



# ANNUAL REPORT 2018

tesa SE, Norderstedt

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# CORPORATE GOVERNANCE

## **Corporate Governance at tesa**

tesa welcomes and supports the German Corporate Governance code. The declaration of compliance of Beiersdorf AG is available permanently at [www.Beiersdorf.com](http://www.Beiersdorf.com).

## **Audit Opinion**

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

# FOREWORD

## Ladies and Gentlemen,

In 2018, the tesa Group achieved sales of 1,342.8 million euros at current exchange rates, equivalent to another significant increase, this time of 6.8% year over year. Adjusted for exchange rate effects and special factors, sales also rose by 6.8%. All regions and business fields contributed to this pleasing development. We once again achieved especially strong growth in our Asia, Americas, and Eastern Europe business regions, but the countries of Western Europe also saw positive development in terms of sales. The operating result rose to 210.3 million euros (up 1.3%).

Organic growth in our target markets remains the mainstay of our successful strategy. To achieve this, it is necessary to expand our portfolio of innovations on an ongoing basis and introduce the resulting product solutions to our customers in an effective way. Various measures initiated in 2018 will further strengthen the company in this rapidly changing market environment. The tesa innovation initiative, for example, aims to bring even more impetus into the company from outside, whether from our suppliers, technical partners, or customers. At the same time, we are also trying out new ways of working together internally across all areas and regions. Together, these two factors are helping to further develop our culture of innovation and increase its dynamism. The Digital Development Office, which was established in mid-2017, has already made great strides in bringing together company-wide digital activities as part of a single overarching strategy, prioritizing them and swiftly driving key projects forward. In China this past fall, for example, we opened tesa's first own online shop on Alibaba's 1688.com platform, one of the most widely used e-commerce platforms across China.

Beyond organic growth, we also aim to continue bringing growth and technological expertise into the tesa Group through further acquisitions in the future. tesa takes a systematic approach to seeking out, identifying, and acquiring suitable target companies. This past fiscal year, the company successfully concluded not just one or two, but three acquisitions. In this way, the Twinlock division of Poly-

mount, a company situated in the Netherlands, London-based FormFormForm Ltd., and Functional Coatings, a company located in the northeastern United States, all became part of the tesa family. All of these new additions will strengthen our market position among industrial and commercial customers in the areas of print and paper, building industries, and the consumer business, thanks to their forward-looking products and technologies, new customer segments – and most of all, their highly qualified, committed, and dedicated employees.

With social and political changes still ongoing around the world, 2019 is expected to bring uncertainties once again, making accurate forecasts more difficult. Still, we have consistently shown in the past that thanks to our organization's great flexibility, we are indeed able to react quickly to changes in market conditions. As a result, we firmly believe our successful strategy is a solid one for the long term. With our economic strength, innovative drive, and years of experience working with a wide range of different customer industries, we feel we are ideally positioned to tackle potential challenges and ensure the continuing positive development of the business.

Special thanks goes out to all employees worldwide, who once again worked with great dedication and engagement to shape tesa's success in 2018, demonstrating their passion for our brand and our company in the process. I would also like to thank our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Dr. Robert Gereke  
Chairman of the Executive Board

# MANAGEMENT REPORT

## I. Business Parameters

### General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group. It employs 4,917 people and operates in more than 100 countries. tesa SE is a wholly owned subsidiary of Beiersdorf Aktiengesellschaft and the direct or indirect parent company of the 64 tesa affiliates (previous year: 52).

During this fiscal year, the number of affiliates grew by eleven through acquisitions. tesa SE acquired the Twinlock product division of Polymount International BV, based in the Dutch city of Nijkerk, as of March 1, 2018. In this context, a new company, tesa TL LLC, was also founded in the United States to assume responsibility for the facilities used by the Twinlock business in America. Polymount International BV was renamed tesa TL B.V. (Netherlands). It is the direct parent company of four sales companies, one each in Germany, the Czech Republic, France, and Sweden.

As of May 18, 2018, the tesa Group established a new company, tesa Functional Coatings Inc., which acquired Functional Coatings LLC, along with an inactive subsidiary, Heromelt Adhesives LLC, based in Newburyport, MA (United States).

In addition, tesa SE acquired FormFormForm Ltd., based in London (UK), and a wholly owned affiliate, Sugru Inc. (U.S.A.), as of May 24, 2018.

Last but not least, a new company, tesa tape (Suzhou) Co. Ltd., was founded in China to focus on e-commerce.

### Regions and Major Locations

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

Asia (China). The company headquarters, which include the research and technology center, are located in Norderstedt, near Hamburg.

### Direct Industries Division

In the **Direct Industries** division, which accounts for somewhat more than half of tesa’s sales, tesa supplies industrial customers – particularly from the electronics, printing and paper, building and construction, and automotive industries – with specialized system solutions via direct channels. The company’s strategic focus is especially on developing and expanding profitable lines of business in technologically advanced fields of application. System solutions from tesa are used to optimize and enhance the efficiency of production processes, as customized protection and packaging systems, and as fastening solutions in construction-related applications. This includes special product ranges for roll offset and flexo printing and for mounting electronic components in smartphones, tablets, digital cameras, and LCD screens. Forgery-proof laser-printed labels and systems for bundling and affixing cables or mounting emblems and decorative elements are among the products used in the automotive industry.

tesa also offers innovative solutions with flexible uses to protect products from tampering and counterfeiting. One current key technology in this field, which is the responsibility of **tesa scribos GmbH**, is tesa ValiGate®: a printed product marking whose algorithm enables fully automated verification of authenticity and links products with newly developed Web and app solutions.

Another promising market that tesa is developing for the future is being handled by **tesa Labtec GmbH**. This tesa affiliate develops and manufactures medicated patches, termed “transdermal therapeutic systems,” along with buccal films (medicated films that deliver the active ingredient via the oral mucous membrane) for the pharmaceuticals industry.

### Trade Markets Division

The **Trade Markets** division encompasses those markets in which tesa supplies end customers with market-driven

products via retail partners or retail-like channels rather than directly. This segment includes the product ranges aimed at private consumers and craftsmen as well as adhesive tapes that are intended for commercial customers and are marketed primarily via the technical trade.

In the **General Industrial Markets** business segment, tesa offers a wide range of products for diverse applications in various industrial sectors, including product ranges for assembly and repair, tapes to secure items during transportation, and adhesive solutions for the packaging industry.

In the **Consumer & Craftsmen** segment, whose business is focused on Europe and Latin America, tesa markets innovative product solutions intended for various applications, including for daily use in offices, the home, and in crafts. Under the tesa umbrella brand, DIY stores and superstores as well as paper goods and stationery shops offer end consumers a broad assortment of more than 300 innovative products in the **Consumer** segment. Products range from handy products for office use, such as the classic tesafilm® transparent adhesive tape, and tailored solutions for specific applications that include energy conservation, renovation, mounting items, repairs and packaging, up to solutions to protect against insects. The range of smart mounting systems includes a broad selection of innovative products, most of them removable without a trace, for securely affixing items for any use.

These items include adhesive screws and nails and transparent decorative hooks that feature tesa Powerstrips® technology, along with hooks and bathroom accessories based on tesa nie wieder bohren® (“never drill again”) technology, which deliver an especially firm hold.

Proven examples of tesa’s self-adhesive solutions include tesamoll® foam for sealing windows and doors, mounting tapes for indoor and outdoor use, the versatile line of fabric tapes, a wide array of masking tapes and tesa Easy Cover® for clean, professional painting and finishing work, and, last but not least, systems to protect against insects in the home. In the **Craftsmen** business segment, tesa concentrates on customized product ranges for professional craftsmen, such as painters and finishers, and on developing and implementing marketing concepts geared toward the specific needs of this target group.

## Strategy

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

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

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

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

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

In developing its business, tesa focuses on organic growth based on the existing customer groups and product ranges. Expanding the innovation portfolio and successfully launching new products on the market are particular areas of concentration.

Acquisition of stakes in other companies and of new affiliates is another integral element of the tesa growth strategy. tesa systematically seeks out and identifies possible target companies in two categories:

- **Scale:** Acquisitions that boost market share in the relevant markets, thereby enhancing tesa’s growth dynamic

- Scope: Acquisitions that bolster tesa's competitiveness on a lasting basis through forward-looking technologies and supplementary expertise

## Value Management and Control System

The objective of the tesa Group is to expand its market share through sustained growth while at the same time boosting its earnings base. In these activities, tesa SE is integrated into the management system for the entire group. tesa focuses on continuous, profitable growth in sales volume, with an eye to increasing its earning power over the long term. The benchmarks for this are the operating result (EBIT) combined with the return on sales (ROS) and the return on capital employed (ROCE). Active cost management and the highly efficient use of resources are aimed at generating returns that are internationally competitive.

## Economic Environment

After a relatively modest start to the year, the pace of growth in the global economy stabilized over the course of 2018, especially in the industrialized countries. This meant that growth held steady at the same level as the previous year. The United States remained the main driver of this trend, while economic growth in Europe, China, and emerging economies softened again recently. Still, personal consumption, investment, and high levels of exports supported global growth. General political and economic instability stemming from geopolitical conflicts and uncertainty regarding the long-term consequences of Britain's departure from the EU ("Brexit") and the future political course of the United States had a more muted impact on overall economic trends in 2018 than had been expected. Nevertheless, these still pose significant risks.

Economic growth in Europe, which is heavily dependent on exports, slowed to an increasing degree in 2018 as global demand softened. The ongoing risk of trade wars and the appreciation of the euro acted as a drag on growth, especially in the three largest eurozone countries: Germany, France, and Italy. Key economic support came from private consumption and investment confidence, buoyed by

positive developments on the labor market and ongoing low interest rates. Still, political uncertainty remains high, with ongoing separatist conflicts in Spain, the spread of anti-EU movements, and the tough negotiations surrounding Brexit.

The German economy slowed somewhat as compared with the previous year, but it still stands on a solid foundation. The main drivers were once again private consumption, spurred by ongoing favorable conditions on the labor market and solid wage gains, along with the favorable financing conditions created by the European Central Bank's expansive monetary policy.

The United States saw a rise in economic growth in 2018, primarily due to tax cuts and significant increases in government spending. The upturn was supported by the ongoing good labor market situation, rising personal consumption expenditures, and investment.

In Japan, economic growth picked up steam again in 2018 following a decline in the first quarter. There was a significant upturn in personal consumption and in companies' willingness to invest.

The picture for the growth markets was mixed. The growth level in China was down slightly from the year before. The Chinese economy was bolstered in particular by fiscal stimulus measures, but these measures were unable to compensate in full for declining production, particularly in the automotive sector, and for weaker construction activity. The sharp growth of credit and high debt levels among state-owned enterprises also continue to harbor significant risks. In India, the economy expanded sharply, following weak growth the previous year as a result of the introduction of a nationwide value-added tax. In contrast, overall political uncertainty continues to weigh on economic development in the Middle East. The economic recovery in Brazil ground to a halt this year. The political situation surrounding the elections in October put a burden on the economy, as did a strike by truck drivers in May. Although the direct negative effects were limited to a certain period, the strike continued to have negative repercussions as it drove transportation costs higher, which weighed on exports even as the Brazilian currency lost value. Corruption, failure to enact reforms, and political uncertainty continue to pose significant risks. Russia saw continued positive economic growth in 2018, albeit without any major moves to the upside. The anticipated effect of the World Cup was more muted than

expected. Still, overall economic development was driven by historically low inflation and by personal consumption. Ongoing international sanctions continue to have a negative impact on the Russian economy.

## Sales Market Development

The 2018 fiscal year was marked by modest development in the automotive industry, along with a slight decline in the sales markets in the smartphone and tablet segment. Development varied sharply by market and region otherwise.

For the automotive industry, 2018 was significantly less dynamic than previous years. On the whole, the industry achieved only slight growth. While the big production markets, China and North America, saw flagging growth, production figures for Germany declined.

The Asia-Pacific region emerged as the driving force in worldwide automotive production, with disproportionate growth in India and Southeast Asia. Eastern Europe also saw above-average growth once again, spurred primarily by Russia and Romania, while Turkey suffered a significant slump. Together with Latin America and Africa, Asia and Eastern Europe made a significant contribution to global growth.

The diesel scandal has not made a major dent in global growth among the big manufacturers, such as the Volkswagen Group, but it has added further impetus to the trend toward development of new types of drive systems. The WLTP (Worldwide Harmonized Light Vehicles Test Procedure) requirements that went into effect in the EU as of September 1, 2018, weighed somewhat on automotive production toward the end of the year. Alongside the Chinese manufacturers, Fiat-Chrysler also contributed to the overall growth in the industry, while General Motors, Toyota, and Ford (including joint ventures) all posted declining production figures.

Unlike in the past, when the markets in the consumer electronics sector showed strong growth, a slight downward trend is now emerging. The growth of sales volume for the full year slid by a mid-single digit percentage for both smartphones and tablets. Conversely, the wearables segment (mainly fitness trackers and smart watches) saw firm single-digit growth, by contrast. In the traditional categories of smartphones, tablets, and notebooks, tesa has observed increasing consolidation as the top five manufac-

turers hold greater market share. The wearables segment, by contrast, is more dynamic and often features new market participants and innovative devices.

Ongoing digitization continues to put pressure on the traditional paper and printing industry, especially periodicals. The packaging industry has seen solid growth, driven by positive general economic development and rising sales figures for e-commerce. The development of the worldwide construction industry has been positive on the whole. Prefabricated solutions in the construction sector, including adhesive solutions, are an increasingly attractive option given the shortage of workers in these fields.

Traditional retail continued to see a slight upward trend in Europe as general purchasing power grew, with somewhat stronger growth noted in Eastern Europe. The growth of e-commerce continues unabated, with growth rates in the double digits. Hardware and home improvement stores are also losing some of their business to e-commerce.

## Procurement Market Development

The procurement markets were marked in the past fiscal year by price increases and sporadic shortages of raw materials. In keeping with its strategy, tesa expanded its supplier base in 2018, thereby continuing to reduce the risks to the Group's business.

Prices for special grades of paper rose steadily throughout the year, a tendency tesa believes is due to the trend toward consolidation of the business among paper suppliers and to high demand for packaging driven by the rise of e-commerce. This results in higher procurement costs for paper industry products.

Due to high global demand, in conjunction with higher prices for individual raw material components, the prices of various plastic-based materials rose in 2018. The price situation eased in the natural rubber supply sector, due to additional capacity provided by a large number of new plantations that were put in place following the 2008/09 financial crisis, especially in Thailand, and are now becoming productive.

With its global supplier portfolio and targeted policy of qualifying additional suppliers, tesa was able to avoid significant supply shortages in the necessary raw materials it sources.

For 2019, tesa assumes that the trend toward rising prices in all of the relevant raw materials markets will continue. Due to its long-term pricing and volume contracts, tesa believes it is well prepared for such a scenario.

In 2019, as in the past, tesa plans to focus on developing alternative sources of raw materials, especially in the growth markets in Asia and North America and in the traditional markets in Europe. The objective here is to secure the company's competitiveness and innovative drive and ensure that it has a reliable supply, now and into the future.

## Research and Development

In the area of research and development, 2018 saw tesa continue its focus on technologies for structural adhesion. In this context, during this past fiscal year, tesa was able to expand its high-performance portfolio of technology components that can be combined to create reactive adhesive tapes for structural bonding.

On this basis, tesa developed a number of reactive adhesive tapes for selected leading applications. Reactive tapes for automotive body construction performed well in practical testing. tesa also worked with key customers to further develop processing methods. One example is laser activation, which allows rapid and precise adhesive bonding of reactive tapes in application. This research work is also supported by the European Union via the European Regional Development Fund (ERDF).

In 2018, tesa also developed special adhesives based on new acrylic polymers produced through specific innovative polymerization methods. These special adhesives are used in areas such as prototypes for flexible displays in the electronics industry. Since they retain their firm adhesive bond and optical properties even after being bent and folded thousands of times over, they are perfect for the next generation of display designs.

In 2018, as in the past, tesa's development work continued to focus on the further development and refinement of technologies for processes and products with low environmental impact and efficient use of resources. As one example, tesa made further advances in extrusion technology, which makes it possible to completely eliminate solvents, developing solutions such as high-performance double-

sided tapes for adhesive bonding of components in smartphones. "Debonding on demand" requires adhesive tapes that offer a firm adhesive bond while also being easy to remove without leaving any damage. In 2018, tesa took its existing technologies to a new level, enabling even firmer adhesive bonding in tandem with even greater ease of debonding. Major manufacturers in this segment have already successfully tested these products.

Ecofriendly adhesives, either based on dispersions or water-soluble, play an important role in tesa's development activities. tesa expanded this technology to include new high-performance tapes that emit no odors or emissions after bonding. Fields of application for these products include wire harnessing in the automotive, construction, and furniture sectors, along with the electrical engineering and electronics industry, which needs thin, double-sided adhesive tapes that can deliver superior performance.

As another area of emphasis, tesa successfully developed prototypes with backings made of recycled plastics and new adhesives that are undergoing successive optimization. Some of these contain lignin, for example, a natural byproduct of paper production that is available in large volumes.

tesa made great strides in 2018 in developing technologies and adhesive tape solutions for bonding batteries in the electric mobility segment. The company developed adhesive tapes that wrap battery cells and provide reliable electrical insulation before the cells are combined to form battery modules. These tapes have already been tested by battery system manufacturers, with positive results. tesa also developed prototypes of new adhesives and backings that simultaneously dissipate heat, provide electrical insulation, and also ensure firm bonding over a long term. This kind of robust bonding is needed in order to stand up to heavy vibration in automotive drive modules.

Through tesa nie wieder bohren GmbH, a company that was acquired in 2017 and has since been renamed, tesa once again expanded its technology portfolio, adding patented anchor-free affixing systems that consist of special adhesive and adapters for everyday bathroom items. In 2018, tesa succeeded in further improving storage stability and waterproof properties for critical adhesive bonding segments and in leveraging synergies with adhesive tape technologies to develop prototypes for new fields of application.

## Responsibility

tesa views corporate responsibility as the key to sustainable value creation. As a result, protecting the climate, using resources sparingly, and ensuring occupational safety and health are all integral parts of the tesa corporate culture and the company's business processes. Civic engagement is another key element of the tesa corporate values.

### Protecting the Climate and the Environment

One of the main sources of environmental impact at tesa is the use of energy at production sites. As a result, the company focuses on reducing CO<sub>2</sub> emissions. To manage environmental performance effectively, all locations that have significant environmental impact use environmental management systems. Seven production sites and tesa headquarters now have an environmental management system certified under ISO 14001. The company headquarters and the locations with the highest CO<sub>2</sub> emissions (Hamburg and Offenburg) also have an energy management system certified under ISO 50001.

Through its environmental program, tesa has been setting Group-wide targets to continuously reduce its environmental impact since back in 2001. The current targets apply to the period from 2016 through 2020. By the end of this period, tesa plans to lower the specific CO<sub>2</sub> emissions per metric ton of end product (location based) by a further ten percent compared to the reference year, 2015. One strategic approach is the use of technologies that conserve energy and resources, such as efficient production of the company's own energy through cogeneration and procuring electricity from renewable sources. As of the date of this report, tesa has succeeded in reducing specific CO<sub>2</sub> emissions by 8.3 percent as compared to 2015 (location-based method).

tesa's waste and raw materials management activities are geared toward minimizing production-related losses of the raw materials used, making efficient use of materials, and recycling wherever possible. Almost all non-hazardous waste and hazardous waste that contains solvents is recycled. By 2020, tesa aims to reduce the specific waste generated per metric ton of end product by another two percentage points compared with the reference year, 2015. As of the date of this report, the tesa Group was on target across the board.

## Occupational Safety and Health

To prevent occupational accidents and occupational health risks from the outset, tesa focuses on prevention and on raising employee awareness. The strategic goal is to reduce the number of accidents to zero.

The company's occupational health and safety management activities focus on the production plants, where the risks of accidents and adverse health effects are greater than at the office locations. tesa employs in-house safety specialists at all locations that are certified under ISO 14001. These specialists are familiar with tesa's global occupational health and safety guidelines and with local conditions.

The frequency of accidents > 3 days at tesa stood at 1.9 per million hours worked worldwide in 2018, significantly below the German industry average (BG RCI, the statutory accident insurance and prevention institution for the raw materials and chemicals industries) of 11.6.

## Corporate Citizenship

Beyond its core business, tesa also aims to make a positive contribution to society as a company. The tesa corporate citizenship strategy concentrates on three strategic key fields: social commitment and involvement, support for education, and environmental protection. At the project level, these activities are grouped together into four categories: "tesa hilft" ("tesa helps") and "tesa spendet" ("tesa donates"), which are both aimed at social activities, "tesa fördert" ("tesa supports"), for education, and "tesa schützt" ("tesa protects"), for the environment.

In 2018, as in the past, tesa supported a wide range of projects around the world:

- "tesa hilft" ("tesa helps") provides active assistance to local communities, supporting social institutions in the locations where tesa operates through various projects. As part of tesa's work with the "tatkräftig – Hände für Hamburg" initiative, five teams consisting of 58 volunteers in all pitched in to help with projects for social and charitable institutions such as children's and youth facilities, day care centers, and refugee centers in 2018. Examples included games, play and craft activities and gardening and renovation work.
- tesa colleagues in Slovakia have supported the foundation Deti Slovenska (Children of Slovakia), which works with children suffering from hemophilia, since 2010. Each year, a group of tesa employees organizes an afternoon of

fun and games for the children. In 2018, the tesa team put together a number of game booths for the kids, encouraging them to put their physical skills, patience, logical reasoning skills, and memory to the test. “tesa spendet” (“tesa donates”) supports selected institutions in their work by providing monetary or product donations. For example, employees at the Norderstedt, Hamburg, and Langenfeld locations contribute amounts of less than one euro from their monthly pay and then have them matched by tesa. This initiative brought together more than 7,500 euros in donations for nonprofit organization Norderstedter Tafel e.V. in 2018.

- As a technology group, tesa is well aware that education and qualified next-generation talent are crucial. That’s why, as part of its activities in the “tesa fördert” (“tesa supports”) category, tesa cooperates with the nonprofit organization Initiative für Naturwissenschaft & Technik (Science & Technology Initiative). In 2018, as in the past, tesa provided students from various secondary schools in Hamburg with insight into scientists’ day-to-day work in the form of three daylong STEM projects.

The tesa plant in Suzhou, China, has been helping children from families of migrant laborers get a better elementary school education through the tesa Sunshine Education Assistance program for ten years now. The program has provided scholarships to about 630 children so far.

tesa colleagues in China have been working with the “Million Tree Project” since 2015. Volunteers participated in a tree planting campaign in Inner Mongolia again in 2018. More detailed information is available in the annual sustainability report, which is accessible at [www.tesa.com/responsibility](http://www.tesa.com/responsibility).

## Employees

The qualifications and engagement of tesa employees are instrumental in ensuring the economic success, quality, and sustainability of tesa’s business. As a result, tesa’s attractiveness as an employer is an essential prerequisite for the company’s lasting positive development. As a worldwide technology leader in the technical adhesive tape and adhesive system solution segment, tesa needs to recruit highly qualified employees and secure their loyalty to the company in the long term. Good development opportunities, excellence in leadership, performance-driven financial incentives, and an appealing working environment are some of

the key factors when it comes to bringing in talented employees and keeping them motivated on a lasting basis in today’s increasingly tight labor market.

In keeping with this understanding, tesa continued to invest in continuing education and training for its employees in 2018, as previously, and created further attractive development opportunities. One area of focus was continuing education for managers in order to facilitate their leadership tasks by giving them new tools and specific forms of help.

The interdisciplinary, cross-regional steering committee for the Sales and Marketing Qualification development program focused on the topic of pricing strategy during the last fiscal year. tesa also tested various training methods and translated them into regular qualification measures.

tesa successfully concluded the process of developing and producing its e-onboarding program in 2018 and made it available in two languages to all of the company’s units around the world. Through e-onboarding, tesa gives new employees a way to quickly gain an overview of the company and what it is like to work as part of the tesa Group. This helps train and integrate new employees efficiently.

In the area of sharing knowledge, tesa is increasingly utilizing e-learning and blended learning, two methods that allow employees to learn new things anytime, anywhere. At the same time, on-site training activities retain an important role, as they are better suited to all development measures that go beyond purely conveying knowledge, and because they also allow employees to expand their personal networks within the company.

Alongside the employee performance appraisals, which are geared toward the tesa competency model, the annual talent management workshops are an increasingly important factor when it comes to the alignment of development offerings.

Managers’ ability to offer employees a motivational working environment and promote the development of their talent is crucial to tesa’s success as a business and to the company’s appeal as an employer. With this in mind, tesa further intensified its leadership program in 2018. Essential Leadership Training has been in use across the board since the middle of last year. The goal is to communicate the same understanding of employee management to all managers around the world. tesa completed the Advanced Leadership Training program, which was introduced

## II. Results of Operations

as a pilot project the previous year, in 2018. It is now available as an additional module for training managers. In this form of training, managers have the opportunity to tackle especially tough leadership challenges and develop new solutions with guidance from a trainer. Also in 2018, brief training units that deal with leadership in new forms of co-operation were added to the range of options available. These include leadership as part of a matrix and management of virtual teams.

tesa promotes and supports various aspects that contribute to a safe and healthy working environment and bolster employees' engagement and motivation. Alongside leadership, development options, and performance-driven pay, factors such as occupational safety and health increasingly affect employee loyalty. Investments in technical safety, occupational safety and health measures, and training activities, along with a campaign to raise awareness, helped to ensure that the rate of occupational accidents in 2018 was once again below the industry average according to the statutory accident insurance and prevention institution (*Berufsgenossenschaft*). The occupational health management program "It's for you" and the tesa sport club established new emphases in this reporting year with a wide range of classes. From preventive health checks and back strength exercise programs to physical therapy, employees have a range of interdisciplinary options to choose from.

tesa conducts regular anonymous employee surveys to see where it stands in terms of the range of measures the company has taken. This year marked the second time tesa held its "HR Marketplace," a special event geared toward informing employees about the many options and development opportunities available and filling an information gap that had been identified. The responses were highly positive, so the company plans to hold the event again in 2019.

The number of employees stood at 4,917 at the end of the fiscal year (previous year: 4,457).

For more information on these areas of emphasis, please see the tesa sustainability report, available online at [www.tesa.com/responsibility](http://www.tesa.com/responsibility) starting on February 27, 2019.

### Results of operations in the tesa Group

	2017	2018	Change	
	in € million	in € million	in € million	in percent
Sales	1,257.8	1,342.8	+85.0	6.8
Costs of goods sold	-665.1	-740.9	-75.8	11.4
<b>Gross profit</b>	<b>592.7</b>	<b>601.9</b>	<b>+9.2</b>	<b>1.6</b>
Marketing and selling expenses	-251.2	-271.8	-20.6	8.2
Research and development expenses	-53.1	-55.8	-2.7	5.1
General administrative expenses	-68.7	-79.0	-10.3	15.0
Other operating income	39.7	73.3	+33.6	84.6
Other operating expenses	-51.9	-58.3	-6.4	12.3
<b>Operating result (EBIT)</b>	<b>207.5</b>	<b>210.3</b>	<b>2.8</b>	<b>1.3</b>
Financial income	8.0	9.4	+1.4	17.5
Financial costs	-10.9	-19.0	-8.1	74.3
<b>Financial result</b>	<b>-2.9</b>	<b>-9.6</b>	<b>-6.7</b>	<b>231.0</b>
<b>Profit before tax</b>	<b>204.6</b>	<b>200.7</b>	<b>-3.9</b>	<b>-1.9</b>
Taxes on income	-70.4	-62.7	+7.7	-10.9
<b>Profit after tax</b>	<b>134.2</b>	<b>138.0</b>	<b>+3.8</b>	<b>2.8</b>

The tesa Group posted an operating result (EBIT) of **€ 210.3 million** in the 2018 fiscal year, an increase of € 2.8 million (+1.3%) year over year. While the gross profit stood at € 601.9 million (+1.6%), the overall result of operating expenses and operating income was down 1.7% overall in 2018, to -€ 391.6 million (previous year: -€ 385.2 million).

The tesa Group closed the fiscal year with profit after tax of € 138.0 million (+2.8%). The root cause of this, alongside the higher operating result (+1.3%), was primarily the fact that liability for taxes on income decreased by € 7.7 million, to € 62.7 million (-10.9%). At the same time, the financial result decreased year over year, declining to € 9.6 million (down € 6.7 million).

Sales increased by € 85.0 million, to € 1,342.8 million. Taking into account the simultaneous increase in the costs of goods sold, which were up by € 75.8 million, gross profit improved by 1.6%, rising to € 601.9 million. Return on sales led year over year to a lower EBIT margin of 15.7% (previous year: 16.5%). The companies acquired in 2018 contributed € 29.1 million to Group sales.

Other operating income increased by € 33.6 million, to € 73.3 million. This development was due primarily to higher gains from release of provisions and from fluctuations in currency exchange rates compared with the previous year.

Other operating expenses increased by a total of € 6.4 million in 2018, up to € 58.3 million, driven primarily by currency exchange factors.

Marketing and selling expenses rose € 20.6 million, to € 271.8 million. Research and development expenses increased by € 2.7 million, to a total of € 55.8 million, and general administrative expenses were up € 10.3 million, at € 79.0 million.

The financial result decreased by € 6.7 million year over year to stand at -€ 9.6 million.

Taxes on income decreased by a total of € 7.7 million in the 2018 fiscal year, to € 62.7 million (previous year: € 70.4 million).

In keeping with forecasts from the previous year, a positive trend in sales was seen in 2018. The EBIT margin decreased year over year in 2018, as expected.

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

## Business Development by Region

Organic sales growth in the tesa Group totaled 6.8% in the 2018 fiscal year (previous year: 10.6%).

### Europe

The development in Europe was positive in 2018 as well, leading to organic growth of 3.2% in sales. The business in Eastern Europe and in Western Europe alike saw good development. Sales were up in both the Trade Markets and Direct Industries segments. In 2018, tesa acquired two main companies in Europe (tesa TL B.V., Netherlands; FormForm-Form Ltd., United Kingdom), which contributed about € 12.3 million to sales. At current exchange rates, tesa posted sales of € 731.5 million in Europe (previous year: € 707.0 million). The share of Group sales decreased to 54.5% (previous year: 56.2%).

### Americas

In the Americas, tesa achieved organic sales growth of 9.7% in 2018, due in particular to the development on the automotive market in North America, which was positive for tesa. In 2018, the tesa Group grew in the Americas through acquisitions, adding two companies with operational activities (Functional Coatings LLC, United States; tesa TL LLC, United States), which contributed about € 16.7 million to sales. At current exchange rates, the sales figure for this region was up by 13.5%, at € 216.4 million (previous year: € 190.6 million). The share of Group sales increased to 16.1% (previous year: 15.2%).

### Africa / Asia / Australia

The organic sales growth of 12.3% in the Asia region was significantly boosted by the project business focusing on products for the electronics industry. At current exchange rates, sales in the region, at € 394.9 million, were up 9.6% from the previous year's sales of € 360.2 million. The share of Group sales increased to 29.4% (previous year: 28.6%).

## Business Development by Division

### Direct Industries

The tesa Direct Industries division achieved organic growth of 9.1% in sales. All regions contributed to this highly posi-

tive sales development. tesa achieved significant growth in Asia, including higher sales in the project business with the electronics industry, and in the Americas. In nominal terms, sales were up 10.1%, to € 798.3 million (previous year: € 725.2 million). Acquisitions increased sales by 3.7 percentage points. The share of overall sales attributed to the Direct Industries division was 59.4% (previous year: 57.6%).

In the **Consumer Electronics** segment, tesa once again achieved significant sales growth in 2018. As a leading provider of reversible adhesive bonds for batteries, tesa offers innovative products for applications in the electronics industry. With this approach, the company has been able to further expand its market position in two important product categories: smartphones and tablets. Customers around the world use tesa Bond & Detach® for adhesive bonding of batteries in smartphones. It features a combination of good adhesive bonding properties during use and ease of removal for repairs. The company has also launched innovative acrylic foams, which have been sought after on the market for their great bonding reliability and damping properties. Customers began using these foams for the first time to assemble displays and the reverse sides of housings. In addition, the new tesa range of optically clear adhesives is aimed at well-known manufacturers of game consoles and e-reader displays. The company brought in the first orders for applications in this segment in 2018.

In the **automotive sector**, tesa is actively helping to shape the key trends of electric mobility and digitization through product and customer development and has built teams and capacity for these purposes. tesa has earned initial sales with the first few applications, especially in battery production. tesa is constantly at work developing new products and expanding the portfolio of applications for the automotive business. In addition, tesa has commissioned a production facility in the United States that focuses especially on making products for wire harnessing as part of its push to internationalize the business. Now that the facility is up and running, tesa can supply customers in the United States region even more effectively with locally made products.

In the **print and paper** segment, tesa expanded its activities in flexo printing. In March 2018, tesa acquired the Twinlock® brand self-adhesive printing sleeve business from Polymount, a company based in the Netherlands. This method is used first and foremost in printing packaging and

labels. This market is developing positively, so tesa has been able to continue its growth in this area. tesa further optimized its printing plate tape product range during this reporting period, adding the tesa Twinlock® product to it. In 2018, as in the past, tesa also achieved growth in saturated markets, such as the market for graphic paper, through consistent modernization of existing standard product ranges and a firm commitment to focusing on the customer.

In the **pharmaceuticals** segment, tesa's focus for 2018 was on improving the business in terms of productivity, quality and output. tesa was able to drive the development of product innovations as part of the approval process and to further expand the portfolio of development projects. In addition, tesa Labtec GmbH embarked on a strategic cooperative initiative aimed at the early development of an originator that identifies the original product as distinct from the generic in the pharmaceutical market. At the same time, tesa booked new orders for process development in the generic segment, laying a solid foundation for further product launches in the years to come.

With **tesa scribos**, tesa supports international trademark holders in the process of digitizing their products. Product labels and customized Internet and app solutions are used to connect original products with the digital world. In both areas, tesa has implemented innovative new developments, including the digital gray market protection module and tesa ValiGate® marking, which gives each original product an individual identity, making it easy to tell it apart from counterfeits. Retailers and consumers can automatically check the product's authenticity using a smartphone. tesa scribos started developing digitization solutions for consumer goods in 2018, thereby opening up new markets. Last but not least, the newly established consulting department helps accommodate increasing complexity in customer projects and the trend toward digitization.

In the **Building Industry** segment, tesa was able to confirm its growth trajectory and gain further market share. Adhesive bonding with ACX<sup>plus</sup> technology was a particular factor contributing to strong growth in doors and windows. Partition wall systems also received a strong response from the market in the interior finishing segment. Another subject that is garnering increasing attention is cold performance, meaning the use of adhesive tapes at temperatures as low as -10°C, and in this segment, tesa has acquired new customers in the areas of elevator and building shell con-

struction, among other things. With the acquisition of U.S.-based company Functional Coatings LLC, tesa strengthened its market position in adhesive tape products for the construction and building supply industry in 2018 and added innovative tape and sealing products to its portfolio. Solutions to protect building shells against moisture are a new emphasis for tesa in this field.

## Trade Markets

The Trade Markets division saw positive development, with organic growth of 3.8% in sales. In nominal terms, sales increased by 2.3%, to stand at € 539.0 million (previous year: € 526.7 million). Acquisitions increased sales by 0.4 percentage points. As a result, this division contributed a share of 40.2% (previous year: 41.9%) of tesa's total sales during this reporting year.

In 2018, tesa further expanded and optimized its product range in the **industrial trade**. One factor contributing to this was the development of new product categories, such as the water-based acrylic transfer tape that is being manufactured on the new production line in the United States. tesa also launched a new temperature-resistant masking tape on the market, thereby updating a series of classic tesa products within the product range. The company also focused on generating digital content in order to support trade partners in terms of sales and make the tesa product range even more visible on the market. In China, e-commerce has shown strong growth. To leverage this trend, tesa has opened a flagship store on 1688.com, the B2B platform operated by online marketplace Alibaba.

In the **General Industries** business segment, high-quality double-sided special tapes for the household appliance sector saw particularly positive development. The transport securing tape business in North America, Asia, and Eastern Europe also posted strong growth.

In the **Consumer & Craftsmen** business with individual consumers and professional craftspeople, which is heavily focused on Europe and Latin America, tesa posted further growth in 2018. Growth via digital sales channels outperformed the market in particular.

tesa has laid the foundation for further growth in the consumer segment, not least through its acquisition of FormForm Ltd., a London-based company that manufactures moldable glue under the Sugru brand and markets it to end customers, primarily through digital channels. The

product innovations and additional expertise in digital marketing gained in this acquisition will help tesa to tap into new markets in new countries.

tesa began marketing bath accessories under the tesa® brand in July 2018, an area where the company's production activities benefit from the specific expertise of affiliate tesa nie wieder bohren GmbH. These products feature an innovative adhesive technology that eliminates the need for drilling into tile and grout. The high-performance proprietary tesa® smart mounting system, which encompasses adhesive nails and adhesive screws, also saw positive development again in its third year. tesa is supporting the launch across Europe with TV ads and online marketing in more than ten countries.

### III. Financial Position

#### Cash flow statement

	2017	2018	Change
	in € million	in € million	in € million
<b>Cash and cash equivalents as of Jan. 1</b>	<b>156.9</b>	<b>167.0</b>	<b>10.1</b>
Gross cash flow	191.3	193.0	1.7
Change in net working capital	-36.1	-37.6	-1.5
Net cash flow from operating activities	155.2	155.4	0.2
Net cash flow from investing activities	-64.9	-45.9	19.0
<b>Free cash flow</b>	<b>90.3</b>	<b>109.5</b>	<b>19.2</b>
Net cash flow from financing activities	-72.3	-79.1	-6.8
Exchange rate-related change in cash and cash equivalents	-7.9	1.6	9.5
Net change in cash and cash equivalents	10.1	32.0	21.9
<b>Cash and cash equivalents as of Dec. 31</b>	<b>167.0</b>	<b>199.0</b>	<b>32.0</b>

**Cash flow from operating activities** increased by € 0.2 million, to € 155.4 million, as compared to the previous year.

**Investing activities** accounted for a net balanced outflow of € 45.9 million. This development is primarily attributable to the inflow of funds from the final maturity of securities (€ 64.7 million) and the payments made for the corporate acquisitions in 2018 (€ 86.6 million). **Free cash flow** increased by a total of € 19.2 million, to € 109.5 million.

The negative **cash flow from financing activities** was due in particular to a dividend payment of € 67.1 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had increased by a total of € 32.0 million, to € 199.0 million.

#### Key Financial Indicators

The **return on sales** decreased year over year, bringing the EBIT margin to 15.7% (previous year: 16.5%). Excluding adjustments for write-downs on intangible assets and proper-

ty, plant and equipment, this resulted in a decrease in profitability, from 19.7% in the previous year to 19.1% in 2018.

The **EBIT return**, measured in terms of the available equity as of the beginning of the fiscal year, decreased to 30.9% in 2018 (previous year: 33.3%).

The **net profit**, measured against sales proceeds, decreased slightly, going from 10.7% in the previous year to 10.3%.

The **earnings per share** increased from € 5.21 to € 5.24.

The **equity ratio** rose by 1.0% year over year, to stand at **53.9%** (previous year: 52.9%). The ratio of equity to non-current assets is 122.7% (previous year: 130.2%).

#### Capital Expenditure

In this fiscal year, tesa invested a total of € 143.3 million in intangible assets and property, plant and equipment. A large portion thereof was associated with the corporate acquisitions in 2018 (€ 104.5 million).

In Germany, investments totaling € 27.4 million were made for locations in Germany.

The sum of € 41.4 million was invested in the rest of Europe. Of that total, € 39.5 million was attributable to intangible assets and property, plant and equipment as a result of the corporate acquisitions made in this region in 2018.

The amount of € 70.6 million was invested in the Americas in 2018; of that figure, € 65.0 million was spent on assets associated with the newly acquired companies.

The tesa Group invested € 3.9 million in the Africa / Asia / Australia region.

The main factor in 2018 was the corporate acquisitions in the Netherlands, the United States, and the United Kingdom.

At the same time, tesa continued to make expenditures for technological and capacity expansion in strategic large-scale projects and relevant investments to modernize the global IT infrastructure and system landscape in 2018, with plans to continue these efforts in the years to come as well.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 23.6 million.

## IV. Balance Sheet Structure

### Balance sheet structure of the tesa Group

	2017	2018	Change	
	in € million	in € million	in € million	in percent
<b>Assets</b>				
Non-current assets	522.1	611.4	89.3	17.1
Inventories	257.8	287.2	29.4	11.4
Other current assets	337.6	295.7	-41.9	-12.4
Cash and cash equivalents	167.0	199.0	32.0	19.2
<b>Total</b>	<b>1,284.5</b>	<b>1,393.3</b>	<b>108.8</b>	<b>8.5</b>

	in € million	in € million	in € million	in percent
	<b>Equity and liabilities</b>			
Equity	680.0	750.4	70.4	10.4
Non-current provisions	285.9	297.2	11.3	4.0
Non-current liabilities	18.2	29.5	11.3	62.1
Current provisions	107.3	105.6	-1.7	-1.6
Current liabilities	193.1	210.6	17.5	9.1
<b>Total</b>	<b>1,284.5</b>	<b>1,393.3</b>	<b>108.8</b>	<b>8.5</b>

As compared with the previous year, total assets increased, rising by 8.5% to € 1,393.3 million. On the assets side, this is primarily the result of an increase in non-current assets, which were up by € 89.3 million, driven largely by the acquisitions made in 2018, and due to an increase in inventories, which rose € 29.4 million.

On the liabilities side, current liabilities increased in particular, up € 17.5 million, as did equity (+ € 70.4 million).

Inventories increased by 11.4% year over year, rising to € 287.2 million. This was due chiefly to higher sales volumes over the course of the year, along with the one-time effects of the acquisitions made in 2018.

Cash and cash equivalents increased by € 32.0 million to € 199.0 million. Please see the remarks concerning the financial situation for further information.

Non-current assets increased by € 89.3 million, to € 611.4 million. Intangible assets were a key driver of this development, based on the company acquisitions that took place this fiscal year. Please see the remarks on capital expenditure for further information.

Current provisions are at the same level as the previous year, the result of operational matters which must be delineated in terms of operations as well. The increase in current liabilities is predominantly a result of higher trade payables.

The change in equity is mainly attributable to the net profit after tax of € 138.0 million and the dividend payment of € 67.1 million to the shareholders.

## V. Risk Report

As part of its global activities, tesa is faced with a wide variety of risks that are inseparably linked to its corporate activities. Risk management, which is a component of the overall planning, controlling, and reporting systems, is aimed at consistently leveraging opportunities to add value and at reducing identified risks to a level manageable for the organization or avoiding them altogether. tesa systematically records, analyzes, and monitors global risks using its planning and reporting system – both at a centralized level at tesa SE and locally in the regions.

Management of operational risks is largely decentralized, with centralized monitoring. tesa centrally monitors any overarching international risks associated with production and safety standards, legal violations, brand management, financing, and value development within the Group. Goal-driven controlling and regular strategy reviews make sure that opportunities and risks are favorably balanced. Beiersdorf Aktiengesellschaft's internal audit department monitors compliance with the internal controlling system and ensures the integrity of the business processes.

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

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

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard to the quality and safety of our products. They are thus subject to a comprehensive, end-to-end quality assurance system throughout the entire procurement, production, and distribution process. tesa ensures the development of and compliance with the necessary processes by means of periodic internal and external audits in accordance with international standards. The company is fully certified in accordance with ISO 9001, and, where necessary, under ISO/TS 16949, ISO 14001, and ISO 50001 as well. Occupational health and safety and environmental risks are mitigated by process control checks, and they are also ensured through external certification. tesa has established appropriate provisions for covering the financial impact of liability risks and any potential loss or damage events by taking out insurance within the scope possible and in accordance with economic considerations.

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

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

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

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

tesa manages financial risks via active treasury management on the basis of globally applicable guidelines in the area of corporate treasury.

The overriding goal is to safeguard the financial power of the Group and be able to meet financial obligations at all times. Within the scope of financial management, tesa ensures the solvency of the Group on a continuous basis, controls the risks related to financial instruments, and optimizes cash management for the entire Group.

Legal violations can harm tesa's good reputation and lead to penalties, sanctions, claims for damages, legal costs, and other burdensome effects. tesa minimizes the risks associated with legal violations with a risk-oriented compliance organization. The company's compliance activities and programs currently focus on the subjects of anti-trust law, the fight against corruption, and data protection. tesa strives to systematically minimize risks through guidelines, processes, and training programs geared toward the relevant risks. This is also supported by a mandatory global Code of Conduct.

tesa hedges 75% of the currency risk for freely convertible currencies, where this is economically feasible. The hedges entered into in line with this policy are handled centrally at Beiersdorf Aktiengesellschaft. Potential risks associated with the investment of liquid funds are fundamentally mitigated through the fact that counterparty limits are used across the Group, as managed by Beiersdorf. The development of exchange rate risks is monitored regularly.

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

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

tesa constantly monitors the availability, reliability, and efficiency of its IT systems and adapts them to state-of-the-art technology. To limit risks involved in mobile data communication and in the use of cloud applications, tesa monitors the effectiveness of the measures taken and maintains emergency plans. Technical and organizational measures rule out unauthorized access and data loss to the greatest possible extent.

Performance-based compensation systems help tesa acquire and retain qualified specialists and management personnel, as do focused further education and training pro-

grams and the ongoing recruitment and development of young professionals and junior managers.

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

## VI. Outlook

Geopolitical risks and their effects on overall economic development will have a lasting impact on tesa's business in 2019, continuing a trend seen in previous years.

On the whole, tesa expects to see stable development in Europe, although the political environment, including the development of tariffs in the United States, the approach of Brexit and the political situation in Turkey, may have negative effects on the markets.

In North America, tesa anticipates a return to more positive impetus, particularly from the automotive industry. Latin America is expected to return to positive development after relatively weak growth in 2018.

The outlook for development in Asia depends in large measure on the development of the Chinese economy. tesa expects moderate growth in Asia in 2019, with tesa participating in it through both the automotive sector and once again in the electronics industry. The increasing pressure on prices will probably somewhat dampen sales growth in both areas. The business with the electronics industry in Asia remains attractive, although the project-oriented nature of this business continues to pose a significant risk of fluctuations.

tesa views the automotive sector as an important growth field among global customers.

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

2018 was marked by relatively moderate volatility in currency exchange rates. The euro weakened somewhat over the course of the year, which is expected to have a positive influence on the development of tesa's business in 2019. Classic financial instruments are used to hedge against these risks.

tesa will continue to invest in innovative technologies at its production sites all over the world in the future. The capital expenditure volume will be above the total write-downs. Financing for the investments in 2019 has been secured.

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

tesa anticipates that 2019 will bring sales growth of 3 to 4 percent. The operating EBIT margin will be slightly below the previous year's figure, as expected.

## VII. Report by the Executive Board Regarding Dealings with Affiliated Companies

In accordance with Section 312 of the Aktiengesetz (German Stock Corporation Act), the Executive Board has issued a report regarding dealings with affiliated companies which contains the following concluding declaration: "According to the circumstances known to us at the time the transactions were executed, or measures were implemented or omitted, tesa SE received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures."

Norderstedt, February 19, 2019  
Executive Board



Published by:  
tesa SE  
Hugo-Kirchberg-Strasse 1  
22848 Norderstedt  
Germany  
Phone: +49 40 88899 0  
Fax: +49 40 888 99 6060

Additional information:  
Corporate Communications  
Phone: +49 40 888 99 4448  
Fax: +49 40 888 99 184448  
e-mail: [pr@tesa.com](mailto:pr@tesa.com)

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Both versions are available online at [www.tesa.com](http://www.tesa.com) and [www.tesa.de](http://www.tesa.de).  
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