



Annual Report 2007

tesa, Hamburg

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Foreword by the Executive Board

Ladies and Gentlemen,

In 2007, the tesa Group was once again able to match the positive development of the previous year. Sales rose by 6.4%, thus growing significantly faster than the market, and at 10.3%, the EBIT sales margin achieved a two-digit figure for the first time. We can therefore look back on a successful business year for the seventh consecutive time. The facts prove that tesa has developed as an enduring, competitive, innovative and profitable enterprise. What is particularly encouraging is that based on this positive development, we were able to develop further technology components during 2007, as well as increase the number of our employees and create more than 130 new jobs. In particular, we invested in areas that will ensure corporate success in the long term: our research and development in Hamburg and Asia, as well as the expansion of sales structures in the growth regions of Eastern Europe and China. It is and remains our goal to continue to enhance our innovation performance, tap into new areas of application and expand our global network, while retaining our distinctively high level of product and service quality. In addition, we proceeded with our work on the development and implementation of new solvent-free production technologies.

We regard it as an important part of our responsibility as entrepreneurs to play an active part in shaping the course of humane globalization, both now and in the future. We have therefore incorporated a clear commitment to social responsibility in our strategy and have underscored this with our membership in the UN Global Compact Initiative for ethical economic actions. For the first time, in 2008, a sustainability report published on the Internet provided information with respect to how we fulfill this commitment and what contributions we make to ensuring a livable environment, in many parts of the world. Another of our important corporate tasks is the ongoing qualification and training of our employees, with the objective of meeting the increasing requirements of our own environment and of new technologies.

We would like to thank all our employees around the world for their major joint contribution to the success of tesa. We would also like to express our thanks to our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Dieter Steinmeyer
Chairman of the Executive Board

Corporate Governance

Corporate Governance at tesa

tesa welcomes and supports the German Corporate Governance code, to which it and the Beiersdorf Group are committed. The Declaration of Compliance, which also applies to tesa, is permanently available on the Beiersdorf AG website 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 AG, which issued its certification without any reservations.

Management Report

Business Parameters

General Information

The tesa AG Group (referred to as 'tesa' or 'tesa Group' below) 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 over 3,800 people in more than 100 countries. Since 2001, tesa AG has been a separate entity. It is a wholly owned affiliate of Beiersdorf AG and the parent company of the 51 tesa affiliates.

Regions and Major Locations

tesa operates worldwide, with the main focus concentrated on Europe, followed by Asia and America. In addition to tesa AG, the affiliates in the United States, Italy, Spain 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 in Asia (China, Singapore, Malaysia and India).

Industrial Business

tesa's business with industrial customers offers problem-solving concepts, for example for the electronics, printing, paper, packaging and automotive industries. System solutions from tesa optimize and increase the efficiency of production processes and are used as customized protective, packaging, and fastening systems. This includes special product ranges for the printing and paper industry and for mounting electronic components in mobile phones, digital cameras and LCD flat screens. Anti-forgery, laser-printed labels and systems for bundling and fixing cables are among the products used in the automotive industry.

With the patented tesa Holospot® technology, which enables laser-based data storage on a special adhesive label, tesa is tapping into the emerging market for system solutions for anti-forgery product labeling and product tracking. With its flexible, forward-looking solutions for product security, tesa is building an additional business area that offers high potential.

Consumer Business

For consumers in Europe and Latin America, tesa offers professional solutions, which are marketed and sold via DIY stores and superstores as well as in paper goods and stationery shops, for implementing creative ideas around the home, garden and office. tesafilm® is one of the most well-known products.

Strategy

tesa is one of the world's leading manufacturers of technical adhesive tape. Reliable quality, a high degree of innovation and the use of superior technologies are key elements of our brand's philosophy and our success. Our activities focus on our customers – for whom tesa develops effective solutions that serve to optimize and increase the efficiency of industrial production processes, as well as better organize home and office environments.

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

- A comprehensive knowledge of customer needs, production processes, market requirements and industry trends.
- A 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.
- 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 uniform global standards, while incorporating environmentally-friendly technology components.

Value Management and Control System

The tesa Group has set itself the objective of increasing 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 focus on continuous sales increases and on earnings growth in excess of sales. 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

In 2007, the global economy was able to continue its sustained strong development of the last 4 years. In the United States and Japan, the restrained economic drive of the previous year continued, but did not lead to a recession. The eurozone and the emerging markets, in particular Asia, benefited from a further vigorous upturn. India and China recorded particularly high growth rates of 10%. Latin America was able to disconnect from the development in the weaker North American market, despite certain close economic ties, and gained in momentum.

The second half of the year was influenced by the real estate crisis in the United States and the resulting turbulence in the financial markets. The markets proved to be robust, so that real economic repercussions were very restricted.

After the raw material markets appeared initially to have slowed down in the fourth quarter of the previous year, the prices, in particular the listings for crude oil, greatly increased again during the course of the year and reached new peaks. The price increase continued to have a dampening effect on the global economy.

Sales Market Development

Globally, development of the adhesive tape markets continued at the positive level of the previous year. Overall growth for the year is estimated at around 4% to a maximum of 5%, although there were significant regional

and segmental differences. While Europe developed slightly faster and North America somewhat more slowly than average, markets in Eastern Europe and Asia clearly benefited from production shifting into those regions, recording double-digit growth rates in some cases.

As in previous years, the electronics market segment was a growth driver, although in the reporting year, significant double-digit rates were achieved in Eastern Europe, denoting even stronger growth rates than in Asia, which experienced very high single-digit rates. The important automotive segment also experienced average growth overall, with regional differences. In Europe, and particularly in Eastern Europe, the production figures have increased significantly, while in Asia extremely positive growth in certain countries, including China, stood in contrast to very restrained development in Japan. The sales markets in the paper and printing sector as well as in other processing industries increased in the low to mid one-digit percent ranges.

In Germany and the rest of Europe, the end consumer business stabilized in the distribution channels for office supplies as compared with the previous year. The DIY sector is looking back on a very heterogeneous year – in Germany the trend in sales changed in the summer from a satisfactory first half-year to a declining second half-year, so that, in the best case, a constant development for the entire year must be assumed. An extremely positive economic trend can be observed in Eastern Europe, which is demonstrated, for example, by the opening of a large number of new hardware stores.

Due to its global presence, tesa was able to participate in the dynamic development in the growth regions, particularly in the industrial segments. Growth was, on the whole, above the market average, and tesa gained market shares.

Procurement Market Development

The situation in the key raw materials markets for the manufacture of adhesive tape continued to be affected by sustained price increases in 2007. In some markets, prices continued to rise over the course of the year. This development was due to continued high demand for particular raw materials and their preliminary products from emerging markets in Asia, Eastern Europe and South America. Some sectors around the world are already operating at the limits of their capacities, and exonerative expansion investments are only partially in evidence. In some cases, supply bottlenecks occurred in the

reporting year. The price of certain preliminary products, such as pulp, increased by more than 30% over the course of the year. The procurement markets for fabrics, paper, PVC products and resins are of primary importance for tesa. On average, the price increases for raw materials were in the high single-digit percent range.

tesa was also unable to avoid the general, though modest, market trend for finished goods purchases and had to deal with cost increases in the mid single digits. The rate of increase slowed in some areas in response to further intensified competition on the procurement side and to the integration of alternative raw material suppliers based in lower-cost countries. Given the global shortage of production capacities for raw materials and the resulting pressure on prices and supplies, the identification of suitable alternative sources will continue to be vital for the tesa Group's procurement market activities in 2008. The price increase will be at the same level as in 2007.

Research and Development

tesa continued its activities of developing environmentally-friendly and solvent-free adhesives and coating technologies, focusing on the enhancement of adhesive systems for double-sided adhesive tapes offering improved performance and a high shear resistance. Corresponding products were developed and successfully tested on the market.

For the automotive industry, tesa is currently developing solvent-free production processes for highly effective adhesive tapes for bundling cable harnesses, which optimally meet the increasing requirements for durability and environmental compatibility.

For the electronics industry, tesa has developed a product range of special double-sided adhesive tapes for assembling LCD flat screens, which, in addition to structural adhesion, are also used for light conduction purposes. Products for use in the health sector are a new focus market. Development centers on multi-layer laminates and special self-adhesive film for utilization in various treatment, therapy and diagnostics sectors.

In the area of consumer products, tesa introduced TACK, a new reusable fastening solution for lightweight objects. The manufacturing process is completely solvent-free. Development continued on the tried and tested tesamoll® products for sound absorption, sealing and insulation of windows

and doors. Energy consumption can now be reduced by up to 35% by using these optimized products.

Responsibility

One of the tesa Group's guiding principles has always been the acceptance of responsibility with regard to society and the environment.

As a member of the UN Global Compact Initiative, tesa has documented its global activities in 2007 in the areas of society, environment, quality and employees for the first time in a report. Sponsorship and the support of children and young people all over the world are at the forefront of our social commitment. tesa has pledged itself to this orientation in its binding corporate values and a sponsoring strategy. In 2007, a steering committee integrated in the Executive Board was set up to support our affiliates in selecting, coordinating and monitoring suitable projects. Some examples of tesa's social commitment include the support of the "Sternenbrücke" children's hospice in Hamburg and projects conducted by the "Chances for Children" foundation. Here, tesa supports two schools in India and Chile, which rescue child laborers and street children from their situations by providing specific social support while at the same time opening up their prospects for the future through education.

tesa AG has an environmental program with quantified objectives and targets, which is continuously being further developed. With more than 50 individual projects in all production locations, the company has fulfilled the ambitious environment goals it announced for the period from 2002 to 2007, and has even exceeded them in many areas. Based on constant production quantities, tesa was able to reduce the use of solvents by approximately 40%, energy consumption by more than one quarter, and waste output by 10%. With the goal of expanding on this success, tesa has formulated and put into effect a new environmental program for the next five years which is, for the first time, binding for all production sites worldwide and which also encompasses a reduction in the emission of volatile organic components (VOCs). All European production locations, as well as the production facilities in Malaysia and the United States, have an environmental management system and are certified in accordance with ISO 14001.

Results of Operations

Results of operations of the tesa Group

	2006	2007	Change	
	in € million	in € million	in € million	in %
Sales	804.6	856.2	51.6	6.4
Costs of goods sold	-469.6	-492.4	-22.8	4.9
Gross profit	335.0	363.8	28.8	8.6
Marketing and selling expenses	-202.4	-221.9	-19.5	9.6
Research and development expenses	-23.4	-25.2	-1.8	8.0
General administrative expenses	-39.8	-39.6	0.2	-0.5
Other operating income	19.8	21.7	1.9	9.9
Other operating expenses	-16.2	-10.8	5.4	-33.2
Operating result (EBIT)	73.0	88.0	15.0	20.5
Financial income	2.5	4.8	2.3	92.0
Financial costs	-6.5	-6.3	0.2	-3.1
Financial result	-4.0	-1.5	2.5	-62.5
Profit before tax	69.0	86.5	17.5	25.3
Taxes on income	-23.8	-28.9	-5.1	21.4
Profit after tax	45.2	57.6	12.4	27.4

For fiscal year 2007, the tesa Group reported a €12.4 million increase in profit after tax to €57.6 million.

This is primarily the result of higher sales, which were boosted by €51.6 million to €856.2 million, taking into account a marginal increase in the cost of goods sold (€22.8 million).

The operating result (EBIT), which rose by €15 million to €88.0 million was additionally impacted by higher marketing and selling expenses, which increased by €19.5 million to €221.9 million, as well as by the other operating expenses, which dropped by €5.4 million to €10.8 million. The EBIT also contained operating currency gains of €2.3 million (previous year €0.7 million).

Taking into consideration the slightly improved net income profit/loss, the profit before tax rose even more intensely than the EBIT; the marginal increase in tax on earnings resulted in a favorable net result of €57.6 million as compared to the previous year, representing an increase of 25%.

The development of the operations result is thus considered to be highly satisfactory overall.

Business Development by Region

Europe. tesa's sales in Europe increased at current rates by 7.3% and achieved €637.1 million (previous year: €594.1 million). Adjusted for exchange rate effects, this reflects a sales increase of 7.2%. The EBIT grew to €60.6 million, representing an EBIT margin of 9.5% (previous year: 8.6%). The share of consolidated sales grew slightly to 74.4% (previous year: 73.8%).

Continued rising sales with customers in the automotive industry, particularly in the growth regions of Eastern Europe, favorable economic development, and the highly buoyant end consumer business contributed to the continuation of the previous year's positive development in 2007.

Americas. Despite the weak dollar, business in North America showed a positive development in 2007. As South America also achieved a growth in sales, exchange-rate adjusted sales rose by 7.1% in the whole region. At current exchange rates, this corresponds to an increase in sales of 0.8% to €92.4 million (previous year: €91.6 million). The share of Group sales dropped slightly to 10.8% (previous year: 11.4%).

Particularly encouraging here is the disproportionately high earnings development. With an EBIT of €9.4 million, the region recorded an EBIT margin of 10.1% (previous year: 9.1%).

Asia/Australia/Africa. tesa's sales in the Asia/Australia/Africa region grew by 11.8% (adjusted for exchange rate effects). At current exchange rates, this region's sales of €126.7 million were 6.5% higher than the previous year's sales of €118.9 million. The main growth drivers were in China, Taiwan and Hong Kong. Development in the region also benefited greatly from the production facility in China, which opened in December 2005. The factory primarily produces products for the Asian electronics and automotive markets.

The region's EBIT was €18.0 million (previous year: €13.7 million), resulting in an EBIT margin of 14.2% (previous year: 11.5%). The share of the Group's sales was 14.8%, as in the previous year.

Business Development by Division

Industrial Business. In the industrial business, both our direct business and our retail business performed extremely well once again. All regions and markets contributed to the growth. In the direct business with the electronics industry, innovative, heat-activated special adhesive tapes for assembling and mounting flexible electronic circuits, known as Flexible Printed Circuit Boards (FPCB), provided new impetus. FPCBs are used in all modern electronic devices such as mobile phones, digital cameras and electronic notebooks. tesa successfully launched the new products with global component manufacturers in China and Korea.

In the system solutions for the automotive industry, tesa successfully concentrated on constructive applications in vehicle production, focusing on new types of special products for permanently masking bodyshell drainage points caused by production, which are required for anticorrosion treatment. New and particularly highly-adhesive double-sided foam adhesive tapes for the permanent adhesion of emblems on vehicle exteriors were also very well received.

With the successful launch of the new EasySplice Film Line, tesa has applied its concept of splicing tapes for flying splices of paper rolls in the printing and paper industries to the film processing industry. The focus is on the flexographic procedure which is used for package printing and is recording high growth rates, particularly in Eastern Europe. The UV strips were also very well received in the flexographic printing industry. This innovative system enables precise measurement of the light dosage for drying processes in UV coating processes and is used for important key customers. tesa thus also for the first time tapped into new customers in industries who work with UV methods, including industries in the area of manufacturing and labeling plastic packaging.

tesa further strengthened its market position in the security technology business. In the manipulation and theft prevention segment, new customers chose tesa solutions for securing duty free goods at airports, as well as the protection of automotive spare parts and luxury goods. tesa also successfully developed and expanded the use of Holospot® technology for counterfeit protection at renowned manufacturers, including those in the luxury goods,

automotive and electronics industries. tesa developed a new generation of Holospot® laser lithographs, which can be used to label customized counterfeit protection features quickly and prominently.

In the retail business, tesa expanded its product ranges for covering, bundling and packaging new products, adapted them precisely to particular areas of application and thus strengthened its product range expertise. The new developments include an extremely tearproof special adhesive tape for strengthening handholds on carton packages that was particularly well received in the North American market. tesa successfully transferred the European product range concept to the fast-growing Eastern European market.

Consumer. The consumer business also performed well with significant growth in sales and results. The Northern Europe and, once again, Eastern Europe regions recorded a double-digit growth in sales. All major product groups, and especially our repair and renovation products and our insect protection products, contributed to this dynamic development. The business achieved two-digit growth with the new range of extremely strong adhesive mounting tapes introduced in 2006. Another major success was the Europe-wide introduction of a full range of fastening products under the dual tesa VELCRO® brand name. tesa supported the launch in a newly developed, independent design with extensive communication actions at various POS, an advertising campaign, and an individual, multilingual Internet presence. tesa VELCRO® brand is already available in more than 5,000 hardware and superstores in 20 countries. tesa has thus established a new category of fastening and mounting solutions for all sale and distribution channels, which will be further developed in the future. For the paper, office and stationery area, tesa introduced the innovative tesa® TACK solution at the end of the reporting year. With this hexagonal, reusable adhesive pad, notes and other lightweight objects can be attached and removed again quickly.

Employees. In the reporting year, the number of tesa employees increased to 3,855. A particular focus in this regard was the expansion of research and development in Hamburg in order to further strengthen the company's innovation performance. Moreover, the sales divisions in the growth regions of Eastern Europe and Asia were expanded.

Financial Position

Cash flow statement

in € million	2006	2007	Change
Cash and cash equivalents as of Jan. 1	47.9	103.1	55.2
Gross cash flow	65.9	82.1	16.2
Change in net working capital	1.7	4.5	2.8
Net cash flow from operating activities	67.6	86.6	19.0
Net cash flow from investing activities	-13.9	-19.4	-5.5
Free Cashflow	53.7	67.2	13.5
Net cash flow from financing activities	1.8	-55.6	-57.4
Net change in cash and cash equivalents	55.2	7.5	-47.7
Cash and cash equivalents as of Dec. 31	103.1	110.6	7.5

Cash flow from operating activities increased to €86.6 million, a rise of €19 million as compared to the previous year. **Investing activities** accounted for net outflow of €19.4 million (previous year: €13.9 million), resulting in a growth of €13.5 million in positive **free cash flow** to €67.2 million.

The negative **cash flow from financing activities** of €55.6 million was mainly attributed to a dividend payment of €45.2 million to Beiersdorf AG.

Cash and cash equivalents nevertheless rose at the end of the fiscal year by €7.5 million to €110.6 million.

Key Financial Indicators

The **return on sales** – based on the operating result – increased faster than sales, from 9.1% in the previous year to 10.3% in 2007. Excluding adjustments for write-downs on intangible assets and property, plant, and equipment, this resulted in an increase from 12.6% in the previous year to 13.3% in 2007.

The **return on equity**, measured in terms of the **equity** as at the beginning of the fiscal year, increased to 27.4% in 2007; the return on **operating assets** rose from 23.2% to 29.1%.

The **profit after tax** increased from 5.6% in the previous year to 6.7%. The **earnings per share** rose from €1.75 to €2.23.

In order to be able to recruit suitable employees in the future in the face of an increasing shortage of qualified applicants in the job market, tesa developed a new recruitment concept called *think tesa!*, which promotes the company as an innovative employer with a distinctive profile. The goal is to address prospective applicants from fields of specialization that are key to us, geared to the appropriate target groups. The concept provides all affiliates with coordinated modules, such as employer flyers, information folders, elements for a trade fair booth and advertisement templates.

Our focus continues to be on the development of our employees and the promotion of global thinking and action. In addition to attending numerous training and development programs, tesa employees in 2007 increasingly took advantage of the offer to undertake responsibility in a different country for between three and five years, thus boosting the exchange of knowledge and ideas across borders. In the reporting year, tesa recorded more expatriates than ever before.

To ensure that our ambitious growth targets are achieved, tesa has developed a global qualification program for sales employees, which it has already implemented in the growth countries of China and Russia. The program encompasses the complete sales process from technical principles, such as the setup of our products and applications and production processes on-site at the customer's premises, up to economic aspects and sales pitch techniques. The program has a modular structure, allowing the training to be adapted to various different market conditions and cultural prerequisites.

In the Initiative TOP JOB, the tesa plant in Harrislee, Germany, was selected as one of the 100 best employers in the medium-sized business sector. The deciding factors were innovative measures for promoting personal responsibility and employee motivation.

The **equity ratio** climbed insignificantly by 0.2% to 56.0%. The ratio of equity to non-current assets is in excess of 181%.

Capital Expenditure

In the reporting year, tesa invested a total of €24.6 million in intangible assets and property, plant and equipment. Of this figure, €14.2 million is attributable to locations in Germany. €6.7 million was invested in the rest of Europe, €1.2 million in the Americas and €2.5 million in Africa/Asia/Australia. A total of €15 million was spent on replacements and capacity expansions in tesa's worldwide production facilities.

Capital expenditure and investment activities were at a low level for tesa. Over the next few years, tesa will implement several major projects in the areas of research and development, as well as production, from which a significantly higher capital expenditure volume is expected. The first payments for these projects were already made in the last fiscal year.

In addition to a major investment in a coating plant at the Technology Center totaling €1.4 million and investments in new coating technologies at the production locations in Italy (€0.9 million) and Singapore (€0.8 million), several major investment projects have been initiated in the plants and are expected to be completed in 2008.

Balance Sheet Structure

Balance sheet structure of the tesa Group

Assets	2006	2007	Change	
	in € million	in € million	in € million	in %
Non-current assets	191.3	179.1	-12.2	-6.4
Inventories	128.6	128.7	0.1	0.1
Other current assets	153.3	162.8	9.5	6.2
Cash and cash equivalents	103.1	110.6	7.5	7.3
Total	576.3	581.2	4.9	0.9
Equity and liabilities (in€ million)				
Equity	321.6	325.2	3.6	1.1
Non-current provisions	86.5	88.8	2.3	2.6
Non-current liabilities	20.4	11.7	-8.7	-42.6
Current provisions	64.5	70.6	6.1	9.5
Current liabilities	83.3	84.9	1.6	1.9
Total	576.3	581.2	4.9	0.9

Total assets increased slightly by 0.9% compared with the previous year, to €581.2 million. The balance sheet structure has essentially not changed.

On the assets side, the non-current assets reduced by €12.2 million. The main reasons for this were the decline in intangible assets and property, plant, and equipment, as well as the other non-current assets. In comparison, current assets increased by €9.6 million and cash and cash equivalents by €7.5 million. On the equity and liabilities side, the development is essentially characterized by the profit after tax of €57.6 million and the payment of dividends in the amount of €45.2 million to Beiersdorf AG. Provisions increased by a total of €8.4 million, while liabilities dropped by €7.1 million, primarily due to the repayment of bank loans.

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 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 records, analyzes and monitors global risks using its planning and reporting system, both at a systematic and at a centralized level at tesa AG, as well as 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, economic risks exist in the industrial sectors that account for a high proportion of tesa's sales, especially in the automotive and electronics industries. tesa closely monitors the market trends, both centrally and in the regions, in order to be able to intervene and control the risk at an early stage. Furthermore, tesa is exposed to the risk of losing individual customers completely and to a default risk on receivables. Although its broad sales base and diversification mean that tesa does not have single customers that account for such a high share of sales or receivables that their default could threaten the Company's existence, it additionally takes out trade credit insurance against the risk posed by specific customers of its sales organization who are identified on the basis of the company profile or the scale 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 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 reduced by process control checks, and external certification is used as well. tesa has sufficiently provided for the financial impact of liability risks and any loss or damage events by taking out insurance.

The possibility of failure of one or more production aggregates 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 competition that is based purely on price and reduce the risk of the expansion of private brands 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 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 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.

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 restricted through the fact that only short-term investments are made at prime names. Developments in exchange rate risks are monitored regularly.

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

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

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

Performance-based compensation systems help to recruit 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 recognized for the period of the next 12 months that could endanger tesa's continued existence, either individually or in their totality.

Outlook

Both the general economic environment and the situation in the sales markets for adhesive tapes will continued to be determined in 2008 by trends similar to those in the reporting year. However, the global drive will be slightly slower, and thus the growth rate is estimated at 3%. Once again, a very buoyant performance is anticipated in Asia and Eastern Europe, with the other European markets still expected to increase perceptibly, while remaining, with around 2%, behind the impetus of the previous two years. Economic growth in the North America region will remain at the low level of 2007, not least as a result of the abruptly aborted real estate boom.

Economic activity in the automotive industry will develop with a growth in volume in the lower one-digit range, with above average momentum coming from East Asia and Eastern Europe. The electronics segments will also record sharp increases in demand in future years. Rising prices will act as an additional growth driver across all markets, as it can be assumed that the dramatic rises in raw material prices in 2007 have been passed on to the market. In its consumer business, tesa is focused on the European market. Sales growth in Eastern Europe and particularly in Russia is expected to remain particularly buoyant, especially since the large European retail chains have made major investments in distribution structures there. In the other regions of Europe, business is determined by cut-throat competition in the established categories, which in the foreseeable future will go hand in hand with a shift towards lower-priced standard product ranges.

In the important, currently tight procurement markets, exonerative expansion investments are only partially in evidence. As a result of the price and supply pressure associated with this, the identification of suitable alternative sources will continue to be of key importance for the tesa Group's procurement market activities in 2008. Price increases will be at the level of 2007, and there is currently no indication of a reversal of the trend in future years.

tesa expects that its sales will grow slightly faster than the market as a whole in the coming years in both customer segments. On the strength of the continued high rate of innovation, the varied nature of its business areas, 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 in the focused customer segments. The retail consumer business will be dominated by a disproportionately high development in the European core markets outside of Central Europe. Expanding and complementing the product ranges in tesa's fields of competence will provide additional momentum.

tesa expects its return on sales to increase again slightly in 2008, in spite of the planned continuation of structural expansion. Systematic hedging, especially for the US dollar, means that no significant earnings risks from changes in exchange rates are expected.

According to the current assessment, capital expenditure will increase noticeably in 2008 as well as in the medium term. At the same time, however, tesa will focus on improving the structure of the working capital in the coming year, in addition to the increase in operating results already commented on. tesa expects the results to show that the EBIT margin on the capital employed can be sustained at its current, very satisfactory level.

Report by the Executive Board Regarding Dealings with Affiliated Companies

In accordance with § 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 AG received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures."

Hamburg, January 25, 2008

The Executive Board

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