonding in outdoor areas. In this segment, tesa is initially focusing on the installation of signs, components of solar modules, emblems and decorative trim in the automotive sector and on the frames of LCD televisions in the electronics industry. We have already launched the first products, and additional tapes produced using the new technology are currently being tested by customers worldwide.

Another area of focus in our technological development is innovative processes used to produce special products that meet the very highest standards of precision, transparency, and freedom from particles. In the clean-room unit at the Hamburg plant, we have developed and tested further methods for producing and coating adhesive masses, methods that allow us to manufacture products such as optically clear adhesive films. We have also continued our work on special processes aimed at high-precision application of adhesive mass coatings, which are used in products such as the adhesive tapes utilized in diagnostic strips.

In the area of special acrylate-based adhesive masses, we have developed and successfully begun large-scale production of high-performance adhesive masses that will allow us to fine-tune the adhesive tapes used for printing plates in the paper and printing industry in order to meet the specific requirements of flexo printers even better.

We use renewable and recycled raw materials to develop extremely efficient tapes that meet the increasing demand for sustainability in the industrial production of adhesive tapes. These products are intended for use by private consumers.

We have further developed and refined our technology for solvent-free extrusion of adhesive tapes, so that we are now able to use this method to produce items such as special adhesive tapes for secure, problem-free covering of welding seams.

Responsibility

One of our guiding principles has traditionally been the acceptance of responsibility with regard to our own employees as well as society at large, and for passing on a clean and healthy environment to later generations.

The concepts of compliance and corporate governance are becoming increasingly important in the public discourse. We take this development seriously, and take targeted actions to raise awareness of these topics within our workforce. During this reporting year, we provided antitrust law training to all employees at our headquarters who come into contact with compliance issues. Now this program is gradually being expanded to all regions worldwide. All of our executives were once again required to attend Web-based training to study the content of the tesa Code of Conduct and to sign our Compliance Certificate, a document in which management employees confirm that they have managed their units in accordance with the rules laid out in the Code of Conduct and commit to continuing to do so in the following year as well. Furthermore, we are currently preparing a training session that will provide those of our employees who will be responsible for managing individual tesa affiliates in the future with even more in-depth familiarity with all of the legal aspects and obligations that accompany this type of activity.

At tesa, economic and ecological efficiency are not viewed as mutually exclusive; instead, they are equally important goals in everything we do as a company. In 2010, we once again made further progress in implementing our second environmental program. In particular, we have been able to significantly reduce our emissions of volatile organic compounds (VOCs) since the start of the environmental program in 2007. To save even more energy,

we have installed a highly efficient new ventilation system in the building that houses our central R&D department in Hamburg. The project was supported by the City of Hamburg as part of its Environmental Partnership (UmweltPartnerschaft) program and will significantly reduce the building's CO₂ emissions.

In the area of occupational safety and health, we succeeded in continuing the positive trend from past years, further reducing the number of workdays lost due to reportable occupational accidents. One of the major factors contributing to this development was the consistent implementation of our global occupational safety and health management system. Key activities under the system include regular inspections of locations all over the world, harmonization of safety standards at a high level, and local training on specific safety-related topics. The Converting Center in Chennai, India, which opened in June, was successfully integrated into this process right from the start.

In 2010, as in previous years, the intensive social commitment and involvement of tesa SE and its affiliates were reflected in a large number of projects designed 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. For example, we recruited more employees to act as mentors to elementary school students as part of the initiative "MENTOR – die Leselernhelfer Hamburg e.V." The association, which our company has been supporting since 2009, won the German Read Aloud Award (Deutscher Vorlesepreis) sponsored by the Reading Foundation (Stiftung Lesen) during this reporting year. We also supported the initiative "Das macht Schule e.V.," which pairs schools up with companies to organize renovation and design projects that are then implemented jointly by students, teachers, and employees of the companies involved. Over five joint projects, tesa staff members helped renovate various school classrooms in Hamburg. Employees of our Polish affiliate got involved in projects organized by a school for deaf children with speech difficulties, organizing a sports competition and a party to kick off the new school year and helping to set up a special playground. The company is also supporting the institution through donations and by providing classroom resources.

All of our corporate responsibility activities are documented in an annual report, which is available in electronic form and is posted online at www.tesa.com/responsibility.

Results of Operations

Results of operations in the tesa Group

	2009	2010	Change	
	in € million	in € million	in € million	in %
Sales	747.1	881.9	134.8	18.0
Cost of goods sold	-412.8	-487.5	-74.7	18.1
Gross profit	334.3	394.4	60.1	18.0
Marketing and selling expenses	-200.1	-214.7	-14.6	7.3
Research and development expenses	-32.7	-38.0	-5.3	16.5
General administrative expenses	-36.4	-40.3	-3.9	10.7
Other operating income	21.5	29.1	7.6	35.6
Other operating expenses	-57.7	-30.9	26.8	-46.3
Operating result (EBIT)	28.9	99.6	70.7	244.6
Financial income	3.4	4.4	1.0	29.4
Financial costs	-8.1	-12.0	-3.9	48.1
Financial result	-4.7	-7.6	-2.9	61.7
Profit before tax	24.2	92.0	67.8	280.1
Taxes on income	-5.0	-24.4	-19.4	388.0
Profit after tax	19.2	67.6	48.4	252.1

For fiscal year 2010, the tesa Group reported considerably higher profit after tax, at € 67.6 million, an increase of € 48.4 million. This is primarily the result of the € 134.8 million increase in sales, to € 881.9 million, taking into account a slightly disproportionate increase in costs of goods sold, which went up by € 74.7 million.

The increase of € 70.7 million in the operating result (EBIT), which ended the year at € 99.6 million, was also affected by other factors, including marketing and selling expenses, which increased by € 14.6 million, to € 214.7 million, and the decline of € 26.8 million in other operating expenses. This development was largely due to the restructuring expenses included in the previous year. Other operating income also increased by € 7.6 million, to € 29.1 million.

Despite the decline of € 2.9 million in the financial result, primarily caused by currency exchange effects, the profit before tax rose by a greater proportion than EBIT. At the same time, taxes on income increased disproportionately when compared to the profit before tax.

The development of the results of operations is viewed as being very positive, especially in light of the tough economic conditions that prevailed in the previous year.

Business Development by Region

Europe. A clear economic recovery emerged in Europe. Adjusted for exchange rate effects, tesa posted growth of 9.5% in sales, reaching a total of € 604.2 million (previous year: € 541.3 million) at current exchange rates. EBIT rose considerably, to € 41.0 million (previous year: € 1.7 million), representing an EBIT margin of 6.8% (previous year: 0.3%). The share of Group sales declined to 68.5% (previous year: 72.4%).

In terms of the individual management regions in Europe, the industrial business in Germany in particular saw highly positive development. Sales to customers in the automotive industry rose substantially. Eastern Europe, which had previously been considered a growth region, also showed a significant recovery in terms of sales.

The end consumer business in Central Europe, in which sales declined only slightly during the crisis, posted overall sales figures slightly above those for the previous year.

Americas. In the Americas as well, tesa's sales figures for 2010 were up considerably from the previous year. Along with the economic recovery, the development of currency exchange rates also supported the business in North and South America. The weakness of the euro against both the U.S. dollar and the Brazilian real, which persisted for most of the year, had a positive effect on our business in the entire region.

Adjusted for exchange rate effects, the region as a whole posted an increase in sales of 20.9%. At current exchange rates, the sales figure was also up by 32.6%, at € 107.6 million (previous year: € 81.2 million). The share of Group sales rose slightly, to 12.2% (previous year: 10.9%).

With an EBIT of € 16.5 million (previous year: € 6.2 million), the region posted an EBIT margin of 15.3% (previous year: 7.6%).

Africa / Asia / Australia. The recovery that began to materialize back in the second half of 2009 in the Africa / Asia / Australia region continued markedly in 2010 as well, leading to growth of 23.0% in sales (adjusted for exchange rate effects). At current exchange rates, sales in the region, at

€ 170.1 million, were up 36.5% from the previous year's sales of € 124.6 million. China and Southeast Asia emerged as the engines driving growth in the region as a whole.

The region's EBIT figure was € 42.1 million (previous year: € 21.0 million), resulting in an EBIT margin of 24.7% (previous year: 16.9%). The share of Group sales rose to 19.3% (previous year: 16.7%).

Business Development by Division

Industry. The Industry division, which contributes a share of 73.4% (previous year: 70.7%) to overall sales, posted significant sales growth in 2010, with sales rising by a nominal figure of 22.4% (adjusted for exchange rate effects: +16.5%) to € 647.2 million (previous year: € 528.6 million). This positive development was based on 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 both regions being driven particularly by the automotive and electronics industries, which experienced a rapid recovery.

In our business with the **electronics industry**, we introduced new products in line with the important trend toward the use of adhesive tapes suitable for further processing in the assembly of electronic devices. In particular, system suppliers in Asia are increasingly focusing on products they can use to remove and reposition, repair, or recycle components during the manufacturing process. The launch of innovative adhesive tapes for production of flexible printed circuits, or FPCs – very thin, flexible printed circuit boards slated for use in the next generations of especially handy netbook and notebook computers – went successfully.

In the **automotive sector**, an optimized surface protection film generated an excellent response. The new film adheres even more firmly to the body, but can be removed without leaving any residue, helping to protect the delicate paint job on a new car from damage and soiling while the vehicle is en route to the dealer. Other highlights in this market include new products to protect rims and dampen noise in the interior of the vehicle body. We also added new variants to the successful tesa Sleeve product range, used to bundle cables and wires together.

For the **printing industry**, we have introduced a new version of our successful splicing tape, used to bond together the ends of rolls of film during the printing of packages. The new tape makes it possible to laminate the printed plastic film to aluminum foil, even at high print speeds, thereby boosting

efficiency during the production of high-end bag-type packages. The splicing tape for rotogravure printing that was launched in 2009, in particular, has developed highly successfully. It is optimally designed for use with the extremely thin types of paper used in this printing method.

For the **pharmaceuticals industry**, a new business segment, we have successfully produced initial clinical samples of oral films. These films, which contain an active ingredient, dissolve in the mouth without any added liquid, making it easier for patients to take the medication. After the expansion of the cleanroom unit at the tesa plant in Hamburg is completed, the company plans to use the unit to produce these innovative products for the pharmaceuticals industry. The ondansetron oral film developed by tesa affiliate Labtec has been approved in both Europe and the United States as the world's first prescription medication in this form. Labtec has also developed an innovative topical patch to treat cold sores, for which we have signed a license agreement with GlaxoSmithKline. The global pharmaceuticals group plans to market the product in the future.

In the retail sector, we have enhanced our capabilities by adding new product ranges tailored to specific uses, thereby tapping into additional customer segments. Products for the booming entertainment industry provided significant impetus in this sector. Their uses range from set design and construction to laying cords and cables, as well as marking and labeling objects both onstage and behind the scenes. The latest innovation in this area is a special adhesive tape with black-colored adhesive mass that reduces light reflection so much that it can be used to adhere objects such as dance floors practically invisibly.

Consumer. Another area that saw highly satisfactory development was our business in products for private consumers, which contributed a share of 21.2% (previous year: 23.6%) of the total sales. At current exchange rates, sales rose by 6.3% (adjusted for exchange rate effects: +3.9%), from € 176.0 million last year to € 187.2 million in 2010.

All regions and both strategic business segments – both solutions for DIY enthusiasts and products for the office supply and stationery segment – contributed to the dynamic development in this field. We were able to increase our market share in many important merchandise categories.

We have added further innovations in various areas. New products were introduced as part of the range of highly environmentally friendly products that we successfully launched at retail outlets at the end of 2008 under the ecoLogo sub-brand. These products for the office supply and stationery

segment, made predominantly from recycled and biologically based raw materials, have been very well received by retailers and consumers alike. With the launch of the new Clean Air filter, which helps reduce particulate emissions from laser printers, we have successfully established an attractive new product category that accommodates the strong trend toward sustainability and a healthy working environment. We have supported the new sales channels with extensive communication measures and raised awareness of both the problem of particulate emissions itself and the product we offer as a solution, particularly among groups of buyers who work in offices at both businesses and institutions. In the home improvement and DIY segment, our painter's masking tapes and repair tapes have been repositioned, setting new trends. We have added innovative products to both ranges, particularly in the premium segment. Based on a detailed study of consumers' purchasing behavior at DIY and home improvement stores, we have optimized our merchandise presentation systems. Our new display structure gives consumers clearer information and guidance so that they can find the right product more quickly. The initial rollout at our retail partners' outlets significantly boosted sales.

Employees. The rapid recovery of the economy in almost all countries in 2010 was a major factor in the work performed by the Human Resources department, as in other areas. The partial unemployment and reduced working hours that had been introduced were discontinued back at the end of 2009, and during this reporting year, we initiated and implemented various measures to adjust capacity to the quick return to previous levels of capacity utilization at our production sites and ensure a shift structure that was in line with the continuous improvement seen in the order situation. We hired additional employees in some areas.

The total number of employees throughout the company declined slightly, to 3,622 (previous year: 3,698). We have returned to full implementation of the programs intended to help enhance employee qualifications and have even further developed some of these programs. New functions were added to the further qualification options offered to sales employees, for instance, and programs for these employees were intensified in all countries. Further modules are currently in the planning stage. Now that large segments of our sales force have participated in the various training sessions over the past four years, our focus is currently shifting more and more to applying the new skills in our day-to-day sales activities. Together with the Rotterdam School of Management at Erasmus University in the Nether-

lands, we have developed and launched an international management development program customized for tesa. The nine-month program offers our executives the opportunity to examine their personal management styles against the background of modern management methods and duties, both in theory and as part of hands-on projects. During this development process, participants receive support from both faculty members and experienced tesa executives.

Financial Position

Cash flow statement

in € million	2009	2010	Change
Cash and cash equivalents as of Jan. 1	41.2	89.4	48.2
Gross cash flow*	65.9	96.6	30.7
Change in net working capital	26.5	-19.8	-46.3
Net cash flow from operating activities	92.4	76.8	-15.6
Net cash flow from investing activities	-12.5	-23.4	-10.9
Free cash flow	79.9	53.4	-26.5
Net cash flow from financing activities	-31.0	-27.6	3.4
Exchange rate-related change in cash and cash equivalents	-0.7	9.1	9.8
Net change in cash and cash equivalents	48.2	34.9	-13.3
Cash and cash equivalents as of Dec. 31	89.4	124.3	34.9

* The previous year's figures were adjusted. Please see the explanatory information in the notes to the consolidated financial statements.

Cash flow from operating activities decreased by € 15.6 million, to € 76.8 million, as compared to the previous year. **Investing activities** accounted for a net balanced outflow of € 23.4 million. These expenditures were attributable to the continued high investment volume. **Free cash flow** decreased by a total of € 26.5 million, to € 53.4 million.

The negative **cash flow from financing activities**, in the amount of € 27.6 million, was mainly the result of a dividend payment of € 19.2 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had risen by € 34.9 million, to € 124.3 million.

Key Financial Indicators

The **return on sales** – based on the operating result – increased from 3.9% in the previous year to 11.3% in 2010. Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in an increase from 9.1% in the previous year to 15.4% in 2010.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, increased significantly, to 31.8%, in 2010 (previous year: 8.9%); the return on **operating assets** rose from 9.0% to 29.1%.

The **net profit**, measured against sales proceeds, rose from 2.6% in the previous year to 7.7%. The **earnings per share** increased from € 0.74 to € 2.62.

The **equity ratio** rose by 3.3%, to 55.8%. The ratio of equity to non-current assets is 164.9% (previous year: 138.0%).

Capital Expenditure

In the reporting year, tesa invested a total of € 32.7 million in intangible assets and property, plant and equipment. Of this figure, € 25.1 million was allocated to locations in Germany. The sum of € 3.2 million was invested in the rest of Europe, € 0.9 million in the Americas, and € 3.5 million in Africa / Asia / Australia.

Our capital expenditure and investment activity this reporting year was determined largely by three major projects at tesa's Hamburg-Hausbruch plant, where tesa is investing in new coating technologies and market segments. These projects accounted for an investment of € 16.3 million in 2010 alone, after € 27.0 million was spent on them in the previous year, and will be largely concluded in 2011.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 19.7 million.

Balance Sheet Structure

Balance sheet structure of the tesa Group

	2009	2010	Change	
Assets	in € million	in € million	in € million	in %
Non-current assets	226.7	228.4	1.7	0.7
Inventories	116.3	138.4	22.1	19.0
Other current assets*	160.7	184.4	23.7	14.7
Cash and cash equivalents	89.4	124.3	34.9	39.0
Total	593.1	675.5	82.4	13.9
Equity and liabilities (in € million)				
Equity	312.8	376.7	63.9	20.4
Non-current provisions*	94.6	93.1	-1.5	-1.7
Non-current liabilities	18.4	15.7	-2.7	-14.7
Current provisions	63.3	71.7	8.4	13.3
Current liabilities	104.0	118.3	14.3	13.8
Total	593.1	675.5	82.4	13.9

* The previous year's figures were adjusted. Please see the explanatory information in the notes to the consolidated financial statements.

As compared with the previous year, total assets increased, rising by 13.9% to € 675.5 million.

On the assets side, non-current assets rose by € 1.7 million. The primary reason for this was the increase in deferred tax assets, which rose by € 2.6 million to € 10.7 million, while intangible assets and property, plant and equipment fell slightly, by € 0.6 million, to € 215.6 million.

Inventories increased by a slightly disproportionate amount as set against the development of sales, rising by € 22.1 million to € 138.4 million due to the strong positive effect of the development of the overall economy.

Other current assets increased by € 23.7 million, predominantly due to the increase in trade receivables, which rose by € 17.7 million. Cash and cash equivalents increased by € 34.9 million, to € 124.3 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 € 63.9 million increase in equity and by the increase in current provisions and liabilities, which rose by € 8.4 million and € 14.3 million, respectively.

The change in equity is mainly attributable to the net profit after tax of € 67.6 million, positive currency exchange effects in the amount of € 15.4 million, and the dividend payment of € 19.2 million to the shareholders.

The increase in current provisions is largely the result of personnel provisions as well as additional provisions for other risks and other operating provisions. The increase in current liabilities is mainly due to the rise in trade payables.

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.

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. Although 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 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 and QS 9000 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 has also taken out insurance 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 monitoring of compliance 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.

Outlook

We expect the positive development in the sales markets for adhesive tapes to continue in 2011, albeit in a weaker form. Circumstances will likely vary widely across the different industries and regions.

Asia, Latin America, and Eastern Europe will probably continue to demonstrate the most dynamic development. After the strong recovery in 2010, however, we expect growth to slow to more moderate levels. In North America, the automotive industry will remain a strong growth driver, but one with a higher uncertainty factor. Since the decline in demand that was expected in the automotive industry in 2010 failed to materialize, we continue to expect difficult market development that will also have an impact in the medium term.

The electronics industry will probably continue its double-digit growth in 2011. Development in this industry will be characterized in the near to medium term by highly dynamic growth, particularly in the markets in Asia, combined with ongoing strong demand in the consumer goods sector in particular.

In the other industries, we assume that demand will stabilize and a moderately positive trend will emerge.

In the consumer business, demand will grow by a moderate degree only. While slight growth is expected in Central Europe, demand should tend to stagnate in the markets of Northern and southwestern Europe due to the tense financial situation in some countries. In Eastern Europe, further expansion of distribution activities is also expected to be accompanied by stronger growth in tesa's business.

On the most important markets for the raw materials used in our products, we do not expect the current record prices to decline to any significant degree in 2011; instead, we anticipate further price increases in some areas.

The rise in worldwide demand has already sparked capacity bottlenecks, which are in turn reflected in purchase prices. We also expect purchase prices for commodities to go up over the course of the year.

In our business with industrial customers, we expect to see stronger growth in the future as a result of our marketing of high-quality, innovative products for specific customer segments. Further development of our business with the pharmaceuticals sector will play a particularly important role in this. In the end consumer markets as well, we plan to expand tesa's market position by taking targeted actions to strengthen the brand.

The highly volatile development of exchange rates in 2010 led to the need for high levels of flexibility in serving the market with regard to pricing poli-

cies. The revenue risks arising from this development are largely covered for 2011 through systematic hedging transactions.

We currently expect to keep our capital expenditure and investment activities in 2011 slightly above the volume of depreciation, but below the 2010 level. The financing for the planned investments has been secured for 2011. tesa anticipates that its sales will slightly exceed market growth in the coming years in both customer segments. The company's continued high rate of innovation in connection with further investments in research and development, marketing and sales will strengthen tesa's market position on a lasting basis. The development of the results will improve slightly since the measures taken in the past few years are now having their full impact.

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 4, 2011

The 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.