



Annual Report 2013

tesa, Hamburg

Contents

Corporate Governance	2
Foreword by the Executive Board	3
Management Report	
I. Business Parameters	4
II. Results of Operations	8
III. Financial Position	11
IV. Balance Sheet Structure	12
V. Report on post-balance sheet date events	13
VI. Risk Report	13
VII. Outlook	15
VIII. Report by the Executive Board Regarding Dealings with Affiliated Companies	15

Corporate Governance

Corporate Governance at tesa

tesa welcomes and supports the German Corporate Governance code. The declaration of compliance of Beiersdorf AG is available permanently at www.Beiersdorf.com.

Audit Opinion

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

Foreword by the Executive Board

Ladies and Gentlemen,

In 2013, as in past years, tesa SE continued its positive development. Sales grew by 8.5%, significantly outperforming the market. At the same time, the operating result rose disproportionately. The EBIT margin reached 16.9% (previous year: 12.9%). This success is not simply a flash in the pan, but rather represents the new high point of a positive trend that has been in place for many years, which shows that our strategy is the right one, and that it is worthwhile for us to pursue it so consistently and with such determination.

Our focus on developing new products and technologies makes a significant contribution to the growth of our sales figures. This was affirmed once again in this reporting year, especially in our business with the electronics industry. But the other industrial segments, such as the automotive sector, also showed positive development.

In the consumer business, which focuses mainly on Europe and Latin America, we have expanded on our success with environmentally friendly products. New marketing concepts that are optimally tailored to regional and local requirements have strengthened our position in both Eastern and Western Europe. And in Germany, we launched a broad-based campaign that includes TV commercials and digital measures, making an important mark in our brand communications.

Beyond that, we pushed ahead with the development of our new business segments based on innovative production technologies. For example, we have grown our clientele in the building supply segment and tapped into additional fields of application, with activities that include launching initial projects concerned with adhesive bonding of exterior façade elements in the U.S. and South America. In our emerging pharmaceuticals business segment, we posted our first sales of pharmaceutical patches produced in our cleanroom unit at the Hamburg plant.

In December, we held the topping-out ceremony for the construction of the new tesa headquarters with an integrated research and technology center, near the Hamburg airport. This investment serves a dual aim: securing our long-term growth while also physically bringing market management and R&D together with the goal of being able to meet our markets' ever-changing requirements even faster. The construction project is proceeding on time and on budget, and we are confident that we will be able to move into the new building on schedule in 2015.

Our strong economic position, the many products in the pipeline, and the important strategic projects we are currently implementing for the future give me reason to look forward to the year ahead of us in a positive spirit. These factors give us a solid basis for continuing our successful work, even though the uncertainty affecting the overall economy, especially in the Eurozone, has not yet been entirely overcome.

I would like to express special thanks to our employees, who make this success possible with their hard work and dedication and with the many contributions they make each and every day. I would also like to thank our customers, business partners, and not least our shareholder Beiersdorf for their trusting cooperation.



Thomas Schlegel
Chairman of the Executive Board

Management Report

I. Business Parameters

General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group. It employs approximately 3,800 people and operates in more than 100 countries. tesa SE is a wholly owned subsidiary of Beiersdorf AG and the direct or indirect parent company of the 53 tesa affiliates.

Regions and Major Locations

tesa operates worldwide, with the main focus concentrated on Europe, followed by the business regions of Africa / Asia / Australia and the Americas. In addition to tesa SE, the affiliates in China, the United States, Italy, and Korea 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).

Currently, tesa is constructing a new headquarters with an integrated research and technology center (“one tesa”), near the Hamburg airport. At approximately € 160 million, the move marks the largest investment in the history of tesa and is intended to support the company’s long-term growth. Bringing together these departments, which were previously physically separate from each other, will streamline communication channels between market management and R&D. This will help ensure that tesa can meet the ever-changing requirements of its markets even faster and more flexibly. The relocation is scheduled for 2015.

Industrial Business

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

In the industrial segment, tesa offers system solutions for customers in the electronics, printing and paper, building and construction, and automotive industries in particular. The company’s strategic focus is especially on developing and expanding profitable lines of business in technologically advanced fields of application. Our system solutions 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 flat screens. Forgery-proof laser-printed labels and systems for bundling and affixing cables or mounting emblems and decorative elements are among the products used in the automotive industry. tesa also offers innovative solutions with flexible uses to protect products from tampering and counterfeiting. The key feature in these applications is the tesa PrioSpot®, a special self-adhesive label that can be used to store visible and concealed security features and combine them with other security technologies using laser technology. One promising new market that tesa is developing for the future is being handled by tesa Labtec GmbH. This tesa affiliate develops and manufactures medicated patches, termed “transdermal therapeutic systems,” and oral films – films containing an active ingredient that dissolve in the mouth without added liquid – for the pharmaceuticals industry.

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

Consumer Business

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

In the Consumer division, whose business is focused on Europe and Latin America, tesa markets innovative product solutions intended for various applications, including for daily use in offices and in the home and garden. Under the tesa umbrella brand, DIY stores and superstores as well as paper goods and stationery shops offer end consumers a broad assortment of more than 300 innovative products. The product range includes both handy products for office use, such as the classic tesafilm® transparent adhesive tape, and tailored solutions for specific applications such as energy conservation, renovation, repairs, packaging, and temporary or permanent bonding. In addition, tesa provides solutions and systems for home pest control. Proven examples of tesa’s consumer products include tesamoll® foam for sealing windows and doors; the bonding solution tesa Powerstrips®, which are reliable and yet can be removed without a trace afterward; mounting tapes for indoor and outdoor use; the versatile line of fabric tapes; a wide array of masking tapes and tesa Easy Cover® for clean, professional painting and finishing work; and, last but not least, seasonal or permanent fly screens for any use. In the craftsmen business segment, tesa concentrates on customized product ranges for professional craftsmen, such as painters and finishers.

Strategy

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

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

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

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

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

Value Management and Control System

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

Economic Environment

Worldwide growth was positive in 2013, but lagged behind the previous year's figures. While some areas of the Eurozone climbed out of recession, growth in emerging economies and developing countries slowed slightly as compared to past years.

The **European** economy contracted slightly in 2013. At the start of the year, the banking crisis in Cyprus created uncertainty. From the second quarter onward, the Eurozone achieved positive economic growth, marked by increases in exports and private consumption and by investments. These favorable developments stood against structural adjustments and consolidation of public budgets in many countries, activities that had started during the euro and national debt crisis. This caused further economic contraction across Southern Europe, albeit at a slower rate than in the previous year. The assessment of the economic situation on the industry, commerce, and services side showed increasing improvement over the course of the year.

The **German** economy has recovered, posting the strongest growth in the Eurozone in 2013. This development was due first and foremost to the increase in investment activity and to demand from abroad, but other factors such as an expansive monetary policy and low interest rate levels also played a role.

The **U.S.** economy achieved only slight growth in 2013. The main factor that boosted economic growth was private consumption, which rose due to the positive development of the labor market. Cuts in public spending and the budget dispute in the fall dampened growth, however.

In **Japan**, a change in monetary policy brought growth, especially in the first half of 2013; the weak yen helped to boost exports, thereby also contributing to positive overall economic development. The growing budget deficit had a negative effect.

Economic growth in **China** in 2013 was slightly lower than the previous year. The decrease was due to a decline in foreign demand for Chinese products and to uncertainty caused by the tightening of monetary policy by the Chinese central bank.

The picture that emerges for the other growth markets is a mixed one. In **India**, for example, growth merely held steady at the previous year's level. Growth in most of the emerging economies in Southeast Asia lagged behind the previous year's figures. **Brazil** achieved modest growth in 2013; investment activity connected with the World Cup provided positive impetus, but unemployment also rose, dampening private consumption. Growth in **Russia** was also quite moderate, especially with weakening private consumption, which had been particularly robust in recent years.

Sales Market Development

The industrial sales markets made gains all over the world in 2013. Once again, China was the engine driving growth, as industrial production in that country continued to increase on a long-range basis. Europe saw weaker results for the first half of the year, but clear signs of growth have been felt since midyear. The same is also true of the countries in Southern Europe, which have been especially hard hit by the euro crisis. North America and Latin America achieved robust growth in industrial sales markets, although the dynamic growth in Latin America slowed slightly.

The automotive industry, an important sector for adhesive tape manufacturers, continued its global growth trend. The main drivers behind this development were stable demand on the U.S. market and strong growth in the Chinese market. These factors benefited both local manufacturers and the export-oriented Asian and German automakers. Those European manufacturers whose sales markets are primarily located in Europe faced a tough market environment.

The electronics industry once again saw especially dynamic growth in 2013. The trend toward increasingly smaller and more lightweight devices is opening up a wealth of new opportunities for the use of adhesive tapes. Smartphones and tablets in particular continued their triumphant advance. On a regional level, Asia is especially benefiting from this development, since worldwide production sites are concentrated there.

The other industrial direct markets and the business with technical retailers showed positive development as well. In the construction and furniture industry, for example, there is an increasing trend toward using adhesive tape to install decorative elements such as mirrors, decorative trim, and siding. The solar energy market, where adhesive tapes are used for purposes such as bonding the frames of solar modules, is also showing signs of revival.

The end consumer business and the commercial business with professional craftsmen have benefited from a revival of the European market. In particular, DIY markets were able to gain market share as opposed to traditional retailers. The Internet is also becoming increasingly important as a sales channel for adhesive tapes, as it is for other products. Purely Internet-based providers are playing a role in this development, alongside retailers that operate consumer stores and shops as well as online shops of their own (such as office supply retailers).

Procurement Market Development

Supply on the procurement markets was stable across the board in 2013. This sustained positive development is explained by two market trends. First, the supplier base ramped up new investments to expand production capacity in 2013. The additional production volume stabilized the supply situation, especially in the raw materials sector, which had suffered pronounced shortages before. Besides that, the calming of the overall economy across parts of Europe and in individual raw material markets in China also helped fully eliminate production bottlenecks.

The markets were relatively balanced in terms of supply and demand, with no major fluctuations in price developments that affected tesa. On the whole, the development of raw material prices in 2013 remained stable.

In 2014, tesa plans to qualify further alternative sources in Asia and North America, with the objective of securing the company's competitiveness and innovative drive and ensuring that it has a secure supply. Substantial delivery bottlenecks due to structural factors within the industry are not expected in 2014.

Prices on the markets for raw materials are also expected to remain stable in 2014. In the event of a fast, unforeseen economic upturn in China and North America in particular, 2014 will bring certain limited price risks. Due to its long-term pricing and volume contracts, tesa believes it is well prepared for such a scenario, however.

Research and Development

Further development of low-solvent technologies for producing double-sided adhesive tapes with superior performance continued to be at the focus of tesa's development activities in 2013, as in previous years. New methods and second-generation products for permanent structural adhesive bonding based on tesa's proprietary ACXplus technology formed one area of focus. These innovations are currently being tested on the market with selected customers.

We also worked on the further development and advancement of solvent-free production methods for single-sided adhesive tapes in 2013. The technology center developed a method that can be used to coat even challenging backing materials, such as woven and nonwoven fabrics, without using any solvents.

For use in the electronics industry, we developed a heat-activated adhesive tape that can conduct electrical currents. This makes it possible to create adhesive bonds that are both highly durable and electrically conductive in flexible printed circuits such as those used in smartphones and tablets.

With regard to the assembly of electronic devices, manufacturers are increasingly demanding adhesive bonding solutions that bond components together securely, but are also easy to remove without leaving any residue behind in the event of assembly errors or repairs, as well as with an eye to environmentally responsible disposal at the end of the product lifecycle. We have developed a new method and a new generation of products to meet this aim.

As the development processes used by our industrial customers pick up speed, it is becoming increasingly important to ensure that new versions of adhesive tapes are available and ready for series production within just a short period. With this in mind, we worked in 2013 on new lamination processes that can be used to assemble all of the functional layers of adhesive tape quickly, flexibly, and extremely securely. These methods are helping us, for example, to meet new requirements in the automotive industry for adhesive bonding of components on the vehicle body within an extremely short development period and with various product designs.

Development of new acrylate adhesive masses is one important foundation for being able to offer innovative adhesive tapes for new requirement profiles. These tapes are characterized by an especially firm hold and high resistance to aging, the effects of weather conditions, and exposure to chemicals. During the past fiscal year, we used these advances as a basis for developing adhesive masses with very high optical transparency and clarity, alongside superior flow properties on uneven surfaces. This allows for optically transparent bonding of components with three-dimensional shapes. One example of how this technology is applied is in the adhesive bonding of printed – and therefore uneven – glass displays in smartphones and tablets.

Responsibility

Since 2001, tesa has consistently advanced the development of its own environmental management system. In 2013, we looked back on the second successfully concluded five-year cycle in our environmental program. The ambitious program goals were met and even exceeded, due first and foremost to the contributions made by tesa's production sites around the world. They considerably reduced CO₂ emissions, cut solvent consumption and waste by nearly one-third, and lowered emissions of volatile organic compounds (VOCs) by more than half. All plants are certified under the ISO 14001 international environmental standard.

We are currently working to determine various ecological "footprints" in the production process with the aim of further improving environmental compatibility on a targeted basis in the future. Besides that, we are also increasingly using the environmental footprint method to analyze the entire lifecycles of products with regard to their impact on the environment – from production of raw materials to the materials used, manufacturing and transportation, and finally to disposal after use. On this basis, we intend to review, for example, whether there are eco-friendlier alternatives for individual product components or packaging items. Among other things, the company plans to use considerably more recyclable materials.

During this reporting year, we deepened the long-term partnership we had embarked on in 2011 with the Niedersächsische Elbtalau UNESCO biosphere reserve, in the German state of Lower Saxony. It encompasses various activities that offer tesa employees opportunities to get involved and help preserve the riparian forest landscape, which is home to a wide variety of species, but is highly sensitive to environmental degradation (corporate volunteering). Following joint planting campaigns in previous years, the reserve carried out a large-scale oak planting in 2013 with financial support from tesa, marking the first step in establishing a new native forest typical of this landscape in the protected area. In addition, shallow ponds were established to promote the landscape's riparian forest character and help protect cranes and black storks within the forest. Further plantings involving tesa employees are scheduled for early 2014.

In 2013, as in past years, we were involved in a large number of social projects, cooperating on a long-term basis with nonprofit initiatives whose aid activities are in accordance with the tesa Corporate Giving Policy. Partner organizations include Initiative Mentor – Hamburg e.V. and the "Chancen für Kinder" (Opportunities for Children) foundation. tesa affiliates were involved in projects of their own. For example, this year marked the fourth time that tesa employees in France participated in the Course des Héros (Heroes Race). Alongside athletic achievement, participation is aimed at recruiting additional supporters and collecting donations. To further develop tesa's social involvement program, we invited all employees to participate in a survey. About 200 colleagues did so, offering their assessments as well as requests and suggestions for future projects that are a good fit for tesa.

We document all of tesa's activities in an annual report accessible at www.tesa.com/responsibility.

II. Results of Operations

Results of operations in the tesa Group

	2012	2013	Change	
	in € million	in € million	in € million	in %
Sales	1,000.2	1,038.5	38.3	3.8
Costs of goods sold	-538.5	-526.0	12.5	-2.3
Gross profit	461.7	512.5	50.8	11.0
Marketing and selling expenses	-235.0	-244.4	-9.4	4.0
Research and development expenses	-44.4	-41.7	2.7	-6.1
General administrative expenses	-51.0	-48.8	2.2	-4.3
Other operating income	50.7	36.2	-14.5	-28.6
Other operating expenses	-52.7	-38.0	14.7	-27.9
Operating result (EBIT, without special factors)	129.3	175.8	46.5	36.0
Special factors	0.0	18.0	18.0	100.0
Operating result (EBIT)	129.3	193.8	64.5	49.9
Financial income	1.0	1.0	0.0	0.0
Financial costs*	-6.4	-8.7	-2.3	35.9
Financial result*	-5.4	-7.7	-2.3	42.6
Profit before tax*	123.9	186.1	62.2	50.2
Taxes on income*	-42.9	-53.4	-10.5	24.5
Profit after tax	81.0	132.7	51.7	63.8

*) The previous year's figures were adjusted based on the retroactive application of IAS 19 (2011).

For fiscal year 2013, the tesa Group reported higher profit after tax, at € 132.7 million, corresponding to an increase of € 51.7 million.

Sales increased by € 38.3 million, to € 1,038.5 million. Taking into account the reduction in the costs of goods sold, which were down by € 12.5 million, gross profit improved by a significant margin of 11.0%, rising to € 512.5 million.

The increase of € 46.5 million in the operating result (EBIT, without special factors), which ended the year at € 175.8 million, was also affected by other aspects, especially other operating expenses, which decreased by € 14.7 million. This decline was due primarily to the elimination of expenses related to the sale of one European affiliate as well as to a restructuring measure in Asia and write-downs on property, plant and equipment that had been in-

cluded in the figure for the previous year. At the same time, other operating income decreased by € 14.5 million, chiefly because the proceeds from the sale of a property in Germany, which had been included in the figure for 2012, no longer applied. Marketing and selling expenses rose by € 9.4 million, to € 244.4 million.

The special factors arising in fiscal year 2013 concern other operating income resulting from the closure of a production site in Singapore.

As a result, steep gains were realized in EBIT, which climbed 49.9%, to € 193.8 million.

The financial result declined by € 2.3 million, primarily due to currency losses during this fiscal year.

Profit before tax rose from € 123.9 million to € 186.1 million, an increase of € 62.2 million.

Taxes on income rose by a significantly disproportionately low amount in comparison to the profit before tax.

During the last fiscal year, tesa once again saw highly positive development. Sales grew by 3.8%, exceeding the forecasts. A number of factors were responsible for this, chief among them the company's good development in the automotive and electronics growth markets. The operating result (EBIT, without special factors) and the EBIT margin also surpassed expectations in fiscal 2013.

Business Development by Region

Organic growth in the tesa Group totaled 8.5% in the 2013 fiscal year (previous year: 3.6%).

Europe

There was a slight upward development in Europe once again in 2013, leading to organic growth of 2.1% in sales. At current exchange rates, tesa posted sales of € 603.5 million (previous year: € 618.1 million); the structural change resulting from the sale of Bandfix AG in August 2012 should be taken into account here. The share of Group sales dropped to 58.1% (previous year: 61.8%).

Americas

In the Americas, tesa's sales figures for 2013 were once again up considerably from the previous year. Above all, a key factor behind this increase was the ongoing positive development of the automotive market. Adjusted for

exchange rate effects, the region as a whole posted a 9.0% increase in sales. At current exchange rates, the sales figure was up by 3.8%, to € 141.9 million (previous year: € 136.7 million). The share of Group sales held steady at 13.7%.

Africa / Asia / Australia

In 2013, as in past years, tesa achieved highly positive sales results in Asia. Once again, China and Korea were the primary growth markets. On the whole, sales grew by 23.8% (adjusted for exchange rate effects). At current exchange rates, sales in the region, at € 293.1 million, were up 19.4% from the previous year's sales of € 245.4 million. The share of Group sales rose to 28.2% (previous year: 24.5%).

Business Development by Division

Industry

The Industry division continued its very positive development, achieving organic growth of 11% in sales. This effect was spurred by both our direct business and our retail business in all regions. The business in Asia and the United States showed especially dynamic growth, driven once again by the electronics and automotive industries. There was a nominal decrease of 0.3% in sales, which stood at € 764.3 million (previous year: € 766.4 million), predominantly attributed to one business segment being moved to the Consumer segment. The share of overall sales attributed to the Industry division decreased accordingly to 73.6% (previous year: 76.6%).

In our business with the **electronics industry**, we continued our success from the previous year with special foam adhesive tapes used to bond smartphone displays. Another area of focus was "optically clear" films, which are used to assemble the various layers used in the displays. We produce these sophisticated products in the cleanroom unit at our Hamburg plant. Our other successful products in this segment include electrically conductive adhesive tapes, which can be used to discharge the electrical energy generated inside the devices, and adhesive tapes that can be removed without a trace, used to affix and remove battery packs.

In the **automotive sector**, the launch of innovative security labels to reliably identify individual vehicles was successful. The new system is predominantly tailored to the stringent legal requirements that apply in China. Tapes with superior flexibility and very high adhesive force, used to install cabling in

vehicle roof liners, also generated an excellent response. The new products simplify the production process by eliminating the need for more laborious and time-consuming processes involving hot glue. All over the world, we introduced new fabric tapes, coated without the use of solvents, for wrapping and affixing wire harnesses. The new products meet the automotive industry's increasingly stringent requirements concerning the environmental compatibility of the materials used.

In terms of our products for the **printing industry**, sales of a new version of specialty foam adhesive tapes for flexo printing saw highly positive development. These "Softprint" tapes are used to bond printing plates to the printing cylinder, an innovation that enables especially secure bonding at the edges and prevents plates from coming loose in these critical areas during printing. This optimizes print quality and enhances process reliability.

For the **pharmaceuticals industry**, a new business segment, we have finished developing our production operations and put an SAP system aligned to the new processes into operation. We have implemented an extensive quality management system that meets the challenging requirements of both the European Union and the U.S. Food and Drug Administration (FDA), the agency responsible for drug approvals in that country. We started manufacturing and shipping the first market-ready goods on schedule during the second half of the year under review, while also expanding our contract development portfolio for additional well-known customers.

The business in solutions to **protect against counterfeiting and tampering**, which is centralized in the tesa scribos business unit, once again showed positive development. We acquired additional customers in the consumer goods and technology segments with the PrioSpot® label, which integrates a number of individual authenticity features, especially openly visible ones, that the consumer can use to quickly and reliably check whether a brand-name item is genuine. For example, the PrioSpot® is now used to protect xenon lamps for automotive headlights from a well-known electronics manufacturer against counterfeiting.

In the **building supply** business segment, we once again achieved significant growth with products based on the patented new ACX technology. In this area, we are focusing on ultra-durable, weatherproof adhesive bonding used in both interior and exterior applications in the building and construction industry. The furniture industry is currently a major area of focus for the use of the ACX^{plus} product range; applications here include installing decorative and glass elements on exterior doors and mounting mirrors on wardrobes and closets. Another application field presently enjoying robust growth

is the interior finishing of rooms and buildings, where the innovative adhesive tapes have various uses, including in the installation of glass partitions.

In the **retail business**, which continued to be affected by the debt crisis in Southern Europe, the business with specialized technical retailers was the main factor contributing to stable development. The selected partners focus on selling adhesive tapes. They advise their customers on selecting products optimally tailored to their use and seek out certification from tesa for this purpose.

Consumer

The business in products for consumers and professional craftsmen, which is focused on Europe and Latin America, saw positive development this year. Sales grew by 1.0% in organic terms. The nominal increase in sales was 31.2%, going from € 188.9 million last year to € 247.8 million, as a result of one business segment being shifted from Industry. As a result, this division contributed a share of 23.9% (previous year: 18.9%) of the total sales during this reporting year.

We were once again able to expand our market share both in our two strategic business segments in the end consumer business – solutions for DIY enthusiasts and products for the office supply and stationery segment – and in the craftsmen segment, where we offer product ranges geared toward professional craftsmen. The factors contributing to this included product innovations alongside marketing activities aimed not only at specialized retailers, but increasingly also at consumers. We achieved above-average growth in Eastern Europe and in France, where new, tailored marketing concepts prompted leading retail partners in these regions and Europe-wide to increasingly include our products in their product ranges. This allowed us to balance out the developments in Southern Europe in the wake of the debt crisis. In Germany, we launched an integrated new brand campaign that includes TV commercials and increased systematic use of digital channels for dialogue with consumers. The campaign is based on the results of a recent, broad-based brand study and also forms the foundation for a new brand image that has been harmonized internationally. We expanded on our successful partnerships with leading online retailers, resulting in a highly positive sales trend in this area as well.

The growth drivers in the office supply and stationery segment included laser printer particulate filters marketed under the Clean Air name, which drew significant impetus from sustained communication activities on the topic of particulate matter. We expanded our successful EcoLogo sub-brand,

which comprises an assortment of especially ecofriendly products, to include a range of very handy, colorful miniature-sized correction tape dispensers made from recycled plastic, which received excellent response from both retail partners and consumers. In the home improvement and DIY store segment, our range of hooks and storage systems based on the new waterproof Powerstrips and innovative Powerbutton technology enjoyed extremely positive development. These ultra-strong and durable attachment systems can be removed without a trace, and were developed primarily for use in bathrooms and similar settings.

Employees

Our human resources activities in 2013 continued to focus on planning in connection with the construction of the new tesa corporate headquarters. Our work in this area centered mainly on how the new space will be used as well as on optimizing communications and social facilities for the staff, in close coordination with the bodies that represent employees' interests within the company and with the employees themselves.

This fiscal year marked the first time that our employees and managers utilized the new employee performance review process designed in 2012. The goal of the new process is to further develop our open, candid corporate culture as part of the tesa Strategy 2015, further improve the working atmosphere through dialogue in a spirit of mutual appreciation, and support the development and spread of an excellent management culture. The new concept generated positive responses from supervisors and employees alike. To ensure that this change is a lasting one, refresher workshops on this performance review method were scheduled for late 2013 and early 2014.

Under the motto "tesa will es wissen!" (tesa wants to know!) we asked all employees of tesa SE for their feedback as part of a detailed employee survey. In the Eastern Europe region, employees in all countries where tesa is represented participated in a comparable survey. Our aim in conducting these activities is to gain valuable insight into how we can further enhance our employees' motivation and loyalty to the company. We also use the results to see how we measure up against other companies. The tesa plant in Offenburg, which had already conducted the survey back in 2012, earned the title of "Great Place to Work" during the year under review.

We generally fill important management positions from within our own ranks. This allows us to safeguard our employees' extensive knowledge regarding our heterogeneous customers, markets, and applications and leverage it to optimum effect for the further development and evolution of tesa's

business. tesa employees also have valuable experience that plays a major role in allowing us to improve our products on an ongoing basis and integrate them more easily into our industrial customers' production processes. With the objective of being able to develop the right candidates at the right time in a systematic approach to filling positions as they become available, we fully overhauled our succession planning and talent management process. Based on a standardized global process, we are developing succession scenarios across all organizational tesa units and harmonizing them for the most important positions worldwide.

At the end of fiscal year 2013, the total number of employees stood at 3,819 (previous year: 3,794). While 105 positions were cut with the closure of a plant in Singapore, hiring increased in the same measure in strategically important areas of the company and in the growth regions.

III. Financial Position

Cash flow statement

in € million	2012	2013	Change
Cash and cash equivalents as of Jan. 1	101.2	166.5	65.3
Gross cash flow	114.8	161.8	47.0
Change in net working capital	18.4	-11.6	-30.0
Net cash flow from operating activities	133.2	150.2	17.0
Net cash flow from investing activities	-37.3	-64.6	-27.3
Free cash flow	95.9	85.6	-10.3
Net cash flow from financing activities	-31.0	-38.2	-7.2
Exchange rate-related change in cash and cash equivalents	0.4	-5.0	-5.4
Net change in cash and cash equivalents	65.3	42.4	-22.9
Cash and cash equivalents as of Dec. 31	166.5	208.9	42.4

Cash flow from operating activities rose by € 17.0 million, to € 150.2 million, as compared to the previous year. **Investing activities** accounted for a net balanced outflow of € 64.6 million. These expenditures were largely attributable to investments in property, plant and equipment and intangible assets. **Free cash flow** decreased by a total of € 10.3 million, to € 85.6 million.

The negative **cash flow from financing activities**, in the amount of € 38.2 million, was mainly due to a dividend payment of € 40.4 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had increased by € 42.4 million, to € 208.9 million.

Key Financial Indicators

The **return on sales** – based on the operating result – increased from 12.9% in the previous year to 18.7% in 2013. Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in an increase, from 16.5% in the previous year to 21.6% in 2013.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, increased to 48.2% in 2013 (previous year: 32.5%); the return on **net operating assets** rose significantly, from 36.4% to 46.8%.

The **net profit**, measured against sales proceeds, rose from 8.1% in the previous year to 12.8%. The **earnings per share** increased from € 3.14 to € 5.14.

The **equity ratio** rose by 3.4 percentage points, to 53.5%. The ratio of equity to non-current assets is 162.9% (previous year: 162.1%)

Capital Expenditure

In this reporting year, tesa invested a total of € 80.3 million in intangible assets and property, plant and equipment. Of this figure, € 69.8 million was allocated to locations in Germany. The sum of € 3.3 million was invested in the rest of Europe, € 1.3 million in the Americas, and € 5.9 million in Africa / Asia / Australia. The investments in Asia in particular focused heavily on the expansion of production and R&D capacity.

At the tesa plant in Hamburg, a substantial investment was made above all in expanding capacity. 2013 was also marked by preparations for further major strategic projects aimed at technological and capacity expansions, which will lead to high capital expenditure in the years to come.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 26.3 million. Further investments of € 43.3 million were made in 2013 for ongoing construction activities to build the new tesa company headquarters at the Hamburg airport site. The topping-out ceremony was held on December 12, 2013. As the construction activity progresses, investments in this project will increase again in 2014. Remaining payments will follow in 2015, when the project is expected to be completed.

IV. Balance Sheet Structure

Balance sheet structure of the tesa Group

	2012	2013	Change	
Assets	in € million	in € million	in € million	in %
Non-current assets*	247.9	295.8	47.9	19.3
Inventories	166.0	175.6	9.6	5.8
Other current assets	222.2	220.6	-1.6	-0.7
Cash and cash equivalents	166.5	208.9	42.4	25.5
Total	802.6	900.9	98.3	12.2
Equity and liabilities (in € million)				
Equity*	401.9	481.8	79.9	19.9
Non-current provisions*	168.7	174.4	5.7	3.4
Non-current liabilities	11.3	8.4	-2.9	-25.7
Current provisions	89.6	89.3	-0.3	-0.3
Current liabilities	131.1	147.0	15.9	12.1
Total	802.6	900.9	98.3	12.2

* The previous year's figures were adjusted based on the retroactive application of IAS 19 (2011).

As compared with the previous year, total assets increased, rising by 12.2% to € 900.8 million.

On the assets side, non-current assets rose by € 47.9 million. The primary reason for this was the increase in investments in property, plant and equipment. Please see the remarks on capital expenditure for further information.

Inventories increased by a disproportionate amount as set against the development of sales, rising by € 9.6 million to € 175.6 million.

Other current assets decreased by € 1.6 million, particularly due to the decline in trade receivables and securities as well as the increase in receivables from income taxes.

Cash and cash equivalents increased by € 42.4 million, to € 208.9 million. Please see the remarks concerning the financial situation for further information.

On the equity and liabilities side, the development is largely characterized by the € 79.9 million increase in equity and by the increase of € 15.9 million in current liabilities. The change in equity is mainly attributable to the net profit after tax of € 132.7 million, negative currency exchange effects in the

amount of € 11.1 million, and the dividend payment of € 40.4 million to the shareholders.

The increase in non-current provisions, which rose by € 5.7 million, primarily concerns increases in provisions for pensions and similar obligations. Non-current liabilities decreased in particular due to lower deferred taxes.

Current provisions only declined by a minor amount, and are at the same level as last year.

The increase in current liabilities is chiefly due to the increase in liabilities relating to taxes on income and to other current financial liabilities.

V. 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.

VI. Risk Report

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

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

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

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

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard to the quality and safety of our products. They are thus subject to a comprehensive, end-to-end quality assurance system throughout the entire procurement, production, and distribution process. tesa ensures the development of and compliance with the necessary processes by means of periodic internal and external audits in accordance with international standards. The company is fully certified in accordance with ISO 9001, and, where necessary, under ISO/TS 16949 as well. Occupational health and safety and environmental risks are mitigated by process control checks, and this is also ensured through external certification. tesa has established 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 its financial risks via active treasury management on the basis of globally applicable guidelines in the area of corporate treasury. The overriding goal is to safeguard the financial power of the Group and be able to meet financial obligations at all times. Within the scope of financial management, tesa ensures the solvency of the Group on a continuous basis,

controls the risks related to financial instruments, and optimizes cash management for the entire Group.

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

tesa hedges 75% of the currency risk for freely convertible currencies, where this is economically feasible. The hedges entered into in line with this policy are handled centrally at Beiersdorf AG. 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. Developments in exchange rate risks are monitored regularly.

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

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

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

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

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

VII. Outlook

One challenge for tesa in the current fiscal year will likely lie in accommodating the different rates of growth across different markets. Highly dynamic development in the electronics industry stands against high stability in the European markets. North America can build on positive impetus from the automotive industry, however, and Latin America can participate in the development of its national economies.

tesa continues to view the business with the electronics industry as highly attractive, and expects to see double-digit growth rates in this area in 2014 as well. Because this business is heavily project-oriented, however, the risks associated with it are greater as well. The automotive sector will be able to assert itself with global customers as a second growth environment. The business in the pharmaceutical industry is also expected to achieve further positive growth.

There are signs of a slight economic recovery in Southern Europe. After the losses sustained there in past years, this will have a positive effect on the development of the business in the area of distribution and in the end consumer business.

2013 was marked by significant volatility in currency exchange rates. There is no stabilization on the horizon, especially since tesa is increasingly exposed to these influences due to its global presence. Classic financial instruments are used to hedge against these risks.

tesa is continuing to invest in innovative technologies at its production sites all over the world. The capital expenditure volume will be above the total write-downs. Construction of the new “one tesa” company headquarters will have a particular impact on the total amount of the investments made. Financing for the investments in 2014 has been secured.

Growth in the coming year is expected to slightly outperform the market. This applies to the business with both consumers and industrial customers. Continued investment in research and development, and thus in innovative products, will further strengthen our market position. Nonetheless, earnings performance is not expected to pick up where the unusual events of 2013 left off, so we expect the operating EBIT margin to fall below the previous year’s figure.

VIII. Report by the Executive Board Regarding Dealings with Affiliated Companies

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

Hamburg, February 10, 2014

Executive Board

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The Annual Report is also available in German.

Both versions are available in the Internet at

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

From Corporate Communications also printed copies can be obtained.