

Foundation of the Group

Our Brands

Beiersdorf has a strong portfolio of international leading brands that are chosen by millions of people around the world each day. The success of our brands is based on our innovative strength, outstanding quality, and closeness to consumers. This closeness enables us to respond quickly and flexibly to the wishes and regional requirements of consumers across the globe. Our range is centered on our successful skin and body care brands, each serving different segments:

NIVEA is aimed at the mass market, Eucerin at the dermocosmetics segment, and La Prairie at the selective cosmetics market. With its Hansaplast and Elastoplast brands, Beiersdorf has a global presence in the field of plasters and wound care. Renowned brands such as Labello, Aquaphor, Florena, 8x4, Hidrofugal, atriX, SLEK, and Maestro round off our extensive portfolio in the Consumer Business Segment. Through the tesa brand, which has been managed since 2001 by Beiersdorf's independent tesa subgroup, we also offer highly innovative self-adhesive system and product solutions for industry, craft businesses, and consumers.

Our Brand Portfolio



NIVEA is one of the world's best-known, largest, and most successful skin care brands and is trusted by consumers around the globe.

Eucerin is Beiersdorf's dermocosmetic skin care brand, trusted by dermatologists, pharmacists, and consumers all around the world.

The **La Prairie** brand stands for high-quality, innovative products that aim to offer consumers the ultimate luxury in skin care.

With **Hansaplast** and its sister brand **Elastoplast**, Beiersdorf is globally represented in plasters and wound care.

The internationally renowned lip balms from **Labello** provide long-lasting care for dry lips.

Aquaphor, a sister brand of Eucerin, offers skin care products to protect and care for extremely dry, irritated, or damaged skin.

The hand care brand **atriX** provides immediate care for busy hands.

Under the **Florena** brand, Beiersdorf offers an extensive range of skin and body care products with natural ingredients for consumers in Germany.

8x4 is an internationally renowned deodorant brand.

Beiersdorf's **Hidrofugal** brand offers a range of highly effective antiperspirants and shower gels.

SLEK and **Maestro** are Beiersdorf's hair care and hair styling brands in China.

tesa provides self-adhesive system and product solutions for industry, craft businesses, and consumers. The brand excels with its dependable high quality, exemplary innovative strength, and the use of state-of-the-art technologies.

Business and Strategy

Beiersdorf is a global leader in the consumer goods industry with around 20,000 employees in more than 160 affiliates contributing to the success of the international Group. Our business is divided into two separate, independently operating business segments, each of which holds a market leadership position:

- The Consumer Business Segment, with its focus on skin and body care, is the core of our business. Our strong brands, including NIVEA, Eucerin, Hansaplast, and La Prairie, anticipate our consumers' wishes and offer innovative, highly effective, and high-quality products.
- In the tesa Business Segment, we develop high-quality self-adhesive system and product solutions for industry, craft businesses, and consumers. In doing so, we aim to identify needs, respond flexibly to special requirements and market trends, and make our customers' workflows even more efficient and effective. Since 2001, tesa SE has been an independently run subsidiary of Beiersdorf AG.

Consumer

In the Consumer Business Segment, we aim to be the No. 1 skin care company in our key categories and markets. In the reporting year 2018, we focused on leveraging the potential of our derma, healthcare, and selective brands – Eucerin, Hansaplast, and La Prairie – alongside our iconic NIVEA brand. With our consistent brand management, our proximity to consumers, and the introduction of innovative products, we succeeded in further increasing the impact of our skin care brands and gaining important market share.

OUR VALUES

Our conduct is critical to the successful implementation of our strategy. Our Core Values play a leading role in this success. "Care," "Simplicity," "Courage," and "Trust" have shaped our corporate culture from day one. They set the agenda for our business activities and guide the everyday work of every single employee:

- **Care:** We act responsibly towards our colleagues, consumers, brands, our society, and our environment.
- **Simplicity:** We strive for clarity and consistency, making decisions quickly and pragmatically, and focusing on what is essential.
- **Courage:** We are committed to bold objectives, take initiative, learn from our mistakes, and see change as an opportunity.
- **Trust:** We say what we mean, keep our promises, and treat others with respect.

BRANDS

We regard strengthening our internationally successful brands as our core task and the cornerstone of our business success. Our aim is for our brands to be close to consumers and to continually introduce innovative products that put our consumers' needs and wishes center stage and generate added value – this is the key to successfully differentiating ourselves. Our broad brand portfolio, led by our iconic NIVEA brand, also stands for trust, quality, and consistency.

INNOVATIONS

Beiersdorf has built its global reputation on a strong tradition in skin care expertise. Our innovative strength and the lasting success of our innovations is key to expanding our leading position in the skin and body care business. Our product development therefore focuses exclusively on new products with high potential for sustainable growth. Furthermore, we aim to extend the lifespan and growth of our biggest innovations to make full use of their potential.

One of the major innovations we launched during the reporting year was the new active ingredient Thiamidol®, for which Beiersdorf enjoys patent protection in important countries around the world. It acts on the root cause of hyper-pigmentation of the skin and is the basis for new skincare products that help consumers reduce irregularities in their own skin tone. In this way, we address a consumer demand that promises high sales potential in many markets. The new product range Eucerin Anti-Pigment is already based on the new active ingredient. Information on other innovations of the reporting year can be found in the following Research and Development section of the Combined Management Report.

MARKETS

With our leading brands, we are present in almost all countries worldwide. Being close to our consumers is critical for us to meet the specific and often very different needs in the regions. It also means we can adjust quickly and flexibly to changing expectations. Our global network of research and development centers enables us to promptly identify trends and consumer wishes and develop products that meet the individual local needs and preferences. Our 17 production sites in 12 countries also provide us with close proximity to our consumers – and thus a decisive competitive advantage with which we can secure and expand our market share for the long term.

In the reporting year, Beiersdorf made targeted investments in establishing and expanding local sites as well as R&D and production facilities in order to further strengthen the company's international activities as well as its presence and impact in key emerging markets. Alongside the opening of new affiliates, inter alia in Cairo, Egypt, and Lahore, Pakistan, the focus was on the following projects:

- March 2018 saw the groundbreaking for the expansion of our plant in Thailand, located on the outskirts of Bangkok. The investment volume for the site and warehouse expansion as well as the modernization of the existing buildings amounts to approximately €67 million. With this, we intend to create additional growth opportunities and strengthen our position in the key economic region of Asia. The design work for the new production areas in Bangplee put the emphasis on safety, quality, efficiency, and sustainability as well as the flexible use of technology. It is also planned to certify the new production areas in accordance with the prestigious LEED Gold standard (Leadership in Energy and Environmental Design) for environmentally friendly construction. The major expansion of the production site is due to be completed in the summer of 2019.
- We also decided to expand our production center in Poznań (Poland) in the reporting year. We plan to invest around €95 million in the building, infrastructure, and logistics capacities at the site over the next three years. The expansion will create the capacity needed for further growth. The project is also set to create 40 to 50 new jobs. The plant in Poznań primarily produces face care and dermatological products based on sophisticated formulas and technologies.

EFFICIENCY

Beiersdorf demonstrates high efficiency and a strong ability to adapt to changing markets. This allowed us once again to increase sales this year and maintain a high level of earnings in an increasingly challenging environment. Expanded investments in production enabled us to influence manufacturing costs positively. Together with an efficiently managed marketing budget, we were able to balance in part the effects of cost increases arising from negative movements in exchange rates and increases in commodity prices.

DIGITALIZATION

Rapidly increasing digitalization at Beiersdorf is pivotal to the future success of our company. We considerably ramped up our activities and partnerships during the reporting year, especially in the e-commerce sector. This was not only because of our firm belief in the growing importance of online retail as a sales channel, but also because we regard it as an important tool for brand development and generating consumer insights. In addition to our successful cooperation with the Chinese e-commerce providers JD.com and Alibaba, we concluded a strategic partnership in 2018 with NetEase Kaola, China's leading online platform for imports. Thanks to this partnership, we further bolstered our online presence and close relationship to our consumers in the important Chinese market and gained access to more than 900 million users.

In addition, we aim to further enhance and increase our employees' digital expertise through various e-learning modules, our digital campus, and the roll-out of Office 365, which began in fiscal year 2018.

PEOPLE

The successes of the past year are first and foremost the achievement of our committed employees. They are close to consumers, cultures, and markets. They respond efficiently, dynamically, and flexibly to global trends and local customer wishes. And they bring successful new products to the market with their enthusiasm for innovation. This allows us as a company to grow ever faster and more sustainably.

At Beiersdorf, we want to be an attractive employer all around the world. We enable working conditions that boost the performance, commitment, and satisfaction of all employees. Alongside talent development and lifelong learning, we are also investing in the international and cross-functional experience of our employees.

Participation and dialogue on an equal footing is an integral part of our culture. We want to allow our employees to actively shape the working world of tomorrow in a multitude of ways. One major project in the reporting year that put a particular emphasis on employee participation was the future Beiersdorf campus. The new Group headquarters in Hamburg-Eimsbüttel are due to be completed in 2021 and will contain around 3,000 state-of-the-art workstations and an expanded research center.

Women and men from different nations, cultures, and generations work with us at Beiersdorf. We want to systematically promote this diversity and harness the benefits it provides. Different perspectives make us more innovative and competitive and allow us to better understand consumer needs.

tesa

tesa is one of the world's leading manufacturers of self-adhesive products and system solutions for industrial customers and consumers. tesa SE is a wholly owned subsidiary of Beiersdorf Aktiengesellschaft and is the direct or indirect parent company of the 64 tesa affiliates (previous year: 52).

tesa expanded its product range and boosted its market position in 2018 with three acquisitions. In March, tesa acquired the Twinlock product division from Polymount International BV, based in Nijkerk, the Netherlands. This strengthened tesa's position in the market for flexographic printing, a mainstay of the industrial business. The acquisition of Functional Coatings, Inc., based in Newburyport, Massachusetts, United States, expanded the range for the construction and building supplies industry. With the acquisition of FormFormForm Ltd., based in London, United Kingdom, along with its kneadable glue Sugru, tesa reinforced its self-adhesive product business for consumers and its market position in this area.

DIRECT INDUSTRIES

In the Direct Industries division tesa supplies specialized system solutions directly to industrial customers, especially in the electronics, printing and paper, building and construction, and automotive industries. The strategic focus is primarily on developing and expanding profitable business lines in technologically advanced fields of application. tesa's system solutions are used to optimize and enhance the efficiency of production processes, as customized protection and packaging systems, and as fastening solutions in construction-related applications.

tesa also offers innovative solutions with flexible uses to protect products from tampering and counterfeiting. One key technology in this area, which is the responsibility of tesa scribos GmbH, is tesa ValiGate®. This consists of a printed product marking, an algorithm that enables fully automated verification of the authenticity of original products, and newly developed, product-linked Web and app solutions.

Another promising business area that tesa is developing for the future is being handled by tesa Labtec GmbH. This tesa affiliate develops and manufactures transdermal therapeutic systems (medicated patches) as well as buccal films (medicated films that allow direct uptake of drugs through the oral mucosa) for the pharmaceutical industry.

TRADE MARKETS

The Trade Markets division encompasses those markets in which tesa supplies end customers with market-driven products via retail partners or retail-like channels rather than directly. This segment includes the product ranges aimed at private consumers and craftsmen as well as adhesive tapes that are intended for commercial customers and marketed primarily via the technical trade.

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

In the Consumer & Craftsmen business area, which concentrates on markets in Europe and Latin America, tesa markets more than 300 innovative product solutions for application in energy saving, renovation, assembly, repair, packaging, and insect protection. The Craftsmen business area focuses on tailor-made product ranges for professional tradesmen as well as on the development and implementation of marketing concepts tailored to target groups.

MANAGEMENT AND CONTROL

The Executive Board manages the company and is dedicated to sustainably increasing its value. In addition to the functional areas of responsibility within the Executive Board, there are regional areas of responsibility. The Executive Board is closely involved in the company's operational business in particular through the allocation of responsibilities for the regions and markets. A breakdown of the Executive Board's areas of responsibility can be found in the chapter "Beiersdorf AG Boards" of the Notes to the Consolidated Financial Statements. The tesa Business Segment is managed as an independent subgroup.

Information on the remuneration of the Executive and Supervisory Boards as well as on incentive and bonus systems is provided in the Remuneration Report, which forms part of the Combined Management Report. The Corporate Governance Statement of Beiersdorf AG and the Group in accordance with §§ 289f and 315d *Handelsgesetzbuch* (German Commercial Code, *HGB*) has been made publicly available on the company's website at WWW.BEIERSDORF.COM/CORPORATE_GOVERNANCE_STATEMENT. Additional information regarding management and control, the general management structure, and the Declaration of Compliance in accordance with § 161 *Aktengesetz* (German Stock Corporation Act, *AktG*) is also provided in the Corporate Governance Report.

VALUE MANAGEMENT AND PERFORMANCE MANAGEMENT SYSTEM

The goal of Beiersdorf's business activities is to sustainably increase the company's market share by achieving quality growth and, at the same time, to expand its earnings base. The long-term key performance indicators – organic sales growth* in conjunction with market share development, EBIT, and the EBIT margin before special factors (the ratio of EBIT to sales) – are derived from this. The aim is to generate internationally competitive returns through continuous investment in growth opportunities, systematic cost management, and the highly efficient use of resources.

The company has created an efficient management system in order to meet these strategic goals. Corporate management derives business performance targets for the individual units in the Group for the coming year from the Group's strategic business goals. This planning covers all segments and affiliates. Formal adoption by the Executive and Supervisory Board of the Group's planning for the following year is generally in the fall.

Actual key performance indicators are compared with target values and with the current forecast for the year as a whole at regular intervals during the fiscal year. These comparisons are used to manage the business in line with the objectives.

The tesa Business Segment forms a separate, independent unit within the Group. It is also managed on the basis of sales growth, the operating result (EBIT), and the EBIT margin.

In addition to the key financial performance indicators shown above, the company employs a number of non-financial indicators that are described in the chapters "Research and Development," "Sustainability," and "People at Beiersdorf" of the Combined Management Report.

Research and Development

Beiersdorf's business success has always been based on its research and development excellence. Our employees' specialist expertise, pioneering spirit, and dedication drive our strength in innovation and boost our company's competitiveness. Our aim is to generate ever more outstanding innovations and insights, and we therefore invest systematically in our research and development. To bring promising ideas to market as quickly as possible, we regularly evaluate our research activities and define clear focus areas.

Our research and development activities follow two different emphases in line with our two business segments:

- In the Consumer Business Segment, Beiersdorf develops innovative, high-quality skin care products. Our range aims to generate added value for the consumers who chose our products. Our research therefore anticipates future trends and the needs and wishes of consumers for innovative, effective, well-tolerated skin care solutions. Our research and development activities follow our vision of constantly reinventing skin care every day and everywhere.
- In the tesa Business Segment, the focus is on developing high-quality self-adhesive system and product solutions. Our research and development here aims to identify needs, respond flexibly to special requirements and market trends, and make our customers' workflows even more efficient and effective.

As of December 31, 2018, 1,389 people were employed in research and development at Beiersdorf worldwide (previous year: 1,290). Of this total, 850 (previous year: 797) worked in the Consumer Business Segment and 539 (previous year: 493) in the tesa Business Segment. In total, 7% of our employees at the company work in research and development.

Consumer RESEARCH AND DEVELOPMENT EXCELLENCE

Beiersdorf has built its global reputation on a strong tradition in skin care expertise. We have made it our mission to decode the skin's complex processes, research how certain substances interact with the human skin, and develop innovative new product formulations and solutions. With this work, we protect the innovative strength and dermatological expertise of our company.

* For the definition of organic sales growth refer to Significant Accounting Policies ("Notes to the Segment Reporting").

Our research and development has always set standards and created trendsetting innovations. This is the result of intensive basic research. In the reporting year, our research focused on the following areas:

- After ten years of pioneering work, Beiersdorf's researchers successfully launched an effective ingredient against irregular pigmentation of skin. The new ingredient Thiamidol®, for which Beiersdorf enjoys patent protection in important countries around the world, is clinically proven to reduce the production of melanin and gives the skin a more even complexion. This is a consumer demand that spans the globe with no exceptions. The research on this new active ingredient has already been published in two renowned scientific journals: the "Journal of Investigative Dermatology" (JID) and the "International Journal of Molecular Science" (IJMS), where it appeared on the front page.
- For more than 30 years, Beiersdorf has been committed to and intensively involved in the development of alternative testing methods. The ongoing development of innovative in vitro methods for the safe evaluation of our ingredients was a central focus of our research activities in 2018. Beiersdorf was one of the leading companies around the world involved in the development of OECD (Organisation for Economic Co-operation and Development) guidelines for non-animal assessment methods for cosmetic raw materials. Thus, various approaches for skin and eye irritations, phototoxicity, skin penetration, and skin sensitization have been systematically driven and partially already validated. Using the multi-organ-chip technology, Beiersdorf is also a pioneer in the industry. In 2018, as part of two studies in cooperation with the European association of the cosmetics industry (Cosmetics Europe) and others, we analyzed, evaluated, and published new approaches and methods for testing the safety of cosmetic formulations and ingredients.
- In collaboration with the German Cancer Research Center (Deutsches Krebsforschungszentrum, DKFZ), Beiersdorf has made new findings in basic cancer research. In a major study, for which a cutting-edge, powerful cluster computer was specially installed in the laboratory, the two partners put squamous cell carcinomas under the microscope. This variant of "white" skin cancer is one of the most common skin cancers and is caused by UV radiation. The research results prove that both actinic keratosis (a benign preliminary stage of the disease) and the squamous cell carcinoma "SCC" (the malignant type) can develop from two completely distinct and truly differentiated skin cells and can therefore be regarded as two subtypes of squamous cell carcinoma. These new findings enable a more precise diagnosis and therefore allow early use of specially tailored therapies. The results are also highly relevant for the cosmetics industry. For example, they enable novel protection methods for sun care products and the development of products for general skin cancer prevention.
- A key focus of Beiersdorf's research once again in 2018 was on further study of the mitochondrial metabolism of skin cells. This research focus, which dates back many years and led to the revolutionary introduction of the NIVEA brand's first Q10 skin care products in 1998, remains highly relevant to modern anti-aging skin care. Continuously, Beiersdorf's scientists work to further

improve our brands' Q10 products. The Q10 formula platform has been continuously enhanced through years of intensive research and development work by adding compatible and highly effective combination partners such as vitamin C and creatine. In cooperation with scientists from the University of Ancona, Italy, our research team demonstrated during the reporting year that a reduction in Q10 content has a decisive and probably causal relationship to the aging of skin cells – a finding that will enable innovative approaches to developing modern skin care products. In the Q10 anniversary year, two of our scientists took up an invitation by the International Coenzyme Q10 Association in New York to present the latest findings of Beiersdorf's Q10 skin research – which impressively shows that Beiersdorf continues to play a pioneering role in Q10 research.

- Together with the Belgian life sciences company S-Biomedic, Beiersdorf further intensified its research on the skin microbiome in the reporting year. Habitat to billions of helpful and harmful bacteria, this microbiome contributes to maintaining healthy skin. An imbalance of these bacteria, however, can lead to a variety of skin problems. The skin microbiome offers unparalleled opportunities for innovative cosmetic and dermatological products aimed at a range of skin disorders (e.g. acne). As part of the partnership with S-Biomedic, Beiersdorf has made an investment in the start-up amounting to single-digit millions of euros. The aim of the cooperation with S-Biomedic is to benefit from progress in biomedical research and deliver specific answers to unfulfilled consumer needs.

GLOBAL OPEN INNOVATION NETWORK

To increase its strength in innovation, Beiersdorf makes systematic use of cooperations and partnerships. We work with more than 300 different research institutes, universities, start-ups, and suppliers. This gives both sides access to complementary expertise and enables the leveraging of synergies. Since 2016, we have been gathering all "Open Innovation" activities under the "Pearlfinders – We Open Innovation" umbrella.

As in the previous years, we systematically expanded our "Open Innovation" network once again in 2018. Membership of the "Open Innovation" platform "Trusted Network" grew by a further 6%. "Trusted Network" has been a central component of our innovation strategy since 2011. The online network based on trust, fairness, and partnership gives external partners from all around the world access to our confidential scientific research topics and invites them to offer their own ideas and solutions.

KNOWLEDGE EXCHANGE WITH PHYSICIANS

During the reporting year, Beiersdorf continued and expanded its work with the Professor Paul Gerson Unna Akademie, founded in 2016. The academy is dedicated to the continuing and advanced training of physicians, especially clinic-based dermatologists and registered doctors in private practice. We are also working to intensify the dialogue between research and medical practice, thereby constantly increasing treatment successes for patients in the area of skin care. In 2018, we offered a total of 119 product-neutral and needs-oriented education courses with the Professor Paul Gerson Unna Akademie. These were largely eligible for CME (Continuing Medical Education) points as part of

mandatory continuing education for physicians. For the first time in the history of the Professor Paul Gerson Unna Akademie, we offered advanced training for Latin American and Eastern European dermatologists in Germany. For the 2019 fiscal year, we plan to expand this international work, for example in Italy.

CLOSENESS TO CONSUMERS AND MARKETS

Beiersdorf's global research and development presence is key to our success. The largest site in our research and development network is our skin research center in Hamburg, where we employed 673 researchers and developers as of December 31, 2018. Work here concentrates on new discoveries to provide even better support to the skin's own metabolic processes. Based on their results, the scientists in product development combine the various active ingredients into new and highly effective products that meet consumers' needs. As product quality, safety, and tolerability are the top priority for Beiersdorf, newly developed products are tested before market launch, both externally and at Beiersdorf's own test center within the skin research facility. A total of 580 studies with 17,000 participants were conducted at the Beiersdorf Test Center during the reporting period. Moreover, 1,160 studies with more than 26,000 participants were conducted internationally in 2018.

In addition to the large skin research center in Hamburg, we also have six international research and development sites. Our regional laboratories in Brazil, China, India, Japan, Mexico, and the United States enable us to respond to different cultural, climatic, and aesthetic conditions, and to develop products specifically for local needs and preferences.

INNOVATIONS

Innovation is one of our core competencies and thus a cornerstone of our business strategy. We have set ourselves the objective of continually introducing new products that deliver on the wishes of our consumers and generate added value. The following product launches were among the most important innovations in the reporting year:

- With the **NIVEA Sun UV Face** range, Beiersdorf has developed a set of facial care products that provide sun protection and are especially designed to meet the needs of facial skin. The light textures deliver moisture to the skin and offer immediate protection against UVA and UVB radiation. The range comprises **NIVEA Sun UV Face Shine Control** and **NIVEA Sun UV Face Anti-Age** and **Anti-Pigments** creams (SPF 30 and SPF 50).
- The new **NIVEA Cellular 3in1 Care Cushion** with SPF 15 leaves the skin moisturized for 24 hours, while light-coverage pigments adapt to the skin tone. The result: The skin looks even and radiant, and fine wrinkles are visibly reduced.
- **NIVEA MicellAIR® Skin Breath Professional Micellar Make-Up Remover** thoroughly cleanses the face and sensitive eye area without leaving greasy product residue behind. The unique MicellAIR® Complex and Black Tea Extract works like a magnet to efficiently catch stubborn, long-wearing make-up and mascara. The lightweight formula is suitable for face, eyes, and lips.

- With the **NIVEA Soft Mix Me** range, Beiersdorf has added three new mix-and-match fragrances to complement the popular NIVEA Soft moisturizing cream. Consumers can use the Chilled Oasis, Berry Charming, and Happy Exotic products individually, or mix them together to create their own personal scent. The product range designed for face, body, and hand care was specially developed for young women aged 14 to 29.

- The new **NIVEA Body Mousses** impress with their creamy, smooth, ultra-light texture. The fast-absorbing mousse with Deep Moisture Serum leaves the skin moisturized for 48 hours. Special ingredients and nourishing oils provide intensive care for the skin. NIVEA Body Mousse is available in four varieties. The innovative, tapered aerosol canister has earned the product two prestigious accolades: the German Packaging Award 2018 and the Innovation Award of the Aerosol & Dispensing Forum (ADF) in Paris.

- The **NIVEA MEN Deep range** is one of the strongest market launches for NIVEA MEN and was introduced worldwide in four categories in 2018: deodorant, face, body, and hair. The products provide freshness and a deep clean feeling and are based on new formulas - partly with the innovative ingredient charcoal. The new formulas, modern packaging design, and appealing fragrances are aimed primarily at younger consumers.

- The new **Eucerin pH5 Light Lotion** is a soft yet effective body moisturizer developed to make the skin more resilient and less sensitive to environmental triggers. The enhanced Eucerin pH Balance System with increased pH5 Citrate Buffer restores the skin's optimal pH. The moisturizer also contains 5% dexpanthenol, which stimulates the skin's regeneration and preserves its resilience. With its light texture, the novel formula is quickly absorbed without being greasy, and moisturizes intensively.

- Sunlight, hormonal changes, or skin aging can lead to hyperpigmentation of the skin (pigment spots). The new **Eucerin Anti-Pigment** range is based on Thiamidol®, a new anti-pigment ingredient developed and patented by Beiersdorf. The products become ever more effective with regular use. Hyperpigmentation is progressively reduced. There are four products in the range: a day cream, a night cream, a care concentrate, and a spot corrector.

- Following years of research and thanks to technological advancements, **La Prairie** introduced **Caviar Premier** in three products of the **Skin Caviar collection** in 2018. Remastered with this new caviar incarnation, **Skin Caviar Luxe Cream**, **Skin Caviar Luxe Cream Sheer** and **Skin Caviar Luxe Sleep Mask** offer a unique dimension of sensorial indulgence paired with never-before-seen lifting and firming. Skin appears more supported, tightened, and toned, with a heightened feeling of tautness and elasticity. Other new product launches from La Prairie were **Platinum Rare Cellular Night Elixir** (which supports the skin's natural regeneration for ultimate rejuvenation), **White Caviar Crème Extraordinaire** (a lavish cream that helps skin reach new levels of luminosity and evenness with extraordinary results), and **Skin Caviar Essence-in-Foundation** (a fluid, hydrating compact foundation infused with caviar water).

- The plaster brand Hansaplast has launched its first ointment formula on the market: the **Hansaplast Wound Healing Ointment**. The formula helps small wounds heal naturally and quickly, and is also suitable for damaged and irritated skin. Another new product, **Hansaplast Wound Spray**, provides anti-septic wound cleansing. With these innovations and the **Hansaplast range of plasters**, the brand offers all the products needed for optimal wound care in three simple steps: 1. Clean with the Hansaplast Wound Spray, 2. Protect with a plaster or dressing, 3. Heal with the Hansaplast Wound Healing Ointment.
- With the new **Labello Lips2Kiss** and **Nivea Crayon Color Lip Balm**, Beiersdorf has introduced vivid colors and a new way of applying lip care. The Color Lip Balm, available in five color tones, intensively cares for the lips – based on natural oils.
- The new **Doppelschutz Deo** range is the strongest deodorant range from **Hidrofugal** to date. Its powerful formula is doubly effective against heat- and stress-induced perspiration.

As a result of our regional research and development work, we launched the following tailor-made products, among others, on the market in the reporting year:

- In the Near East region, we introduced the **NIVEA MEN Duo** body deodorant. Considering the climate of the region, this “World’s 1st Dual Phase Body Deodorizer” is designed for long-lasting freshness and superior odor control.
- Another regional innovation for the Near East is the **NIVEA Face Cleansing range with rose water** which is one of the most popular ingredients in this region.

tesa

STRUCTURAL ADHESIVES

R&D at tesa in 2018 continued to focus on technologies for structural adhesives. In this context, tesa expanded its high-performance portfolio of technology components and developed a range of reactive adhesive tapes for selected leading applications. The company’s reactive adhesive tapes for automobile bodies passed the practical test with success. tesa also developed processing steps together with leading customers. One example is laser activation. The reactive adhesive tapes used in this application provide quick and precise bonding. The EU is supporting this research work.

DEVELOPMENT OF SPECIAL ADHESIVE MASSES

tesa also developed special adhesive masses in 2018. These were based on new acrylic polymers produced using specific innovative polymerization processes. The special adhesive masses are used, for example, in prototypes for flexible displays in the electronics industry. As they retain their bonding strength and visual properties even after being bent or folded many thousands of times, they are ideal for the next generation of display designs.

HIGH-PERFORMANCE ADHESIVE TAPES FOR SMARTPHONES

In 2018, tesa used extrusion technology, which avoids the use of solvents, to develop high-performance double-sided tapes for bonding components in smartphones. “Debonding on demand” requires adhesive tapes that have a high bonding strength but can also be easily removed without damage. Large manufacturers have already successfully tested the new adhesive tapes, which now offer even higher bonding strengths while being even easier to remove.

ENVIRONMENTALLY FRIENDLY ADHESIVE MASSES FOR INDUSTRY

Environmentally friendly adhesive masses that are water-soluble or based on dispersions also play an important role in development work. tesa has expanded this technology to new high-performance adhesive tapes. These are odor-free after bonding and do not release emissions. They are used for cable bandaging in automobiles as well as in the construction, furniture, and electronics industries. As a further focus in the reporting year, tesa successfully developed prototypes with backings made from recycled plastics and new adhesive masses.

STRONG ADHESIVES FOR BATTERIES

tesa made important progress in 2018 in developing technologies and adhesive tape solutions for adhesives in batteries used to power electric vehicles. The company has developed adhesive tapes that bind the battery cells and provide them with reliable electrical insulation before they are combined into battery modules. Manufacturers of battery systems have already tested the adhesive tapes with positive results. tesa also developed prototypes using new adhesive masses and backings that conduct away heat, provide electrical insulation, and ensure long-lasting strong adhesion. Such a robust adhesive is required for the high vibration load in the cars’ drive module.

NEW WALL-PLUG-FREE FASTENING SYSTEMS MADE OF SPECIAL ADHESIVES

Thanks to the acquisition of nie wieder bohren GmbH, tesa once again expanded its technology portfolio in 2017 to include patented wall-plug-free fastening systems consisting of special adhesives and adapters for everyday bathroom items. tesa succeeded in the reporting period in further improving storage stability and waterproofing for critical adhesives. It also developed prototypes for new applications by taking advantage of synergies with adhesive tape technologies.

For more information on research and development at Beiersdorf, please visit WWW.BEIERSDORF.COM/RESEARCH.

Sustainability*

Achieving a good balance between environmental protection, social responsibility, and economic success is at the heart of everything we do. It is deeply rooted in our corporate culture and integrated in our decision-making and business processes. We engage in an open dialog with our stakeholders – especially employees, suppliers, consumers, and non-governmental organizations (NGOs) – which is our standard practice as a responsible business.

Detailed information on our commitment to sustainability is available in our Sustainability Report, which will be published at WWW.BEIERSDORF.COM/SUSTAINABILITY_REVIEW.

Consumer

In 2012, we started our “We care.” sustainability strategy for the Consumer Business Segment. Based on three pillars, “Products,” “Planet,” and “People,” it covers the full spectrum of sustainability along our value chain – from raw material sourcing, to the health and safety of our employees, to our social commitment beyond the company. We regularly review our progress using environmental and social performance indicators to ensure that our engagement is truly effective, has a lasting impact, and supports our business strategy.

We implemented various measures throughout the company in all three areas – “Products,” “Planet,” and “People” – during the reporting period in order to achieve our sustainability targets.

PRODUCTS

We have clear targets for constantly making our products more environmentally friendly. By 2020, we aim to generate 50% of our global sales from products with an improved environmental impact compared to the base year 2011. As of the end of 2018 we have made a big step towards this target, reaching a minimum of 49% of sales. We will therefore set ambitious new objectives in this area in the coming fiscal year. A large proportion of our progress between 2017 and 2018 was the result of replacing many of our palm (kernel) oil-based raw materials with mass-balanced palm (kernel) oil derivatives.

Since 2011, we have based our palm (kernel) oil sourcing on the “RSPO Supply Chain Certification Standard.” We have managed to constantly increase our share of mass-balanced palm (kernel) oil since the first delivery of certified palm (kernel) oil in 2015. In the reporting year, this enabled us to cover around 63% of our demand for these raw materials using mass-balanced palm (kernel) oil. By 2020, we aim to substitute all palm (kernel) oil-based ingredients with sustainable, certified, and mass-balanced alternatives.

We are also focusing on the following strategic measures: transparency in the supply chain, traceability of our palm (kernel) oil-based raw materials, and improving cultivation methods. We launched our first project in West Kalimantan (Indonesia) in the reporting year, in which we are cooperating with the WWF to help smallholder farmers learn and practice sustainable palm (kernel) oil

cultivation. We work directly on the ground to help bring business practices and environmental protection in line, which will have the added benefit of improving the lives of the people living in the project area.

PLANET

As a globally operating, responsible company, our aim is to take all necessary measures to combat climate change and encourage a sparing and efficient use of resources. Whether saving water, avoiding waste, or reducing energy consumption, we work on sustainable solutions at every level to bring our business activities into harmony with the needs of nature and the environment. In 2017, we set ourselves a new climate target for our “Planet” field of activity. We want to reduce our energy-related CO₂ emissions per manufactured product by 70% by the year 2025 (base year 2014).

The gradual global transition to using renewably generated electricity at all our sites by 2020 is a cornerstone of our climate strategy, as are further energy efficiency measures in our production centers. With this action, we aim to ensure achievement of our targets by 2025. In the 2018 reporting year, we reduced our emissions per product by 59%. Moreover, 81% of the electricity we purchased globally already came from renewable sources.

In 2015, we committed ourselves to the goal of “Zero Waste to Landfill.” Our distribution centers in the United States and Canada ended landfill disposal in the reporting year. This means that the “Zero waste to landfill” goal has now been achieved at 16 out of 17 production sites and 21 distribution sites.

We are also committed, in all business segments and processes, to consistently identify opportunities to minimize water consumption and thus the volume of wastewater, and are implementing measures to do so. At our plant in Mexico, for example, we further improved the reverse osmosis facility in 2018. This reduces water losses during processing and generates significant water savings.

PEOPLE

The wellbeing of our employees is a special priority for us and part and parcel of our “We care.” sustainability strategy. We are convinced that a healthy and attractive working environment with diverse development opportunities is fundamental to the success of our business. Based on our core value “Care,” we therefore offer a variety of health and safety initiatives. We are also committed to fair working conditions and transparent, respectful cooperation with all suppliers and partners along the value chain.

In 2015, we initiated “Zero Accidents,” a program designed to help reduce potential risks in the workplace. This has been a success: the accident rate continued to fall also in 2018.

We also actively work beyond our company grounds to sustainably improve the situation of our fellow citizens. This is the ambitious target behind our “People” commitment: by 2020 we aim to reach and improve the lives of one million families.

* This section of the Combined Management Report is not subject to audit requirements.

We use two tools to pursue this ambitious commitment: the social sponsoring activities of our brands and our corporate philanthropy. Since 2013, we have already reached 961,936 families via our commitment. We are proud of this achievement and can confirm that we will have reached our quantitative target by 2020.

An insight into the social projects we carried out in 2018 along with further information on sustainability at Beiersdorf can be found at WWW.BEIERSDORF.COM/SUSTAINABILITY.

tesa **RESPONSIBILITY**

Corporate responsibility is key to generating sustainable added value at tesa. Climate protection, responsible use of resources, and occupational health and safety are therefore an active part of our corporate culture and business processes. Moreover, civic engagement is firmly anchored in tesa's corporate values.

CLIMATE AND ENVIRONMENTAL PROTECTION

tesa's primary environmental impact is the energy consumption at its production sites. The focus is therefore on reducing CO₂ emissions. Environmental management systems are used at all sites with a significant environmental impact in order to control environmental performance effectively. Seven production sites and tesa's Global Headquarters now have an ISO 14001-certified environmental management system. Global Headquarters and the sites with the highest CO₂ emissions (Hamburg and Offenburg) additionally have an ISO 50001 certified energy management system.

With its environmental program, tesa has been setting company-wide targets to continuously reduce its environmental impact since 2001. The current target period applies to the years 2016 to 2020. Over this period, specific CO₂ emissions per metric ton of end product (location-based) are to be cut by a further 10% compared to the 2015 reference year. One strategic approach is the use of energy- and resource-saving technologies, such as efficient generation of the company's own energy through combined heat and power plants and the purchase of electricity from renewable sources. On the reporting date, the CO₂ emissions per tonne of end product were 8.3% lower than the reference year 2015 (location-based method).

With its waste and raw materials management, tesa aims to minimize losses of the raw materials used in production, to use materials efficiently, and to recycle them whenever possible. Safe waste and hazardous waste containing solvents is almost fully recycled. By 2020, tesa aims to cut the specific waste volume per tonne of end product by a further two percentage points in comparison with the 2015 reference year. As of the reporting date, we were on target Group-wide.

OCCUPATIONAL HEALTH AND SAFETY

To avoid work-related accidents and health hazards before they arise, prevention and raising awareness among staff are prioritized. The strategic aim is to reduce the number of accidents to zero.

Health and safety management is focused on production sites as these have a higher risk of accidents and health impairments than office locations. We employ our own safety specialists at all ISO 14001-certified sites. They are familiar both with tesa's global health and occupational safety guidelines and with local circumstances.

The frequency of accidents >3 days at tesa in 2018 was 1.9 per million hours worked globally. This was well below the German industry average of 11.6 (BG RCI).

CORPORATE CITIZENSHIP

We as a company want to look beyond our core business in making a positive contribution to society. As part of the tesa corporate citizenship strategy, we are focusing on three strategic core areas: social commitment, supporting education, and environmental protection. At project level, these are divided into the four pillars "tesa helps" and "tesa donates" (social), "tesa supports" (education), and "tesa protects" (environment).

We supported diverse projects around the world once again in 2018:

- The "tesa helps" initiative provides practical assistance to communities and supports social organizations with various projects at tesa locations. As part of the partnership with Hamburg's "tatkräftig – Hände für Hamburg" initiative, five teams with a total of 58 volunteers took part in projects for social and charitable organizations such as children's and youth centers, day care centers, and refugee accommodation in 2018. They got involved in games and craft activities, for example, as well as in gardening, decorating, and renovation.
- Since 2010, tesa staff in Slovakia have been supporting the "Deti Slovenska" (Children of Slovakia) foundation, which cares for children with hemophilia. Every year, a group of tesa employees organize an afternoon of fun and games for the children.
- "tesa donates" supports the work of a number of institutions with product donations and financial contributions. For example, staff can donate a small amount from their monthly salary and tesa then doubles this contribution. In 2018, we provided more than €7,500 of funding to the food bank Norderstedter Tafel e.V.
- As a technology-based company, tesa is very aware of the fundamental importance of education and qualified young people. That is why the company cooperates with the "Initiative Naturwissenschaft und Technik" (Science and Technology Initiative) under "tesa supports." In 2018, tesa offered students from various Hamburg secondary schools an insight into the everyday working life of scientists in the form of three STEM project days.
- The tesa plant in Suzhou, China, has been involved in the "tesa Sunshine Education Assistance" program for ten years. This aims to improve the elementary school education of the children of migrant workers. A total of about 630 children have already received a scholarship.
- tesa staff in China have been contributing to the "Million Tree Project" since 2015. In 2018, volunteers once again took part in a tree-planting campaign in Inner Mongolia.

More detailed information is available in the annual sustainability report at WWW.TESA.COM/RESPONSIBILITY.

People at Beiersdorf*

It is our employees who make us what we are as a company. At the same time, our business success reflects our good relationship with our employees. In fact, Beiersdorf's achievements as a company are thanks not only to their individual professional qualifications but also their commitment, to which their wellbeing is a significant contributor. These central ideas are firmly embedded in our Core Values and in our Roadmap 2020.

As of December 31, 2018, we employed 20,059 people worldwide, an increase of 5.9% compared with the previous year (18,934). Of this total, 6,676 (previous year: 6,281) were employed in Germany, a share of 33%. A total of 15,142 people worked in the Consumer Business Segment (previous year: 14,477) and 4,917 at tesa (previous year: 4,457).

Consumer

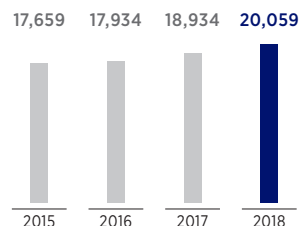
THE HEART OF GOOD HUMAN RESOURCES WORK: OUR PEOPLE AGENDA

Three years ago, as part of our Roadmap 2020, we established a program to put a spotlight on our employees and organization: the People Agenda. In the reporting year, we continued to work on the program's areas of strategic focus, as described briefly below:

- Employee engagement:** Employee engagement is a decisive factor in the way we do business. Since 2013, an annual, Group-wide employee survey has been our tool to identify where action is needed at team and organizational level. In 2018, we enhanced the questionnaire and used a faster and more flexible survey tool in selected regions. This is set to be rolled out globally in 2019.
- Lean structures and improved processes:** At the end of the reporting year, we established a new global tool to steer human resources work. This was another important step toward the digitalized future and established a much better technological basis for innovative HR operations. The online tool brings together all the relevant information about an employee and allows all processes relating to talent reviews, employee development, and training selection and booking to be combined centrally. It also creates greater transparency and a better overview for all parties involved: employees, managers, and Human Resources.
- Talent development:** A professional HR organization is the basis for the optimal development of our employees. We encourage the individual talent and potential of our staff, and offer all employees the opportunity to actively mold their career to their own abilities and interests. Our professional development provision includes programs for new talents, language courses, specialized training, and dedicated programs for managers. We aim to fill management positions with talented people from within our own ranks. To make this possible, we systematically prepare our employees for their new roles. In 2018, 75% of positions at the first management level (previous year: 75%, Roadmap 2020 target: 75%) and 80% at the second management level (previous year: 88%, Roadmap 2020 target: 90%) were awarded to internal candidates.

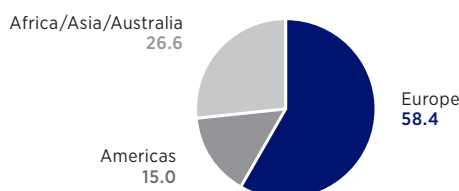
GROUP EMPLOYEES

as of Dec. 31



GROUP EMPLOYEES BY REGION (IN %)

as of Dec. 31; total 20,059 employees



To ensure a strong management pipeline and a high degree of transparency about the potential within the organization, we overhauled the talent review process in the reporting year, standardizing it around the world. All employees who are either outside collective agreements or in the top pay grade under a collective agreement can take part in this. They then receive additional personal feedback from their manager.

Beiersdorf uses various different methods for identifying new talents and helping their long-term development. In Hamburg alone, we trained 112 young people in nine occupations in the year under review. The value we place on approaching potential employees at an early stage is demonstrated by a special initiative that forms part of our recruitment work: the International Internship Challenge. In 2018, for the fifth year in a row, we invited the best 32 students from some 1,500 applicants living all around the world to a two-day career event at our Group headquarters in Hamburg. At the end of the challenge, four internships outside Germany were awarded in Brand Management & Digital Marketing, Sales & e-commerce, Supply Chain Management, and Finance & Controlling.

- Internationalization:** As a global company operating in many different cultural and economic contexts, we continuously invest in expanding the international and cross-functional experience of our employees. Employees from 100 countries worked at Beiersdorf as of the end of the reporting year (previous year: 98). 39% (previous year: 37%) of the managers from our top three management groups had lived and worked outside of their home countries for at least three years.

* This section of the Combined Management Report is not subject to audit requirements.

- **Leadership and learning:** We promote the talent and potential of our employees, which means that we are already addressing future needs today. Lifelong learning is more than just a catchphrase for us; it is instead essential to continuously keeping up with profound changes in the working world. We have therefore established a wide portfolio of training (see also “Knowledge and learning”). In addition to the culture of learning, good leadership is also a central aspect of our People Agenda. Our goal under our leadership concept is to develop leaders who are authentic and inspiring and who empower their team to outstanding achievements (see also “Leadership and employee engagement”).

NEW WORLD OF WORK – NEW WAYS OF WORKING

The working world is undergoing profound transformation. Digitalization, technological change, and the volatility of global markets call for one thing above all else from our employees and our business as a whole: the constant willingness to learn and adapt. As a company operating in many different countries worldwide, we are equipped to meet this need. We are supporting our employees to develop the necessary awareness of this change and encouraging them to integrate new working methods and learning techniques into their day-to-day work and to take a more connected and digital approach than ever before. We are thereby creating the basis today for our success tomorrow.

With the “We Shape the Way We Work” initiative, we implemented our global Agile Working strategy across the company in 2017. We forged ahead in the reporting year with this employee participation-based initiative, implementing and continuing measures that contribute toward the four areas of Agile Working:

- Work environment
- Knowledge and learning
- Leadership and employee engagement
- Participation in decision-making and company success

PART-TIME EMPLOYEES BY REGION (IN %)

	2017	2018
Europe	11	11
Americas	1	1
Africa/Asia/Australia	2	2
	7	7

Work environment

To recruit, develop, and retain qualified employees, we constantly work to increase our attractiveness as an employer. The main aim is to create a working culture and working conditions that boost the performance, commitment, and satisfaction of all employees.

We offer modern working conditions and a diverse range of flexible-working options that are built on trust. This helps our employees to work effectively and maintain a healthy work-life balance. 58% of our organizations (previous year: 56%) offer their employees to use flex time, 65% (previous year: 63%) mobile

working or home office, 48% (previous year: 45%) part-time working, and 21% (previous year: 21%) offer the opportunity to take sabbaticals. Alongside standard part-time working, job sharing (where two employees share the same position) has long been part of our culture, including at management level. Using the “two:share” in-house online platform, those interested in job sharing can set up a profile – anonymously if they prefer – and search for a suitable tandem partner. A special matching algorithm also actively suggests appropriate candidates (see also “Equal opportunities and diversity”).

We switched the first workstations to the new Office 365 technology in the reporting year. This was a big step toward the digital working world of the future, which will help us in the coming months to work together in an even more connected way and communicate more effectively. The global rollout of Office 365 is due to be completed in 2019. Apps such as “Teams” or “Yammer,” an internal Twitter-style service, will significantly change our ways of collaboration, making this more efficient.

The company's own health management, which is enhanced from year to year, is another important aspect in shaping Beiersdorf's reputation as an attractive employer. Our “good for me” program seeks to maintain the health and performance of our employees on a long-term and sustainable basis as well as encourage them to take initiative in staying healthy. Approximately 92% of Beiersdorf organizations worldwide offer health promotion measures (previous year: 82%).

Knowledge and learning

In today's fast-changing working world, the importance of lifelong learning is constantly increasing. We therefore systematically invest in the professional development of our employees and support their talents in an individualized and lasting way. This ensures that they can keep pace with the latest developments and have the skills they need now and in the future. In 2018, our employees in all regions once again benefited from the training provided by the Beiersdorf Academy. Alongside learning on the job and learning from colleagues, this forms the foundation for our continuous learning within the organization. The range of training programs with a total of 12 functional and cross-functional academy segments, including development opportunities for managers, digital competencies, and agile working methods, has further expanded. For example, sales, planning, and quality academies were added with completely new training concepts in 2018. The content of our training continues to mix theory with practical examples. Our constantly expanding range of online-based, virtual learning formats also gives our employees access to knowledge at any time and nurtures the habit of continuous learning.

Leadership and employee engagement

With “Leadership the Beiersdorf Way,” which we launched in 2017, we established our understanding of a good leadership culture at Beiersdorf. This is based on our Core Values of Care, Simplicity, Courage, and Trust. The aim of Leadership the Beiersdorf Way is to develop leaders who are authentic and inspiring and who empower their team to outstanding achievements. This approach aligns leadership partly with the perspective of those who are being led, thus increasing the acceptance and engagement of all employees.

Following the Beiersdorf philosophy, good managers set an example and drive the necessary processes of transformation within the company in a changing working world. Their approach encourages a combination of empowerment and depowerment. This means that managers transfer more decision-making powers to their employees (empowerment) and, for the sake of faster processes, step back from some areas where they previously made the decisions (depowerment). To develop these and other skills, Beiersdorf offers its managers diverse training options, including in collaboration with the renowned IMD Business School. Alongside tailor-made management development programs, the offering also includes open-enrollment programs. One of these programs "The First 90 Days," has been specially developed for managers who are taking on critical new roles, have been appointed from outside the company, or are taking a challenging step within Beiersdorf. The aim of the training is to diagnose the situation within the team, define strategic approaches, forge alliances, and define an action plan to provide successful input within the first 90 days. The program also provides a common framework for multiple managers who assume new roles at the same time.

Another area of emphasis for us is employee engagement. Since 2013, we have used an annual employee survey to promote open dialogue within teams. We encourage all employees to take the initiative in defining and implementing targeted measures based on the survey results. In 2018, we enhanced the survey and used a faster and more flexible survey tool in selected regions. The new survey platform, which is set to be rolled out globally for the next Group-wide survey in 2019, enables real-time feedback and mobile access.

Participation in decision-making and company success

Dialogue on an equal footing with employees is a reality at Beiersdorf. Our employees participate in key decision-making processes with a major influence on the success of our company. The close involvement of employee representatives is also part of our corporate culture. At the end of 2018, 56% (previous year: 51%) of our organizations worldwide had a works council, a union organization, or another form of employee representation, despite this being a legal requirement for only 45% (previous year: 37%) of our organizations.

Events at global and local level, such as town hall meetings, round tables, and online chats, offer our employees an opportunity to talk directly to the Executive Board and other senior managers at eye level. We also allow our employees to actively help shape the working world of tomorrow in a multitude of ways. One major project in the reporting year that put a particular emphasis on employee participation was the future Beiersdorf campus. The new Group headquarters at the company premises on Troplowitzstrasse, Hamburg, are due to be completed in 2021 and will contain approximately 3,000 state-of-the-art workstations. In addition to providing continual project updates and holding town hall meetings, the project team initiated various online surveys and an interactive platform, on which some 25% of the workforce in Hamburg contributed their own ideas and suggestions for the new campus. At the end of the initiative, all ideas were examined for feasibility and – depending on the result – integrated into further project planning. Alongside digitalization and sustainability, discussion centered particularly on desired employee services, the workplace of the future, and teamwork.

Equal opportunities and diversity

As a globally operating company, we regard the diversity of our workforce as a particular field of opportunity. Diversity is therefore a central element of our strategic orientation and helps to position Beiersdorf as an attractive employer. People from different nations, cultures, and generations and of all genders work with us at Beiersdorf. We want to systematically promote this diversity and harness the benefits it provides. Different perspectives make us more innovative and competitive, and allow us to better understand consumer needs.

As of December 31, 2018, we employed people from 100 countries around the world. At our Hamburg headquarters alone, the ratio of international employees increased to 17.1% (previous year: 16.5%). At the end of 2018, 39% of our managers in the top three levels of management had at least three years' experience of working abroad (previous year: 37%).

Alongside internationalization, gender diversity – equal professional development opportunities for men and women – has long been of the utmost importance to us. We have adjusted the gender diversity targets for Beiersdorf AG to be in line with German legislation after it was introduced in March 2015. Accordingly, we have been determining the achievement of these KPIs at the management reporting levels. The proportion of women at the first management level of Beiersdorf AG at the end of 2018 was 24% (previous year: 26%). At the second level, the proportion was 48% (previous year: 46%). Dessi Temperley, who took over as CFO with effect from July 1, 2018, became the first woman to join the Beiersdorf Executive Board. This development took Beiersdorf a major step closer toward its five-year goal formulated in summer 2017, which aims, by 2022, to raise the proportion of women to 10% on the Executive Board, 35% at the first management level, and 50% at the second management level.

GENDER DISTRIBUTION BY REGION

	male (in %)	female (in %)	Employees (total)
Germany	51	49	4,110
Europe (excl. Germany)	40	60	4,078
North America	33	67	352
South America	43	57	2,176
Africa/Asia/Australia	51	49	4,426
Worldwide	46	54	15,142

On a global level, we use the first three management groups as benchmarks. In the year under review, the proportion of women was 30% (previous year: 29%; target 2022: 35%).

La Prairie, too, promotes equal opportunities for men and women and placed great value on gender diversity in recruitment for the top level of management. The proportion of female executives as of December 31, 2018, was 38%, thus exceeding the 30% target.

Beiersdorf has taken a wide range of measures in recent years to achieve a balanced gender mix at all management levels. Since mid-2018, we have brought all these activities together under the umbrella of our global “enCourage” initiative. These efforts encompass various dimensions – onboarding, networking, personal development, and job and private life – and are not aimed solely at women. While some networks and development opportunities have been specially developed for female employees, others – such as measures for achieving a healthy work-life balance – are clearly aimed at the entire workforce.

Promoting job sharing is also important in this context. We enable job sharing at all levels, helping employees balance work and private life. At the end of the fiscal year, there were 19 job-sharing tandems at Beiersdorf in Germany. Eleven tandems performed management roles on a part-time basis. Our online platform two:share, established in November 2016, not only helps our employees look for a matching tandem partner, but also provides all Beiersdorf staff with comprehensive information about job sharing and helps with active networking. Beiersdorf is thus one of the pioneers among the DAX 30 companies where this model of agile working has become part of the corporate culture.

We also continued to promote age diversity in the reporting year. In the Consumer Business Segment in Germany, the proportion of employees aged over 50 rose from 31% in 2017 to 32%. The average age among employees as of December 31, 2018, was 42 (previous year: 42). A good mix of ages helps us take advantage of the strengths of different generations and avoid spikes in retirement.

Further information on people at Beiersdorf is available in our Sustainability Report, which also contains the summarized, separate non-financial report of the Beiersdorf Group (Consumer and tesa Business Segments) and of Beiersdorf AG in accordance with § 289b (3) Handelsgesetzbuch (German Commercial Code, HGB) in conjunction with § 315b (1), (3) HGB.

Additional information can be found at WWW.BEIERSDORF.COM/CAREER.

AGE STRUCTURE IN THE CONSUMER BUSINESS SEGMENT GERMANY (IN %)

	2017	2018
> 60 years	5	4
51 – 60 years	25	25
41 – 50 years	24	22
31 – 40 years	27	27
21 – 30 years	18	19
< 20 years	2	2

tesa

The training and commitment of its staff make a major contribution to tesa's business success, quality, and sustainability. Being an attractive employer is therefore a vital prerequisite for the company's ongoing positive performance. As one of the world's technology leaders in the field of technical adhesive tapes and adhesive system solutions, tesa relies on the recruitment and long-term retention of highly qualified staff.

PERSONNEL DEVELOPMENT

In 2018, tesa invested in advanced training and further attractive development opportunities for its staff. One focus was on training managers in order to give them new tools to facilitate them in their leadership tasks along with assistance in specific areas. With the “Sales and Marketing Qualification” development program, tesa focused in 2018 on pricing strategy. Therefore, the company tested various training methods and integrated these into regular training measures. tesa successfully completed the development and production of e-onboarding in 2018 and has made this available to all corporate units worldwide in two languages. tesa is making increasing use of e-learning and blended learning for knowledge transfer. These learning methods give employees the opportunity to acquire new knowledge anytime and anywhere. At the same time, face-to-face training still plays an important role. Alongside the employee appraisals based on the tesa competency model, annual talent management workshops are also becoming an increasingly important part of the development opportunities in the company.

LEADERSHIP CULTURE

Managers' ability to offer employees a motivating work environment and encourage them to express their talents is key to tesa's business success and its attractiveness as an employer. In 2018, tesa therefore further intensified the leadership program. Essential Leadership Training has been used across the board since the middle of the year. The aim is to give all managers worldwide the same understanding of leadership. The Advanced Leadership Training piloted in the previous year was completed in 2018 and is now available as a further module for tesa management training. It gives managers the opportunity to tackle particularly difficult leadership challenges and develop new solutions under the guidance of a trainer. Since 2018, short training units exploring leadership for new forms of collaboration have rounded off the program. These include leadership in a matrix and leading virtual teams.

ATTRACTIVE WORKING ENVIRONMENT

tesa is active in various areas to promote a safe and healthy working environment and boost the commitment and motivation of staff. Alongside leadership, development opportunities, and performance-related pay, factors such as occupational health and safety are increasingly influencing employee retention.

Investments in technical and occupational health and safety measures and training, along with a campaign to raise awareness, meant that the rate of work-related accidents was again considerably below the industry average in 2018. The corporate health management scheme "It's for you" and the "tesa sport club" took a new approach in 2018 with a wide range of courses. From health check-ups to back-strengthening training programs and physiotherapy, employees can take advantage of an interdisciplinary offering.

CONTINUOUS DIALOGUE

tesa regularly reviews its training and development portfolio with an anonymous employee survey. To meet the high need for information identified among employees, tesa organized an "HR Market Place" for the second time in 2018 to inform interested staff members about the various offerings and development opportunities. This was very well received, and it is planned to repeat the event in 2019.

Further information on the measures described can be found in the tesa Sustainability Report.

Economic Report

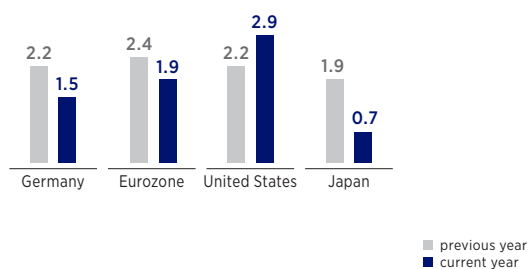
Economic Environment

General Economic Situation

After a strong first six months, the pace of growth in the **global economy** weakened over the remainder of 2018. This left the growth rate for the full year on a par with the previous year's level. The United States remained the growth driver, while Europe, China, and the emerging markets saw momentum slow again in the latter part of the year. Global growth was, however, bolstered by consumer

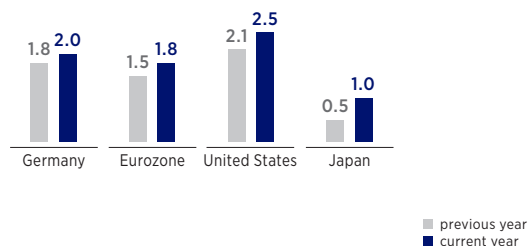
GROSS DOMESTIC PRODUCT (IN %)*

Change versus previous year



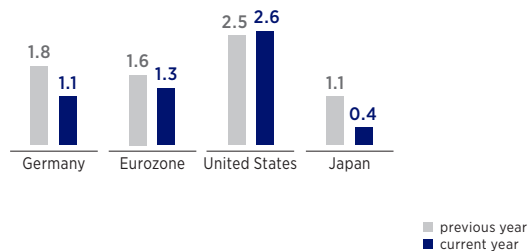
INFLATION RATE (IN %)*

Change versus previous year



CONSUMER SPENDING (IN %)*

Change versus previous year



* Commerzbank Research

spending and investment. The general political and economic uncertainty surrounding geopolitical conflicts, the unknown long-term consequences of the United Kingdom leaving the European Union (Brexit), and the future political direction of the United States put the brakes on global economic growth in the second half of the year.

Economic growth in **Europe** increasingly lost momentum in 2018 due to lower global demand and a heavily export-dependent economy. The ongoing threat of trade disputes and the appreciation of the Euro led to lower growth, especially in the three biggest Eurozone member states (Germany, France, and Italy). Consumer spending and the willingness to invest, boosted by the positive trend in the labor market and continued low interest rates, were the key factors supporting growth. Nevertheless, political uncertainty remained high due to separatist conflicts in Spain, the proliferation of anti-European movements, and the difficult exit negotiations with the United Kingdom.

Economic growth in **Germany** lost momentum compared with the previous year, but continued to rest on strong fundamentals. Once again, the main growth drivers were consumer spending, backed by wage growth and the continued strong labor market, as well as investments generated by the favorable financing conditions under the European Central Bank's (ECB) expansionary monetary policy.

In the **United States**, economic growth picked up in 2018, mainly due to tax cuts and substantially increased government spending. Growth was boosted by rising consumer spending on the back of the continued healthy labor market situation, and by investments.

In **Japan**, the moderate pace of growth was weakened by downturns in the first and third quarters, partly caused by natural disasters. Growth thus fell short of the previous year's level, but continued to be bolstered by companies' willingness to invest.

Emerging markets economies experienced varied degrees of growth. In **China**, the growth rate was slightly down on the previous year. Momentum was underpinned especially by fiscal policy stimulus. However, this only partly offset declines in production, particularly in the automotive sector, and weaker construction activities. In **India**, the economy expanded strongly following the weak performance in the previous year. General political uncertainty weighed on economic growth in the **Middle East**. A slight economic recovery continued in **Brazil**, where growth was on a par with the previous year. The political situation surrounding the elections in October hit growth, as did the strike by truck drivers in May. Sentiment improved following the elections in October. Corruption, lack of reform, and political uncertainty all negatively affected the economic situation. In **Russia**, economic growth was positive again in 2018 but gained little momentum. The Soccer World Cup did not provide as much tailwind as expected. Nevertheless, consumer spending and historically low inflation drove economic expansion. Ongoing international sanctions continued to put a heavy strain on the Russian economy.

Sales Market Trends

After a moderate performance in the first half of 2018, the global growth rate in the cosmetics market – the market relevant for Beiersdorf – rose over the remainder of the year, outperforming the previous year's level. Growth impetus came especially from North America, Asia, Africa, and Australia. The Middle East and Europe also saw positive growth, albeit at a relatively low level in the case of the latter region. Only in South America did the growth rate fall short of the previous year's figure.

For the tesa Business Segment, 2018 was marked by the subdued performance of the automotive sector. Production in Germany declined, while China and North America saw only muted growth. Southeast Asia and Eastern Europe were the growth drivers. Consumer electronics, especially smartphones and tablets, also saw a slight downward trend. Wearables (fitness bracelets and smart watches) provided a market boost. The packaging and construction industry also performed largely positively.

Procurement Market Trends

The situation on the commodity markets was generally tight. This was due to numerous supply bottlenecks as a result of force majeure combined with capacity shortages in the market for primary materials. The average oil price for 2018

as a whole considerably exceeded that seen in 2017. The purchasing volumes generated by our strong business performance improved our purchasing position. This, along with other accompanying measures, enabled us to cushion rises in the cost of raw materials.

Overall Assessment of the Economic Environment

Macroeconomic growth in 2018 was positive despite significant (geo)political and structural risks, and held steady at the prior-year level. The situation in the global cosmetics market improved overall, showing solid growth in 2018. However, many regions and markets posed specific challenges. Despite this challenging environment, the Consumer Business Segment increased its sales and outperformed the market as a whole.

In the automotive sector, which is important to tesa, and in consumer electronics, the economic environment was considerably more subdued in 2018 than in the previous year. Despite difficult market conditions, tesa once again achieved healthy sales growth. This was primarily thanks to its sales outperforming the market in consumer electronics, particularly in Asia, and to the continuation of the positive trend in the automotive industry, especially in the United States. Up-and-coming categories such as wearables provided additional market stimulus, along with the packaging and construction industry.

Results of Operations

Results of Operations – Group

INCOME STATEMENT (IN € MILLION)

	2017	2018	Change in %*
Sales	7,056	7,233	2.5
Cost of goods sold	-2,910	-3,075	5.7
Gross profit	4,146	4,158	0.3
Marketing and selling expenses	-2,471	-2,484	0.5
Research and development expenses	-196	-211	7.6
General and administrative expenses	-395	-404	2.3
Other operating result (excluding special factors)	4	54	-
Operating result (EBIT, excluding special factors)	1,088	1,113	2.3
Special factors	-	-16	-
Operating result (EBIT)	1,088	1,097	0.8
Financial result	-66	-49	-
Profit before tax	1,022	1,048	2.5
Income taxes	-333	-303	-8.9
Profit after tax	689	745	8.1

* Percentage changes are calculated based on thousands of euros.

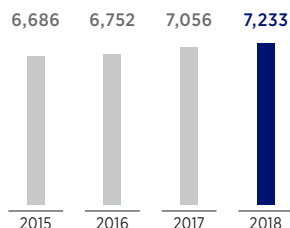
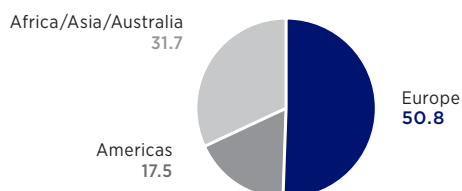
SALES

Organic Group sales in 2018 were up 5.4% on the previous year. The Consumer Business Segment grew by 5.0%. tesa achieved a 6.8% rise in sales. In nominal terms, Group sales rose by 2.5% as against the prior year to €7,233 million (previous year: €7,056 million).

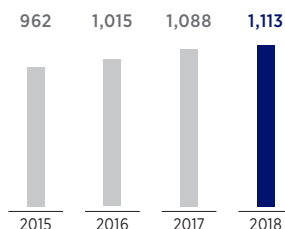
In **Europe**, organic sales were up 4.0% on the previous year. In nominal terms, sales stood at €3,673 million (previous year: €3,568 million), 2.9% higher than the prior-year figure.

Organic growth in the **Americas** amounted to 2.3%. Sales fell in nominal terms by 3.1% to €1,267 million (previous year: €1,307 million).

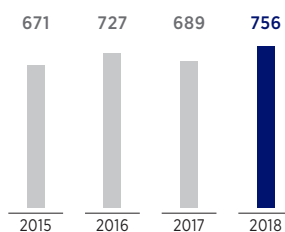
The **Africa/Asia/Australia** region reported organic growth of 9.4%. In nominal terms, growth of 5.1% to €2,293 million was recorded (previous year: €2,181 million).

GROUP SALES (IN € MILLION)**GROUP SALES BY REGION (IN %)****GROUP EBIT (IN € MILLION)**

Excluding special factors

**GROUP PROFIT AFTER TAX (IN € MILLION)**

Excluding special factors

**EXPENSES/OTHER OPERATING RESULT**

The **cost of goods sold** climbed by 5.7%, which was faster than the increase in sales. Price pressure on our sales and procurement markets, exchange rate effects, and changes in the product and country mix had a negative impact on the development of **gross profit**. This was offset by efficiency improvements in production, logistics, and purchasing.

Marketing and selling expenses increased slightly but at a lower rate than sales and amounted to €2,484 million (previous year: €2,471 million). The marketing budget was adjusted to the changed market conditions and especially the change in consumers' media use. A total of €1,532 million (previous year: €1,522 million) was spent on advertising and trade marketing. We further consolidated our market position by investing in marketing and sales in a number of countries, especially in emerging markets.

Research and development expenditure rose considerably and totaled €211 million (previous year: €196 million). This strengthened Beiersdorf's ability to respond to the requirements of consumers and customers and to develop innovative products and system solutions. **General and administrative expenses** rose in line with sales from €395 million to €404 million. They included the effects of regionalization through the foundation of new subsidiaries, the cost of the acquisitions at tesa, and expenditure on updating and securing our information systems. The **other operating result** (excluding special factors) improved to €54 million (previous year: €4 million). This was mainly due to higher proceeds from the sale of fixed assets, currency gains, and increased reversal of provisions.

OPERATING RESULT (EBIT, EXCLUDING SPECIAL FACTORS)

The Beiersdorf Group's results of operations are determined on the basis of the operating result (EBIT) excluding special factors. This figure is not part of IFRSs and should be treated merely as voluntary additional information. The special factors listed are one-time, non-operating transactions.

EBIT excluding special factors rose to €1,113 million (previous year: €1,088 million), while the EBIT margin was 15.4% (previous year: 15.4%). The Consumer Business Segment generated EBIT excluding special factors of €903 million (previous year: €881 million); the EBIT margin reached 15.3% (previous year: 15.2%). EBIT at tesa was €210 million (previous year: €207 million); the EBIT margin was 15.7% (previous year: 16.5%).

The Group operating result before special factors in **Europe** was €637 million (previous year: €628 million). The EBIT margin was 17.3% (previous year: 17.6%). The operating result before special factors in the **Americas** amounted to €132 million (previous year: €142 million). The EBIT margin was 10.4% (previous year: 10.9%). In **Africa/Asia/Australia**, EBIT excluding special factors amounted to €344 million (previous year: €318 million). The EBIT margin was 15.0% (previous year: 14.6%).

SPECIAL FACTORS

The special factors recognized consisted solely of extraordinary amortization of €16 million on a Chinese hair care brand. No special factors were recognized in 2017.

OPERATING RESULT (EBIT)

The operating result (EBIT) amounted to €1,097 million (previous year: €1,088 million). This corresponds to an EBIT margin of 15.2% (previous year: 15.4%).

FINANCIAL RESULT

The financial result amounted to €-49 million (previous year: €-66 million). The result was affected by losses in the value of financial assets and negative exchange rate effects.

INCOME TAXES

Income taxes amounted to €303 million (previous year: €333 million). This trend was attributable to the positive development of the position "prior-year taxes" and higher income from deferred taxes. The tax rate was 28.9% (previous year: 32.6%).

PROFIT AFTER TAX

Profit after tax was €745 million (previous year: €689 million); the return on sales after tax was 10.3% (previous year: 9.8%). Excluding special factors,

profit after tax amounted to €756 million (previous year: €689 million). The corresponding return on sales after tax was 10.5% (previous year: 9.8%).

EARNINGS PER SHARE - DIVIDENDS

Earnings per share were €3.21 (previous year: €2.96). Excluding special factors, earnings per share amounted to €3.26 (previous year: €2.96). These figures were calculated on the basis of the weighted number of shares bearing dividend rights (226,818,984). The Executive Board and Supervisory Board will propose a dividend of €0.70 per no-par value share bearing dividend rights to the Annual General Meeting (previous year: €0.70). For further information on the number, type, and notional value of the shares, please refer to Note 17 "Share Capital" in the notes to the consolidated financial statements.

Results of Operations – Business Segments

CONSUMER

SALES – CONSUMER BUSINESS SEGMENT (IN € MILLION)

	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2018	Change (in %)	
			nominal	organic
Europe	2,861	2,941	2.8	4.2
Western Europe	2,280	2,354	3.2	3.9
Eastern Europe	581	587	1.1	5.3
Americas	1,117	1,051	-5.9	1.1
North America	427	441	3.4	7.3
Latin America	690	610	-11.7	-2.8
Africa/Asia/Australia	1,821	1,898	4.2	8.8
Total	5,799	5,890	1.6	5.0

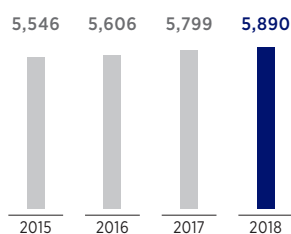
Sales in the **Consumer** Business Segment achieved organic, volume-driven growth of 5.0% in 2018. Exchange rate effects reduced sales by 3.4 percentage points. In nominal terms, sales therefore increased by 1.6% to €5,890 million (previous year: €5,799 million).

In the emerging markets, we gained market share with double-digit sales growth rates in some cases. NIVEA and the Derma business unit, which includes the Eucerin and Aquaphor brands, once again achieved healthy growth rates overall. Our La Prairie brand performed outstandingly this year.

Strong earnings in the Western European markets were further boosted. In North America, as well as in most of the emerging markets, results improved considerably. Increased investments led to losses in only a few countries.

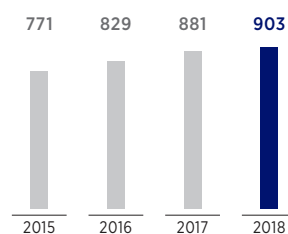
EBIT excluding special factors was €903 million (previous year: €881 million), while the corresponding EBIT margin rose to 15.3% (previous year: 15.2%).

CONSUMER SALES (IN € MILLION)

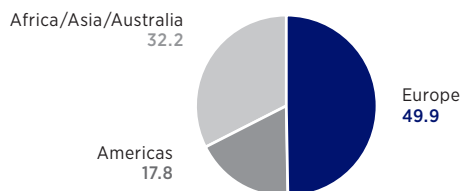


CONSUMER EBIT (IN € MILLION)

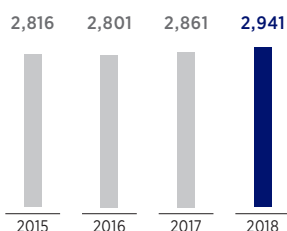
Excluding special factors



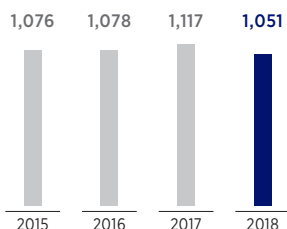
CONSUMER SALES BY REGION (IN %)



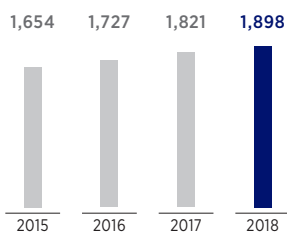
CONSUMER SALES IN EUROPE (IN € MILLION)



CONSUMER SALES IN THE AMERICAS (IN € MILLION)



CONSUMER SALES IN AFRICA/ASIA/AUSTRALIA (IN € MILLION)



NIVEA grew organically by 2.8% globally in 2018. The key growth drivers were NIVEA Body, NIVEA Shower, and NIVEA Sun. In these categories, NIVEA Body Pleasure, which was introduced in the previous year, as well as the newly launched NIVEA Body Mousses and the NIVEA Sun face care range, were significant growth drivers. Innovations, such as the NIVEA Deep range for men, and the face-cleansing NIVEA MicellAIR* Skin Expert range, contributed substantially to growth.

Overall, NIVEA maintained its strong position despite various challenges in the markets. In the NIVEA Body category, we extended our market share particularly in Saudi Arabia, India, and Mexico. For our NIVEA Shower category, especially Germany showed a positive development of market shares. In the NIVEA Deo category, market share gains were achieved in Indonesia, and Mexico. At country level, NIVEA achieved especially positive growth in market share in Germany, India, Saudi Arabia, and Mexico. A decline in market share was seen particularly in Thailand, Italy, and Poland.

The **Derma** business unit increased sales by 5.9%. Business developed very positively especially in the United States, Germany, and Thailand. Eucerin's main categories Body, Face, and Sun as well as Aquaphor played an especially large part in growth.

Sales in **Healthcare**, which includes the Hansaplast and Elastoplast brands, were down 1.8% on the previous year. This negative trend was attributable to the sports bandages product category in Australia and the economic crisis in Argentina. Meanwhile, the core wound care business performed positively, achieving gains in market share.

In the selective cosmetics segment, our **La Prairie** brand increased organic sales by an outstanding 38.5%. Growth came from higher sales in the travel retail business, especially at airports, and the Skin Caviar Collection with its core range (particularly Skin Caviar Liquid Lift). The newly launched Platinum Rare Cellular Night Elixir and White Caviar Crème Extraordinaire were also major growth drivers. Sales performed especially well in China, Hong Kong, Australia, and North America.

Organic sales in the **Europe** region grew by 4.2% year-on-year. In nominal terms, sales rose 2.8% to €2,941 million (previous year: €2,861 million).

In **Western Europe**, sales were up 3.9% on the previous year. Healthy growth rates were achieved especially in Germany and the United Kingdom. Sales in France and Greece, meanwhile, fell short of the previous year. Sales with NIVEA Shower, NIVEA Deo and NIVEA Sun developed well. The Derma segment also showed encouraging growth. Sales growth was significantly influenced by the very good performance of the La Prairie brand's travel retail business.

In **Eastern Europe**, sales were 5.3% higher than in the previous year. This increase was mainly driven by a very healthy performance in Russia, Poland, Serbia, and Romania as well as by double-digit growth in Ukraine. NIVEA Deo, NIVEA Face, and NIVEA Universal Creams performed especially well. Eucerin also saw strong growth in the region.

Organic sales in the **Americas** region grew by 1.1% versus the prior-year level. At €1,051 million, nominal sales were down 5.9% year-on-year (previous year: €1,117 million).

Sales in **North America** climbed 7.3% compared with the previous year. NIVEA Body was especially successful. The Derma business unit and La Prairie both saw double-digit growth in the region.

In **Latin America**, sales were down 2.8% on the previous year. In a difficult market environment, sales in Argentina fell substantially short of the prior-year figure. This was also partly due to negative exchange rate effects. In Brazil, sales were slightly lower than in the previous year. Excellent growth was recorded in Mexico. NIVEA Body, NIVEA Universal Creams, NIVEA Shower, and NIVEA Men performed especially well.

The **Africa/Asia/Australia** region lifted sales by 8.8% compared with the previous year. In nominal terms, sales rose by 4.2% to €1,898 million (previous year: €1,821 million). Double-digit growth in India, Indonesia, and Turkey, as well as very good growth in Africa and a good development in Thailand, were the basis for this. In particular, NIVEA Deo, NIVEA Body, and NIVEA Face all performed very well. Eucerin and La Prairie posted double-digit growth rates.

tesa

SALES – tesa BUSINESS SEGMENT (IN € MILLION)

	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2018	Change (in %)	
			nominal	organic
Europe	707	732	3.5	3.2
Americas	190	216	13.5	9.7
Africa/Asia/Australia	360	395	9.6	12.3
Total	1,257	1,343	6.8	6.8

Sales in the **tesa** Business Segment increased by 6.8% in organic terms significantly in comparison with the previous year. Exchange rate effects decreased the rate of growth by 2.3 percentage points. At the same time acquisitions contributed to growth with 2.3 percentage points. In nominal terms, sales therefore also increased by 6.8% to €1,343 million (previous year: €1,257 million).

The trend in **Europe** was positive again in 2018, leading to organic sales growth of 3.2%. The business performed well in both Eastern and Western Europe. Sales increased in both the Trade Markets and Direct Industries divisions. tesa essentially acquired two companies in Europe in 2018 (tesa TL B.V., the Netherlands; FormFormForm Ltd., United Kingdom) with a sales contribution of approximately €12 million. At current exchange rates, tesa generated European sales of €732 million (previous year: €707 million). Europe's share of Group sales declined to 54.5% (previous year: 56.2%).

In the **Americas**, tesa generated sales growth of 9.7% in organic terms in 2018, particularly on the back of the positive performance of the automotive market in North America. In 2018, the tesa Group strengthened its position in the Americas by purchasing two operational companies (Functional Coatings LLC, United States; tesa TL LLC, United States) that contributed around €17 million to sales. Sales at current exchange rates rose by 13.5% to €216 million (previous year: €190 million). The region's share of Group sales increased to 16.1% (previous year: 15.2%).

Organic sales growth of 12.3% in the **Asia** region was buoyed up by the project business with products for the electronics industry. At current exchange rates, sales in the region were up 9.6%, from €360 million in the previous year to €395 million. The region's share of Group sales increased to 29.4% (previous year: 28.6%).

EBIT increased to €210 million (previous year: €207 million). The EBIT margin was 15.7% (previous year: 16.5%).

DIRECT INDUSTRIES

tesa's **Direct Industries** division recorded organic sales growth of 9.1%, with all regions contributing to the very positive sales trend. tesa achieved considerable growth in Asia, including through increased sales in project business with the electronics industry, as well as in the Americas. In nominal terms, sales rose by 10.1% to €798 million (previous year: €725 million). Acquisitions lifted sales by 3.7 percentage points. The share of the Direct Industries division in total sales was 59.5% (previous year: 57.7%).

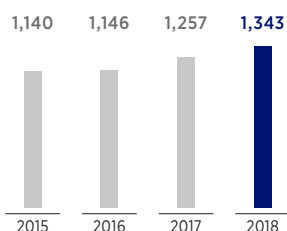
In consumer electronics, tesa once again recorded a sharp increase in sales in 2018 and further expanded its market position in the two key product categories: smartphones and tablets. The newly introduced acrylic foams for mounting displays and rear casings also successfully contributed to growth. With its new range of Optically Clear Adhesives, tesa won initial orders from renowned manufacturers of games consoles and e-reader displays.

In the automotive sector, tesa generated initial sales for battery-manufacturing applications in particular, and is thus successfully shaping current trends such as e-mobility and digitalization. The commissioning of a production facility for cable harness constructions in North America enables local customers to be served even more effectively.

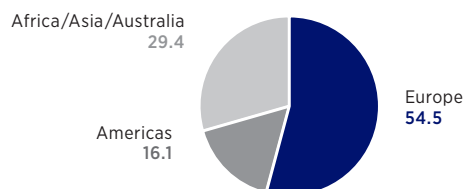
In the printing and paper business, tesa is expanding its activities in flexographic printing. In March 2018, it acquired the self-adhesive sleeves business Twinlock from the Dutch firm Polymount. This market is on an upward trajectory, allowing tesa to continue its growth path in this area. tesa also grew in 2018, even in saturated markets such as graphic papers. This was achieved through concerted modernization of existing standard ranges and active customer focus.

The portfolio of development projects in the pharmaceuticals business was also expanded further, fostering product innovations as part of the approval process. tesa won contracts for process development in the field of generics. This created a good basis for further product launches.

tesa SALES (IN € MILLION)

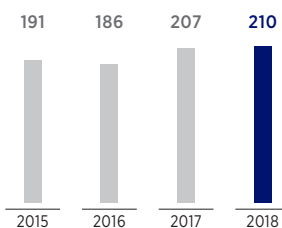


tesa SALES BY REGION (IN %)



tesa EBIT (IN € MILLION)

Excluding special factors



With tesa scribos®, tesa helps international brand owners digitalize their products. Product markings and customized Web and app solutions connect genuine products to the digital world. tesa has implemented innovative new developments in both areas, such as the digital gray market protection module and tesa ValiGate® marking. This allows retailers and consumers to automatically check whether a product is genuine using their smartphones.

In the building industry business area, tesa reaffirmed its growth path and gained further market share. Adhesives using ACXplus technology for doors and windows made a particular contribution to the strong growth. In the interior construction segment, dividing wall systems were well received by the market. With the acquisition of the US company Functional Coatings, LLC, tesa strengthened its market position in adhesive tape products for the construction and building supply industry in 2018, adding innovative adhesive tape and sealing products.

TRADE MARKETS

The **Trade Markets** division performed positively with organic sales growth of 3.8%. In nominal terms, sales improved by 2.3% to €539 million (previous year: €527 million). Acquisitions contributed to sales with 0.4 percentage points. The division thus accounted for 40.1% (previous year: 41.9%) of the tesa Business Segment's total sales in the reporting year.

tesa improved and expanded its range for the industrial distribution business. The development of new product categories, such as water-based acrylic transfer tape, also contributed to this. tesa also introduced a new temperature-resistant masking tape to the market, renewing a series of traditional products in the tesa range. In China, there was strong growth in e-commerce.

In General Industries, sales of high-quality, double-sided, specialist adhesive tapes for household devices developed particularly positively. Business with transport-securing tapes in North America, Asia, and Eastern Europe also recorded strong growth.

In the Consumer & Craftsmen segment, which concentrates on products for consumers and professional tradespeople in Europe and Latin America, tesa achieved further growth. The digital sales channels in particular outperformed the market.

tesa laid the foundations for further growth in its consumer business, not least through the acquisition of FormFormForm Ltd. The London-based company produces moldable glues under the Sugru brand and sells them to end customers primarily through digital channels. Product innovations and increased expertise in digital marketing are helping tesa to open up new markets and countries.

Since July 2018, tesa has been selling bathroom accessories under the tesa® brand, benefiting from the specific manufacturing expertise of the tesa affiliate nie wieder bohren GmbH. The highly effective tesa® smart mounting system, which was developed in-house and includes adhesive nails and screws, also continued to perform positively in its third year.

Net Assets

NET ASSETS - GROUP (IN € MILLION)

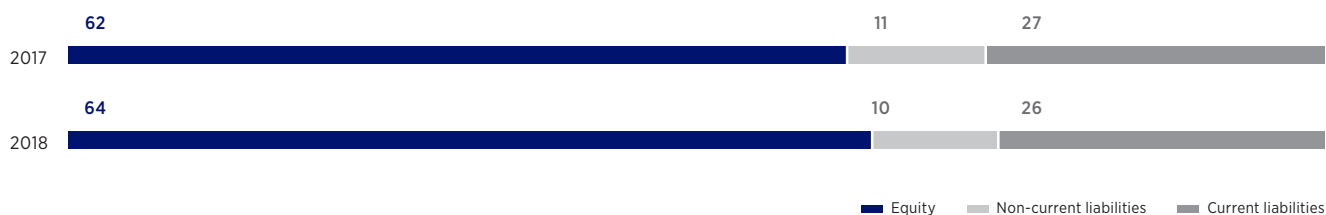
Assets	Dec. 31, 2017	Dec. 31, 2018
Non-current assets	3,926	4,301
Inventories	854	986
Other current assets	2,524	2,665
Cash and cash equivalents	901	919
	8,205	8,871
Equity and liabilities	Dec. 31, 2017	Dec. 31, 2018
Equity	5,125	5,647
Non-current provisions	780	801
Non-current liabilities	80	73
Current provisions	427	426
Current liabilities	1,793	1,924
	8,205	8,871

Non-current assets increased by €375 million to €4,301 million (previous year: €3,926 million). Long-term securities increased by €81 million to €2,613 million (previous year: €2,532 million). Capital expenditure on property, plant, and equipment, and intangible assets amounted to €358 million (previous year: €195 million). Of this amount, €320 million (previous year: €129 million) related to the Consumer Business Segment and €38 million (previous year: €66 million) to the tesa Business Segment. Capital expenditure primarily related to the plants of the two business segments, Consumer and tesa, as well as the construction of the new Group headquarters. The tesa acquisitions increased fixed assets by €105 million. Group depreciation, amortization, and impairment losses amounted to €165 million (previous year: €150 million). Inventories increased by €132 million to €986 million (previous year: €854 million). Other current assets increased to €2,665 million (previous year: €2,524 million). This item includes short-term securities of €889 million (previous year: €770 million). The increase in this position was largely attributable to increased investment of funds in short-term securities. Trade receivables rose by €68 million to €1,394 million (previous year: €1,326 million). Income tax receivables amounted to €108 million (previous year: €108 million), while other current assets fell by €11 million to €158 million.

Cash and cash equivalents increased to €919 million (previous year: €901 million). Net liquidity (cash, cash equivalents, and long- and short-term securities less current liabilities to banks) increased by €213 million to €4,402 million (previous year: €4,189 million). Current liabilities to banks rose by €4 million to €18 million (previous year: €14 million).

Total non-current provisions and liabilities stood at €874 million (previous year: €860 million). This item includes provisions for pensions and other post-employment benefits, which increased slightly to €677 million (previous year: €659 million). There was a related reduction in deferred tax liabilities to €64 million (previous year: €74 million). Total current provisions and liabilities rose by €130 million to €2,350 million (previous year: €2,220 million) as a result of an increase in trade payables due to operational factors. The equity ratio was 64% (previous year: 62%). Non-current liabilities accounted for 10% (previous year: 11%) and current liabilities for 26% (previous year: 27%).

FINANCING STRUCTURE (IN %)



Financial Position

CASH FLOW STATEMENT - GROUP (IN € MILLION)

	2017	2018
Gross cash flow	930	933
Change in net current assets	-19	-65
Net cash flow from operating activities	911	868
Net cash flow from investing activities	-633	-635
Free cash flow	278	233
Net cash flow from financing activities	-202	-210
Other changes	-47	-5
Net change in cash and cash equivalents	29	18
Cash and cash equivalents as of Jan. 1	872	901
Cash and cash equivalents as of Dec. 31	901	919

Gross cash flow amounted to €933 million in the period under review, up €3 million on the prior-year value.

The change in net current assets led to an outflow of €65 million (previous year: outflow of €19 million). The increase of €127 million in trade payables and current provisions were offset by a €132 million rise in inventories and a €60 million rise in receivables and other assets.

The net cash outflow from investing activities amounted to €635 million in the year under review (previous year: €633 million). Interest and other financial income received of €39 million and proceeds of €39 million from the sale of intangible assets and property, plant, and equipment were offset by net investments of €268 million in the purchase of securities as well as capital expenditure of €358 million for property, plant, and equipment, and intangible assets and payments of €87 million for acquisitions.

Free cash flow was €233 million, down by €45 million on the prior-year value (€278 million). The net cash outflow of €210 million from financing activities (previous year: €202 million) mainly comprised the Beiersdorf AG dividend payment of €159 million, and interest and other financial expenses paid in the amount of €51 million.

Cash and cash equivalents amounted to €919 million (previous year: €901 million).

FINANCING AND LIQUIDITY PROVISION

Hedging currency, interest rate, and default risks, and investing liquid assets are at the heart of financial management at Beiersdorf. Providing liquidity for the Group is also a paramount objective. The type and volume of transactions are in line with the basic operating and financial business. Scenarios and rolling 12-month cash flow planning are used to establish liquidity requirements. Details on financial risk management can be found in the notes to the balance sheet, Note 27.

Overall Assessment of the Group's Economic Position

Comparison of Actual and Forecast Business Developments

		Result in 2017	Forecast for 2018 in 2017 Annual Report	Forecast for 2018 in H1 2018 Report	Forecast for 2018 in 9M 2018 Quarterly Statement	Result in 2018
Sales growth (organic)						
Consumer (in %)		4.7	4 – 5	around 5	around 5	5.0
tesa (in %)		10.6	3 – 4	5 – 6	5 – 6	6.8
Group (in %)		5.7	around 4	around 5	around 5	5.4
EBIT margin (excluding special factors)						
Consumer (in %)		15.2	slightly above prior year	slightly above prior year	slightly above prior year	15.3
tesa (in %)		16.5	slightly below prior year	slightly below prior year	slightly below prior year	15.7
Group (in %)		15.4	at prior-year level	at prior-year level	at prior-year level	15.4

Business developments in 2018 showed that Beiersdorf is on the right path. The **Group's** two business segments performed well. The Group generated sales of €7,233 million (previous year: €7,056 million). Organic growth stood at 5.4% (previous year: 5.7%). EBIT excluding special factors reached €1,113 million (previous year: €1,088 million). The EBIT margin excluding special factors was 15.4% (previous year: 15.4%).

The **Consumer** Business Segment can look back on a solid 2018. We focused on leveraging the potential of our derma, healthcare, and selective brands Eucerin, Hansaplast, and La Prairie. La Prairie performed outstandingly over the year. NIVEA and Eucerin achieved good or very good growth rates in 2018.

With sales growth of 5.0%, Consumer met the increased forecast for fiscal year 2018. This growth came from both the saturated markets and emerging markets, and from all regions with the exception of Latin America. As forecast, the operating result (EBIT, excluding special factors) and EBIT margin were slightly up on the previous year.

The **tesa** Business Segment further expanded its business in both the Direct Industries division and the Trade Markets division, achieving substantial increases in sales. tesa increased sales by 6.8% in 2018, considerably exceeding the increased forecasts. This was especially thanks to the good performance in consumer electronics in Asia and the continuing positive trend in the automotive industry in the Americas. As forecast, the operating result (EBIT, excluding special factors) and EBIT margin were slightly down on the previous year.

Beiersdorf AG

Business activities

Beiersdorf AG is based in Hamburg (Germany) and is the parent company of the Beiersdorf Group. As of December 31, 2018, Beiersdorf AG employed 2,260 people (previous year: 2,102). The number of vocational trainees and trainees was 136 (previous year: 155).

Beiersdorf AG is responsible for the German consumer business and provides typical holding company services to its affiliates. In addition to its own operating activities, Beiersdorf AG manages an extensive investment portfolio and is the direct or indirect parent company of over 160 subsidiaries worldwide. The company also performs central planning/financial control, treasury, and human resources functions, as well as a large proportion of research and development activities for the consumer business.

Beiersdorf AG's operating business is only one part of the Beiersdorf Group's business activities. The company is managed on the basis of the key performance indicators outlined in the "Management and Control" section of the

Combined Management Report. It is only possible to gain a full insight into the key performance indicators at the level of the Group.

The net assets, financial position and results of operations of Beiersdorf AG are dominated by its own business activities and by the activities of its affiliates in the form of royalty income and dividend income. Consequently, the economic position of Beiersdorf AG essentially corresponds to that of the Group as a whole. Similarly, the opportunities and risks as well as the outlook for Beiersdorf AG correlate closely with those for the Group.

Basis of preparation of the financial statements

The annual financial statements of Beiersdorf AG are prepared in accordance with the provisions of the *Handelsgesetzbuch* (German Commercial Code, *HGB*) and the *Aktiengesetz* (German Stock Corporation Act, *AktG*). The recommendations of the German Corporate Governance Code that are relevant to the annual financial statements were taken into account.

Results of Operations Beiersdorf AG

INCOME STATEMENT – BEIERSDORF AG IN ACCORDANCE WITH HGB (IN € MILLION)

	2017	2018
Sales	1,229	1,262
Other operating income	27	38
Cost of materials	-278	-290
Personnel expenses	-252	-276
Depreciation and amortization of property, plant, and equipment, and intangible assets	-11	-11
Other operating expenses	-573	-575
Operating result	142	148
Net income from investments	226	230
Net interest expense	-15	-22
Other financial result	-45	-41
Financial result	166	167
Profit before tax	308	315
Income taxes	-65	-51
Profit after tax	243	264
Transfer to other retained earnings	-67	-88
Net retained profits	176	176

Beiersdorf AG's **sales** rose by €33 million to €1,262 million in the reporting year (previous year: €1,229 million). Product sales of NIVEA Deo, NIVEA Sun, and Hidrofugal were particularly encouraging. Sales of €966 million (previous year: €945 million) were generated in Germany and €296 million (previous year: €284 million) in other countries.

The **operating result** rose by €6 million to €148 million due to increased other operating income.

At €167 million, the **financial result** was slightly up €1 million on the previous year. This was due to an increase in net income from investments and an improved financial result from currency conversion. However, net interest income declined as a result of higher interest expense arising from a change in the discount rate for pension provisions.

At €315 million, **profit before tax** was up €7 million on the prior-year figure.

Profit after tax was €264 million (previous year: €243 million), an increase of €21 million on the previous year.

Net Assets and Financial Position – Beiersdorf AG

BALANCE SHEET – BEIERSDORF AG IN ACCORDANCE WITH HGB (IN € MILLION)

Assets	Dec. 31, 2017	Dec. 31, 2018
Intangible assets	1	1
Property, plant, and equipment	99	138
Financial assets	3,362	4,069
Fixed assets	3,462	4,208
Inventories	3	2
Receivables and other assets	612	772
Securities	1,517	1,116
Cash and cash equivalents	99	73
Current assets	2,231	1,963
Prepaid expenses	6	4
Deferred tax assets	26	43
	5,725	6,218
Equity and liabilities	Dec. 31, 2017	Dec. 31, 2018
Equity	2,629	2,735
Provisions for pensions and other post-employment benefits	486	522
Other provisions	294	283
Provisions	780	805
Liabilities	2,316	2,678
	5,725	6,218

Fixed assets saw a substantial year-on-year rise of €746 million. This increase was largely attributable to the acquisition of long-term government and corporate bonds. Investments of €49 million in property, plant, and equipment were accompanied by depreciation of €10 million.

Current assets declined by €268 million over the fiscal year to €1,963 million. This item includes short-term securities of €1,116 million (previous year: €1,517 million). The decline in this position is largely attributable to increased investment of funds in long-term securities. Receivables and other assets largely comprise financial receivables from affiliated companies.

Liabilities increased by €362 million year-on-year to €2,678 million. This was primarily attributable to higher financial liabilities to affiliated companies.

€2,735 million (previous year: €2,629 million) or 44% (previous year: 46%) of the total balance sheet assets of €6,218 million (previous year: €5,725 million) is financed by **equity**.

The Executive Board and Supervisory Board will propose a dividend of €0.70 per no-par value share bearing **dividend** rights to the Annual General Meeting (previous year: €0.70).

Risk Report

Risks and Opportunities

In the course of its business activities, the Beiersdorf Group is exposed to a multitude of risks. These result, among other things, from its activities that seek to develop and make use of opportunities to improve the company's competitiveness. Risks and opportunities encompass events and developments with a certain probability of occurrence that may have material negative or positive financial and non-financial effects on the achievement of the Beiersdorf Group's objectives. Beiersdorf uses an integrated risk and opportunity management system in order to identify and evaluate material risks at an early stage and to consistently limit them using counteractive measures.

Integrated Risk and Opportunity Management System

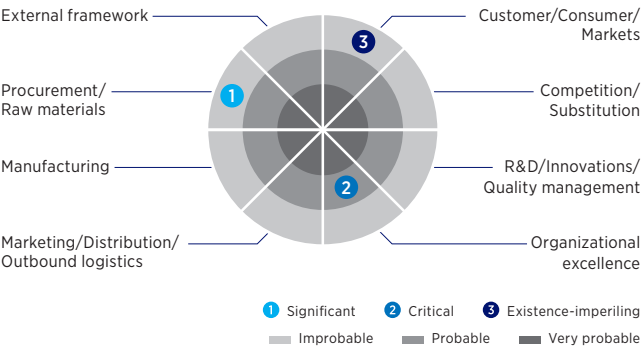
The risk and opportunity management system at Beiersdorf is an integral part of the central and decentral planning, management, and control processes in the individual companies, management units, and regions, at Consumer and tesa Business Segment levels, and at Group level. Risk and opportunity management is complemented by the accounting-related internal control systems, the various internal and external monitoring bodies – supported by Internal Audit – and external auditors. Compliance management, which is also relevant in this context, is described extensively in the separate Group Sustainability Report.

Risk and opportunity management is closely aligned with corporate strategy and helps Beiersdorf identify and make optimal use of its potential. Regularly analyzing customers and the competition, for example, enables a swift response to dynamic market developments. Specific market opportunities and risks are derived from the information obtained.

Beiersdorf incurs risks only if there is a corresponding opportunity for an appropriate increase in value, and only if they can be managed using established methods and measures within the relevant organization. In cases where the full avoidance of risks is not possible or reasonable, risks are mitigated using appropriate measures, or are transferred to third parties such as insurance companies.

BEIERSDORF RISK RADAR

Schematic diagram



Within the risk management process, periodical inventories are carried out to identify, evaluate, document, and subsequently communicate the material risks in a structured way along with the measures to manage these risks. The corresponding principles, reporting and feedback processes, as well as responsibilities are laid out in a directive that applies across the Group and is regularly updated. Risk management is coordinated at Group headquarters.

Beiersdorf distinguishes between strategic, functional, and operational risks. Strategic risks encompass fundamental frameworks, developments, and events that could have a substantial impact on the Group or its business segments. Functional risks are challenges inherent to the business model. The various specialist functions generally work at the global or regional level to counter these risks in a sustainable manner, with action relating to the design of operational and organizational structures as well as with specific individual measures. Operational risks and opportunities are those that may influence short-term sales and profits.

Appropriate observation periods are assigned to these risk categories. A period of up to five years generally applies for strategic risks. For functional risks, the period is up to two years as a rule, and for short-term operational risks around one year.

In the Group's internal risk reporting, individual risks are uniformly presented by positioning them on a risk radar. The various fields of the radar reflect, in summarized form, the relevant areas for the company both inside and outside the Group that may give rise to risks. The graph below (Beiersdorf Risk Radar) shows the structure of the risk radar for strategic risks.

For each category, the risks are also classified based on their probability and the potential financial impact of their occurrence. Except in the case of strategic risks, the risks examined are net risks, i.e. the probability of occurrence and the impacts are calculated after implementation of risk management measures.

The Executive and Supervisory Boards are regularly updated on the risk situation at Consumer and tesa Business Segment levels and at Group level. Direct lines of communication ensure that sudden, unforeseen material risks are reported

BEIERSDORF RISK CLASSIFICATION

	Probability of occurrence	Possible financial effects
Strategic risks	Improbable	Significant
	Probable	Critical
	Very probable	Existence-imperiling
Functional & operational risks	≤10%	Clustered based on sales and earnings impact
	>10% – ≤50%	
	>50% – ≤90%	
	>90%	

immediately to top management. The latest information on risk development is fed into the management and planning systems of the corporate units throughout the year and becomes part of the decision-making and control processes. By directly integrating the risk inventory and planning process, the risk management system is continuously developed further and risk awareness is embedded throughout the company.

Description of the Material Risks and Opportunities

STRATEGIC AND FUNCTIONAL RISKS

Maintaining and increasing the value of our major consumer brands with their broad appeal is of utmost importance to Beiersdorf's business development. The trust of our customers and, in particular, of the consumers of our products, is essential for this. We have designed our risk management system to fully justify this trust and to provide enduring, successful protection to the value of our brands. A wide range of measures enables us to categorize risks to the reputation of our brands as improbable.

Our compliance with high standards regarding the quality, safety, and environmental sustainability of our products and packaging is the basis for our consumers' continued trust in our brands. Our products are subject to the strict criteria of our quality management system throughout the entire procurement, production, and distribution process. When creating new products, we perform in-depth safety assessments, which also take consumer feedback on earlier products into account. As a result, we regard risks due to quality problems as unlikely to materialize and to involve, at most, limited, isolated cases.

With the aid of the "Consumer Insights" process, we promptly identify constantly changing consumer wishes and successfully reflect them in our product development. Direct communication with consumers via digital social media is becoming an increasingly important aspect of this. In response, we are comprehensively reviewing and re-orienting our use of media and marketing. However, we still regard the risks from changes in consumer behavior as critical and probable.

Strong brands that balance innovation and continuity and have a clear benefit for consumers are our response to the ever-intensifying global competition on price, cost, quality, and innovation. This response also counteracts the growing retail concentration and the increasing significance of rival brands at local and regional level, whose emergence we regard overall as critical and very probable.

Expertise-based brands that constantly provide consumers with relevant new products require a high degree of upfront investment in innovation and marketing. The continuous expansion of our trademark and patent portfolio is therefore of utmost importance. We protect our intellectual property proactively and comprehensively. By closely aligning the Group functions involved in this with the operational business, we identify commercial opportunities from our research and development activities at an early stage and safeguard them long-term using industrial property rights. Of course, we also acknowledge and respect existing third-party rights when developing our new products. In general, we regard the risk of third-party attacks on our trademarks or product names and the use of certain ingredients as critical and probable. At the same time, we are convinced that this will not significantly hinder us from continuing to introduce true innovations into the market.

Our management focus on the sustainable success of our market activities ensures that we invest in promising markets in terms of brands, products, and regions. Activities in this context range from the screening of new business fields and selective participation in start-ups to the establishment of new affiliates or partnerships in countries not previously covered. At the same time, we ensure that we are generating the funds needed for these activities in the long term. Without this management, we would regard the risk of investing also in less promising markets as critical and probable.

We counter procurement risks relating to delivery reliability and price for raw materials, commodities, and services by continuously monitoring our markets and suppliers and using appropriate contract management. Procurement strategies are reviewed regularly and adjusted to reflect internal and external requirements. Strategic partnerships are an important element of actively managing our supplier portfolio. Here, we take into account the growing global political and economic uncertainties by developing new business models that ensure lasting access to our procurement markets. We are particularly focusing on special local and regional supply chains. At the same time, the overall structure of our global production and logistics, which integrates suitable third-party suppliers, offers a high degree of flexibility in supplying our markets. In general, we regard the strategic and functional risks in this context as of average significance but rather improbable.

In order to further increase the security, availability, reliability, and efficiency of our IT systems against external and internal attacks, we had started a large-scale project last year. This project has a timeframe of several years and we have continued to pursue it as planned this year with various measures. In parallel, we have continued our efforts to establish a Group-wide business continuity management system that is integrated into our IT and business processes to secure operations at all times. Irrespective of these measures, we still categorize risks to Beiersdorf in connection with the setup and functionality of our IT as critical and rather probable.

Specifically in Europe and in advance of the General Data Protection Regulation that is mandatory since May 25, 2018, we took several measures to adapt our structural and process organization. These help us to ensure safe handling of our company's sensitive data as well as those of our business partners and consumers, such as when developing and using our social media presence or creating new software solutions. At the same time, they allow us to implement the increased information and documentation requirements.

Alongside this, we counter our internal compliance risk and the further growing external compliance risks by providing clear rules of conduct and transparent management structures, accompanied by comprehensive training and monitoring activities, such as for protecting the confidentiality of internal data. Finally, occupational safety, environmental, and business interruption risks in our production and logistics activities are minimized by process control checks and location-specific audits. We generally regard risks in these areas as less significant and relatively improbable.

Partnerships and other contacts with universities enable us to build early links to qualified potential new employees, for whom we have special trainee programs to prepare them for a career at Beiersdorf. Our uniform global talent management process identifies and develops talented specialists and manage-

ment personnel at all levels and supports the appointment of qualified staff in key positions throughout the company as these become vacant. Risks in the context of our global recruitment activities remain an insignificant issue for us.

We counter the risk of bad debts through detailed monitoring of our customer relationships, active receivables management, and the selective use of trade credit insurance. Currency, interest rate, and liquidity risks are subject to active treasury management based on a global directive. They are managed and hedged centrally to a very large extent, taking into account the specific requirements for the organizational separation of the trading, settlement, and controlling functions.

Potential default risks relating to the investment of the Group's liquid funds are limited by only making investments with defined, reliable counterparties. Counterparty risk is monitored on the basis of ratings and the counterparties' liable capital, as well as continuously updated risk indicators. These parameters are used to determine maximum amounts for investments with partner banks and securities issuers (counterparty limits), which are compared regularly with the investments actually made throughout the Group. We have invested the majority of our liquidity in low-risk investments (such as government/corporate bonds and covered bonds). Thus we consider market risks from the investment of our free liquidity to be insignificant and relatively improbable.

Our financial risk management is characterized by the clear allocation of responsibilities, central rules for limiting financial risks as a matter of principle, and the conscious alignment of the instruments deployed with the requirements of our business activities. Specific, additional information on the extent of the currency, interest rate, default, and liquidity risks described above can be found in Note 27 of the notes to the consolidated financial statements, "Additional Disclosures on Financial Instruments, Financial Risk Management, and Derivative Financial Instruments."

SHORT-TERM OPERATIONAL RISKS AND OPPORTUNITIES

Operational risks and opportunities are continuously monitored as part of the financial planning, forecasting, and reporting process at the local, regional, and central level. This ensures that all sales and earnings effects regarded as relatively likely are directly and appropriately incorporated into our financial reporting, taking into account the measures implemented and planned (e.g. recognition of provisions).

This applies in particular to the risks associated with Brexit. Coordinated by a task force, we are working on all the relevant processes and preparing for a variety of scenarios. However, statements on the probability of their occurrence are not possible. The effects of Brexit – even an unregulated Brexit – on the business of our sales company in England, for example through higher customs duties or changes in exchange rates, are not considered to be critical for the Group as a whole. It is not possible to estimate the effects on the Group of the slowdown in economic development in Great Britain and Europe that would be caused by an unregulated Brexit.

In addition, a monthly review of key financial figures for the Group companies is conducted, led by the Group Controlling function together with Group Risk Management and Internal Audit. This is designed to enable potential critical developments to be addressed swiftly and precisely with those involved and corrective action to be initiated.

The net operational risks currently remaining arise from isolated legal and tax proceedings and from tax audits. Assessing the course and outcome of legal disputes is associated with considerable difficulties and uncertainty. Based on the information currently available, it is highly unlikely that these disputes will result in significant charges for the Group.

Further information and details on the extent of the risks described here can be found in Note 28 of the notes to the consolidated financial statements, "Contingent Liabilities, Other Financial Obligations, and Legal Risks."

Summary of the Risk Situation

Compared with the previous year, there has been no significant structural change in our assessment of the likelihood of occurrence and/or potential financial impact of the above risks and opportunities. Overall, even considering the updated estimations, there is no fundamental change to the risk situation. Based on the current assessment, the Beiersdorf Group is not exposed to any risks that could endanger its continued existence.

Accounting-Related Internal Control System

The aim of the accounting-related internal control system is to implement appropriate principles, procedures, and controls to ensure the correctness and reliability of accounting and financial reporting in the financial statements and management report of the Beiersdorf Group and Beiersdorf AG in line with the legal regulations and relevant accounting standards.

The scope and orientation of the internal control system have been shaped by the Executive Board based on the Group-specific requirements. The accounting-related internal control system consists of the following components: control environment, risk assessment process, control activities, information, communication, and monitoring.

An analysis was used to identify the items and positions containing the material risks for the financial statements. The underlying processes were then assigned to these. Preventive, monitoring, and detective measures designed to ensure security and control in accounting, information processing, and the operational functions have been defined Group-wide for these processes. Among other things, the measures include the separation of functions, manual and IT-based approval processes using the dual control principle, IT checks, access restrictions and authorization concepts for the IT system, and systems-based processes for handling Group accounting data.

Shared service centers provide uniform handling of the core accounting processes at Beiersdorf AG and most of its affiliates. Standardized IT systems are used to support financial reporting for the companies included in the consolidated financial statements and consolidation. Procedural instructions, standardized reporting formats, and IT-based reporting and consolidation processes support financial reporting.

The consolidated financial statements are based on accounting directives specified by Beiersdorf AG. These guidelines are updated on an ongoing basis through continuous analysis of the relevance and impact of changes in the regulatory environment.

The accounting process and compliance with the control requirements and accounting directives by the companies included in the consolidated financial statements are regularly reviewed.

It should be noted that even putting in place appropriate, effective systems does not guarantee the correct, complete, and timely recording of information in the accounts with absolute certainty. It is impossible to entirely rule out personal judgments, erroneous controls, criminal acts, or other circumstances. Should these occur, they could limit the effectiveness and reliability of the internal control system.

Independent Monitoring

The supervisory bodies and the Internal Audit department are integrated into the Beiersdorf Group's internal control system with audit activities that are independent of the Group's operations. Internal Audit systematically evaluates the integrity of financial accounting, the effectiveness of the accounting-related internal control system and of the risk and opportunity management system, and compliance. As a process-independent organizational unit, it uses a risk-based approach to reviewing the business processes, the systems and controls that have been put in place, as well as the financial accounting of transactions. The audit findings are used for ongoing enhancement of the company's management and of preventive and detective controls. In accordance with § 317 (4) HGB, the Group auditor also evaluates the effectiveness of the risk early warning and monitoring system. Internal Audit and the Group auditor regularly report the audit results to the supervisory bodies.

The Audit Committee of Beiersdorf AG monitors, in particular, the accounting process and the effectiveness of the internal control system, the risk management system, and the internal audit system.

Report on Expected Developments

Expected Macroeconomic Developments

For 2019, we expect **global economic growth** to fall short of the prior-year level as a result of the diminishing stimulus from the US tax reform, further trade restrictions, and a normalization of monetary policy in the United States. Geopolitical unrest, Eurosceptic movements in European countries, and uncertainty about the long-term consequences of Brexit as well as the future economic policy of the United States are continuing to generate uncertainty with regard to the development of the global economy.

In **Europe**, we expect growth falling slightly short of the prior-year level. Low interest rates and a slightly expansionary fiscal policy will continue to bolster growth, and production is expected to increase further – albeit at a more moderate pace than in the previous year. The long-term impact of Brexit, trade conflicts, Italian budgetary policy, and a possible change in course by the European Central Bank are a source of uncertainty.

In **Germany**, we anticipate further growth, though slightly below the previous year's level. However, investment and increased government spending are likely to be the key factors supporting growth. With a slightly rising inflation rate, consumer spending is likely to contribute to growth through further rises in employment and wages.

We expect a slightly reduced growth rate for the **US economy**, particularly given the interest rate hikes by the Federal Reserve and the ebbing fiscal stimulus in the wake of the 2018 tax cut. The potential impact of economic policy is difficult to predict.

In **Japan**, we expect a return to growth in 2019 despite a difficult 2018. A VAT rise is planned for the fall of 2019, which could lead consumers to bring purchases forward, followed by a downturn in consumption and short-term higher inflation. The continued expansionary monetary policy of the Bank of Japan will prop up growth.

In the **emerging markets**, we expect demand overall to be slightly weaker than in the previous year. For the **Chinese economy**, we expect growth to be slightly below the prior-year level, underpinned again by an expansionary fiscal policy. The risk of a depreciating renminbi, the continued high level of indebtedness in state-owned enterprises, and the impact of trade policy continue to cause uncertainty. In **India**, we expect growth to remain strong, albeit slightly below the previous year. In the **Middle East**, we expect trade barriers and other protectionist measures to continue to slow economic growth in the region. For the **Southeast Asian** emerging markets, we expect growth to be slightly down on the previous year's level due to lower growth in production and poorer financing conditions following the normalization of monetary policy in the United States. In **Brazil**, we expect the economy to stabilize further, with growth increasing year-on-year. This trend will be underpinned by consumer spending. There is uncertainty about the effectiveness of the new government's efforts to stimulate growth. In **Russia**, we anticipate growth slightly below the prior-year level, with no dynamic recovery for now.

Procurement Market Trends

The situation on the commodity markets is likely to remain tight in 2019. This is due to very volatile oil prices, partly as a result of the output reduction decided by the Organization of the Petroleum Exporting Countries (OPEC), and a host of political uncertainties such as the current trade dispute between the United States and China, the United States and the European Union, as well as Brexit. Limited refinery capacity, especially in the chemical industry, is also causing tight commodity markets. This means that prices are increasingly decoupling from base materials. Prices for natural preliminary raw materials appear to be stabilizing at their current low levels and could mitigate opposing trends.

Beiersdorf will continue to work intensively on programs to achieve lasting reductions in procurement costs. This includes continuously optimizing the overall cost structure of our products. On the whole, however, we expect the cost of materials to rise slightly in 2019.

Sales Market Trends

We believe that the global growth rate in the cosmetics market – the market relevant for Beiersdorf – will remain at the prior-year level in 2019. We expect only modest growth in the major European and North American markets. The emerging markets will contribute positively to the overall performance.

For tesa, we continue to expect largely stable sales trends in Europe, though political developments represent an element of unpredictability. In North America, we again expect a more positive development particularly from the automotive industry in 2019. After weak growth in 2018, we anticipate a mainly

positive trend in Latin America. In Asia, we anticipate moderate growth, which will be coupled very closely to the performance of the Chinese economy. Alongside the automotive segment, we also expect the electronics industry to stimulate growth again in the year ahead. Intense competition and the resulting pressure on prices are likely to put a damper on sales growth in both industries, however.

Our Market Opportunities

Market performance will remain mixed in 2019 and competition will continue to increase in some markets. With further key strategic steps and a new, expanded management team, we want to meet the challenges ahead of us to unlock Beiersdorf's potential and to be able to further deliver a sustainable growth. We see strong opportunities both in systematically expanding our presence in the emerging markets and in consolidating our position in European markets.

We will build on our sound financial structure and strong earnings position together with our dedicated and highly qualified employees to continue exploiting future opportunities with our internationally successful brand portfolio. Extensive research and development activities resulting in successful, consumer-driven innovations will be flanked by targeted marketing measures, strengthening our brand core and creating enduring confidence among our consumers.

tesa expects to bolster its market position with continued investment in research and development, and therefore in innovative products. The electronics industry in Asia remains an attractive business; however, its project-based nature still entails a high risk of volatility. tesa considers Automotive an important growth area among global customers. The ongoing economic recovery in the south of Europe will continue to have a positive impact on the development of the distribution and on consumer business.

Business Developments

Our assessment of business developments in the coming year is based on the above assumptions in conjunction with our specifically defined measures.

Beiersdorf anticipates sales growth in the **Consumer** Business Segment to outperform the market at 3–5% in fiscal year 2019. The EBIT margin from operations is expected to be in the range of 14.0–14.5%.

In the **tesa** Business Segment, we expect sales growth of 3–4% in 2019. The EBIT margin from operations is expected to be slightly below the prior-year level.

Based on the forecasts for the two business segments, we are expecting **Group** sales growth of around 3–5%. The consolidated EBIT margin from operations is expected to be around 14.5%.

We firmly believe we are well positioned for the future thanks to our internationally successful brand portfolio, our innovative and high-quality products, and our dedicated employees.

Hamburg, February 26, 2019
Beiersdorf AG

The Executive Board