



Annual Report 2008

tesa, Hamburg

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Foreword by the Executive Board

Ladies and Gentlemen,

The year 2008 was defined by the worldwide financial crisis, which led to a marked downturn in the real economy as well in the second half of the year. Especially hard hit by the effects of the crisis were many of our industrial customers, who posted substantial drops in sales and profits in the second half of the year. While tesa was unable to fully escape the impact of these developments, the company still developed faster than the market, with sales growing by 1.7% even in this difficult overall economic climate. At 9.7%, the EBIT sales margin stayed at a very high level when compared across industries. This serves to prove once again that tesa has developed into a highly competitive enterprise that operates within flexible, efficient structures. The broad-based alignment of our business, and the global presence that we have expanded extensively in recent years, have proven to be competitive advantages in this situation especially. In addition, the solid financial basis we have been cultivating since the company was founded, in 2001, now provides us with the leeway we need to continue pursuing our successful strategy consistently and to go forward with our

planned investments in the future, even during the crisis. One example is our acquisition, in December 2008, of the company Labtec GmbH, based in the German state of North Rhine-Westphalia, with the aim of making further progress in breaking into the profitable business of the development and production of transdermal therapeutic systems for the pharmaceuticals industry. We are providing key impetus for the further expansion of our successful business with the electrical engineering and electronics sector with an innovative production unit using cleanroom technology that is currently being built at the tesa plant in Hamburg. We are convinced that based on this advantageous competitive position, we will emerge from the current crisis even stronger than before.

We would especially like to express our gratitude to all employees worldwide, who are working hard together to shape the success of tesa, even in these tough times. We would also like to thank our customers, business partners, and our shareholder Beiersdorf for their trusting cooperation.



Thomas Schlegel
Chairman of the Executive Board

Corporate Governance

Corporate Governance at tesa

tesa welcomes and supports the German Corporate Governance code, to which it and the Beiersdorf Group are committed. The Declaration of Compliance, which also applies to tesa, is permanently available on the Beiersdorf AG website at www.Beiersdorf.com.

Audit Opinion

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

Management Report

Business Parameters

General Information

The tesa AG Group (referred to as “tesa” or “tesa Group” 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 over 3,900 people and operates in more than 100 countries. tesa AG is a wholly owned subsidiary of Beiersdorf AG and the parent company of the 53 tesa affiliates.

Regions and Major Locations

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

Industrial Business

tesa’s business with industrial customers offers problem-solving concepts, for example for the electronics, printing, paper, packaging, and automotive industries. Its strategic focus is on developing and expanding upon especially profitable lines of business in technologically advanced fields of application. System solutions from tesa optimize and enhance the efficiency of production processes, are used as customized protection and packaging systems, and are employed as fastening solutions in construction-related applications. This includes special product ranges for the printing and paper industry and for mounting electronic components in mobile phones, digital cameras, and LCD flat screens. Anti-forgery, laser-printed labels and systems for bundling and fastening cables or mounting emblems and decorative elements are among the products used in the automotive industry.

With its flexible, forward-looking solutions to protect products from tampering and counterfeiting, tesa is developing an additional field of business that offers high potential. The key item in this area is the patented tesa Holospot® technology, which enables laser-based data storage on a special self-adhesive label. Another market to which tesa is turning for the future is the healthcare sector. In this area, tesa develops and markets products includ-

ing innovative materials for the production of highly precise, easy-to-handle test strips for in-vitro diagnostics. tesa is also currently developing another field of business in the area of the development and manufacturing of adhesive bandages capable of delivering medications, termed “transdermal therapeutic systems.” With its acquisition of Labtec GmbH, a company based in Langenfeld, Germany, and specializing in the development and production of these applications, in December of this reporting year, tesa has enhanced its competencies in this market segment.

Consumer Business

For consumers in Europe and Latin America, tesa offers innovative professional solutions, which are marketed and sold via DIY stores and superstores as well as in paper goods and stationery shops, for implementing creative ideas around the home, garden, and office. The tesa® brand is among the best-known consumer brands in Central Europe. The line of products offered for private consumers includes both products for office use, such as the classic tesafilm® transparent adhesive tape, and tailored solutions for specific applications such as heat insulation, painting and masking, repairs, packaging, and temporary or permanent fastening. In addition, tesa offers solutions and systems for insect protection. Proven examples of tesa’s consumer products include tesamoll® foam for sealing windows and doors; the fastening 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 broad assortment of paper masking tapes and tesa Easy Cover® for clean, professional painting and finishing work; and temporary and permanent flypaper products for any use.

Strategy

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

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

- a comprehensive knowledge of customer needs, production processes, market requirements, and industry trends,
- a comprehensive knowledge of the wishes and needs of end customers and the demands and requirements of partners in the retail trade, in order to meet these efficiently and offer high sales productivity per unit area, and
- ongoing staff training and continuous improvement of the business processes to enable efficient, appropriate, and rapid implementation.

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

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

Value Management and Control System

The tesa Group has set itself the objective of increasing market share through sustained growth while at the same time boosting its earnings base. Different growth targets have been defined for the individual regions, with Eastern Europe and Asia being the main growth markets.

tesa focuses on continuous, profitable growth in sales volume, with an eye to long-term increases in its ability to generate revenue. 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

The year 2008 was defined in large part by the worldwide financial crisis, which led to a marked weakening of the real economy as well in the second

half of the year. During this period, individual sales markets such as the automotive sector experienced a slump, in some cases with profound effects. This also affected the development of sales at the tesa Group, with a clear sales downturn affecting all regions of the tesa Group, particularly in the fourth quarter of the year.

The prices of raw materials, especially the listings for crude oil, rose to record levels in the first half of the year, but by the end of the year had considerably decreased again. Currency exchange rate developments were dominated by a strong euro in the first half of the year, with corresponding effects on the affiliates outside of Europe. The strengthening of the USD, CHF, CNY, and JPY currencies in the second half of the year had a positive effect on the tesa Group's results for 2008.

Sales Market Development

Global growth in the adhesive tape markets slowed in 2008, particularly because of the worldwide financial crisis. On the back of a sharp downturn in the fourth quarter, the overall market for the year 2008 was only at the same level as the preceding year, although there were significant regional and segmental differences. While the euro area and North America developed more slowly than average, some markets in Eastern Europe and Asia still posted significant growth rates for the year on the whole.

As in previous years, the electronics market segment was a growth driver, although in this reporting year the growth came primarily from Asia and, on what is still a relatively small basis in absolute terms but shows high percentage growth rates, from South America.

The important automotive segment experienced a downturn for the first time in many years. While production figures in Eastern Europe still made considerable gains in the first three quarters of the year, production was already declining in Western Europe in the same period. In Asia, growth slackened into the mid-single digit range. The weakest development was in North America, where production figures fell by rates in the double digits. The fourth quarter was characterized around the world by sharp drops in production figures and even plant closures lasting several weeks.

The sales markets in the paper and print industry, as well as the remainder of the manufacturing sector, posted growth in the low single digits, likewise driven primarily by Eastern Europe and Asia.

In Germany and Europe, the consumer business in the sales channels for

office supplies picked up slightly. The DIY sector saw a very uneven year. In Germany, the trend in sales turned around during the summer, shifting from a declining first half-year to a satisfactory second half. As a result, 2008 was the second consecutive year in which, in the best case, overall development for the year can be presumed to have been constant. A positive economic trend can still be observed in most countries in Eastern Europe, demonstrated, for example, by the opening of a large number of new home improvement stores.

Overall, tesa posted growth above the market average in both its industrial and consumer business and was able to gain market share.

Procurement Market Development

The situation in the key raw materials markets for the manufacture of adhesive tape was affected in 2008 by accelerated price increases in the first three quarters and, in the fourth quarter, by the effects of the crisis on the financial markets and a slackening of the real economy. At first, the continued high demand for particular raw materials and their preliminary products from emerging markets in Asia, Eastern Europe, and South America drove prices up, some of them sharply. The explosive rise in the price of oil, a primary raw material for parts of the tesa purchasing chain, also drove prices up.

With the decline in the real economy, this price trend initially slackened only for certain raw materials, while prices for crude oil-dependent and natural rubber products fell rapidly from their historic highs. For more highly processed and technologically specialized raw materials, however, the pricing pressure continued practically unabated. The fact that suppliers' production costs had still risen considerably for many classes of raw materials over the entire year on average was in turn reflected in price increases.

The upswing in prices for finished goods purchases accelerated over the course of the year, in some cases considerably. In Asia in particular, higher energy, staffing, and preliminary raw material expenses were often reflected in double-digit price increases. In some areas, it was possible to counteract this trend through intensified competition on the procurement side and the integration of alternative raw material suppliers based in lower-cost countries.

In the course of the crisis on the financial markets, an increase in financial bottlenecks among suppliers was observed in some sectors. In industries

with low margins, especially, bottlenecks were seen in follow-up financing of maturing loans.

To secure the supply of raw materials and finished goods to the tesa Group, the identification of suitable alternative sources was vitally important in 2008.

Research and Development

The development and optimization of environmentally friendly, solvent-free adhesive masses and coating technologies continued to be a focus of tesa's research and development activities. For advanced applications in construction-related adhesion involving highly shear-resistant fastening, we developed innovative products that are on a par with, and often even superior to, the established solvent-based systems.

For the **automotive industry**, we developed new solvent-free products to bundle and affix wiring while also protecting wire harnesses from the harmful effects of heat. In our range of masking tapes for use in automotive painting and repairs, we concluded our work on developing a solvent-free process for producing high temperature-resistant products.

For the **electronics industry**, we continued our successful work on new adhesive systems to mount flexible printed circuit boards, which are increasingly being used in laptops, mobile phones, and digital cameras. The first products in this direction are heat-activated, extremely adhesive double-sided tapes that withstand the intense strain involved in soldering processes. We are also developing ultra-thin, highly adhesive new foam tapes for fast, clean, and stable mounting of housings, windows, and user interface areas. To expand on our successful range of splicing tapes for endless splicing of rolls of paper in the **print and paper industry**, we have developed new products that offer the utmost in secure adhesion, even on papers with highly sensitive surfaces.

Our development work aimed at building up our new business in the **health markets** segment focused this year on coatings and on methods of producing extremely thin functional layers. This will enable us to develop innovative products for the manufacture of diagnostic test strips that not only serve to bond and reinforce the strips, but also conduct the test fluids.

In the area of products for private **consumers**, we developed new solutions that are both consumer-driven and easy to use and can be utilized to achieve considerable energy savings in private homes. Our aim with these

products is to tap into additional forward-looking lines of business that offer a great deal of potential for tesa. In the field of insect protection, we have developed a new frame structure made of aluminum for our line of flypapers. This innovative technology offers enhanced stability and is even easier to install than previous versions.

Responsibility

One of our guiding principles has traditionally been the acceptance of responsibility with regard to people and the environment.

With the goal of firmly establishing the principles of responsible conduct in line with our values as part of our everyday business operations, we defined and summarized our binding guidelines in the tesa Code of Conduct, which applies worldwide. The Code of Conduct was presented to all of the executive bodies within the company and is available to all employees in hard copy and as a digital file on the intranet. All executives have completed a mandatory e-learning program focusing on the content of the tesa Code of Conduct and have conveyed that content to their teams.

Our own values also form the basis for our cooperation with our suppliers. In line with this principle, we established the tesa Purchasing Charter, which is binding for all our suppliers worldwide, during this reporting year. Based on this purchasing and procurement charter, two successive audit processes ensure that suppliers are selected in accordance with these guidelines for responsible conduct and are later monitored again to ensure their compliance with them.

The many newly initiated projects that are aligned with our sponsoring strategy, which was mapped out in 2007, demonstrate the high level of commitment and involvement shown by tesa AG and its affiliates in the area of social responsibility as well. During this reporting year, we focused on measures based not only on material support from the company, but also on the personal dedication of tesa employees as part of a corporate volunteering initiative. The support from the tesa plant in Hamburg for the Hamburg-based “Mittagskinder” foundation and the assistance provided to children from families of migrant workers at the Suzhou Sunshine School, in China, are just two examples out of many. As a member of the UN Global Compact, we document all our activities in an

annual report, which is now available in electronic form at www.tesa.com/responsibility.

At tesa, balancing economic and ecological concerns is an important basis for our actions. Our environmental program, which was established in 2007 and applies worldwide, specifies the goals we want to reach by 2012. Among the targets listed in this plan, for the first time, is our emission of volatile organic compounds (VOCs). We continued our consistent work toward these goals during this reporting year. Our global environmental management system was further expanded when our production locations in China and Singapore earned certification under the international ISO 14001 standard.

In the area of occupational safety and health, we have made determined progress toward our goal of establishing uniform high levels worldwide. The key item among the initiatives associated with this is regular, extensive site analyses conducted at the international affiliates in accordance with the worldwide OHSAS 18001 standard. These analyses played a pivotal role in stabilizing our accident rates at the same extremely low level as in 2007.

Results of Operations

Results of operations of the tesa Group

	2007	2008	Change	
	in € million	in € million	in € million	in %
Sales	856.2	860.1	3.9	0.5
Costs of goods sold	-492.4	-500.6	-8.2	1.7
Gross profit	363.8	359.5	-4.3	-1.2
Marketing and selling expenses	-221.9	-226.6	-4.7	2.1
Research and development expenses	-25.2	-26.3	-1.1	4.7
General administrative expenses	-39.6	-41.2	-1.6	4.0
Other operating income	21.7	26.8	5.1	23.8
Other operating expenses	-10.8	-9.2	1.6	-14.7
Operating result (EBIT)	88.0	83.0	-5.0	-5.7
Financial income	4.8	6.1	1.3	27.1
Financial costs	-6.3	-8.8	-2.5	39.7
Financial result	-1.5	-2.7	-1.2	80.0
Profit before tax	86.5	80.3	-6.2	-7.3
Taxes on income	-28.9	-26.9	2.0	-6.9
Profit after tax	57.6	53.4	-4.2	-7.3

For fiscal year 2008, the tesa Group reported a € 4.2 million (corresponds to 7.3 %) decrease in profit after tax, to € 53.4 million.

This is primarily attributed to higher sales, which were boosted by € 3.9 million, to € 860.1 million, taking into account a disproportionate increase in the cost of goods sold, which rose by € 8.2 million to € 500.6 million.

The operating result (EBIT), which fell by € 5.0 million to € 83.0 million, was additionally impacted in particular by higher marketing and selling expenses, which increased by € 4.7 million to € 226.6 million. Other operating income, which rose by € 5.1 million to € 26.8 million, helped to counteract the cost increases.

Taking into consideration the financial result, which dropped by € 1.2 million, the profit before tax fell somewhat more sharply than the EBIT. The taxes on income decreased nearly in proportion to the overall annual result. In light of the markedly tougher economic circumstances in the second half of the year, we view the development of the operating result as positive on the whole, despite the decrease in the result.

Business Development by Region

Europe. tesa's sales in Europe held steady at the same level as the preceding year, reaching € 634.9 million at current rates (previous year: € 637.1 million). Adjusted for exchange rate effects, this reflects a sales development of -0.1 %. The EBIT decreased to € 53.5 million, representing an EBIT margin of 8.4 % (previous year: 9.5 %). The share of Group sales fell slightly, to 73.8 % (previous year: 74.4 %).

Declining sales in the fourth quarter due to the overall slackening of the world economy were the primary reasons for the development observed in 2008. This especially affected our customers in the automotive sector, including in the former growth region of Eastern Europe.

Americas. The weakness of the dollar, which persisted into the third quarter of 2008, had a heavy impact on our business in North America in 2008. Because South America achieved clear growth in sales, exchange-rate adjusted sales rose by 2.4 % in the whole region. At current exchange rates, sales declined by 3.1 %, to € 89.5 million (previous year: € 92.4 million). The share of Group sales dropped slightly, to 10.4 % (previous year: 10.8 %). With an EBIT of € 8.1 million, the region posted an EBIT margin of 9.1 % (previous year: 10.1 %).

Asia / Africa / Australia. tesa's sales in the Asia / Africa / Australia region grew by 9.9 % (adjusted for exchange rate effects). At current exchange rates, this region's sales of € 135.7 million were 7.1 % higher than the previous year's sales of € 126.7 million. The biggest gains were once again achieved in China, Taiwan, and Hong Kong. After three strong quarters, even the growth region of Asia clearly felt the impact of the worldwide financial crisis in the fourth quarter of 2008.

The region's EBIT was € 21.4 million (previous year: € 18.0 million), resulting in an EBIT margin of 15.8 % (previous year: 14.2 %). The share of Group sales rose to 15.8 % (previous year: 14.8 %).

Business Development by Division

Industrial Business. In the industrial business segment, both our direct business and our retail business outperformed the market in an overall economic environment with markedly tougher conditions in the second half of the year. In the direct business, solutions for optimizing products and production processes, customized protection and packaging systems, and construction-related adhesive solutions are at the forefront. Areas of focus in this regard include the electrical and electronics industry, the automotive sector, and the print and paper industry. Security solutions to protect products from counterfeiting and tampering as well as for tracing products are a further area of emphasis in our development of new lines of business. Healthcare represents another market for the future. Our industrial retail business offers technical retailers self-adhesive product solutions for customers involved in commercial trades, including in the fields of construction, painting, and finishing work. In our direct business with the electronics industry, the introduction of double-sided foam tapes has provided new impetus. In contrast to films, these products even out slight warping and bumps and are preferred for fastening the frames of flat screens in place. The introduction of ultra-thin foam adhesive tapes to adhere components in mobile phones was a tremendous success. A new modular system enables fast development and production of customized foam tapes for various applications.

In terms of system solutions for the automotive industry, we have continued to concentrate on construction-related applications in vehicle production. We expanded the successful range of foam products for permanent adhesion of emblems and decorative trim to car bodies. To protect new cars from being damaged and soiled in transit, we introduced new adhesive tapes that affix protective covers to the body and windshield. In the American market, new heat-resistant fabric tapes to bundle cables together generated a good response. These support the trend toward building new, highly compact vehicle engines.

We added to the successful range of splicing products for endless splicing of rolls of paper and film in the print and paper industry by introducing a special new product aligned to the stringent requirements of rotogravure printing. For flexo printing, we launched two new, ultra-soft foam tapes for printing plate mounting; they deliver outstanding results when modern digital printing plates are used.

We have further strengthened our market position in the area of safety and security technologies to protect products from tampering and counterfeiting. In particular, we have extended the use of Holospot® technology into new industries, bringing in new customers that include well-known international manufacturers of electrical and electronic components.

In the retail business, a new product range for painting and finishing applications was launched to great success in Eastern Europe, providing fresh momentum in this field. The products and design are specifically tailored to traditional retail, which is especially prevalent in this region and is aimed both at private consumers and at commercial customers. To meet the rising demand for solutions for large-area fastening in the industrial sector, we introduced a new line of spray glues and accompanying cleaners.

Consumers. Our business with private consumers continued to outperform the market in 2008. In Germany, we expanded our market share in all of the major product groups at a high level in 2008 as well. The successful tesa-moll® product range posted particularly positive development. Factors contributing to this included a relaunch that focused on the trend toward saving energy and was supported by extensive communication measures. The products in our fastening and repairing categories also saw very successful development during this reporting year. We expanded considerably on our business and market in these core competencies of the tesa brand. In the seasonal business of insect protection solutions, we, like the rest of the market, saw a slight decline due to weather conditions, but we were more than able to compensate for this temporary trend through growth in our business in our core categories.

In the paper, office supply, and stationery segment, the launch of a tesa-film® product range that had been tailored to the specific needs of the Eastern European market and expanded to include innovative products went successfully. A new, ergonomically designed hand dispenser generated an especially positive response. To our successful assortment of adhesive tape and correction tape dispensers, we added the tesa® Sideway dispenser, which is easy to use, even for left-handed users. Among Powerstrips® applications, rectangular new hooks marked a highlight and reflected the trend toward unobtrusive, modern shapes. The new design won the

iF product design award 2008. This renowned international design award also went to the tesafilm® mini dispenser, which was introduced in 2007.

Employees. In the reporting year, the number of tesa employees increased to 3,901. A particular focus in this regard was the recruiting, as well as training and continuing education, of those employees who will start production at our new production facilities at the Hamburg-Hausbruch plant in the coming year. The aim of this investment is to tap into new markets and further enhance our innovation performance. We also added further staff to our sales forces in the growth regions of Eastern Europe and Asia.

The rapidly progressing globalization of tesa's business increasingly calls for employees who have extensive intercultural experience and are used to familiarizing themselves quickly with the business processes used in other regions. This reporting year, more employees than ever before took on the challenge of a three- to five-year assignment to a different country. Our repatriation process makes their return easier and enables us to make direct use of the experience these employees gain abroad for the optimization of international business processes.

We expanded the successful sales employee qualification program we launched in 2007 to include all regions. The program encompasses all aspects of the sales process, from the technical fundamentals – such as how our products are made and the applications and production processes for which they can be used within the customer's operations – to business-related topics and even techniques to use when making a sale. One major new feature in the program was new modules that highlight the role of the supervisor as a coach and help him to support his employees in putting what they have learned into practice in everyday sales situations. The program also aims to carry over improvements that have been developed in one country into other countries as well.

The tesa plant in Offenburg won two awards in this reporting year alone: In January, the magazine "Handelsblatt Junge Karriere" named the plant a top employer, and in October, the magazine "Produktion" cited it as a top process manufacturer in the "Fabrik des Jahres" (Factory of the Year) competition. The criteria that helped us win both awards included innovative measures for promoting personal responsibility and employee motivation.

Financial Position

Cash flow statement

in € million	2007	2008	Change
Cash and cash equivalents as of Jan. 1	103.1	110.6	7.5
Gross cash flow	82.1	70.0	-12.1
Change in net working capital	4.5	-1.4	-5.9
Net cash flow from operating activities	86.6	68.6	-18.0
Net cash flow from investing activities	-19.4	-74.4	-55.0
Free Cashflow	67.2	-5.8	-73
Net cash flow from financing activities	-55.6	-63.3	-7.7
Net change in cash and cash equivalents	7.5	-69.4	-76.9
Cash and cash equivalents as of Dec. 31	110.6	41.2	-69.4

Cash flow from operating activities decreased by € 18.0 million, to € 68.6 million, as compared to the previous year. **Investing activities** accounted for a net outflow of € 74.4 million (previous year: € 19.4 million). This is attributable in particular to the increased investment volume in 2008, the investment of cash and cash equivalents in securities, and the acquisition of Labtec GmbH, and resulted in an overall decline of € 73.0 million in **free cash flow**, to -€ 5.8 million.

The negative **cash flow from financing activities** of € 63.3 million was mainly due to a dividend payment of € 57.6 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had dropped by € 69.4 million, to € 41.2 million.

Key Financial Indicators

The **return on sales** – based on the operating result – fell from 10.3 % in the previous year to 9.7 % in 2008. Excluding adjustments for write-downs on intangible assets and property, plant and equipment, this resulted in a decrease from 13.3 % in the previous year to 12.5 % in 2008.

The **return on equity**, measured in terms of the **equity** as of the beginning of the fiscal year, decreased to 25.6 % in 2008 (previous year: 27.4 %); the return on **operating assets** fell from 29.1 % to 23.7 %.

The **profit after tax**, measured against sales proceeds, decreased from 6.7 %

in the previous year to 6.2 %. The **earnings per share** declined from € 2.23 to € 2.07.

The **equity ratio** climbed slightly, by 0.9 %, to 56.9 %. The ratio of equity to non-current assets is 149.0 % (previous year: 181.5 %).

Capital Expenditure

In the reporting year, tesa invested a total of € 59.8 million in intangible assets and property, plant and equipment. The intangible assets include the increase in goodwill due to the acquisition of Labtec GmbH. The sum of investment activities from operating business was € 40.5 million in this fiscal year. Of this figure, € 27.1 million was allocated to locations in Germany. The sum of € 9.3 million was invested in the rest of Europe, € 1.0 million in the Americas, and € 3.1 million in Asia / Africa / Australia.

A total of € 15.0 million was spent on replacements and capacity expansions at tesa's worldwide production locations.

Our capital expenditure and investment activity this reporting year was determined largely by two major projects at tesa's Hamburg-Hausbruch plant, where tesa is investing in new coating technologies. These projects made up an investment of € 12.0 million in 2008 alone and will be continued in 2009.

Other major investments were made in the field of logistics. Bandfix AG concluded the full replacement of all its machinery in 2008.

Balance Sheet Structure

Balance sheet structure of the tesa Group

Assets	2007	2008	Change	
	in € million	in € million	in € million	in %
Non-current assets	179.1	218.9	39.8	22.2
Inventories	128.7	122.4	-6.3	-4.9
Other current assets	162.8	190.6	27.8	17.1
Cash and cash equivalents	110.6	41.2	-69.4	-62.7
Total	581.2	573.1	-8.1	-1.4
Equity and liabilities (in€ million)				
Equity	325.2	326.2	1.0	0.3
Non-current provisions	88.8	87.5	-1.3	-1.6
Non-current liabilities	11.7	15.3	3.6	30.8
Current provisions	53.1	47.2	-5.9	-11.1
Current liabilities	102.4	96.9	-5.5	-5.4
Total	581.2	573.1	-8.1	-1.4

As compared with the previous year, total assets declined slightly, falling by 1.4% to € 573.1 million.

On the assets side, non-current assets increased by € 39.8 million. The main reasons for this were the increases in property, plant and equipment as well as the formation of provisional goodwill, which has not yet been allocated, due to the acquisition of Labtec GmbH. Current assets increased by € 27.8 million, primarily resulting from the acquisition of securities with working capital. As a result, cash and cash equivalents declined by € 69.4 million.

On the equity and liabilities side, the development is primarily characterized by the profit after tax of € 53.4 million and the payment of dividends in the amount of € 57.6 million to the shareholders. Provisions decreased by a total of € 7.2 million, while liabilities dropped by € 1.9 million.

Report on Post-Balance Sheet Date Events

No special events having a material impact on the financial results of the fiscal year occurred after the balance sheet date.

Risk Report

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

tesa systematically records, analyzes and monitors global risks using its planning and reporting system, both at a centralized level at tesa AG 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, and 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 closely monitors the market trends, both centrally and in the regions, in order to be able to intervene and control the risk at an early stage. Furthermore, tesa is exposed to the risk of losing individual customers completely and to a default risk on receivables. Although its broad sales base and diversification mean that tesa does not have single customers that account for such a high share of sales or receiv-

ables that their default could threaten the company's existence, it additionally takes out trade credit insurance, via its sales organization, for specific customers identified as posing an elevated risk due to their company profile or scale of the receivables.

Customer confidence in tesa's products and the tesa® brand requires that we maintain high standards with regard to the quality and safety of our products. Our products are subject to a comprehensive, end-to-end quality assurance system throughout the entire procurement, production, and distribution process. tesa ensures the development of and compliance with the necessary processes by 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, in accordance with ISO/TS 16949 and QS 9000 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 adequate provisions for the financial impact of liability risks and any potential loss or damage events by taking out insurance.

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

Continuous innovation and intensive cooperation with customers to improve their production processes promote the long-term acceptance of tesa's products on the market. Innovative products help to counteract competition that is based purely on price and reduce the risk of the expansion of private 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. Continuous 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 for quality and innovation are of particular significance. The legal position

associated with this is protected and maintained centrally in cooperation with the operating regions.

tesa manages its financial risks using active treasury management on the basis of globally applicable guidelines in the area of corporate treasury. The overriding goal is to increase the financial power of the Group and be able to meet financial obligations at all times. Within the scope of financial management, tesa ensures the solvency of the Group on a continuous basis, controls the risks in the area of financial instruments, and optimizes cash management for the entire Group.

tesa hedges 75 % of the currency risk for freely convertible currencies, where this is economically feasible. The hedges entered into in line with this policy are handled centrally at Beiersdorf AG. Potential risks associated with the investment of liquid funds are fundamentally mitigated through the fact that only short-term investments are made at prime names. Developments in exchange rate risks are monitored regularly.

Because of its very low volume of bank 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 the latest state-of-the-art technology. Technical and organizational measures virtually rule out unauthorized access and data loss.

Performance-based compensation systems help to recruit and retain qualified specialists and management personnel, as do focused further education and training programs and the ongoing recruitment and development of young potentials.

From today's viewpoint, no other specific risks can be recognized for the period of the next 12 months that could endanger tesa's continued existence, either individually or in their totality.

Outlook

Both the general economic environment and the situation in the sales markets for adhesive tapes will continued to be determined in 2009 by trends similar to those in the reporting year. We anticipate that the global economic environment will remain difficult, resulting in stagnation in Western Europe and North America. We expect development to gradually become more dynamic in Asia and Eastern Europe, but not to reach the double-digit levels seen in previous years.

For the automotive industry, we expect stagnation or declining production figures in nearly all regions, including Asia and Eastern Europe. We assume that sales figures will largely hold steady in the electronics industry.

In its consumer business, tesa is focused on the European market. Sales growth in Eastern Europe is expected to remain dynamic, especially since the large European retail chains have made major investments in distribution structures there. In the other regions of Europe, growth will slacken slightly due to the tough overall economic conditions and the resultant reluctance of consumers to spend.

Given the weight of the crisis on the financial markets and the highly volatile price fluctuations in the markets for raw materials that are key to the tesa Group, it is extremely difficult to forecast how our procurement markets will develop in 2009. We expect prices to ease in some areas, such as crude oil-dependent raw materials and natural rubber. On the other hand, we expect pricing risks, some of them considerable, due to financial bottlenecks among suppliers. In the course of our systematic risk assessments, we identify those suppliers with the potential to become critical in this regard. The rate of price increases should be about the same as in 2008. With this in mind, we will greatly expedite the identification of suitable alternative sources, and more-reliable sources, in 2009.

Even under increasingly difficult overall economic conditions, tesa expects that its sales will exceed market growth in the coming years in both customer segments. On the strength of our continued high rate of innovation and ongoing investments in development, production, and marketing structures, the company continues to assess its general market position as very stable. As regards industrial applications, tesa expects the most positive contribution to growth to remain in the focused customer segments, especially in the new and high-value fields of application. Our activities will focus

on the integration and further development of the new health markets business.

The retail consumer business will be dominated in the years to come by a disproportionately high development in the European core markets outside of Central Europe. Expanding and complementing the product ranges in tesa's fields of competence will provide additional momentum.

Due to the difficult general economic situation, we expect sales to slacken in 2009 despite further growth in our market share. Since there is a possibility of a further weakening of demand in some areas served by our product range, reduced working hours were requested early on for individual plants.

We will continue to pursue our investment projects with great intensity as a means to further reinforce our market position. The further expansion of development and marketing structures that will be associated with this, and the strain we expect the economy to impose over the next year, will lead to lower returns on sales.

Systematic hedging, especially for the U.S. dollar, means that no significant earnings risks from changes in exchange rates are expected.

According to the current assessment, we will hold capital expenditure for 2009 and in the medium term to the same high level as in the 2008 fiscal year. The financing for the planned investments has been secured.

tesa will continue to focus on optimizing the structure of the working capital in the coming year.

Report by the Executive Board Regarding Dealings with Affiliated Companies

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

Hamburg, January 26, 2009

The Executive Board

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The printed copies can be obtained from
Corporate Communication.

Digital versions are also available in the
Internet at www.tesa.com