



# Annual Report 2011

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tesa, Hamburg

## Contents

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<b>Corporate Governance</b>	2
<b>Foreword by the Executive Board</b>	3
<b>Management Report</b>	
Business Parameters	4
Results of Operations	8
Financial Position	11
Balance Sheet Structure	12
Report on post-balance sheet date events	13
Risk Report	13
Outlook	14
Report by the Executive Board Regarding Dealings with Affiliated Companies	15

# Corporate Governance

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## 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](http://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

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## Ladies and Gentlemen,

In 2011, tesa SE was able to pick up where it left off in the record-setting year 2010, once again experiencing dynamic development. Sales grew by 7.3%, and results were also up disproportionately, so that the EBIT margin reached 11.5% (previous year: 11.3%).

This pleasing development shows that our strategy is on target, and that we have created a solid basis for sustained success. The high flexibility that our organization has achieved allows us to respond quickly and appropriately to changing market situations. For example, we succeeded in largely offsetting the unexpectedly sharp increases in the costs of materials seen in 2011 and securing the development of our results. This now gives us reason to look to the future with confidence, even if 2012 still holds some uncertainty with regard to overall economic development in light of the ongoing debt crisis in some eurozone countries.

This year, as in years past, we once again achieved especially strong growth in Asia, the main market for the electronics supply industry. To support this positive development and be able to offer our customers market-driven solutions for future generations of devices even faster than before, we made targeted investments in developing and expanding our R&D activities in China.

We have also consistently advanced our efforts to build and develop innovative technologies and enter into new business segments. Our major inno-

vation projects are proceeding on schedule and further important milestones have been reached. For example, our newly constructed cleanroom production unit at the tesa plant in Hamburg received official authorization to manufacture pharmaceutical products in March 2011, earlier than expected. Now that we have overcome this major challenge, the way is clear for us to produce medicated patches and oral films – both innovative ways to administer medications – for the pharmaceuticals industry. A number of concrete projects are in the preparatory stages. There has also been progress in ACX technology, our new method, developed and patented by tesa, for solvent-free coating of double-sided adhesive tapes. The new technology can be used to manufacture highly weather-resistant products for applications in the building and construction industry. The first product ranges produced using this innovative method are now being utilized by manufacturers of outdoor signage, for example – a new business segment for tesa.

I would like to express my heartfelt gratitude to all of our employees worldwide. It is your tireless dedication and hard work, combined with the strong tesa brand, that have made this success possible. I would also like to thank our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Thomas Schlegel  
CEO

# Management Report

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## Business Parameters

### General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group. It employs approximately 3,800 people and operates in more than 100 countries. tesa SE is a wholly owned subsidiary of Beiersdorf AG and the direct or indirect parent company of the 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 smartphones, mobile phones, digital cameras, and LCD flat screens. Forgery-proof laser-printed labels and systems for bundling and affixing cables or mounting emblems and decorative elements are among the products used in the automotive industry. tesa also offers innovative solutions with flexible uses to protect products from tampering and counterfeiting. The key feature in these applications is the 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 manu-

factures 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-fifth 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 provides solutions and systems for home pest control. Proven examples of tesa’s consumer products include tesamoll® foam for sealing windows and doors; the bonding solution tesa Powerstrips®, which are reliable and yet can be removed without a trace afterward; mounting tapes for indoor and outdoor use; the versatile line of fabric tapes; a wide array of masking tapes and tesa Easy Cover® for clean, professional painting and finishing work; and, last but not least, seasonal or permanent fly screens for any use.

### Strategy

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

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

- comprehensive knowledge of customer needs, production processes, market requirements, and industry trends,
- comprehensive knowledge of the wishes and needs of end customers and the expectations of partners in the retail trade, so that we can meet their requirements efficiently and offer high sales productivity per unit area, and

- ongoing staff training and continuous improvement of the business processes to enable efficient, appropriate, 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
  - ensuring 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**

The global economy continued to recover during the 2011 fiscal year. As the year progressed, however, the pace of economic growth was observed to be slowing down, especially in most of the developed industrial countries; growth only remained robust in the majority of developing countries.

In the eurozone, the crisis surrounding the euro and national debt deepened in more countries. The community of nations that use the euro established further bailout and stability programs to support the countries in Southern and Western Europe, where the effects have been felt most strongly. In return, the governments of those countries were forced to implement tough austerity measures and structural reforms, dampening domestic demand in these markets. The countries hardest hit by the debt crisis continued to suffer from recession conditions.

By contrast, the German economy posted stronger growth than the rest of the eurozone economy as a whole. Germany's export sector is in an excellent position, which served as a major driving factor behind this development. Ongoing favorable interest rates and a positive business outlook at the start of the year spurred investments. As the year progressed, the overall economy began to sag slightly, a trend that has not yet affected the labor market. Uncertainty on the financial markets is, however, expected to dampen private consumption.

In the United States, a downward trend emerged, driven primarily by ongoing unemployment. Other factors also contributed to the overall economic slowdown, including the still-flagging real estate sector, the necessary consolidation of public budgets, and high levels of debt among private households. The Chinese economy saw positive development, but not all of Asia was buoyed as a result. In the wake of the catastrophic earthquake, tsunami and subsequent nuclear disaster in Japan, that country's economy faltered, taking those of neighboring countries with it.

### **Sales Market Development**

All over the world, industrial sales markets grew in 2011, but with pronounced differences between regions. While markets in Asia and the Americas experienced high growth rates, development in Europe varied. Moderate market growth in Central and Eastern Europe stood in contrast to the stagnating markets in Southern Europe, where development was hard hit by the debt crisis.

The main growth drivers were the automotive industry, where market demand is high all over the world, and the Asian electronics industry. A large number of new products and model updates were introduced by almost all automotive manufacturers, mirroring the trend in the tablet PC and smartphone segment. Both factors contributed to positive development overall.

The paper and printing industry saw stable development this year. In Europe, tesa was able to assert a strong presence in a stagnating market environment, consolidating its competitive position by introducing new products. The construction and furnishings industry, still a relatively new market for adhesive tape applications, continued its robust growth. Industrial customers are increasingly turning to adhesive tapes to bond design elements, as they can be used more efficiently during the production process than screws or glue. Another noteworthy market is the solar sector, which has shown strong global growth and featured a significant expansion

of production capacity in Asia in particular. This market opens up a wide array of new potential uses for adhesive tape applications, especially for assembling, installing, and labeling solar modules.

Despite the economic downturn in Southern Europe as a result of the debt crisis, the commercial business with industrial customers and craftsmen experienced positive overall development. Innovations and expanded product ranges were driving factors, along with a price increase, primarily in Europe, in response to the sharp rise in the costs of raw materials. Higher customer prices were, however, not entirely enough to cushion the effects of rising raw material costs, especially in industrial direct markets and the end consumer business in modern trade.

Development in the markets relevant to the end consumer business varied across regions. Highly dynamic market activity in Latin America and Eastern Europe was set against moderate growth in Western Europe and a crisis-related decline in Southern Europe, where DIY markets were hit especially hard. The business with office supply retailers 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 2011 by price increases, some of them considerable, and by ongoing supply bottlenecks. Faced with the 2009 economic crisis, suppliers had made significant cutbacks in production capacities. As economic growth sped up in 2011, leading to rapidly climbing demand for raw materials, supply bottlenecks resulted in several raw materials markets, some of them persisting quite a long time. These effects were further exacerbated by extremely low stock levels on the whole among suppliers and customers, and by the fact that the recovery has set a very rapid pace in some industries and some regions. During the fourth quarter of 2011, the situation calmed somewhat in certain raw materials markets, especially at the start of the chemical value chains. Some supply bottlenecks dissipated, at least temporarily, and the attendant price increases were scaled back to a moderate degree and even halted in some cases.

tesa's suppliers consistently overhauled their product ranges across the board in 2011. For special raw materials in particular, this caused tesa to expend considerable effort and resources on qualification processes for alternative raw materials.

In this purchasing environment, 2011 was marked especially 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 in most cases has been in place for years, and by entering into long-term volume contracts and pursuing a sustainable supplier development strategy. These measures gave tesa an important comparative competitive edge.

tesa expects only marginal price decreases in its procurement markets in 2012 in comparison to the highs currently in effect. Securing a sustainable long-term supply remains the strategic focus of the company's purchasing activities. If the overall economy began to slow as was already the case on some markets for basic raw materials in the fourth quarter of 2011, prices and the stability of supply on the procurement markets would level out at least somewhat in 2012.

### **Research and Development**

Our technological developments continue to focus on our work to develop solvent-free technologies for producing ultra-high-performance double-sided adhesive tapes. The production unit for tesa's proprietary ACX technology was successfully commissioned in late 2010, and the first products manufactured using the new technology have been launched on the market. With this as a basis, we developed additional high-performance solutions for bonding during the construction and fabrication process this fiscal year, especially for outdoor applications. Initial tests performed by customers representing a range of industries, including the automotive and solar sectors, delivered positive results. Work is already under way in the labs and on the pilot systems in the technology department within R&D to prepare for the next generations of products for constructive bonding. The focus is on achieving permanent adhesive bonding on highly critical surfaces.

Another emphasis is on new technologies and new methods for producing special products that meet the very highest standards of precision, transparency, and freedom from particles and the use of these innovative techniques and processes to develop new products. For example, the clean-room unit at the Hamburg plant, which was commissioned in 2010, was used to develop new barrier tapes that can protect future generations of organic electronics from damage due to moisture and air. Our high-precision coating technologies form the basis for ultra-thin adhesive tapes, which will play a crucial future role in managing heat in the increasingly flat, high-performance products marketed by the consumer electronics sector. In light of current price trends in the procurement markets, expanding the

range of raw materials used for technical adhesive tapes has become even more important. We have been working on developing high-performance adhesive tapes based on renewable and recycled raw materials that meet the rising demand for sustainability while also delivering consistently superior product quality in industrial production operations. Following the successful market launch of the first product ranges for end consumers in 2010, we are now developing products with an even higher percentage of renewable and recycled materials.

At the same time, we are also working on alternative formulations for existing products, with the goal of ensuring that our supply of raw materials remains competitive all over the world now and in the years to come.

## **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. 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 the 2011 fiscal year, we once again made considerable progress in implementing our environmental program. For example, we have been able to significantly reduce our emissions of volatile organic compounds (VOCs) since the start of the program, in 2007, and have even exceeded the goal originally set for 2011. We performed an extensive overhaul of the ventilation system in the building that houses our technology center, optimizing and modernizing the system. The project was supported by the City of Hamburg as part of its Environmental Partnership (Umwelt-Partnerschaft) program. It will help us conserve even more energy and achieve a significant further reduction in CO<sub>2</sub> emissions.

In the area of occupational safety and health, we succeeded in continuing the positive trend from past years, further reducing the number of occupational accidents at our foreign production sites. One of the 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. To reach a consistently high level in the area of occupational safety and health, we have introduced a regular global exchange of information and experience between technology and engineering managers and safety specialists.

We took the 75<sup>th</sup> anniversary of the tesa brand as the occasion to start a long-term sponsoring initiative with the Niedersächsische Elbtalaue UNESCO biosphere reserve, in the German state of Lower Saxony. The sponsorship encompasses informational events and various corporate volunteering activities that offer tesa employees opportunities to get involved and help preserve the riparian forest landscape, which is home to a wide variety of species, but is highly sensitive to environmental degradation. Opportunities include team tree-planting activities and specific landscape maintenance work. By engaging in this project, tesa supports the goal of achieving extensive improvements in environmental quality and quality of life in the region while also contributing to long-term CO<sub>2</sub> sequestration.

In 2011, as in previous years, tesa was involved in a large number of projects that are in accordance with the tesa Corporate Giving Policy. Through donations, sponsorships, and volunteer work, we demonstrated our dedication to disadvantaged children and youth in particular. In the interests of achieving a lasting impact, we continued and expanded on our activities from the previous year. For example, we recruited more employees to participate in projects as part of the “Das macht Schule e.V.” initiative, which pairs schools up with companies in projects to renovate and redesign the learning environment in schools. These projects are then implemented jointly by students, teachers, and employees of the companies involved, acting on their own responsibility. During this reporting year, employees of our Eastern European affiliates continued their involvement in projects operated by the Smiling Hospitals Foundation. In addition to providing donations, tesa also supports the foundation in its day-to-day business operations in various ways, with tesa employees serving on the foundation’s board of trustees and collecting and distributing Christmas gifts. In 2011, the Smiling Hospitals Foundation and tesa also teamed up to organize a full-day painting initiative in the pediatric emergency ward at Géza Hetényi Hospital, in rural Hungary, supporting the event with materials and personal commitment and hard work.

All of tesa’s activities are documented in an annual report, which is available in electronic form and is posted online at [www.tesa.com/responsibility](http://www.tesa.com/responsibility).

## Results of Operations

### Results of operations in the tesa Group

	2010	2011	Change	
	in € million	in € million	in € million	in %
Sales	881.9	946.6	64.7	7.3
Cost of goods sold	-487.5	-527.0	-39.5	8.1
<b>Gross profit</b>	<b>394.4</b>	<b>419.6</b>	<b>25.2</b>	<b>6.4</b>
Marketing and selling expenses	-214.7	-230.3	-15.6	7.3
Research and development expenses	-38.0	-42.8	-4.8	12.6
General administrative expenses	-40.3	-47.7	-7.4	18.4
Other operating income	29.1	34.6	5.5	18.9
Other operating expenses	-30.9	-24.3	6.6	-21.3
<b>Operating result (EBIT)</b>	<b>99.6</b>	<b>109.1</b>	<b>9.5</b>	<b>9.5</b>
Financial income	4.4	2.2	-2.2	-50.0
Financial costs	-12.0	-12.3	-0.3	2.5
<b>Financial result</b>	<b>-7.6</b>	<b>-10.1</b>	<b>-2.5</b>	<b>32.9</b>
<b>Profit before tax</b>	<b>92.0</b>	<b>99.0</b>	<b>7.0</b>	<b>7.6</b>
Taxes on income	-24.4	-34.4	-10.0	41.0
<b>Profit after tax</b>	<b>67.6</b>	<b>64.6</b>	<b>-3.0</b>	<b>-4.4</b>

For fiscal year 2011, the tesa Group reported lower profit after tax, at € 64.6 million, corresponding to a decrease of € 3 million.

Sales increased by € 64.7 million, to € 946.6 million, taking into account a disproportionate rise in the costs of goods sold, which went up by € 39.5 million, to € 527.0 million. The increase of € 9.5 million in the operating result (EBIT), which ended the year at € 109.1 million, was also affected by other factors, including marketing and selling expenses, which rose by € 15.6 million, to € 230.3 million, and the increase of € 7.4 million in general administrative expenses as well as the decline of € 6.6 million in other operating expenses. This development was largely due to the fact that expenditures for project costs in the course of logistics optimization activities were included in the previous year. Other operating income also increased by € 5.5 million, to € 34.6 million, due to the release of provisions.

Profit before tax stood at € 99.0 million, rising by a smaller margin than EBIT because the financial result had decreased by € 2.5 million. The decline in the financial result was influenced by higher interest expenditures

in fiscal year 2011, especially following the findings of an external tax audit performed in Germany. At the same time, taxes on income increased disproportionately when compared to the profit before tax, which is the result of various factors, especially tax expenditures for past years.

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

### Business Development by Region

**Europe.** The positive development from 2010 continued in Europe. The significantly higher prices on the raw materials markets was largely cushioned by price increases. Adjusted for exchange rate effects, tesa posted growth of 4.2% in sales, reaching a total of € 631.0 million (previous year: € 604.2 million) at current exchange rates. EBIT rose slightly, to € 42.5 million (previous year: € 41.0 million), representing an EBIT margin of 6.7% (previous year: 6.8%). The share of Group sales declined to 66.7% (previous year: 68.5%).

The positive development continued, especially in the Industry division in the major European management regions. As in 2010, sales to customers in the automotive industry saw a pleasing increase. The effects of the European financial crisis were felt in the end consumer business, particularly in Central Europe and southwestern Europe.

**Americas.** In the Americas, tesa's sales figures for 2011 were once again up considerably from the previous year. The ongoing positive development of the automotive market was a key factor behind this increase. Adjusted for exchange rate effects, the region as a whole posted an increase in sales of 15.4%. At current exchange rates, the sales figure was up by 10.1%, at € 118.5 million (previous year: € 107.6 million). The share of Group sales rose slightly, to 12.5% (previous year: 12.2%).

With an EBIT of € 19.4 million (previous year: € 16.5 million), the region realized an EBIT margin of 16.4% (previous year: 15.3%).

**Africa / Asia / Australia.** After a strong year in 2010, the Africa / Asia / Australia region continued its excellent growth in 2011 as well. China and Korea were the primary growth markets, and even Japan achieved slight growth despite suffering a natural disaster. On the whole, sales grew by 16.0% (adjusted for exchange rate effects). At current exchange rates, sales in the region, at



€ 197.1 million, were up 15.8% from the previous year's sales of € 170.1 million.

The region's EBIT figure was € 47.2 million (previous year: € 42.1 million), resulting in an EBIT margin of 23.9% (previous year: 24.7%). The share of Group sales rose to 20.8% (previous year: 19.3%).

## Business Development by Division

**Industry.** The Industry division, which contributed a share of 75.1% (previous year: 73.4%) to overall sales, posted a nominal increase of 9.8% in sales in 2011 (adjusted for exchange rate effects: +11.0%), with the figure rising to € 711.0 million (previous year: € 647.2 million). This positive development was spurred by both our direct business and our retail business in all regions. The business in Asia and the United States was especially dynamic, with growth in both regions being driven particularly by the automotive and electronics industries.

In the business with the **electronics industry**, new products for bonding housings and displays in mobile phones and smartphones generated a tremendous response on the market. We introduced various types of ultra-thin foam adhesive tape that absorb shocks and vibrations, thereby increasing device stability, particularly in current and future generations with very large, touch-sensitive displays. Other drivers included innovative multi-layer laminates utilized to bond membranes in speakers and ultra-thin graphite adhesive tapes that are used in assembling processors inside devices and perform the additional function of dissipating heat.

In the **automotive sector**, we posted strong growth with our nonwoven fabric and sleeve products for wrapping and affixing wire harnesses, especially in the United States. American automakers have shifted to new platforms in which wire harnesses are no longer fed through stiff corrugated tubes, but instead are placed as flexible bundles wrapped with adhesive tape. Other highlights in this market include new products to protect new car rims and brakes during transit to dealerships as well as a new product range aimed at closing production-related holes inside the vehicle body.

In the **printing industry**, a new variety of Softprint for the flexo printing segment generated an excellent response all over the world. "Fast & Easy" makes changing printing plates on printing cylinders easier and faster and enhances efficiency in wide web flexo printing, an especially important development in light of the increasing number of smaller print orders.

For the **pharmaceuticals industry**, a new business segment, we achieved important milestones in preparing to start producing market goods in the 2012 fiscal year. For example, our new cleanroom production unit at the Hamburg plant received official authorization to manufacture medicated patches and oral films. Major customers perceive it as a competitive advantage that we are now able to offer development and production from a single source, and are increasingly turning to tesa with development contracts. We have already applied for approval for various oral films and rapid films – medicated polymer films that dissolve quickly in the mouth without added liquid, making it easier to administer active ingredients. We have entered phase II clinical trials, in cooperation with a development partner, for the sufentanil painkiller patch developed by our affiliate Labtec.

We have entered another new business segment, building supply, with innovative products based on our ACX technology, developed and patented at tesa. In this area, we are focusing on ultra-durable adhesive bonding for the building and construction industry. One initial product range is being used by leading international manufacturers of illuminated signs, for example. The adhesive tapes are used to mount the signs in their frames. They offer a secure permanent hold, even when used outdoors, while also simplifying the manufacturing process.

In the retail sector, which has also seen positive development, we expanded those product ranges that are aligned to specific trade-related uses, adding further innovations. Major drivers here included "washi tapes," ultra-thin high-performance masking tapes that painters can use to achieve especially smooth, clean painted edges, and a silicone-based self-welding tape that can be used to quickly and easily seal pipes and tubes in various trades-related areas.

**Consumer.** Sales of products for private consumers declined slightly as a result of technical changes in the allocation of business, dipping 1.6% (adjusted for exchange rate effects: 1.9%) from last year's € 187.2 million at current rates to € 184.2 million this year. This segment contributed a share of 19.5% (previous year: 21.2%) of the total sales during this reporting year. On the whole, the business in both strategic business segments – solutions for DIY enthusiasts and products for the office supply and stationery segment – developed positively. We were able to increase our market share in many important merchandise categories.

This year, as in previous years, the major growth driver in the office supply and stationery segment was the range of highly environmentally friendly

products introduced in 2008 under the ecoLogo sub-brand, to which we added a number of innovations this reporting year. These products are made predominantly from recycled and biologically based raw materials and support the trend toward sustainability in consumers' living and working environments. Another product range that was very well received was the new tesa Auto range, which has established another new product category for tesa. Its core elements are anti-shock products and special films that drivers can use to protect vehicle paint jobs and quickly and effectively eliminate scratches. In terms of our solutions for the home improvement and DIY segment, a new, waterproof version of our patented Powerstrips affixing solution was an important driver, spurring business with regard to bathroom applications in particular. We introduced Powerstrips Waterproof in combination with a range of high-quality hooks, holders, and storage baskets made of plastic and stainless steel in a modern design.

We took a new approach to marketing, maintaining our existing focus on activities for specialized retail and the POS while also introducing integrated themed campaigns showcasing the expertise of the tesa brand for consumer audiences. As part of our "Stick a Sign!" ("Kleben Sie ein Zeichen!") campaign, we awarded prizes to support especially sensible private environmental projects. The projects were first presented on the Internet, where consumers chose the winners by voting for their favorites. We brought in television host Eva Brenner (RTL 2, "Zuhause im Glück" home improvement series) as a brand ambassador for integrated communication measures centering on the topic of affixing, with a particular focus on our successful Powerstrips range.

**Employees.** A major part of the work performed in human resources during this reporting year involved preparing the organization for the upcoming shift in the regional structure of our business in Western Europe. As part of this move, we are combining our current business regions of Southwestern and Northern Europe, along with Germany, Austria, and Switzerland, into a single new Western Europe region. The goal is to be able to implement our strategy more quickly and more efficiently, thereby boosting our competitiveness. To mark the tesa brand's 75<sup>th</sup> anniversary, we invited all employees of tesa headquarters and the Hamburg plant to attend a large staff party held at the historic Fischauktionshalle venue at the Port of Hamburg. The tesa plant in Offenburg held an event for its own employees, celebrating not only the brand's anniversary, but also its own 50<sup>th</sup> birthday. Our international affiliates also held a number of events of their own.

In 2010, we began offering a management development program customized for tesa in cooperation with the Rotterdam School of Management at Erasmus University, in the Netherlands. Over a period of nine months, executives and managers from various tesa locations learn the latest management methods in the areas of strategy, controlling, and customer focus. We are currently working with the Northern Institute of Technology to develop a management development program for experienced managers. The program is scheduled to launch in 2012.

To protect our company and our employees against legal risks and from inadvertently violating laws in their business environment, we have once again taken steps to require that employees familiarize themselves with our Code of Conduct and to support them in doing so. Internationally, tesa employees completed training in the areas of anti-corruption and antitrust law.

Picking up where we had left off in previous years, we further expanded our efforts to foster training and qualification in our sales organizations. All new employees at our company now complete a several-week training program to familiarize themselves with our products, technical aspects of adhesive tapes, customer applications, and the methods we use in sales. We update the technical training modules on an ongoing basis so that we are always able to train employees on the most innovative products and market developments. Our organizations in North and South America joined the international program in full.

The total number of employees grew slightly, to 3,795 (previous year: 3,622).

## Financial Position

### Cash flow statement

in € million	2010	2011	Change
<b>Cash and cash equivalents as of Jan. 1</b>	<b>89.4</b>	<b>124.3</b>	<b>34.9</b>
Gross cash flow	96.6	110.4	13.8
Change in net working capital	-19.8	-39.7	-19.9
Net cash flow from operating activities	76.8	70.7	-6.1
Net cash flow from investing activities	-23.4	-52.2	-28.8
<b>Free cash flow</b>	<b>53.4</b>	<b>18.5</b>	<b>-34.9</b>
Net cash flow from financing activities	-27.6	-43.9	-16.3
Exchange rate-related change in cash and cash equivalents	9.1	2.3	-6.8
Net change in cash and cash equivalents	34.9	-23.1	-58.0
<b>Cash and cash equivalents as of Dec. 31</b>	<b>124.3</b>	<b>101.2</b>	<b>-23.1</b>

**Cash flow from operating activities** decreased by € 6.1 million, to € 70.7 million, as compared to the previous year. **Investing activities** accounted for a net balanced outflow of € 52.2 million. These expenditures were largely attributable to the acquisition of securities and to investments in property, plant and equipment and intangible assets. **Free cash flow** decreased by a total of € 34.9 million, to € 18.5 million.

The negative **cash flow from financing activities**, in the amount of € 43.9 million, was mainly the result of a dividend payment of € 33.8 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had decreased by € 23.1 million, to € 101.2 million.

### Key Financial Indicators

The **return on sales** – based on the operating result – increased from 11.3% in the previous year to 11.5% in 2011. Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in a slight decrease, from 15.4% in the previous year to 14.9% in 2011.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, declined to 29.0% in 2011 (previous year: 31.8%); the return on **operating assets** increased from 29.1% to 29.4%.

The **net profit**, measured against sales proceeds, declined from 7.7% in the previous year to 6.8%. The **earnings per share** decreased from € 2.62 to € 2.50.

The **equity ratio** rose by 2.1%, to 57.9%. The ratio of equity to non-current assets is 188.4% (previous year: 164.9%).

### Capital Expenditure

In this reporting year, tesa invested a total of € 23.2 million in intangible assets and property, plant and equipment. Of this figure, € 15.0 million was allocated to locations in Germany. The sum of € 4.3 million was invested in the rest of Europe, € 1.6 million in the Americas, and € 2.3 million in Africa / Asia / Australia.

Strategic expansion projects at the locations in Germany, particularly the tesa plant in Hamburg, were launched in 2011, leading to only relatively minor outflows of funding. In these areas, tesa invested in new coating technologies and market fields. 2011 was also marked by preparations for further major strategic projects aimed at technological and capacity expansions, which will lead to high capital expenditure in the years to come.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 12.1 million.

## Balance Sheet Structure

### Balance sheet structure of the tesa Group

	2010	2011	Change	
Assets	in € million	in € million	in € million	in %
Non-current assets	228.4	218.0	-10.4	-4.6
Inventories	138.4	161.6	23.2	16.8
Other current assets	184.4	228.9	44.5	24.1
Cash and cash equivalents	124.3	101.2	-23.1	-18.6
<b>Total</b>	<b>675.5</b>	<b>709.7</b>	<b>34.2</b>	<b>5.1</b>
<b>Equity and liabilities (in € million)</b>				
Equity	376.7	410.8	34.1	9.1
Non-current provisions	93.1	94.2	1.1	1.2
Non-current liabilities	15.7	16.0	0.3	1.9
Current provisions	71.7	67.4	-4.3	-6.0
Current liabilities	118.3	121.3	3.0	2.5
<b>Total</b>	<b>675.5</b>	<b>709.7</b>	<b>34.2</b>	<b>5.1</b>

The change in equity is mainly attributable to the net profit after tax of € 64.6 million, positive currency exchange effects in the amount of € 3.8 million, and the dividend payment of € 33.8 million to the shareholders.

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

As compared with the previous year, total assets increased, rising by 5.1% to € 709.7 million.

On the assets side, non-current assets decreased by € 10.4 million. The primary reason for this was the reduction in intangible assets and property, plant and equipment, which went down € 8.4 million, to € 207.2 million.

Inventories increased by a disproportionate amount as set against the development of sales, rising by € 23.2 million to € 161.6 million, due to the continued positive development of the overall economy this fiscal year.

Other current assets rose by € 44.5 million, predominantly due to the increase in securities holdings, which were up by € 32.3 million, and to trade receivables, which rose by € 7.6 million. Cash and cash equivalents decreased by € 23.1 million, to € 101.2 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 € 34.1 million increase in equity and by the decrease in current provisions, which declined by € 4.3 million, along with the € 3.0 million increase in current liabilities.

## 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. However, its broad sales base and diversification mean that tesa does not have single customers that account for such a high share of sales or receivables that their default could threaten the company's existence. The company additionally takes out trade credit insurance to a feasible extent, via the tesa

sales organizations, for specific customers identified as posing an elevated risk due to their company profile or the scope of the receivables.

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard to the quality and safety of our products. They are thus subject to a comprehensive, end-to-end quality assurance system throughout the entire procurement, production, and distribution process. tesa ensures the development of and compliance with the necessary processes by means of periodic internal and external audits in accordance with international standards. The company is fully certified in accordance with ISO 9001, and, where necessary, in accordance with ISO/TS 16949 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 is also insured against loss or damage that may be incurred despite these precautions.

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

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

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

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

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

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

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

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

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

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

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

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

## **Outlook**

The outlook for the development of the sales markets for adhesive tapes in 2012 is characterized by substantial uncertainty, with various factors affecting future prospects as well as significant variation across the different industries and regions. Activity in the regions of Asia, Latin America, and Eastern Europe is expected to continue to be more dynamic than in the other regions, but is still expected to fall short of the very pleasing developments noted in 2011. The business in North America is driven primarily by sales to the automotive industry. The highly positive development seen in 2011 will probably not continue to the same degree in 2012. The uncertainty regarding the market that is currently being felt among automotive manufacturers could affect tesa's business as well over the course of the year.

The largest sales markets for the electronics industry are located in Asia, so the dynamic activity seen on markets there is likely to continue to buoy the development of the business in this area in 2012, as in previous years. We expect growth rates to continue in the double digits. The other industrial markets should show moderate growth.

In the area of our business in products for private consumers, development will be shaped by the rather uncertain situation of the overall economy. We anticipate slight growth in this segment, which we plan to achieve primarily by further expanding product lines that are already successful, particularly those made from environmentally friendly materials. The regions of Latin America and Eastern Europe are expected to see substantially higher growth in this segment than the regions of Western Europe.

On the markets for raw materials, we expect price increases to slow down after their significant negative impact on our business in 2011. In our business with industrial customers, we will continue to focus on high-quality, innovative products. Market launches based on our new technologies are planned in the pharmaceuticals and ultra-strong adhesive bonding segments in particular. We anticipate that 2012 will bring further positive momentum from product innovations in the business with private consumers.

The uncertainties that currently exist in the global financial system have made it necessary for tesa to be able to respond to market events with even greater flexibility than in the past. We use simple hedging instruments to cover exchange rate fluctuations.

We expect capital expenditure and investment to be above the volume of depreciation in the years to come, a situation which allows us to ensure the further expansion of our capacity for innovation. The financing for the planned investments has been secured for 2012.

tesa expects growth in both customer segments to slightly outperform the market in the coming years. Continued investment in innovative products in the areas of R&D and production will ensure the sustainability of this development and further strengthen our market position. The earnings performance will benefit from this and pick up to some extent. We expect the development of results in 2012 to improve slightly over 2011.

### **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 2, 2012

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](http://www.tesa.com) and [www.tesa.de](http://www.tesa.de).

From Corporate Communications also printed copies can be obtained.