



Annual Report 2015

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.

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,

At current exchange rates, the tesa Group posted sales of € 1,139.6 million in 2015, an increase of 5.9% over the previous year. Adjusted for exchange rate effects and special factors, sales rose slightly, by 0.3%. We achieved excellent and above-average development in our business regions of the Americas and Eastern Europe. In Western Europe, we were able to achieve slight sales growth despite the tough overall environment, while development in our Asia-Pacific business region fell short of expectations.

We were able to maintain our operating result at a high level. At an EBIT margin of 16.8%, the figure was down only slightly from the previous year.

This past fiscal year, we successfully concluded the relocation of our headquarters and technology and research center to our newly built site near the Hamburg airport. This means that the three central units of tesa SE are together in one place. We have created a modern, pleasant work environment that will improve communication and teamwork and give us sufficient room for future growth.

We continued to pursue our capital expenditure projects on a consistent basis with the aim of further expanding our technological expertise and securing future growth. These projects include, for example, an additional state-of-the-art lamination unit to produce foam adhesive tapes for the regional electronics, automotive, and solar industries at our plant in China. In

Hamburg, we commissioned a large new polymerization unit for the production of adhesives and a redesigned production hall with an optimized flow of materials, both with the aim of meeting the growth targets we have planned for the period between now and 2020.

In our business with products for consumers and craftsmen, which focuses on Europe and Latin America, we strengthened our market position in all regions and channels. The major factors that contributed to this included sustained marketing activities such as the international branding campaign, which we successfully continued in 2015, and the introduction of market-driven innovations, among them a new product concept for painter's tapes.

Like last year, this year comes with political uncertainties, and thus economic ones. Our financial strength, broad portfolio of innovations, and the great flexibility that allows us to respond very quickly to changes on the market mean that we are in an excellent position to overcome these challenges and ensure positive development of the business.

Special thanks goes out to all employees worldwide, who once again worked together with the utmost dedication to shape tesa's success in 2015, demonstrating their passion for our brand and our company again 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 4,100 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 52 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 France 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).

In 2015, the company moved into the new tesa headquarters, near the Hamburg airport, with an integrated research and technology center. 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 the various areas of the company, which were previously physically separate from each other, will streamline communication channels between market management and R&D. This will help ensure that the tesa Group can meet the ever-changing requirements of its markets even faster and more flexibly.

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 in particular – for customers in the electronics, printing and paper, building and construction, and automotive industries. 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. The centerpiece of 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, tesa supplies technical retailers with state-of-the-art product ranges.

Consumer & Craftsmen 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 and marketing concepts 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

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

Worldwide growth held steady at the previous year's level in 2015, although the outlook dimmed increasingly over the course of the year due to economic weakness in emerging markets. While economic trends in the industrialized countries showed increasing improvement, the emerging markets rich in raw materials suffered from the drop in energy and raw material prices.

The **European** economy continued to recover, slightly outperforming the previous year's growth. The relatively low costs of raw materials, the devaluation of the euro and low interest rates all supported this trend. Rising demand within the eurozone made up for the decline in demand from emerging economies.

The **German** economy benefited from the good situation on the labor market, low interest rates, and positive consumer sentiment. The ongoing cooling of the economies of important emerging markets and declining demand from China had a negative effect on the economy, however. On the whole, Germany's economy achieved moderate growth.

The **U.S.** economy experienced positive development in 2015. It was supported by positive developments in the labor market and by rising domestic demand. The Federal Reserve increased interest rates by a moderate amount in December.

Japan achieved only modest economic growth in 2015. The economy was marked by weak domestic demand and the downturn in the Chinese economy.

The picture that emerged for the growth markets was a mixed one. Economic growth in **China** fell short of expectations

in 2015, with the growth rate slowing to its lowest level since 2009. Growing concern about the possibility of an economic downturn triggered a crash in the overheated Chinese stock market. In **India**, reforms had a positive effect on economic development, but the export sector slowed. In **Brazil**, the economic trend remained tense due to low domestic demand and low raw material prices, leading to a decline in economic output.

The ongoing geopolitical conflict between **Russia** and Ukraine and the steep drop in the price of oil led to a recession and adversely affected development in the region.

Sales Market Development

2015 was marked by stable growth in the industrial sales markets in Europe and the Americas and by a slowing economy – in some cases, to a considerable degree – in the largest Asian markets. The main growth drivers were the countries in Eastern Europe and Latin America. The trend in North America was also positive.

The market for consumer electronics was stagnant in 2015. While worldwide sales figures for tablets declined, the smartphone market saw a slight increase. Activity on the market was marked by increasing price competition among manufacturers – which also put pressure on the market for adhesive tape. This pressure was exacerbated by the fact that a number of new providers began operating in the tape market for consumer electronics.

The automotive industry saw very positive development at the start of 2015, but slowed over the next few quarters, as events in China and economic trends in South America in particular weighed on growth. The U.S. market experienced an upward trend. Together with Europe, it became an engine for growth, while China lost considerable momentum. In the wake of these developments, Western Europe remained an important sales market for the automotive industry, with solid growth in terms of production, while Eastern Europe, like Asia, merely held steady at the previous year's level.

The consumer market in Europe brightened further from the previous year, as retail sales in the non-food segment rose across almost all EU countries. In tesa's core consumer market of Germany, the retail segment – which is important to tesa – slightly underperformed the overall trend.

The dynamic development of the online market continued in 2015, as in years past.

Procurement Market Development

Supply on the procurement markets was largely stable in 2015. tesa expanded its supplier base in 2015, thereby reducing the risks to the Group's business. The downward trend in the price of oil starting in late 2014 and developments in currency exchange rates affected the procurement market. Consistent development of alternative suppliers in the resins segment brought stability to the supply of raw materials for tesa.

Prices of materials were heavily influenced by the drop in oil prices. The euro's loss of value against the dollar had the opposite effect on prices, driving increases in procurement prices for raw materials denominated in dollars. As a result, the prices of raw materials showed a slight downward trend overall as compared to the previous year.

In 2016, tesa plans to qualify further alternative sources in Asia, Europe, and North America, with the objective of securing the company's competitiveness and innovative drive worldwide and ensuring that it has a reliable supply at all of its locations. Securing an adequate supply of resins will remain a major topic of focus for purchasing activities in 2016, as in the past. Squeezes in this area are caused by a decrease in production capacity and reduced availability of raw materials among resin producers. These effects are being countered through good supplier loyalty activities and ongoing measures to qualify alternative suppliers. Other substantial delivery bottlenecks due to structural factors within the industry are not expected in 2016.

Prices on the markets for raw materials are expected to be influenced by several market effects in 2016. Price increases may result from unforeseeable delivery bottlenecks and/or from rising oil prices.

On the whole, a moderate price increase on the procurement markets is anticipated for tesa in 2016. Due to its long-term pricing and volume contracts, tesa believes it is well prepared for such a scenario.

Research and Development

In the 2015 fiscal year, as in the past, our research and development activities focused on technologies for solvent-free production of adhesive tapes.

tesa has developed new technologies for barrier tapes with unusually high resistance to humidity. An increasing number of inquiries for these kinds of technologies are coming in from the electrical engineering and electronics industry in particular, as they can be used to ensure adequate resistance to aging in

components such as flexible displays with organic light-emitting diodes (OLEDs). In one project funded by the German Federal Ministry of Education and Research (BMBF), the tesa Group joined forces with technology firms Schott and Von Ardenne to develop new technologies for the use of ultrathin “glass on a roll” in future OLED applications.

The company also worked on new adhesive tapes that ensure an even firmer adhesive bond between frames and displays in mobile phones and tablets. These tapes contain additional layers of foam with very high mechanical strength between the layers of adhesive. This yields significantly better results in mechanical stress tests of end products, such as fall tests, than those achieved with the adhesive tapes that were previously in common use.

tesa also made progress in 2015 in developing new adhesives for changing requirements. Examples of these requirements include even higher adhesive strength on critical surfaces, such as dirt-repellant automotive paint or the highly non-polar plastics used in the electronics industry. Targeted development of polymer chains for adhesives based on acrylates plays an important role in this. Toward this aim, tesa further developed existing polymerization processes and combined them with new technologies. The new methods have been successfully tested at the pilot scale and are currently being moved up to the production scale.

Another example is the development of systems of adhesives with excellent resistance to a wide range of chemicals. This is an important factor wherever electronics such as smartphones, tablets, and wearables come into contact with the skin or with household chemicals such as cleaning agents during use. The new adhesives retain their adhesive performance even under these tough conditions.

tesa also developed adhesive tapes with particular ecological characteristics. To accommodate the use of compostable packaging systems, the tesa labs produced new adhesives during this reporting year that can be combined with compostable film backings to yield high-performance tapes. The company also developed technologies for adhesive tapes made only from renewable raw materials.

Responsibility

Corporate responsibility toward society at large and the environment was the focus of tesa’s sustainable business strategy in 2015, as in past years. The company greatly emphasizes

making a significant contribution to social development and further developing tesa’s environmental management systems.

As part of tesa’s environmentally conscious actions, the company engages in ongoing reviews to determine whether there are ecofriendlier alternatives to certain raw materials used in the production process. Environmental impact is among the factors considered in these activities. tesa has consistently advanced the development of an environmental management system since 2001, and ambitious environmental protection goals have been met and exceeded on a regular basis during this period. For example, tesa’s production sites have lowered their emissions of volatile organic compounds (VOCs) by more than half worldwide since 2001 and have considerably reduced waste, CO₂ emissions, and solvent consumption. All production sites are certified under the ISO 14001 international environmental standard.

This fiscal year, tesa’s environmental management activities focused on the further development of energy management systems and on reducing CO₂ emissions.

In the first quarter of 2015, the energy management systems at tesa’s two largest production sites, the Offenburg and Hamburg plants, successfully underwent ISO 50001 certification. The new tesa headquarters in Norderstedt – built according to the new German ordinance on energy conservation (EnEV 2014) – are scheduled to follow this year.

The ecofriendly generation of the company’s own electricity through the combined heat and power (CHP) plant commissioned in Offenburg in late 2014 significantly lowered CO₂ emissions starting right away in 2015. This state-of-the-art technology will be introduced at the tesa plant in Hamburg this year and is being reviewed as an option for additional production sites.

Living up to social responsibility is an integral element of tesa’s business policies. With this in mind, tesa supports a wide range of projects all over the world through its corporate citizenship program, under the motto “tesa verbindet” (“tesa connects”):

- The “tesa hilft” (“tesa helps”) aspect of the program provided active assistance to neighbors and supported social, ecological, and cultural institutions in the locations where tesa operates through various projects this year. In Hamburg, for example, tesa continued its successful work with the “tatkräftig – Hände für Hamburg” initiative in 2015. In Belgium, employees accompanied athletes with intellectual disabilities during the Special Olympics National Games, where tesa was a sponsor.

- “tesa spendet” (“tesa donates”) supports selected institutions in their work by providing monetary or product donations. tesa also donates to help when disasters strike. This fiscal year, donations benefited the victims of the earthquake in Nepal, for example.
- As a technology group, tesa knows how important education is. That’s why, as part of its activities in the “tesa fördert” (“tesa supports”) category, tesa cooperates with the nonprofit organization Initiative Naturwissenschaft & Technik (Science & Technology Initiative). In 2015, tesa supported about 20 upper-grade students from a secondary school in Hamburg who had decided to focus on science in their studies.
- The “tesa schützt” (“tesa protects”) initiative supports the Niedersächsische Elbtalaue UNESCO biosphere reserve, in the state of Lower Saxony, as part of a long-term partnership. The most important element here is the voluntary engagement of tesa employees, who do things like planting oak seedlings in an effort to preserve this species-rich and ecologically sensitive riparian forest landscape.

All of these activities are documented in an annual progress report, accessible at www.tesa.com/responsibility.

II. Results of Operations

Results of operations in the tesa Group

	2014	2015	Change	
	in € million	in € million	in € million	in %
Sales	1,076.3	1,139.6	+63.3	5.9
Costs of goods sold*	-580.8	-602.6	-21.8	3.8
Gross profit	495.5	537.0	+41.5	8.4
Marketing and selling expenses	-215.9	-237.9	-22.0	10.2
Research and development expenses	-45.4	-50.7	-5.3	11.7
General administrative expenses	-53.1	-56.0	-2.9	5.5
Other operating income	39.0	56.9	+17.9	45.9
Other operating expenses	-36.7	-58.1	-21.4	58.3
Operating result (EBIT)	183.4	191.2	+7.8	4.3
Financial income	3.5	3.9	+0.4	11.4
Financial costs	-6.5	-8.7	-2.2	33.8
Financial result	-3.0	-4.8	-1.8	60.0
Profit before tax	180.4	186.4	+6.0	3.3
Taxes on income	-56.8	-63.2	-6.4	11.3
Profit after tax	123.6	123.2	-0.4	-0.3

*) Adjusted previous-year figures (see detailed explanation in the tesa **Consolidated Notes**, p. 12)

The tesa Group posted an operating result (EBIT) of € 191.2 million in the 2015 fiscal year, an increase of € 7.8 million (+4.3%). This was because the gross profit rose to € 537.0 million (+8.4%), while operating expenses rose disproportionately by comparison to sales on the whole.

The tesa Group closed the fiscal year with profit after tax of € 123.2 million (-0.3%). The root cause of this was the lower financial result, which was down € 1.8 million, combined with higher taxes on income in 2015 (+11.3%).

Sales increased by € 63.3 million, to € 1,139.6 million. Taking into account the decrease in the costs of goods sold, which were down by € 21.8 million, gross profit improved by 8.4%, rising to € 537.0 million. Return on sales is stable year over year, leading to a slightly lower EBIT margin of 16.8% (previous year: 17.0%).

The increase in operating expenses was marked in particular by higher marketing and selling expenses, which increased by € 22.0 million, to € 237.9 million, and by the rise in other operating expenses, which were up by € 21.4 million. The higher marketing and selling expenses were the result of ongoing intense activities in the European and Asian sales markets. € 42.4 million of the marketing and selling expenses was reclassified as

costs of goods sold in order to follow the new disclosure starting at the beginning of 2015. Other operating expenses were affected in particular by foreign currency losses and by expenditures made with the goal of harmonization and standardization of business processes worldwide.

Research and development expenses also rose by € 5.3 million, to a total of € 50.7 million, and general administrative expenses were up € 2.9 million, at € 56.0 million.

Other operating income increased by € 17.9 million, to € 56.9 million, chiefly due to foreign currency gains.

The decline in the financial result to € -4.8 million is due largely to the fact that high currency gains were realized in the financial result in the previous year, but were absent from the current fiscal year.

Taxes on income rose by a disproportionately high amount in comparison to the profit before tax due to increased releases from deferred taxes this fiscal year.

In keeping with forecasts from the previous year, 2015 saw a slight downward trend in the result, with a slightly lower EBIT margin. In summary, the tesa Group posted positive development once again in the past fiscal year, as targeted investments were made in order to secure its market position in the long term.

Business Development by Region

Growth at constant exchange rates in the tesa Group totaled 0.3% in the 2015 fiscal year (previous year: 4.4%).

Europe

Development in Europe experienced a slight upturn in 2015, leading to growth of 1.3% in sales at constant exchange rates. The business in Eastern Europe saw particularly positive development. By contrast, Switzerland and the UK in particular faced declines in sales, due in part to the significant shift in currency exchange rates in 2015. At current rates, tesa posted sales of € 630.7 million in Europe (previous year: € 622.3 million). The share of Group sales declined to 55.3% (previous year: 57.9%).

Americas

In the Americas, tesa achieved significant gains in sales in 2015, with the positive development on the automotive market being a contributing factor once again this year. At the same time, the end consumer business in Latin America also saw

very positive development. Adjusted for exchange rate effects, the region as a whole posted a 6.4% increase in sales. At current exchange rates, the sales figure was up by 17.3%, at € 167.2 million (previous year: € 142.5 million). The share of Group sales increased slightly, to 14.7%.

Africa / Asia / Australia

The year 2015 was marked by a decrease in sales in Asia. The main factors responsible for this were the slowing of the Chinese economy and decreases in the project business focusing on products for the electronics industry. On the whole, sales decreased by 4.3% (adjusted for exchange rate effects). At current exchange rates, sales in the region, at € 341.7 million, were up 9.7% from the previous year's sales of € 311.5 million. The share of Group sales rose to 30.0% (previous year: 28.9%).

Business Development by Division

Industry

The Industry division achieved organic growth of 0.1% in sales in 2015. Significant growth in the business in the Americas came at the same time as a sharp decrease in the sales earned in Asia, primarily in the project business. There was a nominal increase of 7.6% in sales, which stood at € 853.7 million (previous year: € 793.0 million). The share of overall sales attributed to the Industry division is 74.9% (previous year: 73.7%).

In the business with the **electronics industry**, tesa strengthened its market-leading position with the removable adhesive tapes in the Bond&Detach® series, which are used to hold batteries in place inside smartphones. The latest version achieves even better performance, especially under shock conditions. The successful market launch of barrier tapes for flexible displays based on OLED technology promises to yield positive development. Despite these successes, this business sector was chief among those affected by the weakness of the Chinese market and the increasing saturation of the market for smartphones.

A wealth of new products and strong international sales activities were important factors spurring development in the **automotive sector**. One example is the new version of ACX^{plus}, a high-performance adhesive tape featuring viscoelastic material properties. It is used to bond car parts such as emblems, trim, and antennas in place. tesa offers all-in-one masking systems with an applicator for two-tone auto body paint-

work, setting new standards in the technical implementation of this trend.

tesa was also active in new ways in the **print and paper** segment. Sales were buoyed in particular by the flexo printing product range, which is about to be relaunched. This method is used for various applications, including printing flexible packages made out of materials such as plastic. The improvements to the tesa products include better process characteristics, simplified mounting techniques, new foam hardness levels, and a modified adhesive. The products still offer the same outstanding printing properties.

The **pharmaceuticals** business saw positive development in contract manufacturing. tesa also significantly increased production capacity for medicated patches and rapidly dissolving oral films. This meant that we were able to prepare for the European launch of two new products. tesa began supplying products for Canada, and development contracts that will secure future growth were signed for the region of North America.

The **tesa scribos®** business segment produces comprehensive and individualized solutions to protect against counterfeiting and tampering for customers in a wide range of industries. Scribos acquired new customers this year. The strengthening of the customer base was aided by orders from a leading Chinese manufacturer of e-cigarettes that began securing its products with a tesa VeoMark® label in 2015. Newly developed security seals such as tesa® HighPerSeal tape were also successfully launched on the market.

In the **building supply** segment, the expansion of the clientele for ACX^{plus} products and PE foams was a major factor yielding new growth. These products, which are based on tesa's patented ACX^{plus} technology, are especially suitable for adhesive bonding of windows and doors made of PVC, wood, and aluminum. tesa also offers system solutions for adhesive bonding in construction applications. This makes it easy to implement energy conservation measures or realize design trends such as combining different materials. Another area of focus in this business segment is adhesive bonding as a stable, weather-resistant way to attach components to façades.

Although the industrial **retail business** was heavily marked this fiscal year by competition from suppliers of cheap goods, tesa still saw stable development. This was driven by the expansion of the product range for innovative mounting tapes, especially the ACX^{plus} products. Intensified contact with specialized technical retailers also helped to further expand the business.

Consumer & Craftsmen

The business in products for consumers and professional craftsmen, which is focused on Europe and Latin America, saw positive development, with organic growth of 2.8% in sales. In nominal terms, sales rose by 2.8%, to € 263.9 million (previous year: € 256.7 million). As a result, this division contributed a share of 23.2% (previous year: 23.8%) of tesa's total sales during this reporting year.

tesa was able to strengthen its market positions in all regions and all channels. The international branding campaign, which was successfully continued in 2015, was one important contributing factor. POS placements for Powerbond® products were continued in Poland, Italy, Spain, France, the Benelux countries, and Switzerland, yielding new market share for tesa. For its Powerstrips® products, tesa began running a new TV commercial in Poland, Italy, and Spain in the second half of the year, which generated a positive response. Distribution and sales of Powerstrips® grew significantly across all sales channels as a result of these efforts.

An innovative product concept for painter's tapes was successfully introduced at hardware and home improvement stores in Germany, with support from a 360° campaign featuring a TV commercial and a road show.

tesa achieved significant growth in many countries with its products for painters and painting companies in the craftsmen segment. The main factors driving this trend were the internationalization of the training concept and the modernization of the POS presentation. The greater customer focus tesa achieved by restructuring its sales and distribution companies also had positive effects.

The business in Russia and Greece continued to be affected by the ongoing tense political and economic situation. By contrast, tesa was able to initiate new customer projects with high growth potential in other markets, including the UK, France, Belgium, the Netherlands, and Luxembourg.

Employees

A major milestone in tesa's company history came in 2015, with the move to Norderstedt. Over three stages, tesa first moved the technology center, then the company headquarters, and finally the research center to the new site. The work space in the new headquarters was designed and set up using a modern approach, with the aim of fostering dialogue between employees from different units. The move also brought the launch of a

new health program, “It’s for you!” The program has various components, including the tesa sport club, a sports, fitness, and health area, and ergonomics coaching. There is also a varied range of healthy food choices.

Succession planning and talent management are important parts of the tesa HR strategy, as they make it possible to fill many vacancies in management positions with employees from within tesa’s own ranks. A separate tesa competency model was developed in 2015 with the involvement of managers from all regions. Feedback meetings for upper management are being shifted to the new model as the first step.

Employee surveys conducted in North America, Asia, and Western Europe in 2015 laid the groundwork for continuous improvement in the working climate and the engagement of tesa employees. The excellent survey results motivate tesa to work on further improvements on an ongoing basis. Starting this year, the surveys will also be conducted in the other regions. Plans call for these activities to be repeated on a regular basis in the future.

tesa has been successfully preparing all sales and purchasing employees for their national and international tasks as part of a worldwide training program for years, and there are now plans for the same type of activities in the tesa Supply Network in the future. With this in mind, tesa worked extensively to develop this kind of program in 2015. The objective is to be able to manage international sales projects smoothly through the deeper understanding that is developed together.

In addition, tesa adopted new compensation and benefit guidelines in 2015 and began their international implementation. The most important new feature is a change in employees’ variable compensation, which is supposed to move away from individual targets and be geared more toward corporate and team objectives. The reason for the shift is that an increasing number of sales projects are being implemented in international teams, so it is easier to assess achievement of targets this way than at the individual level.

The number of employees stood at 4,109 at the end of the fiscal year (previous year: 4,081).

III. Financial Position

Cash flow statement

in € million	2014	2015	Change
Cash and cash equivalents as of Jan. 1	208.9	194.4	-14.5
Gross cash flow	150.2	157.4	7.2
Change in net working capital	-24.0	-2.1	21.9
Net cash flow from operating activities	126.2	155.3	29.1
Net cash flow from investing activities	-74.5	-98.0	-23.5
Free cash flow	51.7	57.3	5.6
Net cash flow from financing activities	-78.2	-68.0	10.2
Exchange rate-related change in cash and cash equivalents	12.0	6.6	-5.4
Net change in cash and cash equivalents	-14.5	-4.1	10.4
Cash and cash equivalents as of Dec. 31	194.4	190.3	-4.1

Cash flow from operating activities increased by € 29.1 million, to € 155.3 million, as compared to the previous year. **Investing activities** accounted for a net balanced outflow of € 98.0 million. These expenditures were largely attributable to investments in property, plant and equipment and intangible assets. **Free cash flow** increased by a total of € 5.6 million, to € 57.3 million.

The negative **cash flow from financing activities**, in the amount of € 68.0 million, was mainly due to a dividend payment of € 61.8 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had decreased by € 4.1 million, to € 190.3 million.

Key Financial Indicators

The **return on sales** was stable compared with the previous year, leading to a slight decrease in the EBIT margin, which stood at 16.8% (previous year: 17.0%). Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in a decrease, from 19.4% in the previous year to 19.3% in 2015.

The **EBIT return**, measured in terms of the available **equity** as of the beginning of the fiscal year, decreased to 38.0% in 2015 (previous year: 38.1%).

The **net profit**, measured against sales proceeds, decreased from 11.5% in the previous year to 10.8%. The **earnings per share** declined from € 4.79 to € 4.78.

The **equity ratio** increased from 50.0% to 53.8%. The ratio of equity to non-current assets is 121.5% (previous year: 124.5%).

Capital Expenditure

In this reporting year, tesa invested a total of € 110.9 million in intangible assets and property, plant and equipment. Of this figure, € 99.7 million was allocated to locations in Germany. The sum of € 3.2 million was invested in the rest of Europe, € 1.5 million in the Americas, and € 6.5 million in Africa / Asia / Australia. The investments in Asia and the U.S. in particular were attributable to the expansion of production capacity.

2015 was marked primarily by spending on major strategic projects aimed at technological and capacity expansions, which were also largely concluded during this year. In addition, initial relevant investments were made to modernize the global IT infrastructure and system landscape in 2015, with plans to continue these efforts in the years to come.

Expenditures for investments in productivity and replacements, as well as capacity expansions at the worldwide production sites, totaled € 34.0 million.

Further investments of € 61.8 million were made in 2015 for the construction of the new tesa company headquarters with integrated research and technology center at the site near the Hamburg airport. The buildings were completed in 2015, and all employees have successfully relocated to the new headquarters.

IV. Balance Sheet Structure

Balance sheet structure of the tesa Group

	2014	2015	Change	
Assets	in € million	in € million	in € million	in %
Non-current assets	404.2	480.4	76.2	18.9
Inventories	185.3	180.7	-4.6	-2.5
Other current assets	223.4	236.2	12.8	5.7
Cash and cash equivalents	194.4	190.3	-4.1	-2.1
Total	1,007.3	1,087.6	80.3	8.0
Equity and liabilities (in € million)				
Equity	503.4	584.7	81.3	16.2
Non-current provisions	244.2	238.7	-5.5	-2.3
Non-current liabilities	5.5	6.5	1.0	18.2
Current provisions	102.8	90.2	-12.6	-12.3
Current liabilities	151.4	167.5	16.1	10.6
Total	1,007.3	1,087.6	80.3	8.0

As compared with the previous year, total assets increased, rising by 8.0% to € 1,087.6 million.

On the assets side, non-current assets rose by € 76.2 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.

Other current assets increased by € 12.8 million to stand at € 236.2 million. This was due in particular to the increase in trade receivables.

Cash and cash equivalents decreased by € 4.1 million, to € 190.3 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 € 81.3 million increase in equity and the € 16.1 million increase in current liabilities.

The change in equity is mainly attributable to the net profit after tax of € 123.2 million and the dividend payment of € 61.8 million to the shareholders.

The increase in current liabilities is primarily ascribed to the increase in trade payables.

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 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. 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. 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

Geopolitical risks and their impact on overall economic development will have a lasting impact on tesa's business in 2016, continuing a trend seen in previous years.

On the whole, the trend is expected to remain stable in Europe, although the political environment, the Ukraine conflict,

the crisis in Greece, and the budget situation in Russia due to the trend in the price of oil may have negative effects on the markets, especially in Eastern Europe.

By contrast, significantly positive impetus is expected in North America, particularly from the automotive industry, and the development in Latin America is also viewed positively. There is some uncertainty stemming from Brazil, which has been in an economic crisis for some time now.

The outlook for development in Asia depends in large measure on the development of the Chinese economy. tesa expects moderate growth in Asia in 2016, with the automotive sector accounting for tesa's main share thereof. The business with the electronics industry in Asia remains attractive, but growth rates in this customer segment are expected to be slow overall. In addition, the project-oriented nature of the business with the electronics industry continues to pose a significant risk. The automotive sector is viewed as an important growth field among global customers. tesa also expects the business in the pharmaceuticals segment to continue its positive development in the future.

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

2015 was marked by considerable volatility in currency exchange rates. In particular, the significantly stronger U.S. dollar will influence the development of tesa's business in 2016, as in the previous year. Classic financial instruments are used to hedge against these risks.

The fact that tesa's production sites are located in the euro-zone, while sales also take place outside the eurozone, brought positive effects from the currency standpoint in 2015. tesa believes these effects will continue in 2016 as well, but if the euro strengthens, they could quickly turn to the downside.

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, but following the commissioning of the new Group headquarters in 2015, the absolute amount of capital expenditure will be significantly lower year over year. Financing for the investments in 2016 has been secured.

Growth is expected to slightly outperform the market in 2016. This applies to the business with both consumers and industrial customers. Continued investment in research and development, and thus in innovative products, is expected to strengthen

tesa's market position. tesa is predicting sales growth of 2–4% for 2016. The EBIT margin from operations is expected to be similar to the prior-year level.

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."

Norderstedt, February 8, 2016
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.

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