



ANNUAL REPORT 2016

tesa SE, Norderstedt

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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

Ladies and Gentlemen,

The tesa Group posted sales of 1,145.8 million euros at current exchange rates in 2016, a slight increase of 0.5% from the previous year. Adjusted for exchange rate effects and special factors, sales rose by 2.6%. We achieved excellent growth in our business regions of Europe and the Americas, where nearly all companies saw sales increase. In the Asia/Pacific region, total sales fell year over year, due in particular to the softening of the Chinese economy. The operating result was slightly below last year's figure, but with an EBIT margin of 16.2%, it was still at a high level.

This past fiscal year, as before, we continued to make consistent investments in expanding and developing our technological capabilities with the goal of reaching our planned growth targets. Ground was broken for the expansion of our plant in Sparta, Michigan, in the summer. The focus here is on advanced, ecofriendly production technologies that already meet the stringent standards that will apply to the local automotive industry in the future. These technologies will also strengthen our market position in this business segment on a lasting basis. In the growing pharmaceuticals segment, which deals with the development and production of medicated patches, the operating premises were audited by the U.S. Food and Drug Administration (FDA), marking an important milestone in the regional expansion of this business field. A new, additional converting unit will provide the capacity needed for this.

In our business with products for consumers and professional craftsmen, which focuses on Europe and Latin America, we achieved growth with our double-sided "Powerstrips®" and "Powerbond®" mounting solutions in particular. The launch of innovations such as adjustable adhesive nails and screws for different surfaces and Powerstrips® designed specifically for use with wallpaper was highly successful. We continued our international branding campaign, which allowed us to boost both name recognition and sales in important European markets in 2016, as before.

The geopolitical situation, and thus the economic one, for 2017 remains uncertain. Still, we firmly believe that our successful strategy is a solid one in this environment as well. Our financial strength, broad portfolio of innovations, and the ability to respond very quickly to changes on the market and tap into new fields of application and customer groups all allow our company to tackle potential challenges and ensure the positive development of the business.

Special thanks goes out to all employees worldwide, who once again worked with great dedication and engagement to shape tesa's success in 2016, demonstrating their passion for our brand and our company in the process. I would also like to thank our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Dr. Robert Gereke
Chairman of the Executive Board

MANAGEMENT REPORT

I. Business Parameters

General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group. It employs approximately 4,150 people and operates in more than 100 countries. tesa SE is a wholly owned subsidiary of Beiersdorf Aktiengesellschaft and the direct or indirect parent company of the 51 tesa affiliates.

Regions and Major Locations

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

In January 2016, the company dedicated the new tesa headquarters, near the Hamburg airport, which include an integrated research and technology center. At approximately € 160 million, the move marks the largest investment in the history of tesa and is intended to support the company’s long-term growth. Bringing together the various areas of the company, which were previously physically separate from each other, has streamlined communication channels between market management and R&D. This will help to ensure that the tesa Group can meet the ever-changing requirements of its markets even faster and more flexibly.

Industrial Business

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

In the industrial segment, tesa offers system solutions for customers in the electronics, printing and paper, building and construction, and automotive industries in particular.

The company’s strategic focus is especially on developing and expanding profitable lines of business in technologically advanced fields of application. System solutions from tesa are used to optimize and enhance the efficiency of production processes, as customized protection and packaging systems, and as fastening solutions in construction-related applications. This includes special product ranges for roll offset and flexo printing and for mounting electronic components in smartphones, tablets, digital cameras, and LCD screens. Forgery-proof laser-printed labels and systems for bundling and affixing cables or mounting emblems and decorative elements are among the products used in the automotive industry. tesa also offers innovative solutions with flexible uses to protect products from tampering and counterfeiting. The centerpiece of this area is the tesa PrioSpot®, a special self-adhesive label that can be used to store visible and concealed security features and combine them with other security technologies using laser technology. One promising new market that tesa is developing for the future is being handled by tesa Labtec GmbH. This tesa affiliate develops and manufactures medicated patches, termed “transdermal therapeutic systems,” and oral films (films containing an active ingredient that dissolve in the mouth without added liquid) for the pharmaceuticals industry.

In the industrial retail business, tesa supplies technical retailers with state-of-the-art product ranges.

Consumer & Craftsmen Business

Innovative product solutions for consumers account for about one-fourth of tesa’s total sales.

In the Consumer division, whose business is focused on Europe and Latin America, tesa markets innovative product solutions intended for various applications, including for daily use in offices and in the home and garden. Under the tesa umbrella brand, Do-it-yourself stores and super-stores as well as paper goods and stationery shops offer end consumers a broad assortment of more than 300 innovative products. The product range includes both handy products for office use, such as the classic tesafilm® transparent adhesive tape, and tailored solutions for specific

applications such as energy conservation, renovation, repairs, packaging, and temporary or permanent bonding. In addition, tesa provides solutions and systems for home pest control. Proven examples of tesa's consumer products include tesamoll® foam for sealing windows and doors; the bonding solution tesa Powerstrips®, which are reliable and yet can be removed without a trace afterward; mounting tapes for indoor and outdoor use; the versatile line of fabric tapes; a wide array of masking tapes and tesa Easy Cover® for clean, professional painting and finishing work; and, last but not least, fly screens for various uses. In the craftsmen business segment, tesa concentrates on customized product ranges and marketing concepts for professional craftsmen, such as painters and finishers.

Changes in divisions starting in 2017

In 2016, tesa further developed its internal organizational structure with the goal of creating optimum overall organizational conditions for the various requirements of different markets and working processes. In the future, tesa will no longer operate in the Industry and Consumer & Craftsmen divisions, but rather in the Direct Industries and Trade Markets divisions. The individual areas have been fundamentally reassigned, which the company expects will yield more equal weighting between the two segments in the future. The move has also changed the reporting chains and responsibility for specific markets and customers within the organization. The new organizational structure was largely in place in all business regions by the end of 2016. Internal reporting was also shifted as far as possible by the end of the year in 2016, so the new organizational units will start receiving the information they need to manage their business, including the previous year's values for comparison, in 2017.

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. tesa's activities focus on developing effective and efficient solutions for its customers and markets.

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

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

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

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

Value Management and Control System

The objective of the tesa Group 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 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 in 2016 was marked by modest growth, subdued investor sentiment, and small gains in the volume of international trade. General political and economic instability stemming from geopolitical conflicts and uncertainty regarding the long-term consequences of Britain's departure from the EU ("Brexit") and the future political course of the United States had negative effects on economic developments. In the industrialized countries in particular, economic momentum slowed somewhat over the course of the year.

Economic growth in **Europe** during this reporting period lagged slightly behind the previous year's level. The economy was bolstered by positive trends on the labor market and by ongoing low interest rates, but growth momentum was dampened by high private debt levels and general uncertainty among consumers and investors with regard to the risks in the European banking system and the long-term consequences of Brexit.

In **Germany**, growth in economic output slightly outperformed the previous year in 2016. Key factors driving the economy included the continuing favorable labor market situation, positive consumer sentiment, and increased public spending in connection with the country's refugee policies. After a strong start to the year, however, the German economy slowed a bit in the second half of the year, due in particular to the volatile development of the industrial sector.

The **U.S. economy** saw moderate growth in 2016, with a downward trend in capital investment exerting a particular influence. Key factors supporting the economy included the positive labor market situation and private consumer spending.

The **Japanese economy** also saw only moderate growth last year. It was marked by a sharply expansionary monetary policy, an upturn in the consumer climate, and a slight upward trend in exports over the course of the year.

The picture for the growth markets was mixed. After a negative start to the year, which brought turbulence in international equity markets and led to a general sense of instability and uncertainty, the **Chinese economy** gradually stabilized. Economic growth was below the previous year's level, but still within the government's target range. The economy was bolstered by an expansionary monetary policy, high investments in infrastructure, and booming demand in the real estate sector. The sharp growth of credit and high debt levels among state-owned enterprises continue to harbor significant risks, however. In **India**, reforms had a positive effect on economic development, although private consumption and government investment remained the central factors supporting the economy. Ongoing weak exports and investment curbed the pace of growth, however. **Brazil** continued to experience a recession, due primarily to the tense situation on the labor market, weak domestic demand, and falling prices for raw materials. **Russia** showed initial signs of stabilization in 2016, a fact that was indicated by the loosening of monetary policy, slowing of inflation, the stabilization of the ruble, and a strong upturn in oil production. However, the economy's development was curbed by the ongoing international sanctions, weak income growth, and moderate private consumption.

Sales Market Development

2016 was once again marked by generally positive development on the sales markets, bringing growth – in some cases, significant growth – in all regions outside Asia. Like the year before, the major drivers of growth were the countries in Eastern Europe and the Americas, with support from positive development in tesa's core regions of Germany and Western Europe as well. In Asia, the business was heavily affected by the market situation: While the automotive sector saw significant growth, the market for consumer electronics was still under pressure.

The automotive sector was characterized by rather modest development at the start of 2016 as a result of cooling economic development in Asia and the impact of the VW scandal, but development in this industry picked up and

stabilized as the year went on. In the end, the automotive industry saw more dynamic growth in 2016 than in previous years. The Asian market, and China in particular, remained the driving force behind worldwide car production. Increases in production in the North American market pointed to stable development with growth rates holding steady from the previous year, while the dynamic in Europe – although at a high level – lost momentum.

While emerging markets saw significant production growth spurred by the opening of the Iranian market, the negative trend in South America continued unabated.

The paper and printing industry faced further decreases in sales volume as a result of digitization, which brought elevated price pressure and further consolidations. A mixed picture emerged for the global construction industry, by contrast, depending on the regional and local economic situation. Germany outperformed the Western European and global environments, while China stood out for its negative performance instead.

The negative trend in the consumer electronics segment continued in 2016. The markets for both tablets and smartphones declined in terms of sales volume. Price competition stiffened in this segment at the same time, which also affected sales figures. This market was also marked by stagnant to declining sales volumes among well-known international manufacturers, while strong Chinese producers were able to achieve significant growth in some cases. Hopes for innovations and new markets for items such as smartwatches have so far gone unfulfilled.

The consumer market in Europe saw somewhat slower development compared with the previous year, even as retail sales rose. In tesa's core consumer market of Germany, the brick-and-mortar retail segment – which is important to tesa – slightly underperformed the overall trend, as e-commerce continued to drive growth.

Procurement Market Development

Supply on the procurement markets was largely stable during the last fiscal year. tesa further expanded its supplier base in 2016, thereby continuing to reduce the risks to the

Group's business. On the whole, the company was able to further reduce procurement costs for raw materials and merchandise.

In the market for resins, which is essential for tesa, tension in the supply situation slackened in 2016 as a result of higher production capacity. tesa also worked to qualify further alternatives, resulting in lower purchasing prices and an improved supply situation overall.

Slight price increases in procurement markets important to tesa were seen in only a few material categories, such as merchandise with high percentages of labor costs, which was significantly affected by wage increases, and in the area of fabric manufacturing, where high prices for the relevant raw materials drove developments.

At the end of last year, an accident at a major European manufacturer of acrylates led to a shortage on the supply market. The company was able to maintain a secure supply despite this by relying on alternative suppliers and raw materials. tesa assumes that this acrylate supply squeeze will continue into the first half of 2017.

In 2017, as in the past, tesa plans to focus on developing alternative sources of raw materials in Asia, Europe, and North America, with the ongoing objective of securing the company's competitiveness and innovative drive worldwide and ensuring that it has a reliable supply.

Increases in the prices of raw materials and merchandise have been noted across a wide range of countries and regions since the second half of 2016. tesa SE assumes this trend will continue in 2017, so prices on the procurement markets are expected to increase by a moderate degree.

Due to its long-term pricing and volume contracts, tesa believes it is well prepared for such a scenario.

Research and Development

tesa established a new focus for its activities in the area of research and development in 2016 in the form of structural adhesive bonding technology. This technology enables adhesion with ultra-high bond strength accomplished through an additional cross-linking step. Adding heat or other processes initiates chemical reactions in the bond that increase

its strength. High-performance adhesive tapes that feature this kind of technology are beginning to take the place of traditional techniques such as welding and materials commonly used to join materials together, like screws and rivets, in some applications.

Adhesive tapes for structural adhesive bonding support current developments in the automotive industry in particular. Areas of application include bonding modern materials that are not amenable to welding and bonding together very different materials. This research is being supported by the European Union through the European Regional Development Fund.

In addition, tesa worked on the development of adhesive tapes for new battery designs in 2016. In these applications, battery cells are combined into flexible bundles depending on the planned use and capacity. The battery bundles no longer need a fixed framework; instead, adhesive tape dependably holds them together. This firm hold remains in place even in the face of expansion and contraction – which are unavoidable in battery operation – and as the temperature of the battery modules fluctuates.

tesa continued its work on developing technologies for barrier tapes with unusually high resistance to humidity in 2016, as in previous years. These adhesive tapes enable adequate resistance to aging in components such as flexible displays with organic light-emitting diodes (OLEDs) and OLED lamps. The company's research activities this reporting year pursued a twofold focus: improving resistance to moisture, and adapting the tapes to accommodate the different processing operations used by the manufacturers of displays and lamps.

In 2016, tesa continued to achieve successes in developing new adhesives for changing requirements. Examples of these requirements include even higher adhesive strength on critical surfaces, such as dirt-repellant automotive paint or the highly non-polar plastics used in the electronics industry. Targeted development of polymer chains for adhesives based on acrylates plays an important role in this. Toward this aim, tesa further developed existing polymerization processes and combined them with new technologies. A new pilot unit using this method was successfully commissioned at the site in Norderstedt in 2016,

making it possible to test the new adhesives on a larger scale closer to that needed for production. The first pilot series made using this method is being tested with select customers as the next step.

Responsibility

Corporate responsibility toward society at large and the environment was the focus of tesa's sustainable business strategy in 2016, as in past years. The company greatly emphasizes making a significant contribution to social development. tesa has worked consistently to continuously improve its environmental management system since 2001 and has regularly exceeded the ambitious environmental protection goals set for the respective periods.

As part of its environmentally conscious actions, tesa engages in ongoing reviews to determine whether there are ecofriendlier alternatives to certain raw materials used in the production process. Environmental impact is among the factors considered in these activities. tesa's production sites have lowered their emissions of volatile organic compounds (VOCs) by more than half worldwide since 2001 and have considerably reduced waste, CO₂ emissions, and solvent consumption.

This reporting year, as in the past, tesa's environmental management activities focused on the further development of energy management systems and on reducing CO₂ emissions. All tesa production sites are certified under the international environmental standard ISO 14001. The new tesa corporate headquarters in Norderstedt are also certified under ISO 50001. To further reduce CO₂ emissions and boost energy efficiency, tesa has installed and commissioned another combined heat and power (CHP) plant at the Hamburg site. tesa also began using electricity from renewable sources at five European sites, including its two largest production sites worldwide, in 2016. Ongoing investments are also being made in modernizing tesa's plants in order to improve environmental protection at the same time. For example, tesa started building a new coating unit that uses ecofriendly, solvent-free technology at the site in Sparta, Michigan (USA) in 2016.

Living up to social responsibility is an integral element of tesa's business policies. With this in mind, the company supports a wide range of projects all over the world under the "tesa verbindet" ("tesa connects") motto as part of its corporate citizenship program:

- The "tesa hilft" ("tesa helps") aspect of the program provides active assistance to neighbors and supports social, ecological, and cultural institutions in the locations where tesa operates through various projects. tesa continued its successful work with the "tatkräftig – Hände für Hamburg" initiative in 2016, even after the move to the new site in Norderstedt. In Belgium, tesa made it possible for children with disabilities or from socially disadvantaged circumstances from the facility "De Ark" to visit an amusement park, as tesa employees accompanied the children and helped their caregivers.
- "tesa spendet" ("tesa donates") supports selected institutions in their work by providing monetary or product donations. For example, employees can contribute amounts less than one euro from their monthly pay and then have them matched by tesa. This brought in a total of more than 6,000 euros for social projects in Hamburg in 2016.
- As a technology group, tesa knows how important education is. That's why, as part of its activities in the "tesa fördert" ("tesa supports") category, tesa cooperates with the nonprofit organization Initiative für Naturwissenschaft & Technik (Science & Technology Initiative). In 2016, tesa provided 15 female students from a secondary school in Hamburg with insight into scientists' day-to-day work as part of the "mint:pink" support program to promote girls and young women in the STEM fields.
- The "tesa schützt" ("tesa protects") initiative supports the Niedersächsische Elbtalaue UNESCO biosphere reserve, in the state of Lower Saxony, as part of a long-term partnership. The most important element here is the voluntary engagement of tesa employees, who help to preserve this species-rich and ecologically sensitive riparian forest landscape through activities such as planting campaigns.

All of these activities are documented in an annual progress report, accessible at www.tesa.com/responsibility.

II. Results of Operations

Results of operations in the tesa Group

	2015	2016	Change	
	in € million	in € million	in € million	in percent
Sales	1,139.6	1,145.8	+6.2	0.5
Costs of goods sold	-602.6	-602.1	+0.5	-0.1
Gross profit	537.0	543.7	+6.7	1.2
Marketing and selling expenses	-237.9	-239.4	-1.5	0.6
Research and development expenses	-50.7	-51.7	-1.0	2.0
General administrative expenses	-56.0	-58.0	-2.0	3.6
Other operating income	56.9	48.0	-8.9	-15.6
Other operating expenses	-58.1	-56.7	+1.4	-2.4
Operating result (EBIT)	191.2	185.9	-5.3	-2.8
Financial income	3.9	6.1	+2.2	56.4
Financial costs	-8.7	-9.5	-0.8	9.2
Financial result	-4.8	-3.4	+1.4	-29.2
Profit before tax	186.4	182.5	-3.9	-2.1%
Taxes on income	-63.2	-53.9	+9.3	-14.7
Profit after tax	123.2	128.6	+5.4	4.4

The tesa Group posted an operating result (EBIT) of € 185.9 million in the 2016 fiscal year, a decrease of € 5.3 million (-2.8%). While the gross profit rose to € 543.7 million (up € 6.7 million), the result of operating expenses and income in 2016 fell disproportionately by comparison to sales on the whole (down € 12 million).

The tesa Group closed the fiscal year with profit after tax of € 128.6 million (+4.4%). The root cause of this, alongside the higher operating result, was the fact that taxes on income were down by € 9.3 million while the financial result rose by € 1.4 million.

Sales increased by € 6.2 million, to € 1,145.8 million. Taking into account the simultaneous decrease in the costs of goods sold, which were down by € 0.5, gross profit improved by 1.2%, rising to € 543.7 million. Return on sales is stable year over year, leading to a slightly lower EBIT margin of 16.2% (previous year: 16.8%).

Other operating income decreased by € 8.9 million (-15.6%). This development is due primarily to smaller fluctuations in currency exchange rates during this reporting year, combined with higher releases of provisions compared with the previous year.

Other operating expenses decreased by a total of € 1.4 million, to € 56.7 million. In addition to favorable currency exchange rate effects, this development was influenced primarily by the expenses of continuing the worldwide harmonization and standardization of business processes.

Marketing and selling expenses rose € 1.5 million, to € 239.4 million. Research and development expenses also rose € 1.0 million, to a total of € 51.7 million, and general administrative expenses were up € 2.0 million, at € 58.0 million.

The financial result improved by € 1.4 million year over year, rising to -€ 3.4 million. This is due largely to the fact that currency gains were realized in connection with dividends and interest income from tax refunds had a positive effect. Taxes on income declined by a total of € 9.3 million in the 2016 fiscal year, to € 53.9 million (previous year: € 63.2 million).

In keeping with forecasts from the previous year, a positive trend in sales was seen in 2016. At the same time, the

EBIT margin in 2016 decreased slightly, contrary to forecasts.

On the whole, the tesa Group posted positive development once again in the past fiscal year, as targeted investments were made in order to strengthen its market position in the long term.

Business Development by Region

Organic sales growth in the tesa Group totaled 2.6% (previous year: 0.4%) in the 2016 fiscal year.

Europe

The development in Europe showed a significant recovery in 2016, leading to organic growth of 6.2% in sales. The business in Eastern Europe saw particularly positive development. Sales were up in all other European companies as well. At current exchange rates, tesa posted sales of € 659.8 million in Europe (previous year: € 630.7 million). The share of Group sales rose from 55.3% the previous year to 57.6%.

Americas

In the Americas, tesa achieved significant gains in sales in 2016, with the positive development on the automotive market being a contributing factor once again this year. At the same time, the end consumer business in Latin America saw very positive development. Adjusted for exchange rate effects, the region as a whole posted a 6.7% increase in sales. At current exchange rates, the sales figure was up by 4.2%, at € 174.2 million (previous year: € 167.2 million). The share of Group sales increased slightly, to 15.2% (previous year: 14.7%).

Africa / Asia / Australia

The year 2016 was marked by a decrease in sales in Asia. The main factors responsible for this were the slowing of the Chinese economy and weak development in the project business focusing on products for the electronics industry again this year. On the whole, sales decreased by 6.0% (adjusted for exchange rate effects). At current

exchange rates, sales in the region, at € 311.8 million, were down 8.7% from the previous year's sales of € 341.7 million. The share of Group sales decreased to 27.2% (previous year: 30.0%).

Business Development by Division

Industry

The Industry division achieved organic growth of 2.0% in sales in 2016. Significant growth in the business in Eastern Europe and the Americas came at the same time as further weak development in the sales earned in Asia, primarily in the project business. In nominal terms, sales held steady at the same level as the previous year, posting a decrease of 0.1% to stand at € 852.6 million (previous year: € 853.7 million). The share of overall sales attributed to the Industry division was 74.4% (previous year: 74.9%).

tesa developed and introduced many new products for applications in the electronics industry. These new products include tesa® 757xx reinforced Ac Foam Tape, a high-performance type of adhesive tape featuring viscoelastic material properties that make it highly shock-absorbent. Despite the ongoing further development of products, growth slowed due to the fact that the smartphone market is largely saturated. Still, tesa achieved good successes with the rising number of Chinese manufacturers. New additions to the product range include special tapes for the booming market for wearable devices such as smartwatches. Because these items are worn close to the body, the tapes have to meet stringent requirements, such as resistance to cosmetics and sweat.

In the **automotive sector**, tesa is continuing to expand its global market position. Double-sided viscoelastic foam products based on ACX^{plus} technology and ecofriendly high-performance adhesive tapes for wire harnessing applications were especially successful this year. Masking systems for two-tone paint jobs were another factor contributing to the good development of the business.

In the **print and paper** segment, tesa successfully introduced improved products for applications in printing flexible packages. tesa also added a new series of highly flexi-

ble adhesive tapes to this product range. tesa continues to set standards for flying splices in offset printing, too: optimized tesa EasySplice® adhesive tapes offer superior process reliability even when faced with temperature and moisture fluctuations and on critical types of paper.

The **pharmaceuticals** business achieved further successes in contract manufacturing of medicated patches. Two of these patches were launched on the market by a tesa customer in 14 European countries. The audit of tesa Labtec GmbH by the U.S. Food and Drug Administration (FDA) also marked an important milestone for tesa in tapping into this business segment in the United States. tesa built an additional converting unit to be able to meet the growth targets planned on this basis.

Through the **tesa scribos®** business segment, tesa offers comprehensive and individualized solutions to protect against counterfeiting and tampering for customers in a more than 20 industries. Among other developments in this segment, tesa acquired a new major customer, which is now using an all-in-one system for protection against counterfeiting, product tracing, and customer loyalty purposes that is utilized worldwide. In addition, tesa scribos® successfully launched the newly developed authenticity feature tesa VeoMark® L, which includes an integrated QR code. Work on further innovative brand protection solutions, especially for the food and luxury goods industries, is also currently under way.

tesa achieved growth and expanded its clientele in the **building supply** segment, primarily due to double-sided adhesive tapes. The company's focus on interior design allowed it to win over new customers with new ACX^{plus} products for glass partitions that do not stick on the sides and with ACX^{plus} products for doors with leaf-enclosing infill. These products give designers and interior decorators more room for creativity and help create a clean, modern look. tesa is also concentrating on sophisticated exterior applications and on façades, windows, and exterior doors with highly weather-resistant, permanent double-sided products.

tesa has once again expanded its industrial **retail business**, outperforming the overall market. The main growth drivers here were technologically advanced

adhesive tapes, which spurred positive development in sales across all regions. tesa's activities in this segment focused on expanding the network of retailers in Asia and North America while also strengthening existing partnerships in Europe.

Consumer & Craftsmen

The business in products for consumers and professional craftsmen, which is focused on Europe and Latin America, saw positive development, with organic growth of 5.4% in sales. In nominal terms, sales rose significantly, increasing 4.4% to stand at € 275.4 million (previous year: € 263.9 million). As a result, this division contributed a share of 24.1% (previous year: 23.2%) of tesa's total sales during this reporting year.

tesa was able to strengthen its market position in the strategic business segments and in all regions covered by the Consumer & Craftsmen division, both in the end consumer business, where tesa markets do-it-yourself (DIY) solutions and products for the office supply and stationery segment and in the range of products for professional craftsmen. One of the main drivers behind this was the continuation of the brand campaign in Germany, Austria, Switzerland, Belgium, the Netherlands, Spain, Poland, Italy, and France. This boosted tesa's name recognition, and the company realized further sales gains.

tesa achieved growth primarily with its double-sided Powerstrips® and Powerbond® mounting solutions. In Germany, the new product range comprises 48 innovative products, such as adjustable adhesive nails and screws for different surfaces and applications and new Powerstrips® for wallpaper. tesa developed these products based on extensive market research and then patented them. The particular advantages offered by smart mounting systems as compared to conventional methods that use materials such as screws and nails are persuasive to customers. After achieving success in Germany, the company plans to launch these products in other countries in 2017.

In the craftsmen segment, the additional focus on the building supply trade had positive effects. In addition, tesa continued its successful training concepts for professional painters in cooperation with specialized retailers. The com-

pany also expanded its product range for this target group, adding items such as new painter's tapes and plastering tapes.

Employees

A year after the move to the new tesa corporate headquarters, a major advantage has become clear: working together at a single facility boosts motivation among employees – even those who come to Norderstedt as visitors from affiliates. The goal of allowing employees from marketing and sales units to coordinate quickly and conveniently with colleagues from the research and development labs has been achieved.

tesa has also established an occupational health management program called "It's for you!," which has been very well received by employees. The program is based on close cooperation between the occupational health and social counseling services, the tesa sport club, the staff cafeteria, and DAK (formerly BKK Beiersdorf). The courses and other options tesa offers to employees to help them take care of their health are almost always fully booked.

The results of the 2016 employee survey provide a highly positive image of engagement on the part of tesa employees. The same positive results emerged in the employee surveys conducted in the countries in the region of Western Europe. These activities offer impressive proof that tesa is able to earn and retain the loyalty of highly engaged employees in the long term.

The competency model developed in 2015 describes the main competencies all employees need in order to successfully perform their tasks. This reporting year was the first time the "tesa Key Competencies" were used in employee performance reviews for managers and in talent management. In the future, this model will help the tesa management to describe and discuss profiles and performance according to standardized measures. This shared understanding is a key part of implementing the strategy of filling more management positions with employees from within tesa's own ranks.

The company provided new training offerings for the tesa Supply Network in 2016. The goal is to improve understanding of the necessary interplay between the various

functions involved in the planning and logistics chain, not only among production and logistics employees, but also in sales and purchasing, with the objective of ensuring that customers receive a faster and more accurate supply of products.

tesa began implementing the compensation and benefits guidelines in the various regions and at tesa headquarters during this reporting year. The first step was to standardize the objectives for the variable compensation paid to the management across all regions and countries. After that, tesa extended the guidelines to further groups of employees.

The number of employees stood at 4,158 at the end of the fiscal year (previous year: 4,109).

III. Financial Position

Cash flow statement

	2015	2016	Change
	in € million	in € million	in € million
Cash and cash equivalents as of Jan. 1	194.4	190.3	-4.1
Gross cash flow	157.4	171.0	13.6
Change in net working capital	7.2	-33.7	-40.9
Net cash flow from operating activities	164.6	137.3	-27.3
Net cash flow from investing activities	-107.3	-101.7	5.6
Free cash flow	57.3	35.6	-21.7
Net cash flow from financing activities	-68.0	-66.7	1.3
Exchange rate-related change in cash and cash equivalents	6.6	-2.3	-8.9
Net change in cash and cash equivalents	-4.1	-33.4	-29.3
Cash and cash equivalents as of Dec. 31	190.3	156.9	-33.4

Cash flow from operating activities decreased by € 27.3 million, to € 137.3 million, as compared to the previous year. **Investing activities** accounted for a net balanced outflow of € 101.7 million. These expenditures were largely attributable to investments in property, plant and equipment and intangible assets and to the granting of loans. **Free cash flow** decreased by a total of € 21.7 million, to € 35.6 million.

The negative **cash flow from financing activities** was due in particular to a dividend payment of € 61.6 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had decreased by a total of € 33.4 million, to € 156.9 million.

Key Financial Indicators

The **return on sales** was stable compared with the previous year, leading to a slight decrease in the EBIT margin, which

stood at 16.2% (previous year: 16.8%). Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in an increase in profitability, from 19.3% in the previous year to 19.6% in 2016.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, decreased to 31.8% in 2016 (previous year: 38.0%).

The **net profit**, measured against sales proceeds, increased from 10.8% in the previous year to 11.2%. The **earnings per share** increased from € 4.76 to € 5.00.

The **equity ratio** remained at nearly the same level as the previous year, at 53.5% (previous year: 53.8%). The ratio of equity to non-current assets is 124.6% (previous year: 121.5%).

Capital Expenditure

In this reporting year, tesa invested a total of € 49.1 million in intangible assets and property, plant and equipment. Of this figure, € 31.9 million was allocated to locations in Germany. The sum of € 2.6 million was invested in the rest of Europe, € 12.0 million in the Americas, and € 2.6 million in Africa / Asia / Australia. The investments in the U.S. in particular were attributable to the development and expansion of production capacity.

2016 was primarily marked by spending on major strategic projects aimed at technological and capacity expansions, which will also extend over the next few years. In addition, tesa made relevant investments to modernize the global IT infrastructure and system landscape in 2016, with plans to continue these efforts in the years to come.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 31.5 million.

IV. Balance Sheet Structure

Balance sheet structure of the tesa Group

	2015	2016	Change	
	in € million	in € million	in € million	in percent
Assets				
Non-current assets	480.4	500.0	19.6	4.1
Inventories	180.7	197.3	16.6	9.2
Other current assets	236.2	309.6	73.4	31.1
Cash and cash equivalents	190.3	156.9	-33.4	-17.6
Total	1,087.6	1,163.8	76.2	7.0

	in € million	in € million	in € million	in percent
	Equity and liabilities			
Equity	584.7	623.0	38.3	6.6
Non-current provisions	238.7	288.8	50.1	21.0
Non-current liabilities	6.5	5.0	-1.5	-23.1
Current provisions	90.2	82.8	-7.4	-8.2
Current liabilities	167.5	164.2	-3.3	-2.0
Total	1,087.6	1,163.8	76.2	7.0

As compared with the previous year, total assets increased, rising by 7.0% to € 1,163.8 million. The primary reason for this was the increase in other current assets on the assets side, which were up € 73.4 million, and increases in both non-current provisions (+ € 50.1 million) and equity (+ € 38.3 million) on the liabilities side.

The increase in other current assets was due primarily to the increase in loan receivables and trade receivables.

Cash and cash equivalents decreased by € 33.4 million to € 156.9 million. Please see the remarks concerning the financial situation for further information.

Non-current assets increased by € 19.6 million, to € 500.0 million. Please see the remarks on capital expenditure for further information.

Inventories rose 9.2% year over year, to € 197.3 million.

The non-current provisions were due primarily to an increase in pension provisions.

The change in equity is mainly attributable to the net profit after tax of € 128.6 million and the dividend payment of € 61.6 million to the shareholders.

V. 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 Aktiengesellschaft's internal audit department monitors compliance with the internal controlling system and ensures the integrity of the business processes.

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

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

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

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

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

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

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

tesa manages financial risks via active treasury management on the basis of globally applicable guidelines in the area of corporate treasury. The overriding goal is to safeguard the financial power of the Group and be able to meet financial obligations at all times. Within the scope of financial management, tesa ensures the solvency of the Group on a continuous basis, 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 Aktiengesellschaft. Potential risks associated with the investment of liquid funds are fundamentally mitigated through the fact that counterparty limits are used across the Group, as managed by Beiersdorf. The development of exchange rate risks is monitored regularly.

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

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

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

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

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

VI. Outlook

Geopolitical risks and their effects on overall economic development will have a lasting impact on tesa's business in 2017, continuing a trend seen in previous years.

On the whole, tesa expects to see stable development in Europe, although the political environment, the Brexit decision and its expected effects, and developments in Turkey may have negative effects on the markets.

In North America, tesa anticipates ongoing positive impetus, particularly from the automotive industry, but the change in the U.S. administration has brought uncertainty regarding the overall political conditions that should be expected. Development in Latin America is viewed positively for the most part. There is uncertainty stemming from Brazil, which has been in an economic crisis for some time now.

The outlook for development in Asia depends in large measure on the development of the Chinese economy. tesa expects moderate growth in Asia in 2017, with tesa participating therein through both the automotive sector and once again in the electronics industry. Increasing pressure on prices is likely to somewhat dampen sales growth in both areas. The business with the electronics industry in Asia remains attractive, although the project-oriented nature of this business continues to pose a significant risk of fluctuations.

tesa views the automotive sector as an important growth field among global customers. tesa also expects the business in the pharmaceuticals segment to see positive development in the future.

The ongoing economic recovery in Southern Europe may continue to have positive effects on the development of the business in the area of distribution and in the end consumer business.

2016 was marked by more moderate volatility in currency exchange rates. The U.S. dollar strengthened significantly toward the end of the year, which will continue to influence the development of tesa's business in 2017. Classic financial instruments are used to hedge against these risks.

tesa is continuing to invest in innovative technologies at its production sites all over the world. The capital expenditure volume will be above the total write-downs. Financing for the investments in 2017 has been secured.

Growth is expected to slightly outperform the market in the coming year. This applies to the business with both consumers and industrial customers. Based on continued investment in research and development, and thus in innovative products, tesa expects to strengthen its market position.

tesa anticipates that 2017 will bring sales growth of 3% to 4%. The operating EBIT margin will be slightly below the previous year's figure, as expected.

VII. 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.”

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Executive Board



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From Corporate Communications also printed copies can be obtained.

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