



Annual Report 2009

tesa, Hamburg

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Corporate Governance

Corporate Governance at tesa

tesa welcomes and supports the German Corporate Governance code. The declaration of compliance of Beiersdorf AG, which also applies to tesa as a wholly owned subsidiary, is available permanently at www.Beiersdorf.com.

Audit Opinion

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

Foreword by the Executive Board

Ladies and Gentlemen,

We are looking back on an extremely difficult year. tesa was especially hard hit by the effects of the global economic crisis, which caused sales to contract sharply in the first half of the year in particular. We responded appropriately and quickly, resolutely taking the right measures to counteract the trend. Some of the actions associated with these steps included reduced working hours in the plants, cuts in working hours and the associated payroll adjustments at the Hamburg headquarters, the closure of the plants in Harrislee and Beranang in Malaysia at the end of 2009, and preparations for outsourcing logistics operations in Stuttgart and Offenburg to an external service provider. Based on these measures, we succeeded in securing our earning power, and thus the continuation of our successful strategy, for the long term. In the second half of the year, the economy began to show signs of a modest recovery, with the result that our order situation – and with it, sales – stabilized, albeit at a low level. With a decline in sales of 12.4 %, that means that, on the whole, we performed well amid the severe downturn on the market triggered by the crisis. The EBIT margin was 3.9 % after deducting all of the costs related to capacity adjustment measures, putting that figure substantially ahead of expectations in light of the tough overall conditions.

At the same time, we consistently pursued the implementation of our major investment projects despite the crisis, and we were able to stay right on schedule. For example, the new cleanroom production unit at the Hamburg-Hausbruch tesa plant successfully underwent the challenging approv-

al process with the Hamburg public health authorities in order to obtain authorization to manufacture clinical samples in November. This represents a major milestone on the company's path to entering into the promising business in drug patches for the pharmaceuticals industry. The new technology has already been producing innovative products for new generations of mobile phones since November. Also at the Hamburg-Hausbruch plant, the development of a groundbreaking solvent-free technology, developed at tesa, for coating double-sided adhesive tapes entered the final phase. It will enable tesa to access completely new, attractive lines of business in the industrial sector.

Through our swift, determined, and well-considered actions, we have been able to steer tesa safely through one of the most difficult phases in the history of the tesa brand. By doing so, we have laid a solid, sustainable foundation for 2010 and beyond. This is further proof of our company's competitiveness. The high level of flexibility of our organization enables us to quickly adapt our structures to market conditions, even in extreme cases, without deviating from our successful strategy.

We would like to express our heartfelt gratitude to all employees worldwide for their outstanding contributions and for the extra efforts they have made under these extremely tough conditions. We would also like to thank our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Thomas Schlegel
Chairman of the Executive Board

Management Report

Business Parameters

General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group. It employs approximately 3,700 people and operates in more than 100 countries. tesa SE is a wholly owned subsidiary of Beiersdorf AG and the parent company of the 52 tesa affiliates.

Regions and Most Important 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 the United States, Italy, China, and Switzerland are among the largest single companies of 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 more than 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 upon especially profitable lines of business in technologically advanced fields of application. Our customers use tesa system solutions to optimize and enhance the efficiency of production processes, as customized protection and packaging systems, and as fastening solutions in construction-related applications. This includes special product ranges for roll offset and flexo printing and for mounting electronic components in mobile phones, digital cameras, and LCD flat screens. Anti-forgery, laser-printed labels and systems for bundling and affixing cables or mounting emblems and decorative elements are among the products used in the automotive industry. tesa also offers innovative solutions with flexible uses to protect products from tampering and counterfeiting. The key item 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 healthcare sector, served by the Health Markets division. In this area, tesa develops and manufactures products including innovative materials for the production of highly precise, easy-to-handle test strips for in-vitro diagnostics, and, in the future, drug patches, termed “transdermal therapeutic systems,” for the pharmaceuticals industry.

In the industrial retail business, tesa supplies 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 nearly a quarter of tesa’s total sales. Under the tesa umbrella brand, DIY stores and superstores as well as paper goods and stationery shops offer private consumers a broad assortment of more than 300 innovative products for implementing creative ideas and enhancing quality of life around the home, garden, and office. The product range includes both handy products for office use, such as the classic tesafilm® transparent adhesive tape, and numerous additional tailored solutions for specific applications such as energy conservation, renovation, repairs, packaging, and temporary or permanent bonding. In addition, tesa offers solutions and systems for home pest control. Proven examples of tesa’s consumer products include tesamoll® foam for sealing windows and doors; the bonding solution tesa Powerstrips®, which are reliable and yet can be removed without a trace afterward; mounting tapes for indoor and outdoor use; the versatile line of fabric tapes; a wide array of paper masking tapes and tesa Easy Cover® for clean, professional painting and finishing work; and, last but not least, temporary and permanent flypaper products for any use.

Strategy

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

The company centers on the following areas when developing its outstanding, 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 demands and requirements of partners in the retail trade, in order to meet these efficiently and offer high sales productivity per unit area, and
- ongoing staff training and continuous improvement of the business processes to enable efficient, appropriate, and rapid implementation.

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

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

Value Management and Control System

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

tesa focuses on continuous, profitable growth in sales volume, with an eye to increasing its earning power over the long term. The benchmarks for this are the operating result (EBIT) combined with the return on sales (ROS) and the return on capital employed (ROCE). Active cost management and the highly efficient use of resources are aimed at generating returns that are internationally competitive.

Economic Environment

The year 2009 was defined in large part by the worldwide financial and economic crisis, which led to a marked weakening of the real economy as well. In the first half of the year in particular, individual sales markets experienced

a slump, in some cases with profound effects and a heavy impact on the development of sales within the tesa Group. In the second half of the year, extensive monetary and fiscal measures showed a stabilizing effect on the markets, which led to a slight improvement in the overall economic situation.

After sharp increases in the prices of raw materials in 2008, the drop in sales volumes in 2009 resulted in an overall lower price level on the markets for raw materials.

Sales Market Development

The effects of the financial and economic crisis had a profound impact on the real economy and were evidenced in all of our sales markets. While tesa suffered from sliding sales in the first half of the year in particular, in some cases representing substantial declines, the business showed signs of a slight recovery in the second half of the year. Sales figures for the last few months of 2009 were above those for the same period of the previous year, although it should be noted that the comparison period was itself marked by a sharp downturn in demand as a result of the crisis. For 2009 as a whole, therefore, the company's performance did not return to the levels last seen before the onset of the crisis. Altogether, the overall market closed 2009 down considerably from the year before.

There were regional and segment-related differences in how the sales markets developed. While Western Europe suffered a substantial downturn, Eastern Europe and Latin America experienced less severe declines in sales, in each case in the single digits. Our business in Asia was affected in the first half-year by a sharp drop in sales, but regained more ground over the second half of the year than other regions and ended up playing a major role in stabilizing our business on the whole.

The market segment hardest hit by the worldwide decline in demand was the automotive sector. Especially at the beginning of the year, production capacity was decreased worldwide through actions such as extensions of temporary plant shutdowns and cutbacks in production shifts. This market, however, also began to pick up in the second half of the year, due in no small measure to economic stimulus plans such as "Cash for Clunkers" and similar programs in numerous countries. The markets that suffered the

greatest setbacks as a result of the weak demand were those in Western Europe, while the sales market in South America held steady year on year.

The sales markets in the paper and printing industry, which nearly regained the previous year's level, turned out to be relatively stable. The Health Markets division posted some growth, albeit modest, in sales.

The electronics business, which had seen strong growth in past years, was subject to heavy fluctuations in 2009. After substantial double-digit losses in sales at the beginning of the year, business picked up again appreciably, to reach and even exceed the previous year's level in the last few months of the year. This development is clearly correlated with the recovery of the economy in Asia.

The end consumer business in Germany and Europe was not as severely affected by the financial and economic crisis, closing the year with a mid-single digit percentage loss as compared to the previous year. While Eastern Europe and Latin America posted slight growth in sales, the sales market in Western Europe suffered a loss. The important sales channel of DIY and home improvement stores was nearly at the same level as in 2008, and benefited in particular from the continued dynamism of the market in Eastern Europe, where a large number of new home improvement stores were opened.

Procurement Market Development

The situation in the key raw materials markets for the manufacture of adhesive tape was characterized in 2009 by massive declines in production volume among suppliers. The low levels of capacity utilization combined with across-the-board price decreases on the markets for preliminary raw materials enabled the company to achieve lower pricing levels on the whole in its price negotiations than was the case in the previous year.

In addition, 2009 was also marked by delivery bottlenecks, some of them considerable, due to supplier insolvency. In some industries relevant to tesa, such as the textile industry, an especially large number of supplier bankruptcies were observed. In this situation, tesa was forced to find and qualify alternative sources within a short period. On the whole, however, tesa was able to ensure that these developments had nearly no impact on customers.

With regard to finished goods purchases, the downturn in the prices accelerated in the course of the year, in some cases by a substantial degree. In

particular, tesa was able to obtain price discounts in the markets for mass-produced goods.

On the whole, we have observed that prices of the underlying preliminary raw materials began to climb again to a significant degree around the middle of the year. As a result, purchase prices in the fourth quarter moved further from the year's posted lows. For 2010, we expect that the pressure on prices exerted by the markets for raw materials will push purchase costs slightly upward.

Furthermore, we expect that both supplier bankruptcies and production capacity reductions may lead to delivery bottlenecks in 2010. The likelihood of this occurring is further increased by the intensified product range streamlining measures currently being implemented by many suppliers.

Research and Development

Our technological developments continue to focus on our work on environmentally friendly, solvent-free adhesive masses and coating methods. For permanent bonding in construction-related applications, we are developing new systems that can be used to affix heavy components on a permanent, highly durable, and extremely weather-resistant basis. With new methods of producing exceptionally precise and extremely clear adhesive tapes, we are responding to the tightening of requirements in the electronics and health markets segments.

In the area of the **electronics industry**, we are developing special adhesive tapes for the electronics of the future, which are based on versatile organic components. The new adhesive tapes are coated with high-performance adhesive mass that encapsulates the electronic components and provides them with dependable protection from damage due to humidity and contact with air.

For the **automotive industry**, we have been at work on new adhesive masses and production methods for protective surface films. We are optimizing these products for future painting systems, thereby enhancing the value we add for automakers by making our products easier to use in the production process.

For use in the **glass sector**, and especially in the fast-growing **solar industry**, we are working with a manufacturer of laser systems to develop a high-performance method of applying permanent markings to glass. In this method, script is applied to the surface of the glass using a laser and a spe-

cially coated transfer film. The markings are high-resolution, cannot be counterfeited or tampered with, and do not damage the surface of the glass.

In the **health markets** segment, a new area of focus for tesa, we are working on the development of transdermal therapeutic systems – pharmaceutical patches that deliver an active ingredient via the skin, where it passes into the bloodstream and is carried directly to where it is needed within the body. Another specific area of emphasis is our work on new methods for the production of high-precision laminates for diagnostic strips that can be used to examine blood samples from diabetic patients easily, quickly, and with superior precision. This high accuracy makes it possible to significantly reduce the quantity of blood needed and simplify handling of the strips, both of which lessen the strain on patients.

In the area of solutions for private **consumers**, we have developed adhesive products based on renewable and recycled raw materials. These products meet the growing demand among consumers in Europe for ecofriendly products and manufacturing processes.

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.

Based on the values practiced within the company and on the principles set out in the UN Global Compact, we established and introduced the tesa Code of Conduct throughout the company in 2008. During this reporting year, workshops were held to give executives at tesa further training on the content of this code of conduct. For 2010, we are preparing to institute a system of “compliance certificates.” By signing a compliance certificate, all management employees within the regions confirm retroactively for a specific fiscal year that they and their employees have conducted themselves in accordance with the principles of the tesa Code of Conduct.

Our own values also form the basis for our cooperation with our suppliers. In line with this principle, we established the tesa Purchasing Charter, which sets out binding worldwide minimum standards, in the 2008 fiscal year. By the end of this reporting period, the majority of the existing key suppliers had already signed the charter. At tesa, new suppliers are nominated and qualified using the criteria laid out in the Purchasing Charter. One of the

main areas of focus over the subsequent cooperative relationship is to further develop the partners’ responsible corporate conduct as part of a continuous, joint process. This also includes establishing shared goals and monitoring progress, including site visits in some cases.

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. Despite the tough overall economic conditions we faced, we made further progress in 2009, as in years past, in the implementation of our second environmental program. For example, we have been able to reduce our emissions of volatile organic compounds (VOCs) by a total of 30 %, based on constant production volumes, since the start of the environmental program in 2007. In addition, we have cut the amount of solvents used in our production operations by 7 % during the same period.

In the area of occupational safety and health, we succeeded in continuing the positive trend from past years during this fiscal year as well. Regular employee training sessions helped us further reduce the number of workdays lost due to reportable occupational accidents in 2009. All over the world, all tesa employees are subject to the Occupational Safety Guidelines, which are aligned to the international OHSAS 18001 standard.

In 2009, as in previous years, the intensive social commitment and involvement of tesa SE and its affiliates were reflected in a large number of projects designed in accordance with the tesa Corporate Giving Policy, which was originally formulated in 2007. Through donations, sponsorships, and volunteer work, we demonstrated our dedication to disadvantaged children and youth in particular. For example, our company provides support for the initiative “MENTOR – die Leselernhelfer Hamburg e. V.” In addition to financial support for “mentor/mentee tandems,” tesa employees can actively get involved as reading tutors themselves, with incentives including time off from work. In China, employees of the tesa plant in Suzhou are involved in helping children of migrant workers at the Suzhou Sunshine School, where they organize activities including fundraisers and charity events, shared learning, and recreational activities. Our company provides scholarships and supports the school’s educational activities with both financial assistance and donations of materials such as computers.

All of our corporate responsibility activities are documented in an annual report, which is also available in electronic form as of 2009. This report is posted online at www.tesa.com/responsibility.

Results of Operations

Results of operations in the tesa Group

	2008	2009	Change	
	in € million	in € million	in € million	in %
Sales	860.1	747.1	-113.0	-13.1
Costs of goods sold	-500.6	-412.8	87.8	-17.5
Gross profit	359.5	334.3	-25.2	-7.0
Marketing and selling expenses	-226.6	-200.1	26.5	-11.7
Research and development expenses	-26.3	-32.7	-6.4	24.6
General administrative expenses	-41.2	-36.4	4.8	-11.7
Other operating income	26.8	21.5	-5.3	-19.5
Other operating expenses	-9.2	-57.7	-48.5	527.3
Operating result (EBIT)	83.0	28.9	-54.1	-65.2
Financial income	6.1	3.4	-2.7	-44.3
Financial costs	-8.8	-8.1	0.7	-8.0
Financial result	-2.7	-4.7	-2.0	74.1
Profit before tax	80.3	24.2	-56.1	-70.0
Taxes on income	-26.9	-5.0	21.9	-81.4
Profit after tax	53.4	19.2	-34.2	-64.0

For fiscal year 2009, the tesa Group reported a € 34.2 million (corresponds to 64.0 %) decrease in profit after tax, to € 19.2 million. With the financial result down by € 2.0 million, this is primarily attributable to a decline of € 54.1 million in the operating result (EBIT) and, with the opposite effect, to the fact that taxes on income were lower by € 21.9 million.

The decline in EBIT is chiefly due to the drop of € 25.2 million in the gross result, which is set against a decrease of € 26.5 million in marketing and selling expenses, and to a marked increase of € 48.5 million in other operating expenses.

The development of the gross profit was predominantly triggered by the considerable decrease in sales, which dropped by € 113.0 million (13.1 %) as a consequence of the financial and economic crisis. By comparison to the development of sales, we were able to achieve substantially greater reductions in the cost of goods sold, primarily due to declining procurement

market prices and cost-cutting measures, and as a result, the gross profit is down only 7.0 % from the previous year.

The decrease in marketing and selling expenses is also chiefly attributable to the decline in sales along with targeted cost reduction measures.

Other operating expenses rose by € 48.5 million, to € 57.7 million. This change is primarily the result of the costs of restructuring associated with personnel measures for the closures and sales of the tesa plants in Harrislee, Germany, and Beranang, Malaysia, and the closure of the German logistics locations in Offenburg and Stuttgart, which was decided on and announced in 2009, as well as the workforce adjustment measures that were implemented within the Group's sales divisions in particular. Other factors that contributed to the increase in other operating expenses included restructuring-related depreciation and other depreciation on intangible assets and property, plant and equipment, as well as higher contributions to provisions for other risks.

The decrease in taxes on income is mainly due to the fact that the profit before tax was lower than in the previous year, as well as the fact that the 2009 fiscal year saw higher earning levels in countries with comparatively low tax rates.

In light of the substantially tougher overall economic environment during this year, we consider the development of the operating result to have been positive on the whole, despite the decrease in the result.

Business Development by Region

Europe. The effects of the global financial and economic crisis are most evident in Europe. Adjusted for exchange rate effects, tesa posted a decline of 12.8 % in sales. This corresponds, at current exchange rates, to a sales decrease of 14.7 %, to € 541.3 million (previous year: € 634.9 million). The EBIT decreased to € 1.7 million, representing an EBIT margin of 0.3 % (previous year: 8.4 %). The share of Group sales fell slightly, to 72.4 % (previous year: 73.8 %).

If we consider the individual management regions in Europe, the industrial business in the Northern Europe, Southwest Europe, and Central Europe regions in particular has posted declines of 15 to 20 % in sales. The consumer business in Central Europe is down only slightly from last year's fig-

ures, and Eastern Europe, which had previously been considered a growth region, showed a clear recovery in terms of sales during the third and fourth quarters after a very weak first quarter.

Americas. In the Americas as well, sales were down significantly year on year in 2009. In addition to the slumps spurred by the crisis, the development of currency exchange rates also affected the business in North and South America. While the weakness of the dollar, which persisted starting from the second quarter of 2009, had a negative impact on the business in North America, exchange rates had a positive effect in South America, due especially to the strength of the Brazilian real.

Adjusted for exchange rate effects, the region as a whole posted a decrease in sales of 9.3 %. At current exchange rates, the sales figure was also down by 9.3 %, at € 81.2 million (previous year: € 89.5 million). The share of Group sales rose slightly, to 10.9 % (previous year: 10.4 %).

With an EBIT of € 6.2 million, the region posted an EBIT margin of 7.6 % (previous year: 9.1 %).

Asia / Africa / Australia. After a very weak first half of the year, the region of Africa / Asia / Australia showed clear signs of recovery in the development of sales figures in the second half of 2009. On the whole, sales declined by 12.3 % in 2009 (adjusted for exchange rate effects). At current exchange rates, sales in the region, at € 124.6 million, were down by 8.2 % from the previous year's sales of € 135.7 million. The effects of the global crisis have been especially evident in Japan, Singapore, and Malaysia. China and Korea achieved growth in sales in comparison to the previous year.

The region's EBIT figure was € 21.0 million (previous year: € 21.4 million), resulting in an EBIT margin of 16.9 % (previous year: 15.8 %). The share of Group sales rose to 16.7 % (previous year: 15.8 %).

Business Development by Division

Industrial Business. In the purely industrial division of the company, which contributes a share of 70.7 % (previous year: 72.4 %) to overall sales, both our direct business and our retail business were marked in all regions by considerable declines in demand triggered by the financial and economic

crisis, with the result that at current exchange rates, sales dropped by 15.1 %, falling from € 622.5 million in 2008 to € 528.6 million in 2009.

In our business with the electronics industry, we reinforced our market position in a tough economic environment by launching a number of new specialty products for the next generation of LCDs. Our areas of focus included optically clear films, which prevent light scatter and are used in the assembly of touch panels. These films are manufactured using highly sophisticated technology under cleanroom conditions in a new production unit that went into operation in the spring of 2009 at the Hamburg-Hausbruch plant. Heat-activated films that can be handled even at low temperatures are another innovation; these films are used in notebook computers.

In terms of system solutions for the automotive industry, which has been especially hard hit by the financial and economic crisis, we have continued to focus on products for permanent design and construction-related bonding of emblems and decorative trim to auto bodies and within vehicle interiors. With this in mind, we have expanded our successful product range of double-sided foam adhesive tapes. We have supplied our customers with initial samples of high-performance adhesive tapes manufactured based on our ACXplus technology. This innovative new method, developed by tesa, for solvent-free production of double-sided adhesive tapes is currently being further developed at the Hamburg-Hausbruch plant.

We have enlarged our successful Softprint product range for mounting printing plates in flexo printing to include new products that enhance the efficiency of the printing process by supporting simple, fast plate changes while ensuring consistently high print quality. One example is Softprint Secure, which also offers superior bonding security at the corners of the printing plates.

In our development of the new Health Markets segment, our focus was on the construction and initial operation of the cleanroom coating unit at the Hamburg-Hausbruch plant, a process that was largely completed during this reporting year. The unit successfully underwent the challenging approval process required to obtain authorization to manufacture clinical samples of pharmaceutical products. Both the unit itself, and the initial product samples of transdermal patch systems and oral films produced using it, generated an excellent response among potential customers in the pharmaceuticals industry. These medication delivery methods, which can be used as an

alternative to pills or injections, make it easier and more convenient for patients to take medications.

In the retail business, we strengthened our product range expertise in the painting and finishing segment by introducing innovative products for special applications. Examples include a new painter's tape with an especially fine paper backing, used for covering highly sensitive surfaces, and a special masking tape for use in powder coating. We expanded our range of fabric tapes to include various new products for applications requiring moderate durability.

Consumers. The Consumer division, which accounts for 23.6 % (previous year: 22.0 %) of total sales, was less severely affected by the financial and economic crisis than the industrial business: At current exchange rates, sales fell by only 7.2 %, declining from € 189.6 million in the previous year to € 176.0 million this year.

Our business with private consumers lagged slightly behind the previous year's figures due to the overall economic situation, but still outperformed the market. In Germany, we increased our market share in all of the major product groups at a high level. In Eastern Europe, we bucked the economic trend to post growth on an exchange rate adjusted basis. Our business in the home improvement and DIY retail segment, in particular, turned out to be stable. The business in products to seal gaps around doors and windows showed highly positive development once again. With our introduction of a new system for roof insulation, we are supporting the trend toward energy conservation.

In the paper, office supply, and stationery segment, a new line of highly ecofriendly products made predominantly from recycled and biologically based raw materials, marketed under the ecoLogo sub-brand, was very well received. The launch of our Clean Air printer filters was also a big success. This system, which reduces the emissions of particulate matter from laser printers, is the product of cooperation between tesa and filter manufacturer Freudenberg. It supports the growing trend toward sustainability and a healthy working environment.

Employees. In the 2009 fiscal year, we initiated and implemented personnel measures to limit the impact of the financial and economic crisis on our Group. We were forced to adjust capacity in all regions to accommodate

reduced levels of capacity utilization and the substantial decline we had seen in sales. In Germany, Italy, and Switzerland, we introduced reduced working hours to accomplish this. Depending on the relevant local laws, we were able to make the necessary adjustments on a socially compatible basis in other countries as well, where reduced working hours or comparable programs (such as partial unemployment) are unavailable, through measures such as unpaid leave, pay cuts, and adjustments to retirement plans. Beyond that, we were unfortunately unable to avoid a reasonable level of job cuts in many countries. As a result, the total number of employees dropped to 3,698 (previous year: 3,901).

With the aim of making further progress in building up the attractive new health markets segment despite the crisis, we intensified our training efforts involving our new production units at the Hamburg-Hausbruch plant. In particular, employees who come into contact with the new cleanroom technology were trained on production operations that meet the conditions specified by the Good Manufacturing Practices (GMP) guidelines. These guidelines define the quality assurance system used for processes involved in the production of pharmaceuticals, active ingredients, and medical products.

Despite the tough overall economic situation, we intensified our sales employee training and qualification program, which we had expanded to all regions in 2008, during the 2009 fiscal year. A total of 570 employees attended 32 multiple-day training sessions that not only covered technical training, but also further qualification in all sales processes. The project team is preparing to extend the qualification program to other divisions within the company once the crisis is over, and to provide even greater support for employees' day-to-day sales work. Furthermore, the HR department designed specific training programs with an eye to supporting and facilitating the market launch of new products in 2010.

Financial Position

Cash flow statement

in € million	2008	2009	Change
Cash and cash equivalents as of Jan. 1	110.6	41.2	-69.4
Gross cash flow	70.0	68.8	-1.2
Change in net working capital	-1.4	23.6	25
Net cash flow from operating activities	68.6	92.4	23.8
Net cash flow from investing activities	-74.4	-12.5	61.9
Free Cashflow	-5.8	79.9	85.7
Net cash flow from financing activities	-63.3	-31.0	32.3
Exchange rate-related change in cash and cash equivalents	-0.3	-0.7	-0.4
Net change in cash and cash equivalents	-69.4	48.2	117.6
Cash and cash equivalents as of Dec. 31	41.2	89.4	48.2

Cash flow from operating activities rose by € 23.8 million, to € 92.4 million, as compared to the previous year. **Investing activities** accounted for a net outflow of € 41.3 million and a net inflow of € 28.8 million. These expenditures were attributable to the continued high investment volume. The income was generated in particular by the sale of securities.

Free cash flow increased by a total of € 85.7 million, to € 79.9 million.

The negative **cash flow from financing activities**, in the amount of € 31.0 million, was mainly the result of a dividend payment of € 30.0 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had risen by € 48.2 million, to € 89.4 million.

Key Financial Indicators

The **return on sales** – based on the operating result – fell from 9.7 % in the previous year to 3.9 % in 2009. Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in a decrease from 12.5 % in the previous year to 9.1 % in 2009.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, decreased to 8.9 % in 2009 (previous year: 25.6 %); the return on **operating assets** fell from 23.7 % to 9.0 %.

The **net profit**, measured against sales proceeds, decreased from 6.2 % in

the previous year to 2.6 %. The **earnings per share** declined from € 2.07 to € 0.74.

The **equity ratio** decreased by 3.6 percentage points, to 52.5 %. The ratio of equity to non-current assets is 138.0 % (previous year: 143.3 %).

Capital Expenditure

In the reporting year, tesa invested a total of € 40.9 million in intangible assets and property, plant and equipment. Of this figure, € 36.1 million was allocated to locations in Germany. The sum of € 3.3 million was invested in the rest of Europe, € 0.6 million in the Americas, and € 0.9 million in Africa / Asia / Australia.

Our capital expenditure and investment activity this reporting year was determined largely by three major projects at tesa's Hamburg-Hausbruch plant, where tesa is investing in new coating technologies. These projects made up an investment of € 27.0 million in 2009 alone, after € 12.0 million was spent on them in the previous year, and will be continued in 2010.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, amounted to a total of € 34.3 million.

Balance Sheet Structure

Balance sheet structure of the tesa Group

	2008	2009	Change	
Assets	in € million	in € million	in € million	in %
Non-current assets*	227.6	226.7	-0.9	-0.4
Inventories	122.4	116.3	-6.1	-5.0
Other current assets	190.6	163.6	-27.0	-14.2
Cash and cash equivalents	41.2	89.4	48.2	117.0
Total	581.8	596.0	14.2	2.4
Equity and liabilities (in € million)				
Equity	326.2	312.8	-13.4	-4.1
Non-current provisions	87.5	97.5	10.0	11.3
Non-current liabilities*	24.0	18.4	-5.6	-23.3
Current provisions	47.2	63.3	16.1	34.1
Current liabilities	96.9	104.0	7.1	7.3
Total	581.8	596.0	14.2	2.4

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

As compared with the previous year, total assets increased slightly, rising by 2.4 % to € 596.0 million.

On the assets side, non-current assets decreased slightly, by € 0.9 million. The reasons for this were investments of € 40.9 million in intangible assets and property, plant and equipment, and most particularly the increase in depreciation and write-downs from the previous year.

Current assets decreased by € 27.0 million, primarily due to the sale of securities with working capital.

Cash and cash equivalents increased by € 48.2 million, to € 89.4 million. Please see the remarks concerning the financial situation for further information.

On the equity and liabilities side, the development is largely characterized by the decline in equity, by € 13.4 million, and by the increase in non-current and current provisions, which rose by € 10.0 million and € 16.1 million, respectively.

The change in equity is mainly attributable to the net profit after tax of € 19.2 million and the dividend payment of € 30.0 million to the shareholders.

The increase in provisions resulted primarily from the provisions set aside in 2009 for the costs of restructuring – chiefly for expenses associated with personnel measures accompanying the closures and sales of the tesa plants in Harrislee, Germany, and Beranang, Malaysia, and the shutdown of the German logistics locations in Offenburg and Stuttgart, which was decided on and announced in 2009. The increase in provisions also includes other factors, most particularly the allocations to provisions for other risks and other operating provisions.

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 the market trends on a very timely basis, both centrally and in the regions, in order to be able to intervene and control the risk at an early stage. Moreover, tesa is exposed to the risk of losing individual customers completely and to a default risk on receivables. Although its broad sales base and diversification mean that tesa does not have single customers that account for such a high share of sales or receivables that their default could threaten the company's existence, the company additionally takes out trade credit insurance to a feasi-

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

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard to the quality and safety of our products. Our products are 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 threat with a preventive maintenance system, fire protection measures, and appropriate in-depth employee training. As far as it is economically feasible, tesa has also taken out insurance against loss or damage that may be incurred despite these precautions.

Continuous innovation and intensive cooperation with customers to improve 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. Continuous 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 guarantees for 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 using 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 management, tesa ensures the solvency of the Group on a continuous basis, controls the risks in the area of 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 countering the risks associated with these factors, particularly in the area of antitrust law and fair competition, by expanding and intensifying its training programs, establishing a mandatory global Code of Conduct, and maintaining ongoing monitoring of compliance by means of organizational measures.

tesa hedges 75 % of the currency risk for freely convertible currencies, where this is economically feasible. The hedges entered into in line with this policy are handled centrally at Beiersdorf AG. Potential risks associated with the investment of liquid funds are fundamentally mitigated through the fact that only short-term investments are made at prime names. 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 regularly adapts them to the latest state-of-the-art technology. Technical and organizational measures virtually rule out unauthorized access and data loss.

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 potentials.

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

Development of both the general economic environment and the situation in the sales markets for adhesive tapes will continue to be difficult to forecast in 2010, with great uncertainty dominating both areas. After the drastic slump in sales over the course of 2009, we anticipate that activity in 2010 will fall short of the level last seen in 2008, and possibly in 2011 as well. We expect developments to vary widely across the different industries and regions in which we operate.

For Asia, Latin America, and Eastern Europe, we expect a swift return to pre-crisis sales figures, while the recovery process in Western Europe and North America is expected to take several years and involve only moderate single-digit growth rates over the significantly reduced level seen in 2009.

For the automotive industry, we expect that the markets in nearly all regions, except for Asia, will continue to struggle in the medium term as well, since the economic stimulus packages that will soon expire or have already done so have given rise to substantial "front-loading" of expenditures.

The electronics industry, which is concentrated particularly in Asia, will probably recover more quickly due to the very short cycles between purchases and replacement of the end devices and to the further growth of the user group, and in some cases will likely achieve double-digit growth rates. Demand from industry in general will show moderate signs of recovery. Replenishment of the inventories that were run down during the early phase of the crisis should reinforce this trend temporarily.

In its consumer business, tesa is focused on the European market. For this market segment, we expect a drop in demand as a delayed reaction to the crisis, but one that is considerably more moderate in scope than the decline among industrial customers observed in 2009. In Central and Northern Europe, we anticipate market development to stagnate or decline slightly, while a recovery from the more pronounced downward trend already noted in 2009 is taking shape in Southwestern Europe. We predict moderate growth for Eastern Europe, supported in part by the continued spread of modern retail structures.

Given the weight of the aftereffects of the financial and economic crisis and the highly volatile price fluctuations in the markets for raw materials that are key to the tesa Group, it remains difficult to forecast how our procurement markets will develop in 2010. In general, we expect the prices of both raw materials and retail goods to pick up over the year. This development should

be seen as closely tied to the gradual recovery of the demand situation and to suppliers' adjustments of production capacity in the meantime. In addition, there will continue to be pricing and supply risks arising from financial bottlenecks among suppliers will continue. We identify those suppliers with the potential to become critical in this regard as part of our systematic risk assessment program. With this in mind, we will pursue our intensive efforts to identify both alternative and more-reliable sources in 2010 as well. On the whole, however, we assume that the long-lasting peak prices seen in 2008, for instance in the case of petroleum-dependent raw materials or natural rubber, will not be reinstated in 2010.

Even under the difficult overall economic conditions that continue to apply as a result of the crisis, tesa expects that its sales will slightly exceed market growth in the coming years in both customer segments. On the strength of our continued high rate of innovation and ongoing investments in development, production, and marketing structures, the company continues to assess its general market position as very stable.

As regards industrial applications, tesa expects the most positive contribution to growth to remain in our customer segments of focus, especially in the new and high-value fields of application. Our activities will concentrate on the integration and further development of the new health markets business.

tesa has plans to expand its market share in the end consumer business in the years to come, especially in the European core markets outside of Central Europe, and most particularly in Eastern Europe. Enlarging and complementing the product ranges in tesa's fields of competence will provide additional momentum toward this aim.

Following the closure of some locations as part of a package of cost-cutting measures and the overall capacity adjustment in 2009, we do not expect to need to reinstate reduced working hours in 2010 and beyond except in isolated instances. We will continue to pursue our investment projects with great intensity as a means to further reinforce our market position. This will go hand in hand with further expansion of development and marketing structures.

Systematic hedging, especially for the U.S. dollar, means that no significant earnings risks from changes in exchange rates are anticipated.

In 2010 and the two years thereafter, we currently expect to keep our capital expenditure and investment activities above the volume of depreciation, but

below the 2009 level. The financing for the planned investments has been secured for 2010.

tesa will continue to focus on securing and further optimizing the structure of the working capital in the coming year.

For 2010, we expect net profit to improve due to slightly more favorable development of the operating result and a lack of the one-time effects seen in the previous year. Return on sales is expected to rise to more than 7 %.

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, January 29, 2010

The Executive Board

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The Annual Report is also available in German.

Both versions are available in the Internet at

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

From Corporate Communications also printed
copies can be obtained.