



# ANNUAL REPORT 2017

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,

The tesa Group posted sales of 1,257.8 million euros at current exchange rates in 2017, a significant increase of 9.8% from the previous year. Adjusted for exchange rate effects and special factors, sales rose by 10.6%. This was a positive development, and one to which all regions and business fields contributed. We achieved especially strong growth in our business regions of Asia, the Americas, and Eastern Europe, but sales were also positive in the countries in the Western Europe region. The operating result rose to 207.5 million euros. The EBIT margin reaches 16.5%.

Investing in consistently expanding and developing our technological capabilities with the intention of reaching our planned growth targets remains an important pillar of our successful strategy. We completed the expansion of our plant in Sparta, Michigan, in the summer. With its advanced, ecofriendly production technologies, we can produce products for the local automotive industry that already meet the high standards that will later apply in the industry. The move will strengthen our market position in this business segment on a lasting basis, now and into the future.

Beyond that, we plan to ramp up our efforts to bring external technical expertise into our group and spur future growth through acquisitions as well as internal processes. We took a major step in this direction in early 2017 with the acquisition of nie wieder bohren, a company based in the German city of Hanau. The company specializes in remova-

ble mounting systems with high holding force. Its innovative products supplement our range of smart mounting solutions, which is geared toward consumers and was successfully launched in several European countries in 2017. The expertise we have gained strengthens our position in the DIY bathroom segment in particular and also helps us to tap into new customer groups, particularly commercial ones.

Although the economic situation is positive on the whole at present, there are still some uncertainties due to current social and political developments in 2018, as in the past. 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 2017, demonstrating their passion for our brand and our company in the process. I would also like to thank our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Dr. Robert Gereke  
Chairman of the Executive Board

# MANAGEMENT REPORT

## I. Business Parameters

### General Information

The tesa SE Group (referred to as “tesa” or “tesa Group” in the following) is one of the world’s leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. The tesa Group is part of the Beiersdorf Group. It employs approximately 4,450 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 52 tesa affiliates.

During this fiscal year, the number of affiliates grew by one overall. This was due to three factors. First, the American affiliate was divided into separate legal units for distribution and production as of October 1, 2017. Second, tesa SE acquired nie wieder bohren AG as a wholly owned affiliate on April 3, 2017. Finally, two tesa companies in Mexico were merged into a single company in 2017.

### 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, have been located in Nordstedt, near Hamburg, since 2016.

### Changes in Divisions Starting in 2017

In 2016, tesa further developed its internal organizational structure with the goal of creating optimum overall organizational conditions for the various requirements of different markets and working processes. In the future, tesa will no longer operate in the Industry and Consumer & Craftsmen divisions, but rather in the Direct Industries and Trade Mar-

kets divisions. The individual areas have been fundamentally reassigned, which has yielded a more equal weighting between the two segments. The move has also changed the reporting chains and responsibility for specific markets and customers within the organization. The new organizational structure was largely in place in all business regions by the end of 2016. Internal reporting was also shifted as far as possible by the end of the year in 2016, so the new organizational units began receiving the information they need to manage their business, including the previous year’s values for comparison, in 2017.

### 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 key technology in this area, which is the responsibility of **tesa scribos GmbH**, 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. 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,” and oral films (films containing an active ingredient that dissolve in

the mouth without added liquid) 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. Products range from handy products for office use, such as the classic tesa<sup>®</sup> transparent adhesive tape, and tailored solutions for specific applications that include energy conservation, renovation, mounting items, repairs and packaging 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. They include adhesive screws and nails and transparent decorative hooks that feature tesa Powerstrips<sup>®</sup> technology, along with bathroom accessories based on tesa nie wieder bohren<sup>®</sup> technology, which deliver an especially firm hold. Proven examples of tesa's self-adhesive solutions include tesamoll<sup>®</sup> 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<sup>®</sup> 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 concen-

trates 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<sup>®</sup> 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.

## 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

Growth in the global economy picked up over the course of 2017, exceeding both original expectations and the previous year's growth. The upturn was spurred by dynamic overall economic development in most industrialized countries and in emerging economies alike. Private consumption, investments, and export levels all picked up steam, putting the global economic recovery on a broad, balanced foundation. 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 hardly affected economic developments in 2017, although this instability does continue to constitute a major risk factor.

Economic growth in **Europe** proved to be dynamic in 2017, with the economy performing better than expected. Key economic support came from private consumption and investment confidence, buoyed by positive developments on the labor market and ongoing low interest rates. Pro-EU forces won elections in France and the Netherlands, bringing new confidence and contributing to the positive trend. Still, political uncertainty remains high, with ongoing separatist conflicts in Spain, the spread of anti-EU movements, and the tough negotiations surrounding Brexit. A change of course by the European Central Bank (ECB) could also curb the upturn and bring a return to lower trend growth rates.

Economic development in **Germany** picked up significantly. The growth of the economy surpassed expectations. The main drivers were private consumption, spurred by ongoing favorable conditions on the labor market and solid wage gains, along with rising investments and exports.

The **United States** also saw an increase in economic growth in 2017, primarily due to the ongoing good labor market situation, rising personal consumption expenditures, and investment.

Economic growth also rose in **Japan**, driven primarily by thriving demand for exports, flanked by impetus from fiscal policy.

The picture for the growth markets was mixed. The growth level in **China** held steady from the previous year. The Chinese economy was bolstered in particular by fiscal stimulus measures. The sharp growth of credit and high debt levels among state-owned enterprises continue to harbor significant risks, however. In **India**, dynamic growth was dampened by the negative side effects of large-scale reforms. In particular, the introduction of the nationwide Goods and Services Tax (GST) weighed significantly on consumption, and the investment level was also subdued. The **Brazilian economy** slowly found its way out of its long, deep recession in 2017. The improvements in the economy were bolstered to a large extent by private consumption, which was spurred by a significant decrease in inflation, with the attendant increase in real income, combined with a substantial cut in the prime interest rate. Overall, the business climate in Brazil has stabilized. Still, corruption, failure to enact reforms, and political uncertainty pose significant risks. **Russia** also emerged from its recession phase in 2017. The economy recovered further, and solid growth was achieved. This development was based primarily on a strong recovery in private consumption, accompanied by a significant decrease in inflation. Ongoing international sanctions continue to weigh on the Russian economy.

2017 saw positive overall economic growth in spite of the noteworthy geopolitical and structural risks that applied, outperforming the previous year.

## Sales Market Development

The 2017 fiscal year was once again marked by significantly positive development in the automotive industry, along with positive development of the sales markets in the consumer electronics sector. Development varied sharply by market and region otherwise, but it was generally positive. Overall, this brought a slight improvement in the result in

tesa's core region, Germany. The other regions posted significant growth; in particular, Asia returned to highly positive development after a subdued previous year.

For the automotive industry, 2017 got off to a strong start, continuing the excellent momentum from the previous year, but that dynamism faded as the year wore on, bringing the year as a whole to the same level as previous years.

The diesel scandal has hardly dented the growth of the world's largest automotive manufacturers, Volkswagen, Renault-Nissan, and Toyota, but it has added further impetus to the trend toward development of new types of drive systems.

The Asian market was once again the driving force behind worldwide automotive production, which saw disproportionately high growth in India and Japan, but a noticeable cooling off in China. Production figures for the North American market and in Western Europe showed a weak tendency, with negative growth rates in Germany and the United States, while Eastern Europe, supported primarily by Turkey and Russia, saw above-average dynamism. Together with Latin America, where the negative trend of the past few years reversed for the first time, Eastern Europe joined Asia in making a significant contribution to global growth.

Markets in the Middle East and North Africa saw considerable production increases, spurred by the opening of the Iranian market.

Markets in the consumer electronics segment were much more positive after a slight downward trend in the previous year. Sales figures for smartphones and tablets grew by the mid-single digits for the full year, while growth was solidly in the double digits for wearables (chiefly fitness trackers and smartwatches). tesa has observed increasing consolidation in the traditional categories of smartphones, tablets, and notebooks, with the top five manufacturers gaining higher market share. Growth in the smartphone segment is attributable primarily to the major Chinese and Korean manufacturers. The wearables segment, by contrast, is much 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 by rising sales figures for e-commerce. Development in the global construction industry has been positive on the whole, al-

though it is dampened in some cases by regional and local economic conditions.

The retail sector in Europe continues to see positive development as a result of general growth in purchasing power, albeit at low rates. Higher growth rates have been seen in some areas, however, especially in Eastern Europe. On the whole, growth in purchasing power is benefiting brick-and-mortar retail only in part, continuing an existing trend. Among other things, there is a shift toward e-commerce taking place.

## Procurement Market Development

The procurement markets were marked in 2017 by price increases and sporadic shortages of raw materials.

In keeping with its strategy, tesa further expanded its supplier base in 2017, thereby continuing to reduce the risks to the Group's business.

Purchase price increases were observed in all material categories.

There were sharp price fluctuations in the natural rubber supply in 2017. A natural disaster (flood) in Thailand, one of the chief export countries in this market, drove prices upward by a significant degree in the first half of 2017, although they returned to normal levels over the rest of the year.

Prices for special grades of paper rose steadily throughout 2017, 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. These factors are increasing the purchase prices of paper industry products.

2017 also saw a large number of "force majeure" situations in the chemical industry. The causes included natural disasters such as Hurricanes Harvey and Irma in the United States. As a result, there were supply squeezes and price increases for many raw materials used by the chemical industry around the world.

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

For 2018, 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 2018, as in the past, tesa plans to focus on developing alternative sources of raw materials in Asia, Europe, and North America, with the ongoing objective of securing the company's competitiveness and innovative drive worldwide and ensuring that it has a reliable supply.

## Research and Development

In the area of research and development, 2017 saw tesa continue its focus on technologies for structural adhesion, an approach that was newly established in the previous year. One example of this is the company's work on high-performance adhesive tapes that enable structural adhesive bonding, meaning adhesive bonds with ultra-high, long-lasting bond strength. These kinds of tape take the place of traditional techniques such as welding and materials commonly used to join materials together, like screws and rivets.

In addition to the new adhesive tapes, tesa has worked with later users to establish efficient processing methods.

Based on the new technologies, tesa developed a reactive adhesive tape to join components before powder coating. This tape makes it possible to achieve a firm bond right from the start. The powder coat is cured for 30 minutes at temperatures of 160 to 200°C, creating extremely high bond strength for continuous strain. Prototypes for use in the production of metal components for rail vehicles and for interior finishing inside buildings are currently undergoing testing, for example. tesa uses various means to determine the strength and load-bearing capacity of these constructive adhesive bonds, including computer-assisted simulation. The European Union supports this research work via the European Regional Development Fund (ERDF).

Another area of focus in 2017 was the development of technologies and adhesive tape solutions for adhesive bonding in batteries to support electric mobility. Adhesive tapes play a special role in battery designs. They can be used to join multiple battery modules together to form a finished battery, for example. Depending on the battery's design, significant temperature fluctuations can occur during operation, along with expansion and contraction of the individual modules. The new technologies compensate for these obstacles. tesa is currently testing relevant adhesive

tape solutions to determine their suitability for applications like these.

The development of special adhesives and new technologies to produce them was an area of focus in 2017, as in past years. Some of this development activity concentrated on special adhesive tapes that are especially resistant to chemicals and other external influences and can be used for adhesive bonding of components in all areas of the consumer electronics sector. These products help to ensure that devices like tablets, smartphones, and wearables that are in direct, daily contact with the body function reliably.

Another area of focus is adhesives with particular vibration and damping properties, which are used in multilayer speaker cones for advanced audio speaker systems. This is a response to the trend among users of increasingly using smartphones and tablets to play music and videos, which has brought significantly more stringent requirements for the quality of the audio output of these devices.

Advanced high-performance plastics with repellant surfaces are increasingly used in automotive interiors. These surfaces do not permit reliable adhesive bonding with existing adhesive tapes. In response, tesa developed a new technology and an adhesive tape design that can be used to bond critical plastic parts quickly and with long-lasting stability. These innovative products are based on new adhesives and a solvent-free production method that has already successfully transitioned from the pilot scale to mass production. Automotive suppliers have already tested these products, with positive results.

## Responsibility

Corporate responsibility toward society at large and the environment was the focus of tesa's sustainable business strategy in 2017, as in past years.

tesa has worked to continuously improve its environmental management system since 2001. Environmental impacts arise at tesa's production sites in particular. The company views energy consumption and the associated CO<sub>2</sub> emissions as being significant. Resource efficiency is another relevant subject. tesa's production sites have lowered their emissions of volatile organic compounds (VOCs) by more than half worldwide since 2001 and have considera-

bly reduced waste, CO<sub>2</sub> emissions, and solvent consumption.

Protecting the climate is a key part of tesa's environmental and energy management activities. The company headquarters and the largest production sites, which consequently have the highest CO<sub>2</sub> emissions (Hamburg and Offenburg), have an environmental management system certified under ISO 14001 along with an energy management system certified under ISO 50001. Further strategic approaches include efficient production of the company's own energy through cogeneration and procuring electricity from renewable sources. By 2020, tesa aims to lower specific CO<sub>2</sub> emissions by a further ten percentage points compared to the reference year, 2015.

tesa's waste and raw materials management activities are geared toward using materials efficiently and recycling wherever possible. There is no way to eliminate all waste when producing goods, but the company is constantly at work on minimizing production-related losses of the raw materials used. Almost all non-hazardous waste and hazardous waste that contains solvents is recycled. The recycling rate stood at more than 90 percent in 2017. By 2020, tesa aims to reduce the specific waste generated per ton of final product by another two percentage points compared with the reference year, 2015. The company's innovative technologies that conserve energy and resources will make a special contribution to this.

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

- The "tesa hilft" ("tesa helps") aspect of the program provides active assistance to neighbors and supports social, ecological, and cultural institutions in the locations where tesa operates through various projects. tesa continued its successful work with the "tatkräftig – Hände für Hamburg" initiative in 2017, even after the move to the new site in Norderstedt: Eight teams consisting of 83 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. Examples included games, play and craft activities and gardening, handicraft, and renovation work. tesa UK has supported the Walnuts School, a school for autistic children in Milton Keynes,

since 2009. In 2017, young people were also given the opportunity to prepare for the labor market by gaining initial insight into the working world at tesa through simple, guided activities.

- Colleagues from the Netherlands, Belgium, Italy, the Czech Republic, and Slovakia have been involved, in some cases for many years, in supporting institutions, hospitals and foundations that care for severely ill children. This support takes various forms, including donations and creative activities such as afternoons spent on craft projects and games.
- "tesa spendet" ("tesa donates") supports selected institutions in their work by providing monetary or product donations. For example, employees can contribute amounts less than one euro from their monthly pay and then have them matched by tesa. This brought in a total of more than 6,000 euros for social projects in Hamburg in 2017.
- 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 2017, tesa provided 42 students from various secondary schools in Hamburg with insight into scientists' day-to-day work in the form of daylong projects. In February 2017, tesa also hosted the kickoff event for the mint:pink program, which encourages girls to explore STEM fields, at its headquarters in Norderstedt. About 170 female students attended, along with parents, teachers, and representatives of the political sphere. And 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 tesa Sunshine Scholarships to 627 children so far.
- The "tesa schützt" ("tesa protects") initiative supported the Niedersächsische Elbtalaue UNESCO biosphere reserve, in the state of Lower Saxony, as part of a long-term partnership up until the end of 2017. Alongside financial support, tesa employees pitched in to help preserve this species-rich and ecologically sensitive riparian forest landscape through activities such as planting campaigns. For the period starting in 2018, tesa plans to cooperate with an environmental protection initiative in the area of

## II. Results of Operations

### Results of operations in the tesa Group

	2016	2017	Change	
	in € million	in € million	in € million	in percent
Sales	1,145.8	1,257.8	+112.0	9.8
Costs of goods sold	-602.1	-665.1	-63.0	10.5
<b>Gross profit</b>	<b>543.7</b>	<b>592.7</b>	<b>+49.0</b>	<b>9.0</b>
Marketing and selling expenses	-239.4	-251.2	-11.8	4.9
Research and development expenses	-51.7	-53.1	-1.4	2.7
General administrative expenses	-58.0	-68.7	-10.7	18.4
Other operating income	48.0	39.7	-8.3	-17.3
Other operating expenses	-56.7	-51.9	+4.8	-8.5
<b>Operating result (EBIT)</b>	<b>185.9</b>	<b>207.5</b>	<b>21.6</b>	<b>11.6</b>
Financial income	6.1	8.0	+1.9	31.1
Financial costs	-9.5	-10.9	-1.4	14.7
<b>Financial result</b>	<b>-3.4</b>	<b>-2.9</b>	<b>+0.5</b>	<b>-14.7</b>
<b>Profit before tax</b>	<b>182.5</b>	<b>204.6</b>	<b>+22.1</b>	<b>12.1</b>
Taxes on income	-53.9	-70.4	-16.5	30.6
<b>Profit after tax</b>	<b>128.6</b>	<b>134.2</b>	<b>+5.6</b>	<b>4.4</b>

the new Norderstedt headquarters, with an eye to assuming responsibility right in the company's own "backyard."

- tesa colleagues in China have been working to protect the environment since 2015 as part of the "Million Tree Project." In 2017, tesa Greater China donated 2500 trees, and volunteers participated in a tree planting campaign in Inner Mongolia.

All of these activities are documented in an annual sustainability report, accessible online at [www.tesa.com/responsibility](http://www.tesa.com/responsibility).

The tesa Group posted an operating result (EBIT) of € 207.5 million in the 2017 fiscal year, an increase of € 21.6 million (+11.6%). While the gross profit rose to € 592.7 million (up € 49.0 million), the result of operating expenses and income in 2017 increased by a lower proportion than sales on the whole, rising to -€ 385.2 million overall (up 7.7%).

The tesa Group closed the fiscal year with profit after tax of € 134.2 million (+4.4%). The root cause of this, alongside the higher operating result, was primarily the fact that liability for taxes on income increased by € 16.5 million, to € 70.4 million (+30.6%). At the same time, the financial result improved slightly year over year, rising to € 2.9 million (an increase of € 0.5 million).

Sales increased by € 112.0 million, to € 1,257.8 million. Taking into account the simultaneous increase in the costs of goods sold, which were up by € 63.0 million, gross profit improved by 9.0%, rising to € 592.7 million. Return on sales led year over year to a higher EBIT margin of 16.5% (previous year: 16.2%).

Other operating income decreased by € 8.3 million (-17.3%). This development was due primarily to smaller gains from releases of provisions and from fluctuations in currency exchange rates compared with the previous year.

Other operating expenses decreased by a total of € 4.8 million, to € 51.9 million.

Marketing and selling expenses rose by € 11.8 million, to € 251.2 million. Research and development expenses increased by € 1.4 million, to a total of € 53.1 million, and general administrative expenses were up € 10.7 million, at € 68.7 million.

The financial result improved by € 0.5 million year over year, rising to -€ 2.9 million.

Taxes on income increased by a total of € 16.5 million in the 2017 fiscal year, to € 70.4 million (previous year: € 53.9 million).

In keeping with forecasts from the previous year, a positive trend in sales was seen in 2017. The EBIT margin increased in comparison to the previous year.

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 10.6% (previous year: 2.6%) in the 2017 fiscal year.

### Europe

The development in Europe was positive in 2017 as well, leading to organic growth of 6.2% in sales. The business in Eastern Europe and in Western Europe alike saw excellent development. Sales were up in both the Trade Markets and Direct Industries segments. At current exchange rates, tesa posted sales of € 707.0 million in Europe (previous year: € 659.8 million). The share of Group sales decreased from 57.6% the previous year to 56.2%.

### Americas

In the Americas, tesa achieved significant gains in sales in 2017, with the positive development on the automotive market in both North and South America being a contributing factor once again this year. Adjusted for exchange rate effects, the region as a whole posted an 11.6% increase in sales. At current exchange rates, the sales figure was up by 9.4%, at € 190.6 million (previous year: € 174.2 million). The share of Group sales held steady at the same level as the previous year, at 15.2%.

### Africa / Asia / Australia

The year 2017 was marked by significant sales increases in the Asia region. The main factor responsible for this was the significant upswing in the project business focusing on products for the electronics industry. On the whole, sales increased by 19.6% (adjusted for exchange rate effects). At current exchange rates, sales in the region, at € 360.2 million, were up 15.5% from the previous year's sales of € 311.8 million. The share of Group sales increased to 28.6% (previous year: 27.2%).

## Business Development by Division

### Direct Industries

The tesa **Direct Industries** division achieved organic growth of 15.9% in sales. All regions contributed to this highly positive 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 13.3%, to € 725.2 million (previous year: € 639.9 million). The share of overall sales attributed to the Direct Industries division was 57.6% (previous year: 55.8%).

In the **electronics industry**, a stagnant and at the same time increasingly challenging market, tesa made strong gains in 2017. As one important factor, tesa introduced a large number of innovative products for applications in the electronics industry, including a new generation of tesa Bond & Detach® for adhesive bonding of batteries in smartphones that features highly improved adhesive and shock absorption properties and a new type of double-sided adhesive foams for affixing touchscreens to smartphones and tablets. A variety of smaller solutions crafted for individual customers based on existing product ranges proved to be another driver of growth. The company's extremely high-adhesive, heat-activated products and ultrathin ranges of adhesive tape produced in the cleanroom unit are especially noteworthy here.

In the **automotive sector**, the increasing globalization of the tesa automotive business model is helping to ensure that we meet customer expectations even better from one year to the next. As the business grows ever more international in nature, tesa is focusing on achieving continuous improvement in global customer service. For example, tesa is concentrating on expanding and developing key account management and its worldwide production presence. On the product side, masking systems for the two-tone paint jobs that are currently on trend remained highly successful, as in the previous year. Further impetus came in particular from the company's newly launched double-sided water-based – and thus ecofriendly – products for adhesive bonding in vehicle interiors.

In the **print and paper** segment, tesa turned its focus to flexo printing and continued its growth in this area. This method is used first and foremost in printing of packaging and labels, a market that has seen positive development. tesa is continuing to expand and consolidate its market position through ongoing optimization of the printing plate tape product range. In addition, tesa was able to show in 2017 that growth is even possible 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** business, contract manufacturing of medicated patches grew significantly year over year.

Under the tesa scribos® brand, tesa has developed safety and security solutions with a 360° approach for trademark owners from more than 20 industries. The centerpiece is the newly created tesa® Hub360 online platform. By linking physical security markings with digital networks, it consistently harnesses the possibilities offered by digitization and connects name-brand products with the “Internet of Things.” In this way, the platform offers groundbreaking possibilities for interaction between the product and the market, allowing tesa scribos® to secure a crucial competitive edge. The full-service approach offered on this basis has tapped into significant synergies for trademark owners worldwide in a number of new projects for major customers.

In the **building supply** sector, tesa was able to further expand on its market position, so this product range grew more important again in 2017, as in the past. tesa once again saw strong growth in adhesive bonding of façade elements with its ACX<sup>plus</sup> technology, including both the ACX<sup>plus</sup> series designed specifically for this purpose and innovative products that the company can now produce in thicknesses of up to 5.8 mm. For the “Trims and Profiles” market segment, tesa introduced a new, double-sided PE foam product that makes it even easier to remove these tapes after use in specific applications – for price label strips on retail store shelves, for example. This makes costly removal of adhesive residue from store shelves a thing of the past.

## Trade Markets

The **Trade Markets** division, which encompasses both the business in products for consumers and craftsmen and all the industrial markets that are reached via the technical trade or retail-like channels, saw positive development, with organic growth of 3.8% in sales. In nominal terms, sales increased by 5.1%, to stand at € 526.7 million (previous year: € 501.0 million). As a result, this division contributed a share of 41.9% (previous year: 43.8%) of tesa's total sales during this reporting year.

tesa once again expanded its **industrial retail business**, outperforming the overall market by a slight margin. The growth drivers here were double-sided tapes and other technologically advanced adhesive tapes, which spurred

positive development in sales in Europe, North America, and China in particular. tesa's activities in this segment focused on strengthening the network of retailers in these regions and on establishing additional partnerships in Asia. In addition, tesa intensified its product development activities, expanding the range of products available for industrial retail partners.

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 business dealing with products for consumers and professional craftsmen – **Consumer & Craftsmen** – which is focused on Europe and Latin America, tesa strengthened its market position in all regions and all channels. tesa gained significant market share in the important DIY, craftsmen, and stationery markets.

One of the key drivers here was once again the success of tesa Smart Mounting Solutions (tSMS). Following the 2016 rollout in Germany, tesa has now also launched these products in Austria, Switzerland, Belgium, the Netherlands, Spain, Poland, Italy, Portugal, and France. The innovative products in this range, which include adjustable adhesive nails, impress customers with the advantages they offer over conventional methods that use materials such as screws and nails. The brand campaign also supported the launch in the relevant countries. In particular, tesa was able to place its double-sided mounting solutions at major home improvement chains in France.

The acquisition of the company nie wieder bohren (NWB, whose name means "never drill again") marked another success. The move not only expanded tesa's range of hooks for the DIY bathroom segment and helped to tap into new customer groups, but also brought in additional expertise that will help the company further diversify in the bath departments of home improvement stores in Germany and beyond and make further inroads into the specialized plumbing retail segment in Germany. The acquisition also offers tesa potential for expanding this business in additional countries.

Growth in e-commerce is also becoming increasingly important. With this in mind, all of the key countries for the Consumer & Craftsmen business segment were linked with tesa's digital activities in 2017. Along with introducing vide-

os and providing support for campaigns, tesa achieved good ratings on Amazon for its products in these countries.

## Employees

The economic success, quality, and sustainability of tesa's business depend to a critical extent on the qualifications and engagement of tesa employees. As a result, tesa's attractiveness as an employer is an essential prerequisite for the company's positive development. As a worldwide technology leader in the technical adhesive tape and adhesive system solution segment, tesa needs to recruit highly qualified, committed and dedicated 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.

During this reporting period, tesa continued to focus on attractive development opportunities for its next-generation talent, providing its managers with various tools to help in the process. tesa also promotes the development of its managerial staff, turning to the latest findings and insights for guidance. The company's sales and marketing qualification program, which has been successful for years, was one focus of tesa's personnel development activities in 2017, as in the past. To be able to respond even faster to change in the future and further develop the program on a targeted basis, an interdisciplinary, cross-regional steering committee has begun work. One key prerequisite when it comes to ensuring that employees can work optimally is quick familiarization with companies and workflows. To speed up the integration of new colleagues, tesa has begun developing an electronic onboarding process that it plans to use worldwide. In addition, the tesa Supply Network launched an e-learning program that illustrates and explains the main work processes in a way all employees can understand. The company has also introduced e-learning programs in the Asia-Pacific region, garnering a highly positive response from the staff. The starting point for all of tesa's development offerings is the new employee performance appraisal aligned with the tesa Key Competencies. It was used across almost all regions during the year under review.

Another factor in tesa's appeal as an employer is leadership: the ability to lead employees in a motivational way

that is also geared toward performance at the same time. Management practices that are developed with this goal in mind strengthen employee loyalty and make a key contribution to achieving the company's goals. To this end, the company has made targeted investments in providing standardized leadership training for managers worldwide in recent years.

In 2017, tesa introduced its Essential Leadership Training concept, already in use in three other business regions, in Latin America as well. The Group-wide rollout of the program is scheduled for completion by the end of 2018. The objective is to arrive at a standardized understanding of employee management and leadership that is also reflected in the tesa Key Competencies. A supplementary program called Advanced Leadership Training will also enable participants to develop new solutions for especially tough leadership challenges. A pilot project in Germany involving the new training module went successfully.

tesa promotes and supports various other aspects that contribute to a safe and healthy working environment that bolsters 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 was once again below the industry average according to the statutory accident insurance and prevention institution (*Berufsgenossenschaft*) in 2017. The occupational health management program "It's for you" and the tesa sport club, which offers a wide range of classes for employees, established new emphases in this reporting year. The interdisciplinary offerings included preventive health checks, smoking cessation programs, classes to promote healthy eating, and back strength exercise programs.

The success of all these activities is affirmed by the results of anonymous employee surveys, which tesa conducts annually, on a rotating basis, in the regions and at its headquarters. The survey of employees of the five affiliates in Latin America generated a highly positive response and showed once again that tesa succeeds in earning the lasting loyalty of highly committed, engaged employees.

The number of employees stood at 4,457 at the end of the fiscal year (previous year: 4,158).

Further information on the areas of emphasis detailed above will be published in the tesa Sustainability Report, available at the following link starting on April 20, 2018: [www.tesa.com/responsibility](http://www.tesa.com/responsibility).

### III. Financial Position

#### Cash flow statement

	2016	2017	Change
	in € million	in € million	in € million
<b>Cash and cash equivalents as of Jan. 1</b>	<b>190.3</b>	<b>156.9</b>	<b>-33.4</b>
Gross cash flow	171.0	191.3	20.3
Change in net working capital	-33.7	-36.1	-2.4
Net cash flow from operating activities	137.3	155.2	17.9
Net cash flow from investing activities	-101.7	-64.9	36.8
<b>Free cash flow</b>	<b>35.6</b>	<b>90.3</b>	<b>54.7</b>
Net cash flow from financing activities	-66.7	-72.3	-5.6
Exchange rate-related change in cash and cash equivalents	-2.3	-7.9	-5.6
Net change in cash and cash equivalents	-33.4	10.1	43.5
<b>Cash and cash equivalents as of Dec. 31</b>	<b>156.9</b>	<b>167.0</b>	<b>10.1</b>

**Cash flow from operating activities** increased by € 17.9 million, to € 155.2 million, as compared to the previous year.

**Investing activities** accounted for a net balanced outflow of € 64.9 million. These expenditures were largely attributable to investments in securities, property, plant and equipment as well as intangible assets and the acquisition of nie wieder bohren ag. An effect in the opposite direction resulted from a repayment of a loan granted in the previous year.

**Free cash flow** increased by a total of € 54.7 million, to € 90.3 million.

The negative **cash flow from financing activities** was due in particular to a dividend payment of € 64.3 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had increased by a total of € 10.1 million, to € 167.0 million.

#### Key Financial Indicators

The **return on sales** increased year over year, bringing the EBIT margin to 16.5% (previous year: 16.2%). Excluding

adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in an increase in profitability, from 19.6% in the previous year to 19.7% in 2017.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, increased to 33.3% in 2017 (previous year: 31.8%).

The **net profit**, measured against sales proceeds, decreased slightly, going from 11.2% in the previous year to 10.7%.

The **earnings per share** increased from € 5.00 to € 5.21.

The **equity ratio** remained at nearly the same level as the previous year, at 52.9% (previous year: 53.5%). The ratio of equity to non-current assets is 130.2% (previous year: 124.6%).

#### Capital Expenditure

In this reporting year, tesa invested a total of € 68.6 million in intangible assets and property, plant and equipment. Of this figure, € 56.5 million was allocated to locations in Germany, with intangible assets accounting for € 26.8 million thereof within the scope of the acquisition of nie wieder bohren AG as a new affiliate within the tesa group of companies.

The sum of € 3.2 million was invested in the rest of Europe, € 6.9 million in the Americas, and € 2.0 million in Africa / Asia / Australia. The investments in the U.S. in particular were attributable to the development and expansion of production capacity for the Direct Industries division.

2017 was primarily marked by spending aimed at technological and capacity expansions in major strategic projects, some of which have now been concluded. In addition, tesa continued to make relevant investments to modernize the global IT infrastructure and system landscape in 2017, 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 € 22.7 million.

## IV. Balance Sheet Structure

### Balance sheet structure of the tesa Group

	2016	2017	Change	
<b>Assets</b>	in € million	in € million	in € million	in percent
Non-current assets	500.0	522.1	22.1	4.4
Inventories	197.3	257.8	60.5	30.7
Other current assets	309.6	337.6	28.0	9.0
Cash and cash equivalents	156.9	167.0	10.1	6.4
<b>Total</b>	<b>1,163.8</b>	<b>1,284.5</b>	<b>120.7</b>	<b>10.4</b>

<b>Equity and liabilities</b>	in € million	in € million	in € million	in percent
Equity	623.0	680.0	57.0	9.1
Non-current provisions	288.8	285.9	-2.9	-1.0
Non-current liabilities	5.0	18.2	13.2	264.0
Current provisions*	87.9	107.3	19.4	22.1
Current liabilities*	159.1	193.1	34.0	21.4
<b>Total</b>	<b>1,163.8</b>	<b>1,284.5</b>	<b>120.7</b>	<b>10.4</b>

\*) The previous year's value was adjusted by reallocating EUR 5.1 million from income tax liabilities to other current provisions.

As compared with the previous year, total assets increased, rising by 10.4% to € 1,284.5 million. The primary reasons for this on the assets side were the increase in inventories (up € 60.5 million), the increase in other current assets, which were up € 28.0 million, and an increase in non-current assets (+ € 22.1 million). On the liabilities side, current provisions and liabilities increased in particular, up € 53.4 million, as did equity (+ € 57.0 million).

Inventories increased by 30.7% year over year, rising to € 257.8 million. This was due chiefly to higher sales volumes over the course of the year, which resulted in an increase in stock levels, along with the one-time effects of the company acquisition in 2017.

Cash and cash equivalents increased by € 10.1 million to € 167.0 million. Please see the remarks concerning the financial situation for further information.

Non-current assets increased by € 22.1 million, to € 522.1 million. Intangible assets were a key driver of this development, based on the company acquisition that took place this fiscal year. Please see the remarks on capital expenditure for further information.

The non-current provisions were primarily attributed to an increase in operating-related expenditures that must be accrued. 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 € 134.2 million and the dividend payment of € 64.3 million to the shareholders.

## V. Risk Report

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

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

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

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

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard

to the quality and safety of our products. They are thus subject to a comprehensive, end-to-end quality assurance system throughout the entire procurement, production, and distribution process. tesa ensures the development of and compliance with the necessary processes by means of periodic internal and external audits in accordance with international standards. The company is fully certified in accordance with ISO 9001, and, where necessary, under ISO/TS 16949, 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.

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

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

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

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

tesa constantly monitors the availability, reliability, and efficiency of its IT systems and adapts them to state-of-the-art technology. 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 programs and the ongoing recruitment and development of young professionals and junior managers.

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

## VI. Outlook

Geopolitical risks and their effects on overall economic development will have a lasting impact on tesa's business in 2018, continuing a trend seen in previous years.

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

In North America, tesa anticipates ongoing positive impetus, particularly from the automotive industry. Development in Latin America is viewed positively for the most part.

The outlook for development in Asia depends in large measure on the development of the Chinese economy. tesa expects moderate growth in Asia in 2018, with tesa participating therein 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.

2017 was marked by relatively moderate volatility in currency exchange rates. The euro strengthened over the course of the year, which will have a slightly damping influence on the development of tesa's business in 2018. Classic financial instruments are used to hedge against these risks.

tesa is continuing to invest in innovative technologies at its production sites all over the world. The capital expenditure volume will be above the total write-downs. Financing for the investments in 2018 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 2018 will bring sales growth of 3 to 4%. The operating EBIT margin will be slightly below the previous year's figure, as expected.

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

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

Norderstedt, February 16, 2018  
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](http://www.tesa.com) and [www.tesa.de](http://www.tesa.de).  
Printed copies can also be obtained from the Corporate Communications department.

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