



ANNUAL REPORT 2020

tesa SE, Norderstedt

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FOREWORD

Ladies and Gentlemen,

Our more than 4700 tesa employees and senior executives have had a challenging fiscal year, during which the coronavirus pandemic changed how we work and live. As a technology and consumer goods company with a focus on Europe, Asia and North America, tesa was of course not left unscathed by this crisis. We are all the more proud of how successfully we have both protected our employees around the world from health hazards to the best of our abilities and how we have supplied our customers with our high-quality products, on time and in the usual quantities. In fact, we have even managed to deepen our relationships with our business partners, acquire new customers, and continue working on product innovations in our laboratories unabatedly. Some of the relevant products tesa used to contribute to more safety during these trying times included various social distancing tapes, for example.

After a very challenging first six months, tesa was able to grow again in the third and fourth quarters. The strong performance in the second six months of the year resulted in full-year 2020 sales nearly matching the level of 2019. Sales decreased organically by 1.4 percent to € 1.326 billion (2019: € 1.379 billion). The nominal EBIT, excluding special factors, largely remained stable at € 204 million (2019: € 212 million). The EBIT margin, excluding special factors, increased moderately to 15.4 percent (previous year: 15.3 percent).

One of the reasons for tesa's good result is the large variety of sectors the company is represented in, while offering a high degree of service and innovative product developments. Declines in individual sectors, such as Automotive, was almost entirely compensated for by gains in other sectors. Consumer & Craftsmen in particular recorded an excellent fiscal year, since many people used the time at home for repairs and renovations. The digital sales channel with online marketplaces and a separate online shop developed in the double-digit percentage range.

In the Electronics division, tesa was able to build on its position as one of the leading providers of innovative solu-

tions in a strong competitive environment for smartphones and tablets, in particular. The division benefited from the trend towards high-quality devices as a result of the COVID-19 pandemic. Even though the Automotive sector experienced a strong downward trend, tesa was able to take advantage of the electromobility megatrend and expand its product portfolio into the areas of insulation and battery cell bonding, for example, and to acquire new customers by these means – as it did in 2019.

Based on the “newhorizon” strategy established in 2020, tesa is in a good position to aggressively take on global challenges such as volatile markets, tremendous innovative pressure, high customer expectations regarding quality and sustainability, the digital transformation and intense competition for the best minds. Even though it cannot yet be estimated which further consequences the coronavirus pandemic will have, we nevertheless look to the coming years optimistically. The Supervisory Board approved the building of a new tesa plant in Vietnam in 2020. 2021 will also mark the start of serial production of precision adhesive tapes for the electronics industry in Suzhou, China, after an extensive plant expansion – including the construction of a clean room unit. The focus is increasingly shifting to sustainability for products and production processes.

In the past fiscal year, tesa has defined the environment, society, and customers as the three pillars guiding its corporate decisions with its new “Sustainability Agenda”. As a participant in the UN Global Compact, tesa undertakes to observe ten universal principles in the areas of human rights, labor standards, environmental protection and anti-corruption.

tesa underscored its commitment to social responsibility in 2020 by creating a coronavirus aid fund of 5 million euros. With this fund, tesa is participating in the donation program of its parent company Beiersdorf. In addition to supporting two international organizations – “Doctors Without Borders” and “Save the Children” – tesa has also donated

money in its sales regions to help local non-profit organizations overcome the impact of the pandemic.

This all would not have been possible without so much courage and motivation. Special thanks go to all employees worldwide who shaped tesa’s success in 2020 through their tremendous commitment, and with their action demonstrated their passion for our brand and our company. I would also like to thank our customers and business partners, as well as our shareholder Beiersdorf for their trust and partnership.



Dr. Norman Goldberg
Chairman of the Executive Board

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.

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 and operates in more than 100 countries with 4,716 employees. tesa SE is a wholly owned subsidiary of Beiersdorf Aktiengesellschaft and the direct or indirect parent company of the 61 tesa affiliates (previous year: 63).

During the fiscal year, tesa sold Polymount Scandinavia AB, Gothenburg, Sweden, and liquidated Polymount Brno spol. s.r.o., Brno, Czech Republic, thereby reducing the number of affiliates.

Regions and Major Locations

tesa operates worldwide with the main focus on Europe, followed by the business regions of Africa/Asia/Australia and the Americas. In addition to its German sites, the affiliates in China, the United States, Italy and Singapore are among the largest single companies in the tesa Group. The tesa Group has production facilities in Europe (Germany and Italy), the Americas (US) and Asia (China). The company headquarters, which include an integrated research and technology center, are located in Norderstedt, near Hamburg, Germany.

Direct Industries Division

In the **Direct Industries** division, tesa supplies industrial customers – particularly from the automotive, electronics, printing and paper, building and construction automotive industries – with specialized system solutions via direct channels. The company’s strategic focus is predominantly on developing and expanding profitable lines of business in technologically advanced applications. System solutions from tesa are used to optimize and enhance the efficiency of production processes, are employed as fastening solu-

tions in construction-related applications – often with additional functions beyond simply joining components – and are also used as customized protection and packaging systems.

tesa’s range of products also include solutions for the digital networking of brand products from **tesa scribos GmbH**. This affiliate offers system solutions that consist of highly secure product labels and a digital platform. tesa scribos thus lays the groundwork to serve as an IoT enabler for brand suppliers from around the world. The Internet of Things makes it possible to network physical and virtual items and let them work together via information and communication technologies.

Another innovative business segment is addressed by **tesa Labtec GmbH**. This tesa affiliate develops and manufactures medicated patches referred to as transdermal therapeutic systems, as well as oral and buccal films (medicated films that release the active ingredient in the mouth or deliver them via the oral mucous membrane) for the pharmaceuticals industry.

Trade Markets Division

The **Trade Markets** division serves those markets whose end customers are supplied with market-driven products by tesa through retail partners or retail-like channels rather than by direct means (with the exception of online business). In addition to product ranges for private consumers and tradespeople, they also include adhesive tapes that are intended for commercial customers and are marketed primarily via specialist retailers and increasingly also online.

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

In the **Consumer & Craftsmen** segment, whose business is focused on Europe and Latin America, tesa markets innovative product solutions intended for various applications, including for daily use in offices, the home, and in construction and trades. Under the tesa umbrella brand, DIY stores and superstores as well as paper goods and stationery

shops offer end consumers a broad assortment of more than 300 innovative products in the **Consumer** segment. In the **Craftsmen** business segment, tesa concentrates on customized product ranges for construction and trade professionals and on developing and implementing marketing concepts geared toward the specific needs of this target group.

Strategy

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

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

- tesa acts globally while taking account of local needs,
- tesa concentrates on profitable growth markets where the company can stand out against its competitors,
- tesa is pushing forward with the company's continuing internationalization and digitalization, aims to strike a balance between its key regions and, in this context, is investing in expanding its presence in Asia and on the American continent.

tesa's various customer groups and their expectations have always been at the heart of everything the company does. tesa caters to the diversity of heightened requirements with modern structures, modern processes, and modern mindsets. At the same time, the company is using the opportunities of digitalization in order to further boost the level of service it provides its customers and to reduce costs. The following factors are key to our success:

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

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

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

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

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

- **Scale:** Acquisitions that boost market share in the relevant markets, thereby enhancing tesa's growth dynamic
- **Scope:** Acquisitions that bolster tesa's competitiveness on a lasting basis through innovative technologies and supplementary expertise

Value Management and Control System

The objective of the tesa Group is to expand its market share through sustained growth while at the same time boosting its earnings base. For this purpose, tesa is integrated into the management system of the entire Beiersdorf 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 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 COVID-19 pandemic resulted in large swaths of the global economy falling sharply over the course of 2020. As a result of the national shutdown the economic performance experienced a historic downturn in the first six months of 2020. Since the relaxation of the restrictions, a dynamic recovery has set in which, however, was slowed down by the uncertainty of the further course of the pandemic. Growth was further hampered on the labor market and the low investment activities of the companies. In addition, the exacerbated trade conflict between the United States and China weighed on the global economy. General political and economic uncertainty, due to geopolitical conflicts as well as with regard to the long-term impact of the departure of the United Kingdom from the EU (Brexit) and the future political direction of the US, continued to have a negative effect on economic development.

The European economy was plunged into a severe recession in 2020. Due to the strict infection control measures and the weak price development for goods and services, there was a strong downturn in the service sector in particular. The economic recovery in industry that began in the second six months of the year and the positive domestic demand lost momentum due to the rising numbers of infections towards the end of the year. The funds flowing from the European Recovery Fund provided economic support.

The economic performance in Germany declined to an unprecedented extent in the first six months of 2020. Much of the slump from the spring recovered after the strong economic recovery in the summer. However, the recovery was slowed down by the extensive infection control measures that restricted the service sector in particular.

In the US, economic momentum in 2020 eased significantly compared to the previous year. Despite comprehensive economic and monetary policy impetus, the after-effects of the crisis weighed down the economy significantly in the form of higher debts, bankrupt companies and lost jobs. Furthermore, the tense negotiations on shaping economic policy weighed down economic performance. Residential construction and the housing market proved to be a pillar of the economy due to the low mortgage rates.

In Japan, economic growth in 2020 was also below the level of the previous year and was distinctly negative due to the increased unemployment rate and the implicit weaken-

ing of domestic demand. The recovery of the export sector propped up the economy, especially the strong demand from China and the United States.

In the growth markets, economic performance experienced a mostly downward trend in the past fiscal year. While economic growth was below that of previous years in China, it still was slightly positive. The economy was supported in particular by the relatively fast recovery after the initial significant setbacks due to the COVID-19 crisis and rapidly increasing exports as well as government investments. However, economic momentum continued to be slowed down by the increased unemployment levels and the ongoing trade war with the United States. Due to the strict infection control measures and weak domestic demand as well as lower investments, there was a significant economic downturn in the first six months of the year in India. While the economy was able to recover in the second six months of the year, the economic performance was significantly below the previous years. Economic development in the Middle East was also hampered by the COVID-19 crisis. The economic momentum of previous years was slowed down in the emerging markets of Southeast Asia, influenced in particular by the slowdown in the tourism sector and the ongoing political unrest in Thailand as well as the volatile domestic demand of Indonesia. Economic performance in Brazil was below the level of the previous year despite fiscal policy impetus – the deterioration of global economic activity, rising inflation, the recession in Argentina and lagging tax reforms had a negative impact on Brazil's economic growth. Russia has been in a recession since 2019. Economic growth was hampered by factors such as muted consumption and lower investments. Ongoing international sanctions continued to weigh on the Russian economy.

Sales Market Development

The 2020 fiscal year was clearly dominated by the COVID-19 crisis. Worldwide industrial production declined and private consumption was also curtailed, in some cases significantly, during the shutdown. This affected the industrial sales markets to varying degrees. The commercial markets also developed inconsistently – while technical retail trade and traditional retail declined, online business was

able to benefit significantly from the crisis and add market shares.

Worldwide automotive production decreased by 16% to 75 million units. All regions produced below the levels of the previous year. While North and South America and Western Europe were particularly affected by the decline, the decline in Asia was less pronounced. China, the world's largest automotive market, produced 23 million units and was therefore 4% or 1 million units below the previous year. In addition to the COVID-19 crisis, the climate debate and the discussion on alternative motor technologies had an impact on the automotive market. Battery-operated models and hybrid vehicles were able to expand their market share, especially thanks to the support of government subsidy programs.

The Consumer Electronics segment was affected to a lesser degree by the COVID-19 crisis. In the past fiscal year, approximately 1.25 billion smartphones were sold worldwide, which corresponds to a decline of 11% compared to the previous year. The large manufacturers were able to further solidify their market position. The share of 5G devices in 2020 was at just below 20% and is expected to increase significantly in the coming years. The tablet market performed well in 2020 and grew compared to the previous year.

The traditional paper and printing industry maintained its downward trend as a result of the ongoing digitalization. By contrast, the packaging industry benefited from increasing numbers in the online mail order business worldwide and was able to grow further. The construction industry was affected with a delay and very differently by the COVID-19 crisis. The trend towards increasingly prefabricated building solutions including adhesive tape applications continued in this difficult market environment. The trade market for adhesive tapes was affected differently.

Specialist technical retail trade reflected the economic slowdown due to COVID-19 and was below the previous year worldwide.

While traditional retail also had to fight the effects of COVID-19, positive effects were shown in particular in the area of building supply stores and online retail due to the restriction measures against COVID-19 introduced by most of the governments around the world. Both markets were able to maintain their path towards growth and grow significantly this year.

Procurement Market Development

Due to the general global economic development that was significantly impacted by the COVID-19 pandemic in the past fiscal year, the procurement markets experienced a significant decline in demand in the first and especially in the second quarter. This situation has led to significantly falling prices on the raw materials market in particular. Production capacities were adapted to the market situation. Demand has recovered since the third quarter, especially in China, which in some cases led to shortages on the markets. In addition, significant bottlenecks were apparent in the logistics sector.

In keeping with its strategy, tesa was able to expand its supplier base in 2020 by qualifying additional suppliers and, in the process, further reduce the risks for the Group's business.

By shifting the focus to the qualification of new and local suppliers, tesa was also able to improve delivery reliability further and strengthen the local supply of plants in Asia and the US. This allows tesa to meet the increasing market demand for greater flexibility and short delivery times.

To strengthen its own innovative capacity, tesa further deepened its cooperation with suppliers in 2020 together with product and technology development. A digital innovation platform – tesa Innovation Network – is being created and is intended to accelerate, intensify and make the search for new, innovative sources of procurement more transparent. By doing this, tesa aims to promote the exchange of ideas and joint development of innovations.

For 2021, tesa expects prices in the raw material markets to recover after a significant decline in 2020 and to increase significantly in part. By adjusting capacities once again, it is expected that the prices of materials like acrylics as well as in the area of chemicals and other raw materials will increase again. By qualifying new suppliers and, if necessary, phasing out suppliers who currently work for tesa, tesa believes it is well positioned. tesa will further internationalize its supplier base based on the growing market requirements regarding supply reliability and competitive procurement.

In 2021, tesa will continue to focus clearly on developing alternative sources of raw materials and strive to expand the supplier base, especially in the growth markets of Asia and North America. The objective here is to secure the

company's competitiveness, supply reliability and innovative capacity in the future as well. With our service partner EcoVadis, we will place an additional focus on the important issue of sustainability in our supplier base.

Product and Technology Development

In the area of product and technology development, tesa focused on structural adhesion in 2020. This involves technologies for adhesive solutions with particularly high bonding power and long-term resistance, which could previously be achieved only with mechanical joining technologies, such as screws, rivets and welds. For the metalworking industry, tesa has developed high-strength, resistant solutions that can be used to securely bond metal parts before powder coating. The powder coating is fired at up to 200°C. This high thermal load does not weaken the material. In fact, it even increases its strength. This allows the bonding of metal joints to play a role in many new areas of application.

Another area of focus is structural bonding for the assembly of electronic end devices like cell phones. To this end, it has been possible to develop adhesive systems that already result in solid joints at room temperature, which makes it possible to even bond highly heat-sensitive materials. The new systems have been successfully tested with selected innovation leaders in 2020.

Furthermore, the development of sustainable technologies and product concepts was a particular focus in the reporting year, for which manufacturing processes and design concepts were designed – for example, for the packaging of high-quality electronic end devices. Both product concepts using renewable resources and concepts for compostable products were tested successfully for simple sealing mechanisms for cardboard packaging. Another objective is products made from recycled raw materials, such as with films made from post-consumer recycled PET. Furthermore, there are technologies and product concepts that make it possible to dissolve previously-created adhesive bonds at the end of the life cycle of the products for the purpose of recycling the components. This approach also makes it possible to repair high-quality end products since bonded components can be separated and replaced easily. An example is the further development

of the reversible bonding of batteries in electronic end devices.

In the reporting year, as it has done in past years, tesa intensively pursued the development of particularly sustainable technologies for manufacturing adhesive tapes that do not require solvents. With extrusion technology, tesa has successfully developed and implemented a manufacturing process for high-performance adhesive tapes in recent years that does not require solvents. As of now, tesa is also able to manufacture special adhesive tapes for high-performance heavy-duty transport restraint technology and for the construction of pipelines with extrusion technology. Another development focuses on high-performance bonding in automotive construction, where it is now possible to adapt high-performance adhesive layers for construction bonding quickly to the latest changes to paint surfaces, in order to allow mounted parts to be bonded securely with adhesion-resistant paint surfaces.

Another focus has been on developing technologies and product concepts for electromobility. Since there still is the risk of batteries burning out in cars, special adhesive systems with a highly effective heat lock have been developed. These systems make sure that a battery fire is contained within a single damaged element and that it cannot spread further to other battery elements. Likewise, prototypes have been designed and successfully tested to slow the further spread of fires beyond the battery. Adhesive systems have been developed for the bonding of necessary “power electronics” components to enable secure assembly while protecting neighboring components from the heat from the electronics system. A positive side effect of electric drives in cars is the considerably reduced amount of noise created. However, this results in certain driving sounds that had previously been masked by the sound of the engine to now be considered unpleasant. For this reason, tesa – together with leaders in innovation in automotive construction – has developed adhesive systems that effectively reduce the spread of sound via the car chassis. Development work on electromobility is handled within the context of tesa's global product and technology development network with the involvement of its locations in Germany, China and North America to ensure optimal cooperation with leading innovators and customers.

Sensor technology and sensors are a rapidly growing field in which adhesive tapes also play an important role.

There are increasingly powerful sensors that are capable of collecting more and more data from all areas of life. During the reporting period, new product concepts were developed for the bonding of these sensors and were successfully tested in use.

With the 2018 acquisition of US-based company Functional Coatings, LLC, tesa has expanded its technology portfolio. The focus here is on special adhesive tapes used for insulation in modern building shells. During the reporting year, the tesa teams developed new technologies and product concepts for modern veneer solutions that allow for high energy efficiency while enabling a low-resource construction. The concepts also need to be adapted to the regional specifics of construction methods. A focus is on technologies for special adhesive membranes that protect the building against moisture from the outside while transferring moisture from the inside to the outside as quickly as possible.

Additional information on product and technology development at tesa can be found at <https://www.tesa.com/en/about-tesa/product-and-technology-development>.

Responsibility¹

Growth and economic success at tesa are inseparably linked with corporate responsibility. To further establish sustainability at the root of the core processes, tesa defined a sustainability agenda as part of its business strategy in 2020. The agenda covers the entire value chain at tesa and covers the three areas of environment, society and customers, which in turn contain a total of seven focus topics. The agenda is also geared towards the ten principles of the Global Compact of the United Nations (UNGC) and the Sustainable Development Goals (SDGs) of the United Nations.

Protecting the Climate and the Environment

In order to improve its environmental footprint, tesa has been setting Group-wide targets with its environmental program since 2001. tesa set a new, ambitious climate goal for itself in the reporting year: to reduce energy-related CO₂ emissions by 30% in absolute terms by 2025 compared to

2018 (Scope 1 and Scope 2 emissions according to the Greenhouse Gas Protocol). tesa was already able to reduce Scope 1 and 2 emissions by 23% in absolute terms between 2018 and 2020.

Strategic approaches for environmental protection include the use of technologies that conserve energy and resources such as efficient production of the company's own energy by means of CHP solutions and the procurement of electricity from renewable sources. In 2020, tesa was able to put two additional CHP plants into operation which will produce nearly 11 GWh of power in a climate-optimized manner annually. In addition, the company will have sourced 100 percent of its purchased electricity from renewable energy sources for all production and office locations by the end of 2021. tesa relies on the green electricity guarantees of origin for this purpose.

All locations that have a significant environmental impact use environmental management systems. Seven production facilities and tesa's headquarters have an environmental management system certified under ISO 14001. The headquarters and the locations with the highest CO₂ emissions (Hamburg and Offenburg) also have an energy management system certified under ISO 50001. The energy management systems provide the foundation for further increasing energy efficiency at the sites.

tesa's waste and raw materials management activities are geared toward minimizing production-related losses of the raw materials used, making efficient use of materials and recycling wherever possible. Almost all non-hazardous waste and hazardous waste containing solvents is recycled or used for energy generation.

Occupational Health and Safety

As a responsible employer, tesa regards it as its duty to protect its employees from risks and hazards along the entire value chain in the performance of their activities. In addition, the company organizes the supply chains responsibly, particularly in respect of human rights.

To prevent occupational accidents and occupational health risks before they even occur, tesa focuses on prevention and on raising employee awareness. The strategic goal is to reduce the number of accidents to zero. Certifications are an important component here. In 2020, occupational health and safety in the Product Development & Technology Development at headquarters and the tesa

¹ This section was not part of the review of the Management Report.

Converting Center in Hamburg received the “Sicher mit System” seal of approval. By 2025, all sites which already have an ISO 14001-certified environmental management system are to obtain equivalent certification in the area of occupational health and safety. The frequency of accidents > 3 days at tesa stood at 1.8 per million hours worked worldwide in 2020, significantly below the German industry average (BG RCI, the statutory accident insurance and prevention institution for the raw materials and chemicals industries) of 12.3.

Suppliers who deliver directly to tesa are required to sign the Code of Conduct for Suppliers (CoCfS). The CoCfS forms the basis for the responsible management of global procurement processes. tesa also started a sustainability program for suppliers via EcoVadis in mid-2020 to verify adherence to human rights, working conditions and environmental standards in the value chain. By 2025, 80% of the overall direct purchasing volume is expected to be covered by means of self-disclosure forms. tesa was at 31% at the end of 2020.

Customers

tesa wants to enable its customers to play an active role in shaping technological progress and sustainable technologies by means of innovative product solutions. With these solutions, the company combines the highest standards with a reduced carbon footprint throughout their entire life-cycle. To this end, tesa set itself the goal in 2020 of increasing the proportion of sustainable products by 2025. This means that the use of renewable or recycled raw materials will increase in our products, and also that greater attention will be paid to the end of the product life. For tesa, the focus is on reducing the relevant carbon footprint with consistently high product performance and properties. tesa also intends to offer more products that demonstrably enable customers to achieve greater sustainability. tesa will report on the progress in this area in the future.

To support customers on the path to a sustainable transformation as effectively as possible, tesa is already developing efficient adhesive solutions that have many advantages. For example, the solutions help to conserve resources and energy, or they enable the repair or recycling of products. The patented tesa® Bond & Detach tapes, for instance, allow secure mounting of the battery in smartphones. If necessary, they can be easily removed without

leaving any residue. This makes it possible to separate components from one another, replace them and dispose of them properly or recycle them. This allows tesa customers, for example, to reduce the waste they generate and save CO₂ emissions.

tesa created a tool in mid-2020 that integrates sustainability as a fixed component at an early stage of all product developments and major investments.

With the “Project Sustainability Assessment,” the company ensures that responsible employees in product development address how their product or investment contributes to sustainability. The assessment is used as a basis for steering and decision-making by the company.

Corporate Citizenship

Beyond its core business, tesa also aims to make a positive contribution to society. The tesa corporate citizenship strategy concentrates on the key fields of social commitment, support for education, and environmental protection.

In 2020, as in the past, the tesa Group supported a wide range of projects around the world. During the year of the COVID-19 pandemic, the focus was on providing global support to selected initiatives with product and money donations.

In a large-scale support program as part of the Beiersdorf initiative “Care Beyond Skin,” tesa provided a total of 5 million euros for combating the effects of the results of the pandemic. The program has had multiple stages since the start of the year. tesa provided immediate assistance to over 30 hospitals in Germany with social distancing tapes. This was followed, for example, by local donation campaigns to food banks. The company also supported the global aid organizations “Doctors Without Borders” and “Save the Children” with two substantial donations of 1 million euros each. The money is going to a global COVID-19 crisis fund of “Doctors Without Borders” and is intended to provide rapid assistance without needless bureaucracy where the need is the greatest. “Save the Children” and tesa entered into a partnership under the motto “Education Brings Us Together. Worldwide.” and are addressing the issue of rising inequality in education. This has hit socially disadvantaged children particularly hard during the pandemic. Selected projects in Vietnam, China, India, Mexico, Italy, and Germany are intended to give children an opportunity for a better future.

tesa also made donations in seven regions – from Asia to North and Latin America to Europe – to local organizations selected by the tesa affiliates in their regions.

As a technology company, tesa is certainly aware of the fundamental importance of education and qualified young people. Since 2020, tesa has also made sponsoring young scientific and technological talent an integral part of its Society efforts in the tesa Sustainability Agenda. At headquarters, tesa has been cooperating with the “Initiative für Naturwissenschaft & Technik ([NAT]; Science & Technology Initiative)” since back in 2014, giving students an insight into the everyday work of scientists. tesa also sees itself internationally as a companion for the next generation and aims to help provide access to STEM (science, technology, engineering, mathematics) subjects as well as important future technologies. By 2025, tesa will be initiating youth development partnerships and projects, in particular in countries where they have their own production and development sites.

More detailed information on the annually published sustainability report is available at <https://www.tesa.com/en-us/about-tesa/sustainability> as well as in the non-financial report in Beiersdorf AG’s annual report at <https://www.beiersdorf.com/investors/financial-reports/current-annual-report>.

Employees²

The qualifications and commitment of tesa employees are instrumental in ensuring the economic success, quality and sustainability of tesa’s business. This is why tesa’s attractiveness as an employer plays an essential role in the company’s lasting positive development. As a worldwide technology leader in the technical adhesive tape and adhesive system solution segment, tesa needs to recruit highly qualified employees and secure their loyalty to the company in the long term.

The number of employees stood at 4,716 at the end of the fiscal year (previous year: 4,926).

In 2020, tesa continued to invest in the training of its employees and created additional attractive development opportunities. Many measures were impacted by the global COVID-19 pandemic.

The “X-perience the tesa world” concept was further pursued during the reporting year, particularly with internal job postings. These explicitly included prompts for applicants to apply at an international level and from other functions. In web-based workshops, these development opportunities were explained to the employees and discussed individually.

Managers’ ability to offer employees a motivating working environment and promote the development of their talents is crucial to tesa’s success as a business and its attractiveness as an employer.

In 2019 tesa began to devise a new Management Development Program (MDP). The program comprises the two components – “Essential” and “Advanced” – and aims to help executives and managers expand their skill sets and expertise. The “Essential” MDP carried out as e-learning conveys fundamental knowledge regarding responsibilities, processes and tasks in all business units of the company. The first international group started in early 2020. The “Advanced” MDP includes all areas – from strategy development to finance and managerial accounting, to supply chain and HR management. The 18-month program with seven modules that required physical attendance had to be adjusted due to the travel restrictions as a result of the pandemic and only started in July 2020.

As part of the “Competencies Review,” talented workers are given the opportunity to participate in job-related exercises – comparable to those of an assessment center. They then receive feedback on their strengths and areas for development with regard to the tesa Key Competencies. The Competencies Review was completely revised for 2020. New components include ongoing peer feedback, a self-presentation and a learning path that lasts tens months after the actual event. During this time, the participants receive intensive support from their managers and from Human Resources (HR).

Workshops for internal succession at all management levels – up to the Executive Board – were held in 2020 as well. During these workshops, all key positions of an area are considered, and a possible successor candidate for these positions is discussed. The results of succession planning are disclosed transparently to employees.

In the reporting year, there were a number of challenges relating to the qualification processes and further development of managers and employees due to the pandemic.

² This section was not part of the review of the Management Report.

The global training programs that would usually be held in person could no longer be offered from March 2020, and have since gradually been transitioned to a digital format.

In the short run, a “Home Office Learning Journey” was developed for all employees worldwide starting in April 2020. Here, tesa has provided its colleagues with a changing and diverse schedule of digital learning opportunities in the areas of sales, virtual leadership, management, and specialist training.

The “Home Office Learning Journey” was supplemented by access to the external digital learning platform “LinkedIn Learning” that is offered worldwide. This platform contains over 16,000 courses from recognized industry experts, scientists, and authors in seven languages.

In terms of knowledge sharing, tesa continues to increasingly rely on e-learning formats. E-learning courses are already in use for topics like compliance, occupational health and safety, product and technology development, sales and the tesa supply network. Employees have had on-demand access to all further education options at tesa via a digital “learning hub” since 2020.

Alongside leadership, development options and performance-driven pay, factors such as occupational health and safety and health promotion increasingly play a role in employee loyalty and employer attractiveness. Especially in the midst of the COVID-19 pandemic and given the increased use of telecommuting and working from home, tesa’s focus is on prevention. Investments in technical safety, occupational health and safety measures and routine training activities, along with a worldwide awareness-raising campaign and the establishment of a COVID-19 task force helped to ensure that the rate of occupational accidents in 2020 was once again significantly below the industry average according to the statutory accident insurance and prevention institution (Berufsgenossenschaft). The occupational health management service named “It’s for you” also adopted new focus areas with a broad range of courses and tips on health prevention such “actively taking breaks when working from home” in the year under review.

More detailed information is available in the non-financial report in Beiersdorf AG’s annual report at <https://www.beiersdorf.com/investors/financial-reports/current-annual-report>.

II. Results of Operations

Results of operations in the tesa Group

	2019	2020	Change	
	in € million	in € million	in € million	in percent
Sales	1,378.7	1,325.5	-53.2	-3.9
Costs of goods sold	-763.9	-716.3	47.6	-6.2
Gross profit	614.8	609.2	-5.6	-0.9
Marketing and selling expenses	-285.2	-254.3	30.9	-10.8
Research and development expenses	-58.9	-59.2	-0.3	0.5
General and administrative expenses	-76.9	-74.2	2.7	-3.5
Other operating income	57.8	53.2	-4.6	-8.0
Other operating expenses	-40.0	-70.9	-30.9	77.3
Operating result (EBIT, excluding special factors)	211.6	203.8	-7.8	-3.7
Special factors	-19.3	-7.6	11.7	-60.6
Operating result (EBIT)	192.3	196.2	3.9	2.0
Financial income	12.0	14.8	2.8	23.3
Financial costs	-18.0	-17.8	0.2	-1.1
Financial result	-6.0	-3.0	3.0	-50.0
Profit before tax	186.3	193.2	6.9	3.7
income taxes*	-57.9	-60.3	-2.4	4.1
Profit after tax*	128.4	132.9	4.5	3.5

*) The previous year's results were adapted. In 2018, deferred tax liabilities were overstated and corrected retroactively in the consolidated financial statements along with goodwill. There is no significant effect on earnings in this context.

In the 2020 fiscal year, the tesa Group posted an operating result (EBIT, excluding special factors) of € 203.8 million, which was € 7.8 million lower than in the previous year. The operating result including special factors (EBIT) increased to € 196.2 million (+2.0%). Special effects amounting to € 7.6 million mainly include expenses for the COVID-19 donation program and for the strategy implementation in Europe.

While gross profit totaled € 609.2 million (-0.9%), the result from operating expenses and income excluding special factors changed by 0.5% to € -405.4 million in 2020 (previous year: € -403.2 million).

The tesa Group completed the fiscal year with profit after tax of € 132.9 million (+3.5%). This was due to the lower special factors (€ -11.7 million) compared to the previous year. At the same time, the financial result increased by € 3.0 million to € -3.0 million. The income tax expense increased accordingly by € 2.4 million to € 60.3 million.

Sales decreased by € 53.2 million to € 1,325.5 million. Taking into account a simultaneous decrease of € 47.6 million in the cost of goods sold, the gross profit improved by 0.9% to € 609.2 million. The return on sales without special factors was 15.4% (previous year: 15.3%). Taking into account the special factors, the EBIT margin came to 14.8% (previous year: 13.9%).

Other operating income decreased by € 4.6 million to € 53.2 million. This development was driven by a revenue decrease of € 6.1 million resulting from the reversal of provisions, a decrease of € 2.6 million in gains on asset sales, and a decrease in other income of € 4.8 million, while currency gains increased by € 8.9 million.

Other operating expenses excluding special factors increased in 2020, in particular due to the increased fluctuation in currency exchange rates of € 16.9 million by € 30.9 million to € 70.9 million.

Marketing and selling expenses decreased by € 30.9 million to € 254.3 million and relate to expenses for advertising, trade marketing, and other positions amounting to € 31.8 million (previous year: € 36.4 million).

Research and development expenses increased slightly by 0.5% to € 59.2 million. General and administrative expenses amounted to € 74.2 million, continuing their downward trend from the previous year (€ -2.7 million).

The financial result increased from the previous year by € 3.0 million to € -3.0 million.

In the 2020 fiscal year, taxes on income increased by a total of € 2.4 million to € 60.3 million (previous year: € 57.9 million).

Due to the COVID-19 pandemic, the forecast prognosis could not be achieved. Nevertheless, EBIT was improved slightly due to lower general and administrative expenses.

On the whole, the tesa Group posted a solid performance in the past fiscal year. Targeted investments continued to be made in order to strengthen its market position in the long term.

Business Development by Region

In a market environment dominated by the COVID-19 pandemic, organic sales growth declined by -1.4% in 2020 for tesa. Negative exchange rates exacerbated this development by 2.4 percentage points. Nominal sales decreased by 3.9% from € 1,378.7 million in the previous year to € 1,325.5 million.

Europe

In Europe, organic sales growth declined by -0.4%. The Direct Industries segment saw a significant decline in sales, particularly due to the weakness in the automotive market. The business in the Trade Markets segment was able to maintain the level of the previous year. Sales in the end consumer business developed positively. In nominal terms, tesa's sales in Europe reached € 715.4 million (previous year: € 729.4 million). The share of Group sales increased to 53.9% (previous year: 52.9%).

Americas

In the Americas, tesa's organic sales decreased by -9.0%. Due to the impact of the COVID-19 pandemic, sales in the Direct Industries division were significantly weaker than in the previous years, recording in particular a significant decline in sales in the automotive market. Sales in the region fell in nominal terms by 14.6% to € 194.4 million (previous year: € 227.6 million). The share of Group sales increased to 14.7% (previous year: 16.5%).

Africa / Asia / Australia

In Asia, organic sales growth of 0.8% was achieved, boosted by the project business featuring products for the elec-

tronics industry. The weakness in the automotive sector was also noticeable in this region in 2020. However, sales in the Direct Industries segment in China were able in particular to recover early on from the impact of the COVID-19 pandemic. Sales in the region fell in nominal terms by 1.4% to € 415.7 million (previous year: € 421.7 million). The share of Group sales increased to 31.4% (previous year: 30.6%).

Business Development by Division

Direct Industries

Organic sales in tesa's Direct Industries division decreased by 2.9%. The impact of the COVID-19 pandemic resulted in a significant decline in sales in Europe and America, specifically in the automotive market. tesa achieved growth in Asia, in part with higher sales in the project business with the electronics industry. Nominal sales decreased by 5.8% to € 770.6 million (previous year: € 818.0 million). The Direct Industries division's share of total sales was 58.1% (previous year: 59.3%).

The **Consumer Electronics** segment with its two core business fields – smartphones and tablets – also completed 2020 significantly better than the heavily declining market in general, and even achieved a moderate growth in sales compared to 2019. tesa was once again able to expand its position as a leading provider of innovative products and solutions for smartphones and tablets in a challenging competitive environment. The Electronics segment benefited in particular in the second and third quarter from the increasing trend towards working from home and home-schooling in many countries as a result of the COVID-19 pandemic and the associated two-digit growth in sales in the Tablets segment. The drivers for the tesa business were the newly won projects for high-performance applications. The range of double-sided adhesive acrylic foam tapes for bonding touchscreens and heat-activated high-performance adhesive tapes both increased significantly. These are used when high-performance adhesion is required on the smallest surfaces. tesa Bond & Detach, the solution for the secure attachment and residue-free removal of batteries in smartphones, also saw another increase. This successful product, which undergoes continuous refinement, received the renowned "Innovator of the year" prize (Die Deutsche Wirtschaft, DDW) in 2020.

The **Automotive sector** was significantly impacted by the global sales and production crisis in the industry in 2020. The disruptive changes within the global automotive sector, already ongoing since 2019, were compounded by the COVID-19 pandemic in 2020, which resulted in a significant reduction in production volumes. However, tesa was able to reduce sales losses towards the end of the year. Overall, approximately 75 million vehicles (previous year: 88.9 million) were produced in 2020 worldwide, which represents a decline of 16%. The tesa Automotive segment recorded a decline in sales of 8.5% in the reporting year.

This relatively good development by tesa compared to the industry was – as it was in 2019 – bolstered by the electromobility megatrend. In this field, tesa was able to expand its product portfolio, including in the area of insulation and battery cell bonding, and acquire new customers. In addition, the Exterior segment, which includes permanent adhesive solutions for mounted components, also performed very well following an intensive phase of market and customer development, and in 2020 is up on the previous year in terms of sales.

The main investment areas of tesa Automotive remain Electromobility, Exterior, and Automation, rounded off by the entire Connected Interior segment, which aims to digitalize the interior space. Here, employees from Automotive work closely with the tesa Electronics business unit to, for example, take advantage of synergies in the area of display manufacturing. The aim in the future will remain the achievement of an important role in the value chain for important customers as early as possible with as many production-related applications as possible (i.e. applications that are a permanent feature of the vehicle).

tesa took advantage of the production shutdown at various manufacturers due to the COVID-19 pandemic to, for example, install an innovative robot solution for covering holes in the chassis in a production line.

In the **Print and Paper** segment, tesa continued to expand its activities in flexo printing. With the Twinlock business acquired from the Dutch company Polymount in 2018, tesa is able to offer its customers different solutions – not only tesa special adhesive tapes but also self-adhesive Twinlock printing sleeves. This was noticeable in the growth in sales, in particular at the start of the COVID-19 pandemic. There was high demand for printed packages for the food retail industry, since people increasingly prepared and

stored their meals at home in light of the closure of restaurants and company cafeterias.

The **Building Industry** segment also developed positively in 2020. The main contributor to this development was the strong growth of Functional Coatings in the US, which had been acquired in 2018. As a result of this acquisition, tesa now offers a broad portfolio of functional adhesive tapes for air and waterproofing. The North American building industry proved to be extremely robust during the COVID-19 crisis regarding residential construction. In Europe, tesa was able to perform additional projects based on ACX^{plus} technology.

The beneficiaries of the COVID-19 pandemic also included manufacturers and providers of debit and credit cards. Since the number of cashless – and contactless – transactions has increased significantly in many countries, tesa was also able to benefit from this trend. The chips in the smartcards are permanently fixed in place with a heat-activatable film (HAF), which is also a tesa product and characterized by its high adhesive strength.

Furthermore, tesa was able to introduce innovations in two additional markets in 2020. For the aviation industry, tesa developed adhesive tapes that are flame-retardant, yet still halogen-free, and that fulfill the very high requirements of that industry. In addition, tesa introduced semi-structural tapes to the market that are bonded before powder coating, can generate very high strength, and are therefore able to replace spot welding.

In the **Pharmaceuticals** segment, tesa's focus in 2020 continued to be on further stabilizing the business in terms of productivity, quality and output as well as expanding and strengthening market access. tesa was able to drive forward the development of product innovations in connection with the approval process and further expand the portfolio of development projects. The preconditions for additional product launches in the coming years are in place. The Pharmaceuticals segment benefited from the COVID-19 pandemic in that it manufactures tesa products that are classed by the EU as being subject to provision obligations. This resulted in pharmaceutical companies establishing risk inventories.

With **tesa scribos**, tesa enables international brand manufacturers to digitize their products. Individual, highly secure markings create a digital twin for every product with a secure and unique identity. Combined with the intui-

tive tesa® 360 digital platform, it becomes a powerful solution for protection against forgeries, the gray market, or overproduction. This also allows brand manufacturers to engage with their customers and gain valuable market knowledge. The newly developed, printed tesa® ValiGate security marker is currently and successfully being introduced to the market and the first customers have already been acquired. tesa® ValiGate is based on a highly secure encryption process developed internally at tesa that is cost-efficient to produce and allows tesa scribos to reach new mass markets such as the FMCG segment. tesa has also successfully entered the newly served “Licensing” market.

Trade Markets

Sales in the **Trade Markets** division increased organically by 0.8%. Nominal sales fell by 1.0% to € 549.7 million (previous year: € 555.3 million). As a result, this division contributed a 41.5% share (previous year: 40.3%) of tesa’s total sales during the reporting year.

In 2020, tesa further expanded and optimized its **industrial trade** product range. This included introducing a new acrylic core tape product range – tesa® ACX^{plus} Multi Purpose (MP) – to the market in the double-sided adhesive tapes category, further developing the spread of tesa ACX^{plus} technology in trade channels. The double-side adhesive tapes with their acrylic core stand out in particular due to their high adhesive strength and viscoelasticity, their ability to compensate for tension, and their temperature and weather resistance.

In addition, “tesa PRO” was also introduced as part of an active drive to digitalize business relationships with trade partners. This is operated on a dedicated digital platform for customers that offers numerous functions ranging from a product search to an application advisor, from e-learning to order management with an integrated shop.

Various tesa products from the **General Industrial Markets** business segment helped provide more safety during the COVID-19 pandemic. For one, so-called “social distancing” tapes were in high demand. Adhesive tapes are required to provide warnings and markings, in particular in areas where many people come together and need to keep their distance (such as in food retail or at hospitals). Furthermore, manufacturers of mouth and face protection masks use double-sided tesa adhesive tapes.

The business with private end customers and construction and trade professionals – **Consumer & Craftsmen** – developed differently in Europe and Latin America. Due to the COVID-19 pandemic, business declined in Latin America during the first six months and only recovered starting in the fall of 2020. In Europe, on the other hand, sales increased significantly in the reporting period. There are various reasons for this. For one, the COVID-19 effect resulted in a higher demand at the building supply stores since many people used the time at home for repairs and renovations. On the other hand, tesa recorded a decline in demand for commercial office supplies. The digital sales channel with online marketplaces and a separate online shop, however, saw growth in the high double digits.

The self-adhesive masking tapes business for private end users and construction and trade professionals developed very positively. The focus product areas, beyond adhesive tapes, continued to perform very well. The innovative tesa FALT insect mesh introduced to the market in 2020, which fits into any commercially available window frame thanks to its unique fine-adjustment mechanics, allowed tesa Consumer & Craftsmen to further extend its market leadership in the area of insect netting in Germany. As a new range of bathroom accessories under the tesa® brand continues its launch throughout Europe, new listings have been achieved and the tesa smart mounting adhesive nail attachment product range with its “nie wieder bohren” (never drill again) technology continued its success story.

tesa has been an IKEA “Onboarded Supplier” since October 2020. The multinational furniture company has introduced a product under the brand ALFTA onto the market. This is a self-adhesive hook set that uses tesa Powerstrip technology to allow customers to hang items such as picture frames. ALFTA is available online and at many IKEA outlets.

III. Financial Position

Cash flow statement

	2019	2020	Change
	in € million	in € million	in € million
Cash and cash equivalents as of Jan. 1	199.0	241.7	42.7
Gross cash flow	176.4	187.3	10.9
Change in net current assets	31.9	-4.1	-36.0
Net cash flow from operating activities	208.3	183.2	-25.1
Net cash flow from investing activities	-69.2	-137.2	-68.0
Free cash flow	139.1	46.0	-93.1
Net cash flow from financing activities	-98.8	-101.3	-2.5
Other changes	2.4	-8.7	-11.1
Net change in cash and cash equivalents	42.7	-64.0	-106.7
Cash and cash equivalents as of Dec. 31	241.7	177.7	-64.0

Cash flow from operating activities decreased by € 25.1 million to € 183.2 million compared to the previous year.

Cash flow from investing activities accounted for a net outflow of € 137.2 million. This is primarily attributable to investments in intangible assets and property, plant and equipment (€ 44.2 million) as well as granting loans to affiliate companies (€ 105.0 million). Investments in property, plant and equipment (€ 38.4 million) mainly resulted from production expansions amounting to € 28.8 million, of which € 25.6 million was invested in Germany (see “Investments” section). **Free cash flow decreased** by € 93.1 million to € 46.0 million.

The negative **cash flow from financing activities** was due in particular to a dividend payment of € 64.7 million to the shareholders.

As of the end of the fiscal year, **cash and cash equivalents** had decreased by a total of € 64.0 million to € 177.7 million.

Key Financial Indicators

The **return on sales** excluding special factors from the ongoing reorganization amounted to 15.4% (previous year: 15.3%). The return on sales including special factors from the ongoing reorganization improved from the previous year

with an EBIT margin of 14.8% (previous year: 13.9%). Without taking into account write-downs on intangible assets, on property, plant and equipment and special factors, profitability was 20.6% (previous year: 20.5%). Without taking into account write-downs on intangible assets and property, plant and equipment but when taking into account special factors, profitability was 20.0% in 2020 (previous year: 19.1%).

The **EBIT return**, measured in terms of the available equity as of the beginning of the fiscal year, increased slightly in 2020 to 25.7% (previous year: 25.6%).

The **net profit** measured against sales increased slightly from 9.3% compared to the previous year* to 10.0%.

The **earnings per share** increased to € 5.15 (previous year: € 5.07*).

Right-of-use assets from leases accounted for under IFRS 16 exist in the amount of € 58.4 million (previous year: € 66.4 million). They are offset by lease liabilities of a comparable amount.

The equity ratio amounted to 50.9% (previous year: 50.6%). Excluding the right-of-use assets accounted for under IFRS 16, the ratio increased to 52.8% (previous year: 52.9%). The ratio of equity to non-current assets was 113.9% (previous year: 108.3%).

Capital Expenditure

During the reporting year, tesa invested a total of € 44.2 million in intangible assets and property, plant and equipment. Of this amount, capital expenditure of € 25.7 million applied to sites in Germany.

The sum of € 3.1 million was invested in the rest of Europe, while € 2.8 million was invested in the Americas and € 12.6 million in the Africa / Asia / Australia region. In particular, capital expenditure in Asia relates to the extension and expansion of production capacities for the Direct Industries division.

The year 2020 was mainly characterized by expenditure for technology and capacity expansion in large-scale strategic projects, some of which have now been completed. In addition, tesa continued to make relevant investments to modernize the global IT infrastructure and system landscape, which will continue in the years to come.

Capital expenditure for productivity, replacements, and capacity expansions at the production sites worldwide totaled € 28.8 million.

* see results of operations

IV. Balance Sheet Structure

Balance sheet structure of the tesa Group

	31/12/2019	31/12/2020	Change	
	in € million	in € million	in € million	in percent
Assets				
Non-current assets*	706.1	699.6	-6.5	-0.9
Inventories	259.9	285.6	25.7	9.9
Other current assets	302.3	403.6	101.3	33.5
Cash and cash equivalents	241.7	177.7	-64.0	-26.5
Total	1,510.0	1,566.5	56.5	3.7

	in € million	in € million	in € million	in percent
	Equity and liabilities			
Equity*	764.7	796.7	32.0	4.2
Non-current provisions	354.4	390.5	36.1	10.2
Non-current liabilities*	61.5	50.2	-11.3	-18.4
Current provisions	109.2	102.5	-6.7	-6.1
Current liabilities	220.2	226.6	6.4	2.9
Total	1,510.0	1,566.5	56.5	3.7

* see results of operations

Total assets increased from the previous year by 3.7% to € 1,566.5 million. On the assets side, this was primarily the result of an increase in other current assets (+ € 101.3 million) of which € 105.0 million resulted from granting loans towards affiliates.

On the liabilities side, equity (+ € 32.0 million) and non-current provisions (+ € 36.1 million) were increased in particular.

Inventories increased by 9.9% from the previous year to € 285.6 million. This development resulted primarily from increasing inventories to ensure supply capability during the COVID-19 pandemic.

Cash and cash equivalents decreased by € 64.0 million to € 177.7 million. Please see the remarks concerning the financial position for further information.

Other current assets increased by € 101.3 million to € 403.6 million (see comment above on total equity and liabilities).

The increase in non-current provisions by € 36.1 million to € 390.5 million was primarily attributable to the increase in provisions for pensions and similar obligations not recognized in profit or loss as a result in the reduction in the interest rate.

The change in equity was mainly attributable to the net profit after tax of € 132.9 million, the dividend payment to shareholders of € 64.7 million and the interest rate change for pensions of € 23.2 million.

The decrease in short-term provisions was primarily due to the depletion of other provisions.

V. Risk Report

As part of its global activities, tesa is faced with a wide variety of risks that are inseparably linked to its corporate activities. Risk management, which is a component of the overall planning, oversight, 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 at 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, while monitoring is centralized. tesa centrally monitors any overarching international risks associated with production and safety standards, legal violations, brand management, financing, and value development within the Group. Objective-driven managerial accounting practices and regular strategy reviews make sure that opportunities and risks are favorably balanced. Beiersdorf Aktiengesellschaft's internal audit department monitors compliance with the internal control 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 prolonged contract validity periods 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 through which tesa generates a high proportion of its sales, especially in the automotive and electronics industries. tesa monitors market trends closely, both centrally and in individual regions, in order to be able to intervene 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 or loss could threaten the company's existence. Even so, the company additionally takes out trade credit insurance to a feasible extent, via tesa Credit Management, for specific customers identified as posing an elevated risk due to their company profile or the scope of their 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 IATF 16949, as well as ISO 14001, 45001 and 50001. Occupational health and safety and environmental risks are mitigated by process controls and they are also ensured through external certification. tesa has established appropriate provisions for covering the financial impact of liability risks and any potential loss or damage events by taking out insurance within the scope possible and in accordance with economic considerations.

The possibility of the complete failure of one or more production units cannot be excluded and poses a potential threat to the long-term supply capability of the company. tesa counters this risk with a preventive maintenance system, fire safety 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 encourage 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 in-house adhesive technology and product development facilities and through regular exchanges 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 positions associated with this are 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 through its Corporate Treasury division.

The primary goal is to safeguard the financial power of the Group and to be able to meet financial obligations at all times. Through its financial management efforts, tesa ensures the solvency of the Group on a continuous basis, monitors risks related to financial instruments, and optimizes cash management for the entire Group.

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

tesa hedges 75% of the currency risk for freely convertible currencies, where this is economically feasible. The hedges entered into in line with this policy are handled centrally at Beiersdorf Aktiengesellschaft. Potential risks associated with the investment of liquid funds are fundamentally mitigated by the use of counterparty limits 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 ensures that they are consistent with modern technological standards. To limit risks involved in mobile data communication and in the use of cloud applications, tesa monitors the effectiveness of the measures taken and maintains emergency plans. Technical and organizational measures rule out unauthorized access and data loss to the greatest possible extent.

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

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

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

VI. Outlook

The strong impact of the COVID-19 pandemic in 2020 as well as geopolitical risks and their effects on overall economic development will have a lasting impact on tesa's business in 2021. The continuing difficulties in estimating the future development of the COVID-19 pandemic, the development of the automotive market and the rather reserved expectations in the electronics industry have an impact on growth expectations at tesa.

After 2020, tesa expects developments in Europe to remain volatile in 2021, with not only the effects of the COVID-19 pandemic, but also the political environment, namely the development of the tariff situation in the US, Brexit, and the political situation in Turkey all potentially having a negative impact on the markets.

In North America, tesa cautiously expects a more positive environment for tesa business in 2021 compared to 2020.

The outlook for development in Asia depends in large measure on the development of the Chinese economy. tesa expects moderate growth in Asia in 2021, in which it will participate both through the automotive sector and as before through the electronics industry. The increasing pressure on prices will probably dampen sales growth somewhat in both areas. The business with the electronics industry in Asia remains attractive, although the project-based nature of this business continues to pose a significant risk of volatility.

As in 2020, we also expect currency exchange rates to remain moderately volatile for 2021 as well. The slight appreciation of the euro over the course of 2020 is not expected to have any material impact on the development of tesa's business in 2021. Conventional financial instruments are used to hedge these risks.

tesa will continue to invest in innovative technologies at its production sites worldwide. The capital expenditure volume will again exceed total write-downs. Financing for capital expenditure in 2021 has been secured.

Growth is expected to outperform the market slightly for 2021. This applies to both the consumer business and industrial business. Based on continued investment in product and technology development, and thus in innovative products, tesa expects to strengthen its market position.

tesa is expected to reach positive sales growth, with an EBIT margin from ongoing operations (excluding special factors) below 2020 level.

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

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

Norderstedt, February 18, 2021
Executive Board



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