Combined Management Report of Beiersdorf AG and the Group

According to § 315 (3) *HGB* **the management report of Beiersdorf AG** is combined with the group management report as risks and opportunities of the parent company, further business development, and activities in research and development are inseparably connected with the Group. Unless indicated differently, all figures and information in this combined management report relate to the Beiersdorf Group. Information on the parent company's business and economic environment are mentioned in a separate chapter.

The Beiersdorf Group consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, and include **the Beiersdorf AG financial statements** according to these standards for consolidation purposes. The individual financial statements of Beiersdorf AG are prepared according to German commercial law (German Commercial Code, *HGB*) and company law (German Stock Corporation Act, *AktG*).

Our research and development activities have led the field in skin and beauty care for 125 years. This know-how is the basis of outstanding innovations that will continue to give us a competitive edge in the future as well.

Business and Environment

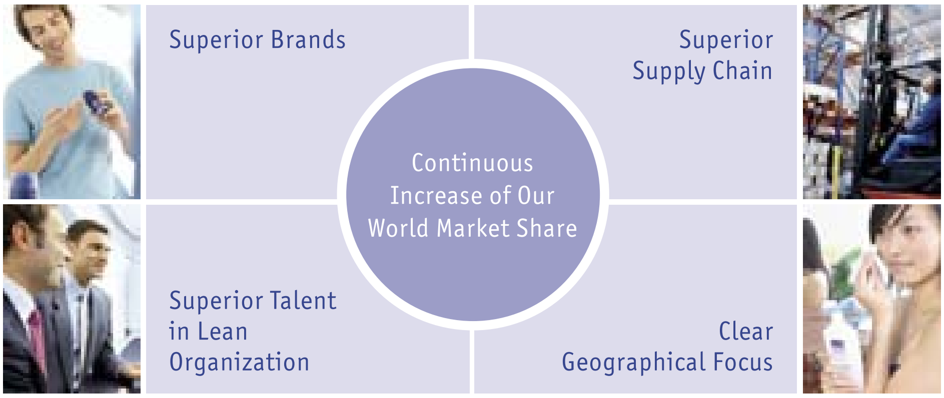
Beiersdorf is a leading international branded consumer goods company. We have been offering innovative products to meet consumer wishes for 125 years.

The main focus of our business is the Consumer business segment, which provides skin and beauty care for our consumers all over the world. Our tesa business segment develops state-of-the-art self-adhesive system and product solutions for industrial customers and consumers.

Consumer Business Segment

Our Consumer business segment concentrates on innovative skin and beauty care. Our strong brands such as NIVEA, the world's largest personal care brand, Eucerin, and la prairie convince and excite our consumers. We are successful internationally and are growing globally – forward-looking, fast, and close to people. More than 13,400 employees in over 100 affiliates across the globe meet consumer wishes for skin and beauty care. Our brands enjoy outstanding market positions in many countries and segments.

Our goal is to increase our market share through qualitative growth. At the same time we want to further improve our sound earnings performance. We aim to achieve these objectives by successfully implementing our "Passion for Success" Consumer Business Strategy. This strategy is based on four cornerstones:



- **Superior Brands:** Our innovation process enables us to develop fewer but more significant and better product innovations and deliver them to the market even faster. Showing excellence at the point-of-sale, the efficient use of our marketing and sales spend, and high-quality advertising reinforce our brands and distinguish them from the competition.
- **Superior Supply Chain:** Our Consumer Supply Chain manages all global activities centrally. We increase our product and service quality, offer our retail partners tailored solutions, deliver products to consumers even faster, and release financial resources that we invest in the growth of our strong brands.
- **Clear Geographical Focus:** We are growing globally. In addition to Western Europe, our focus is on regions in which we can achieve above-average growth rates, such as Asia, Eastern Europe, and Latin America, and in particular in China, Russia, Brazil, and India.
- **Superior Talent in Lean Organization:** We put more emphasis on performance orientation, promotion of change and innovation at all levels of the organization. We have clear central decision-making and direction with local top and bottom line responsibility.

The tesa Business Segment

The tesa business segment has been an independent affiliate within Beiersdorf since 2001. With over 3,700 employees and operations in more than 100 countries, tesa is one of the world's leading manufacturers of self-adhesive system and product solutions for industrial customers and consumers. It focuses on the electrical and electronics, automotive, as well as printing and paper industries. We are also developing new business areas with our forward-looking security solutions for protection against counterfeiting and manipulation and for product traceability.

Our industrial distribution business offers technical dealers innovative products for industrial customers.

Consumers can find more than 300 professional solutions for improving their quality of life at home, in the garden, and in the office in DIY centers, hypermarkets, and stationery shops.

Our activities are focused on our customers, for whom we develop effective solutions. We understand the needs of our industrial clients, distribution partners, and consumers and use this understanding to develop superior, market-driven products. The ongoing education of our employees and the continuous improvement of our business processes enable us to execute our solutions rapidly and efficiently. Reliable quality, a strong track record for innovation, and the use of superior technology are core elements of our brand philosophy and our success.

Management of our business activities on an international level focuses on the following factors:

- Expanding global structures in our industrial business with the aim of offering our customers across the world homogenous solutions of consistently high quality
- Expanding international structures in the consumer business with a focus on Europe, in particular Eastern Europe, to offer our retail partners internationally effective and market-driven assortments
- Ensuring uniform global quality standards while also incorporating environmentally friendly technology components

Management and Control

The Executive Board manages the Company and is dedicated to increasing its sustainable enterprise value. The areas of responsibility of the individual members of the Executive Board – brands, supply chain, finance, and human resources – reflect the Group's functional organization. The Chairman of the Executive Board is responsible at an overarching level for corporate development and corporate communication. In addition, the members of the Executive Board are responsible for developments in their regions. This means they are closely involved with operations at the Beiersdorf companies. The tesa business segment is managed as an independent subgroup.

The Supervisory Board advises the Executive Board on the management of the Company and cooperates closely with it for the benefit of the Company. It supervises the conduct of the Company's business within the framework laid down by law, the Articles of Association, and the bylaws as well as taking into consideration the recommendations the German Corporate Governance Codex, and is involved in decisions of fundamental importance.

Information on the remuneration of the Executive Board and the Supervisory Board is provided in the section entitled "Corporate Governance" in the Remuneration Report, which forms part of the annual and consolidated financial statements. Page 27

Value Management and Performance Management System

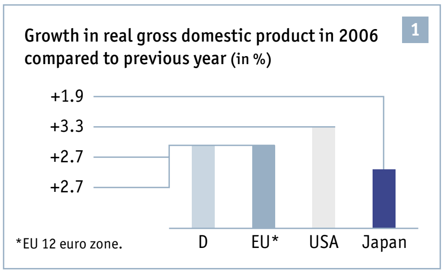
The goal of our business activities is to sustainably increase our market share in terms of qualitative growth and at the same time to expand our earnings base. Our key performance indicators are derived from this.

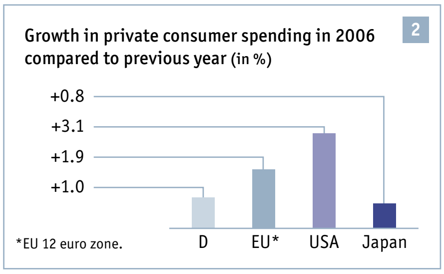
We want to grow faster than the market. We measure this in terms of the growth rates in our different regions, for which we have defined different growth targets. For example, the Consumer business segment is slated to grow by more than the average in the strategic markets of China, Russia, Brazil, and India.

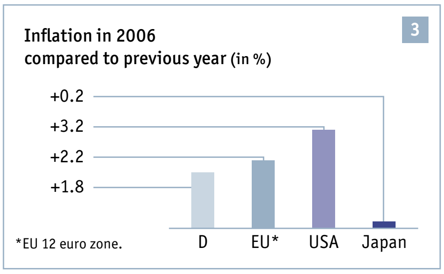
In addition to lifting sales, we want to increase the Group's earnings power disproportionately. This is measured using the operating result (EBIT) in conjunction with the EBIT margin (the ratio of EBIT to sales). We aim to generate internationally competitive returns through active cost management and the highly efficient use of resources.

In addition, we want to improve our return on equity (the ratio of EBIT to operating assets) through continuous optimization of our operating assets.

The tesa business segment forms a separate, independent unit within the Group. It is managed on the basis of the sales growth, EBIT, and EBIT margin performance indicators as well as the return on equity.







Economic Environment

General Economic Situation

1 2 3 The global economy recorded extremely sound growth overall in 2006. In particular the contribution to growth made by Germany and the rest of the euro zone was stronger than expected this year. In addition, the quality of growth improved due to an increase in domestic demand in each case.

The ongoing dynamic growth of the Chinese market, which recorded growth of approximately 10 %, was a key driver behind the rise of commodities prices. However, this did not have a lasting negative impact on global economic growth.

Growth in Latin America accelerated in 2006 to nearly 6 %, while in Eastern Europe it remained robust at a good 6 %.

US growth declined slightly as against 2005, while the Japanese economy recorded roughly the same growth rate as in the prior-year period.

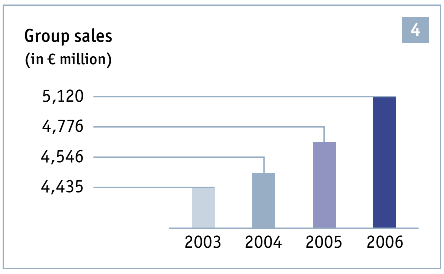
Sales Market Developments

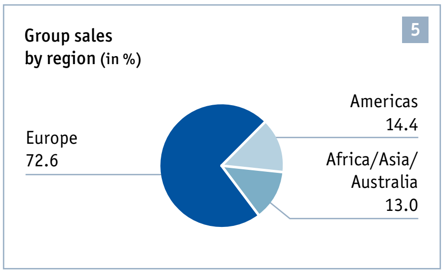
In 2006, the global cosmetics market grew by an average of approximately 3 % to 4 %, continuing its long-term growth trend. Once again, developments differed greatly from region to region. Despite some positive trends, there was no sustained improvement in the cosmetics market in the major markets of Western Europe and the United States. By contrast, the markets in Eastern Europe, Latin America, and Asia recorded above-average performance.

The adhesive tape market grew by around 4 % with clear regional differences. The electronics segments recorded strong growth rates in Asia in particular, the automotive sector generated an above-average growth, too, with regional different developments. Our consumer business was impacted by stagnating office supplies, and growth in the do-it-yourself markets could not be achieved in all countries.

Procurement Market

2006 saw the trend towards rising commodities prices continue unabated. This development was reinforced by a shortage of some raw materials. This led to suppliers demanding price increases. However, systematic application of our new procurement strategies, which we developed in 2005, enabled us to avoid significant increases in the cost of materials and procurement bottlenecks.





Results of Operations – Group

Income Statement – Group

Jan. 1–Dec. 31. (in € million)	2005	2006	% change
Sales	**4,776**	**5,120**	**7.2**
Cost of goods sold	–1,658	–1,736	4.7
Gross profit	**3,118**	**3,384**	**8.5**
Marketing and selling expenses	–2,200	–2,409	9.5
Research and development expenses	–109	–118	8.2
General and administrative expenses	–235	–245	4.2
Other operating result	–43	–15	–64.2
Operating result (EBIT, excluding special factors)	**531**	**597**	**12.2**
Expenses for the realignment of the Consumer Supply Chain	-	–120	-
Operating result (EBIT)	**531**	**477**	**–10.2**
Income from the sale of BSN medical	-	371	-
Other Financial result	4	3	–38.2
Profit before tax	**535**	**851**	**58.8**
Taxes on income	–200	–183	–8.7
Profit after tax	**335**	**668**	**99.1**

Changes in percent are calculated based on thousands of euros.

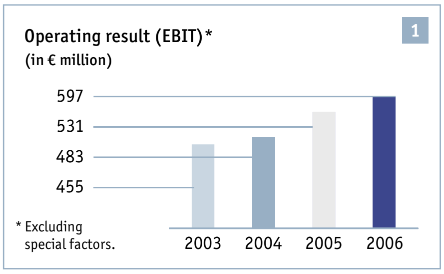
Sales

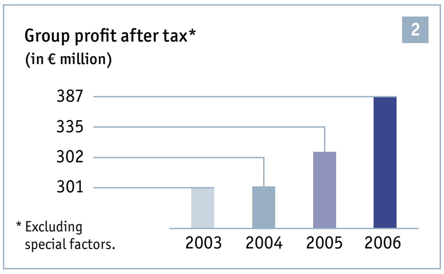
4 5 Adjusted for currency translation effects, Group sales increased by 7.3 %, outperforming our original expectations. Both business segments contributed positively to overall growth, with the Consumer business segment up 7.2 % and the tesa business segment up 8.2 %. At current exchange rates, Group sales rose by 7.2 % to €5,120 million.

In Europe we lifted sales by 6.1 % (adjusted for currency translation effects), thanks to successful new launches and supported by the economic upturn. At current exchange rates, we achieved growth of 6.2 % to €3,717 million.

Strong growth in Latin America was the main driver behind the trend in the Americas. In North America, our streamlining of the product ranges in the Consumer business segment had a negative effect on sales growth. Overall, sales in the Americas rose by 7.7 % (adjusted for currency translation effects). At current exchange rates, sales increased by 7.6 % to €738 million.

Sales growth in Africa/Asia/Australia remained extremely dynamic. The figure of 14.0 % growth (adjusted for currency translation effects) recorded for the region was extremely positive. At current exchange rates, we achieved growth of 12.5 % to €665 million.





Expenses/Other Operating Result

At +4.7 %, the cost of goods sold increased more slowly than sales. Increases in production efficiency and an improved product mix had a positive effect on costs.

At +9.5 %, our marketing and sales expenses rose faster than sales, due to the continued expansion of our international market positions. Spending on advertising, trade marketing, and similar items rose to €1,603 million, up 13.1 % on the figure for the previous year of €1,417 million.

We further strengthened our leading position in research and development, increasing our expenditure in this area by 8.2 % to €118 million.

As in previous years, general and administrative expenses again rose disproportionately slowly, by 4.2 %.

The other operating result amounted to €–15 million (previous year: €–43 million). The improvement is particularly caused by a €24 million decline in trademark amortization.

Operating Result (EBIT, Excluding Special Factors)

1 EBIT excluding special factors rose to €597 million (previous year: €531 million), while the EBIT margin increased to 11.7 % (previous year: 11.1 %). Both business segments contributed to this improvement: EBIT for the Consumer business segment climbed from €470 million in 2005 to €524 million, with the return on sales amounting to 12.1 % (previous year: 11.6 %). EBIT for the tesa business segment improved to €73 million (previous year: €61 million), while the return on sales was 9.2 % (previous year: 8.4 %).

In Europe we generated a result of €537 million (previous year: €465 million). The return on sales rose to 14.4 % (previous year: 13.3 %). The operating result in the Americas amounted to €20 million (previous year: €21 million). The return on sales amounted to 2.7 % (previous year: 3.0 %). EBIT in Africa/Asia/Australia was €40 million (previous year: €45 million), with the return on sales being 6.1 % (previous year: 7.7 %).

Expenses for the Realignment of the Consumer Supply Chain

In 2006, we started realigning our Consumer Supply Chain as previously announced. Expenses of €120 million were incurred during the fiscal year for implemented or initiated closures and consolidations of production and logistic locations. These mainly relate to expenses from impairment losses and asset disposals as well as personnel expenses. All in all, the project is scheduled to run for three years and will entail total expenditures of €220 million.

Operating Result (EBIT)

EBIT amounted to €477 million (previous year: €531 million). The return on sales was 9.3 % (previous year: 11.1 %).

NIVEA VISAGE DNAge, la prairie Anti-Aging Complex and Eucerin Hyaluron-Filler (from left) contributed to our sales growth.

Financial Result

Income of €371 million (after tax: €361 million) was generated by the sale of Beiersdorf's shares in BSN medical in February 2006. Other financial result amounted to €3 million. The absence of the investment income shown in this position in previous year (€20 million) was compensated by an improved interest income due to higher liquidity.

Taxes on Income

Taxes amounted to €183 million (previous year: €200 million). After adjustment for the special factors resulting from the sale of BSN medical and the expenses associated with the realignment of our Consumer Supply Chain, the effective tax rate amounted to 35.4 % (previous year: 37.4 %).

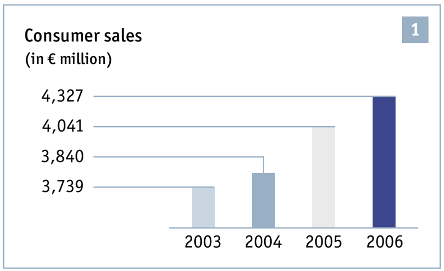
Profit After Tax

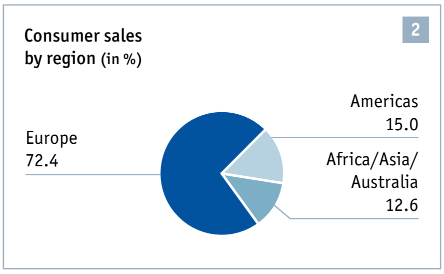
2 Profit after tax reached €668 million. After adjustment for the special factors associated with the expenses for the realignment of our Consumer Supply Chain (€80 million after tax) and the income from the sale of BSN medical (€361 million after tax), profit after tax was €387 million (previous year: €335 million). The return on sales after tax was 7.6 % (previous year: 7.0 %).

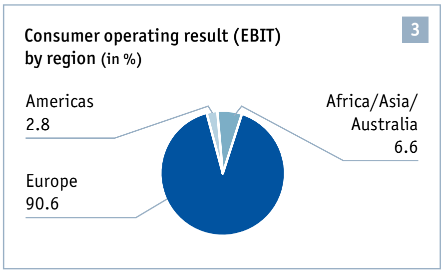
Earnings per Share/Dividends

Earnings per share increased to €2.93 (previous year: €1.45). After adjustment for special factors, earnings per share amounted to €1.69. These figures were calculated on the basis of the weighted number of shares carrying dividend rights (226,818,984).

The Executive Board and Supervisory Board will be proposing a dividend of €0.60 for each share carrying dividends (previous year: €0.57) to the Annual General Meeting.







Results of Operations – Business Segments

Consumer (in € million)	Europe	Americas	Africa/Asia/ Australia	**Total**
Sales 2006	3,134	647	546	4,327
Change (adjusted for currency translation effects)	6.0 %	7.5 %	14.0 %	7.2 %
Change (nominal)	6.1 %	7.6 %	12.4 %	7.1 %
EBIT 2006*	486	11	27	524
EBIT margin 2006*	15.5 %	1.8 %	4.9 %	12.1%
EBIT 2005	417	18	35	470
EBIT margin 2005	14.1 %	2.9 %	7.3 %	11.6 %

* Excluding expenses for the realignment of the Consumer Supply Chain (€120 million, exclusively in Europe).

1 2 3 In 2006, the Consumer business segment lifted sales by 7.2 %, adjusted for currency translation effects. At current exchange rates, we achieved growth of 7.1 % to €4,327 million (previous year: €4,041 million). This means we grew faster than the market and were able to increase our global market share. EBIT before adjustment for special factors climbed to €524 million (previous year: €470 million), while the corresponding EBIT margin rose to 12.1 % (previous year: 11.6 %).

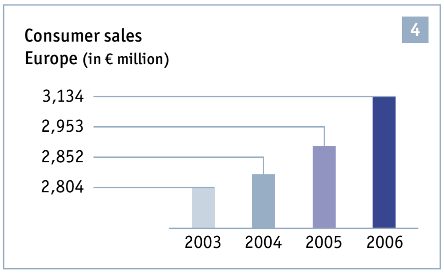
Our growth in the key European markets, which was extremely strong in some cases, was achieved both through the launch of innovations and through international relaunches of existing products, modified according to the latest findings from our research and development activities.

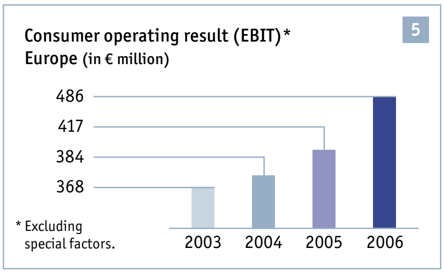
In 2006, NIVEA recorded global growth of 8.3 % (adjusted for currency translation effects). Sales rose in all regions. The key growth drivers were NIVEA SUN, NIVEA deodorant, NIVEA FOR MEN, and NIVEA body.

We met our targets for our Eucerin brand with double-digit growth in 2006. The brand recorded clear growth of 10.6 % (adjusted for currency translation effects). The products in the dry skin segment were particularly successful. The launch of the Eucerin Hyaluron-Filler face care product made an essential contribution to this result.

In the area of high-end authorized dealer cosmetics, the La Prairie Group again recorded disproportionately rapid growth of 9.7 % (adjusted for currency translation effects), with the launch of the innovative la prairie Anti-Aging Complex series playing a major role.

The Hansaplast/Elastoplast plaster brands lifted sales despite a flat market overall. Sales growth in Australia and by the UK/Ireland Group made a particular contribution to this result, while business in Germany, the USA, and Italy was weaker.





Consumer Sales in Europe

(in € million)	Germany	Western Europe (excluding Germany)	Eastern Europe	**Total**
Sales in 2006	1,010	1,697	427	3,134
Change (adjusted for currency translation effects)	0.1 %	6.8 %	18.8 %	6.0 %
Change (nominal)	0.1 %	6.6 %	20.8 %	6.1 %

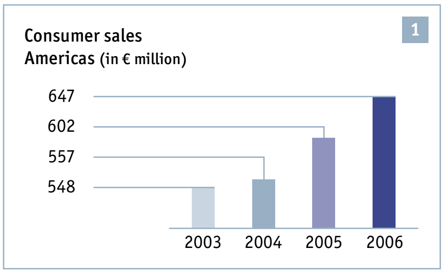
4 5 In Europe, we lifted sales by 6.0 % (adjusted for currency translation effects). At current exchange rates, sales increased by 6.1 % to €3,134 million (previous year: €2,953 million). EBIT for the Consumer business segment (excluding special factors) climbed from €417 million to €486 million, while the corresponding EBIT margin rose to 15.5 % (previous year: 14.1 %).

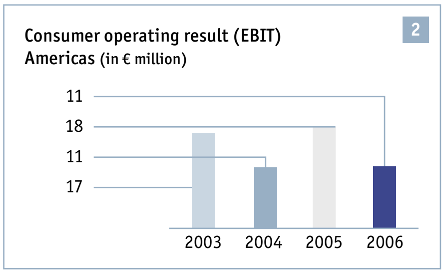
In Germany, sales rose slightly by 0.1 %. Sales generated by customers in Germany were up 2.0 % on the previous year. Sales of NIVEA SUN, NIVEA BEAUTÉ, and Eucerin performed well. In the case of Eucerin, the market launch of the Hyaluron-Filler made a major contribution to strong growth. The launch of our innovative NIVEA VISAGE DNAge also went extremely well.

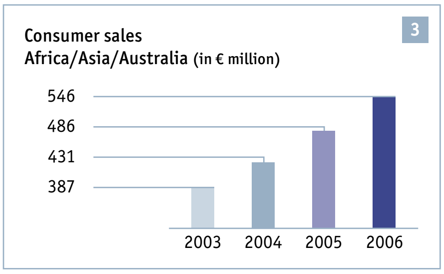
Exports from Germany to customers in countries where Beiersdorf does not have affiliates fell by 16.4 %, since Beiersdorf AG's export sales to the Middle East and the member countries of the Commonwealth of Independent States (CIS) were transferred to our affiliates in Dubai and Russia respectively at the beginning of the third quarter.

In Western Europe (excluding Germany), sales rose by 6.8 %. The UK/Ireland Group (+10.4 %), the Nordic Group (+9.8 %), and the La Prairie Group (+9.7 %) made significant contributions to growth. NIVEA SUN and NIVEA body, along with the cross-border launch of NIVEA body Good-bye Cellulite contributed particularly strongly to this positive development.

In Eastern Europe we again generated double-digit growth (18.8 %). In Russia, NIVEA FOR MEN, NIVEA deodorant, and NIVEA Hair Care were the main growth drivers. In Poland, sales of NIVEA VISAGE and NIVEA FOR MEN rose in particular. The launch of NIVEA Hair Care Styling was another success.







Consumer Sales in the Americas

(in € million)	North America	Latin America	**Total**
Sales in 2006	324	323	647
Change (adjusted for currency translation effect)	1.0 %	15.3 %	7.5 %
Change (nominal)	–0.4 %	16.9 %	7.6 %

1 2 In the Americas, sales grew by 7.5 % adjusted for currency translation effects (previous year: 3.2 %). At current exchange rates, sales climbed 7.6 % to €647 million (previous year: €602 million). EBIT was €11 million (previous year: €18 million), while the EBIT margin amounted to 1.8 % (previous year: 2.9 %).

Developments were dominated by strong growth in Latin America. In North America, our streamlining of the product ranges in the Consumer business segment had a negative effect on sales growth. However, sustained marketing measures and a strong performance by NIVEA FOR MEN and by the la prairie and Eucerin brands enabled us to maintain sales at prior-year levels.

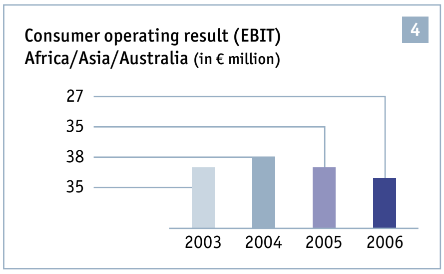
In Latin America we again recorded double-digit growth (15.3 %). In addition to the key markets of Brazil (+9.3 %) and Mexico (+12.0 %), our affiliates in Colombia (+53.1 %) and Venezuela (+36.1 %) made a particular contribution to this strong growth. NIVEA Bath Care, NIVEA SUN and NIVEA body reported the highest growth rates in this region.

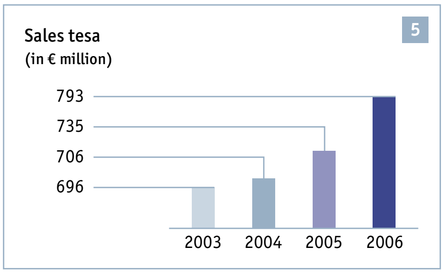
Consumer Sales in Africa/Asia/Australia

(in € million)	**Africa/Asia/ Australia**
Sales in 2006	546
Change (adjusted for currency translation effects)	14.0 %
Change (nominal)	12.4 %

3 4 Africa/Asia/Australia again achieved double-digit growth in 2006. Sales increased by 12.4 % to €546 million (previous year: €486 million). Adjusted for currency translation effects, growth amounted to 14.0 %. EBIT for the Consumer business segment amounted to €27 million (previous year: €35 million), while the EBIT margin was 4.9 % (previous year: 7.3 %).

At 45.7 %, growth in China was maintained at a high level. NIVEA VISAGE and NIVEA FOR MEN were particularly successful. Thailand recorded significant increases in market share (sales +16.8 %) in all segments, and extended NIVEA deodorant's market lead. Sales in Japan declined as against the previous year, since growth in NIVEA FOR MEN was unable to compensate for the decline in sales in the NIVEA body and NIVEA SUN segments. The market leader 8x4 also suffered a slight drop in sales on the Japanese deodorant market.





tesa (in € million)	Europe	Americas	Africa/ Asia/ Australia	**Total**
Sales in 2006	583	91	119	793
Change (adjusted for currency translation effects)	7.0 %	8.6 %	13.9 %	8.2 %
Change (nominal)	7.0 %	7.7 %	13.0 %	7.9 %
EBIT 2006	51	9	13	73
EBIT margin 2006	8.8 %	9.1 %	11.5 %	9.2 %
EBIT 2005	48	3	10	61
EBIT margin 2005	8.8 %	3.6 %	9.9 %	8.4 %

5 The tesa business segment continued systematically on its successful path. 2006 was another dynamic fiscal year. Sales rose by 8.2 %, adjusted for currency translation effects. At current exchange rates, sales climbed 7.9 % to €793 million (previous year: €735 million). EBIT rose to €73 million (previous year: €61 million), while the EBIT margin increased to 9.2 % (previous year: 8.4 %).

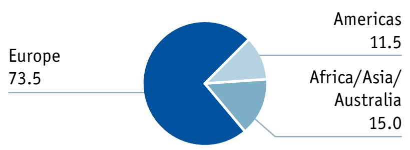
Both tesa's industrial business and its consumer business (which rose substantially as against the previous year in almost all regions) contributed to this positive development.

New products and applications for the electronics industry provided particular impetus for growth in our direct business with industrial customers. We successfully launched new doubled-sided adhesive foam tapes that are used in affixing glass frames for flatscreens. New products based on heat-activated films used to affix design elements to high-end cell phones met with strong market demand.

In the area of system solutions for the automotive industry, we added new variants to our globally successful product range for cable bundling and mounting, tesa Sleeve. These products can be used more cost-effectively in manufacturing than conventional felt and foam products. On the US market, we launched an innovative high-performance masking tape that enables reliable taping of large coverings and that was specially developed for painting trucks and buses. Automaker Ford awarded us its highest mark of distinction for quality, the Q1 Award.

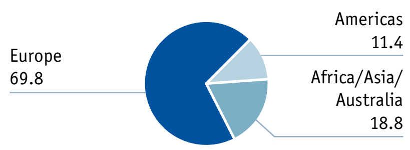
tesa sales by region (in %)

1



tesa operating result (EBIT) by region (in %)

2



We added a number of special products to our extremely successful range of splicing tapes for flying splices in the printing and paper industry, including EasySplice Headset Black, which enables optical splice management.

In the security applications area, we were able to gain new customers from the luxury goods and automotive supply industries, among others. These use our Holospot technology for counterfeit protection and product tracking. New product variants can be used even with surfaces that provide poor adhesion.

1 2 Our industrial distribution business, which is focused on Europe, offers a new range of anti-slip, warning, and marking tapes. These products help companies increase employee safety and comply with statutory safety regulations. We have also developed a new range of tapes for maintenance, repair, and painting in the marine and shipbuilding industry. The core product is a particularly weatherproof and long-lasting high-performance masking tape for outdoor use.

Sales and earnings in the consumer business rose substantially in all regions. Double-digit sales growth was recorded in Southwest Europe and, once again, in Eastern Europe. All major product categories, and especially our renovating, packaging, and sealing products and insect protection screens contributed to this dynamic development. The successful launch of a new standard range of fixed-mounted aluminum fly screens strengthened our expertise in product families for insect protection in the DIY sector. The introduction of a new range of double-sided adhesive tape for fixing heavy objects to interior and exterior walls was another major success. In the office products area, the adhesive and correction rollers, which were recently launched throughout Europe, were awarded the "Hamburger Designpreis" (Hamburg Design Prize). A new international TV campaign featuring all key product categories met with a keen response. One of our largest office supplies customers awarded us service prizes for being the best supplier in the Spain and Nordic region.

tesa offers compelling, innovative adhesive solutions for industrial customers and consumers.

Balance Sheet Structure – Group

Balance Sheet – Group

Assets (in € million)	Dec. 31, 2005	Dec. 31, 2006
Non-current assets	962	814
Inventories	536	548
Other current assets	926	904
Cash and cash equivalents	483	1,230
	2,907	3,496

Equity and Liabilities (in € million)	Dec. 31, 2005	Dec. 31, 2006
Equity	1,293	1,790
Non-current provisions	430	419
Non-current liabilities	171	128
Current provisions	407	469
Current liabilities	606	690
	2,907	3,496

As of December 31, 2006, non-current assets were down significantly as against the previous year. This is connected in particular with the realignment of our Consumer Supply Chain, which led to impairment losses being charged on, and the sale of, property, plant and equipment. Capital expenditure excluding financial assets amounted to €110 million (previous year: €126 million). €85 million of this figure was attributable to the Consumer business segment and €25 million to tesa. Inventories rose slightly, to €548 million. Due to the income from the sale of BSN medical and the good cash flow, cash and cash equivalents rose to €1,230 million. Net liquidity (cash and cash equivalents less current financial liabilities) rose from €409 million to €1,168 million.

The equity ratio increased to 51 % (previous year: 44 %). The share of non-current liabilities decreased to 16 % (previous year: 21 %), and the share of current liabilities to 33 % (previous year: 35 %). The reduction of non-current financial liabilities as well as lower deferred tax liabilities led to a decrease of non-current liabilities. Primarily caused by provisions related to the realignment of the Consumer Supply Chain, current provision rose by €62 million to €469 million. Current liabilities increased particularly due to higher trade liabilities.

Financing Structure

Financial Position – Group

Cash Flow Statement – Group

(in € million)	2005	2006
Cash and cash equivalents at the beginning of the year	**290**	**483**
Gross cash flow	435	427
Change in working capital	59	107
Net cash flow from operating activities	494	534
Net cash flow from investing activities	–52	417
Free cash flow	442	951
Change in other financing activities	–265	–194
Other changes	16	–10
Net change in cash and cash equivalents	193	747
Cash and cash equivalents at the end of the year	**483**	**1,230**

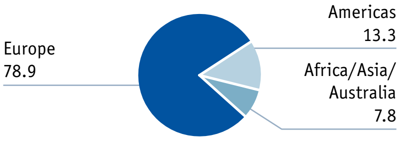
In 2006, the gross cash flow amounted to €427 million, €8 million below the prior-year value. The strong increase in the operating result had a positive influence; this was offset by payments related to the realignment of the Consumer Supply Chain. Changes in non-current provisions led to a positive impact of €47 million on the gross cash flow. Proceeds from changes of operating current assets rose by €48 million to €107 million. This was mainly due to the sharp increase in current liabilities and provisions. Net cash flow from operating activities reached €534 million in 2006 and therefore was €40 million higher than previous year.

Net cash flow from investing activities amounted to €417 million. The major part of €433 million results from the sale of BSN medical. Compared to the prior year, lower investments and higher gains on disposal of property, plant, and equipment led to an additional improvement in the cash flow. Free cash flow totaled €951 million (€518 million without cash flows from the sale of BSN medical). Net cash flow from financing activities amounting €194 million was mainly attributable to dividend payments and the reduction of financial liabilities. Cash and cash equivalents climbed by €747 million to €1,230 million.

Financing and Liquidity Provisions

The primary goal of financial management at Beiersdorf is to safeguard liquidity. The type and volume of transactions are in line with the Group's basic operating and financial business. Scenarios and rolling 12-month cash flow planning are used to establish liquidity requirements. A syndicated loan in the amount of €500 million in the form of a club deal involving eight syndicate banks, which matures in 2009, is available to provide liquidity. In addition, the Company has a €200 million multicurrency commercial paper program.

Group capital expenditure by region (in %)



Capital Expenditure – Group

1 Beiersdorf invested €110 million (previous year: €126 million) in intangible assets and property, plant, and equipment in 2006. €85 million of this amount was attributable to the Consumer business segment (previous year: €91 million) and €25 million to tesa (previous year: €35 million). Beiersdorf AG accounted for €17 million (previous year: €29 million).

Capital expenditure in the Consumer segment related to investments of €12 million in intangible assets; these mainly comprised software in Germany. Capital expenditure on property, plant, and equipment totaled €73 million and focused on a large number of projects for realignment of the Consumer Supply Chain and replacement investments.

€4 million was invested in environmental protection and safety measures at our production site in Hamburg. The total volume of these investments amounted to roughly €7 million. These investments help us secure compliance with the highest environmental and safety standards in the future, too.

€15 million of the capital expenditure on tesa of €25 million relates to sites in Germany, including the expansion of our logistics facilities in Stuttgart and Offenburg. Beiersdorf's Hamburg-based affiliate, acos, which specializes in producing die-cut applications for the automotive and electronics industries, commissioned a new rotary die-cutter costing approximately €1 million. A new printing machine for approximately €2 million was installed at the tesa labeling facility in Switzerland. Overall, we spent €16 million on replacement investments and capacity increases in our production facilities. The construction of tesa's new production facility in China was completed. Total investment in the project amounted to approximately €20 million.

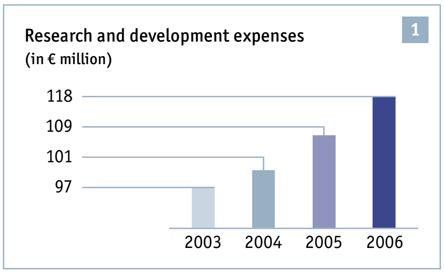
Financial assetts increased by €4 million.

For fiscal year 2007, we are budgeting for total capital expenditure at roughly the same level as for the previous year, both for the Group as a whole and for the Consumer and tesa business segments.

We will continue to focus capital expenditure on the rationalization of our production and logistics activities.

This expenditure will be financed in full from operating cash flow.

Financial investments and investments in trademarks will be made whenever opportunities arise that fit in with our corporate strategy.



Research and Development

Innovations ensure the long-term future of our business. They are based on our in-depth research and development work, which draws on more than 125 years of expertise.

1 We invest continuously in our research and development activities to enhance our international competitiveness. We spent €118 million (previous year: €109 million) on this during the period under review. This represents 2.3 % of sales (previous year: 2.3 %). At a global level, 855 (previous year: 853) members of staff were employed in research and development.

Research and development for the Consumer business segment is concentrated on Beiersdorf AG in Hamburg, where a state-of-the-art research center was constructed in recent years.

Innovative Skin and Beauty Care

We invested €95 million (previous year: €89 million) in research and development for the Consumer business segment in the past fiscal year. We focus squarely on our core competencies of skin and beauty and are developing state-of-the-art, consumer-driven, highly efficient products.

Our long-term research and development work focuses on:

- Skin and hair biology
- Identifying principles of action and active ingredients for skin and hair
- Skin aging
- The development of biophysical detection methods

In addition to these focuses, we also conduct research in the area of wound care.

We provided consumers with compelling innovations in 2006. Among the most successful of these are:

2 **NIVEA VISAGE DNAge:** This innovative anti-age skin care system protects the DNA inside skin cells from external factors using cell-active folic acid, thus accelerating the skin's regeneration process. The skin becomes firmer, with the depth of existing wrinkles being reduced and new wrinkles prevented.

3 **NIVEA Hair Care:** Our shampoos and care products are based on new formulas. They have been enriched with valuable hair care substances such as silk protein or aloe vera to make your hair look and feel good.

NIVEA body Good-bye Cellulite Gel: This contains L-carnitine, which occurs naturally in the skin and which assists in the conversion of fat reserves into energy. As a result, it is possible to reduce the external signs of cellulite. The gel's innovative consistency makes it easy to apply, as well as allowing it to be rapidly absorbed, giving the skin a pleasant feeling.

4 **Eucerin Hyaluron-Filler:** This radically new anti-aging care product contains hyaluronic acid and saponin, which works deep down to stimulate the skin's own production of hyaluronic acid. The skin is plumped out from the inside, resulting in a visible improvement in even deep wrinkles around the forehead, mouth, and nose. The day cream with its additional sun protection factor 15 offers effective UVA protection, while the night cream contains highly concentrated panthenol and vitamin E to assist in skin regeneration.

We use key technologies such as bioengineering or bionics to improve our competitiveness for the long term. We test all products for effectiveness and tolerance in our own Test Center with the help of our consumers.

2

4

3

Compelling innovations for consumers.

In 2006, we undertook an in-depth analysis of our research and development activities with the support of the renowned Fraunhofer-Institut. All processes were reviewed, and our activities compared in an open benchmarking process with five international enterprises that are leaders in their respective fields. The study confirms the outstanding position that our research and development occupies with respect to the global competition. We work successfully, efficiently, and in a focused manner. In addition, the study reveals potential for optimization that we shall leverage.

To maintain this high standard we utilize not only our own internal expertise but also external capacities, via more than 100 international collaborative research projects and strategic partnerships. Roughly half of these are with industrial enterprises and roughly half with academic institutions.

We award one of the most generously endowed prizes in the field of basic dermatological research, the Paul Gerson Unna Prize, every two years. We use this to promote significant original research that opens up new opportunities for over-the-counter dermatological products.

We protect our innovative technologies with patents and similar intellectual property rights. We are awarded around 100 patents a year, thus strengthening our brands and continuously extending our strong position.

State-of-the-art Self-adhesive System and Product Solutions

One focus in the tesa segment is the development of environmentally friendly, solvent-free coating technologies for manufacturing adhesive tape. In the year under review, we successfully tested solvent-free doubled-sided adhesive tapes offering improved performance. Our ongoing development work is concentrating on adhesive systems with high shear resistance.

For the automotive industry, we are currently working on additional temperature-stable crepe tapes based on solvent-free rubber technology. New laser labels with particularly fast engraving speeds for use in vehicle identification are optimizing production processes. In future, these products will also be available in a number of different colors.

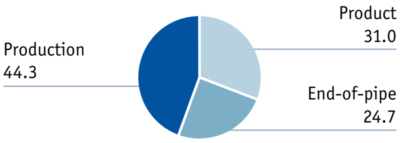
The focus of research for the electronics industry is on new ultra-thin adhesive tapes offering high adhesive strength. These reflect the trend toward miniaturization, especially in cell phones. We have successfully employed heat-activated solvent-free adhesive films to affix cell phone shells. A new procedure enables the rapid development and manufacture of special foam adhesive tapes used to mount individual layer components in flatscreens.

In the printing and paper industries, our new splicing tapes combine plastic substrates with label material. We are also using new products to open up new application areas outside the paper industry.

For our consumer segment, we substantially enhanced the performance of the Powerstrips family, which use solvent-free rubber systems, as well as driving forward the continued development of transparent products. This is opening up additional, up-market application opportunities for the future.

Group environmental protection and occupational safety expenditure (in %)

1



Sustainability

We manage our business sustainable and are committed to our ecological and social responsibility. Our actions are determined not only by our Company's economic success, but also by our active approach to environmental protection and occupational safety, and by our commitment to society.

1 Our investments in environmental and occupational safety of €50 million (previous year: €54 million) are designed to systematically promote our objectives:

- We aim to reduce resource consumption and waste production in order to impact the environment as little as possible. In this way, we can save on disposal costs at the same time
- We continuously improve the protection and safety of our employees so as to achieve our vision of "zero accidents"
- We organize the global exchange of experience to ensure a uniform high standard at an international level

To ensure effective coordination and management of all topics relating to sustainability, we set up a Sustainability Advisory Board (SAB) in 2005, which moved forward key projects in the year under review to obtain results. For example, we developed a Raw Materials Policy that documents our responsible handling of raw materials. In addition, we started expanding our Sustainability Report significantly in 2006, with the focus being on the Internet version. The new Report will be published in April 2007 and will comply with the Global Reporting Initiative (GRI) Guidelines. It is part of our continuous active dialog with customers, suppliers, public authorities, our neighbors, and other stakeholders. Our three-tier environmental and occupational safety concept is integrated with all our business processes, and thus complies with the principles of "Responsible Care".

In 2006, we launched our new database-driven CEOS Management System (CEOS: Corporate Environmental Protection, Occupational Safety and Security). The system not only makes available guidelines and minimum standards for the Group, but also serves to collect key indicators and data. Furthermore, it contains key results of our certified ESMAS audit system, connects all Beiersdorf production centres, and facilitates the exchange of expertise.

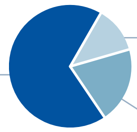
We further expanded our internal ESMAS program for environmental protection and occupational safety audits, and successfully audited our sites in Hamburg (Germany), Poznan (Poland), and Malang (Indonesia). In addition, the safety technology at our Logistics Center in Hamburg was upgraded to the highest safety standards. The Hamburg *Amt für Arbeitsschutz* (Hamburg Occupational Safety Authority) again confirmed that the production centres in Hamburg have implemented an exemplary occupational safety management system, classifying Beiersdorf in the top category.

tesa AG joined the Global Compact in the year under review and has thus voluntarily committed to ethical behavior. The initiative's ten principles cover the areas of human rights, labor, environmental protection, and anti-corruption.

tesa AG has had an integrated management system since it was formed in 2001. This covers environmental protection, occupational safety, and quality management, in order to optimally leverage synergies. All European affiliates, plus our affiliates in the USA and Malaysia, have been certified in accordance with the international environmental standard ISO 14001. tesa's low accident rate is well below the average for comparable companies worldwide.

Employees by region
as of Dec. 31, 2006, in total 17,172 (in %)

2



Employees

2 As of December 31, 2006, we employed 17,172 staff (previous year: 16,769), with 13,450 being in the Consumer business segment and 3,722 in the tesa business segment. We again increased the number of vocational training positions we offer in Germany to a total of 282.

Our employees' expertise and identification with the Company are key pillars of our success. Our dealings with each other and with customers and business partners are characterized by openness, fairness, and respect.

Consumer

When recruiting employees, we set store by leadership ability and team spirit. "Superior Talent in Lean Organization" is one of the cornerstones of our Consumer Business Strategy. We stand for performance orientation, the promotion of change and innovation at all levels of our Company. In line with our strategy, we focus our human resources activities on the following areas:

- Group-wide talent identification and the encouragement and development of leadership ability within the Company,
- Advisory services to support our organization in implementing process-oriented and organizational changes resulting from our strategy,
- Increased investment in employee training and professional development.

Our "Leading for Success" process combines challenging career development opportunities with the needs of our business. We ensure that our managers are deployed appropriately. Our guiding principle here is "Assess – Challenge – Support".

We identify potential leaders throughout the Group as early as possible, train them systematically, and retain them within the Company for the long term by offering them challenging career opportunities. In addition, we have a common understanding of leadership that is based on our management guidelines.

The elements in our "Leading for Success" process can be applied uniformly at international level in all affiliates. Systematic succession management is a central element of this process, alongside regular reviews of all employees.

At the same time, we develop our potential and experienced leaders with training courses such as the global "Learn to Lead" program. This allows talented staff to develop their individual leadership abilities, expand their career opportunities through personal development and build networks throughout the Company. In addition, our German operations offer a leadership development program titled "*Erfahren führen*" (Leading with experience). This is targeted at managers with several years' leadership experience and aims to support them in their ongoing management activities.

The implementation of our Consumer Business Strategy is leading to fundamental changes in our Company. Human resources advises and supports the various functions in the efficient focused management of the change processes. This includes support for the teams in defining new workflows, along with team development measures and project management training. In addition it makes clear the contribution each and every employee can make and the responsibility he or she bears.

We set great store by leadership ability and team spirit in our staff.

To sharpen our focus on the consumer even further in line with our strategy, we consistently develop the professional skills and talents of all our employees. Two new training programs that were developed and implemented during the fiscal year serve as examples of this:

- "Winning in the store": This training program gives concrete examples of how we can optimally present our products in retail facilities and hence convince consumers. Page 65
- "intouch": The "intouch" training program demonstrates how we can get to know consumers even better and, building on this, how we can develop ideas for new products and new forms of communication. Page 66

We again increased the number of places on our international graduate trainee program, "Beyond Borders." This program gives talented job newcomers a practically oriented international career start. "Beyond Borders" is based on our idea of attracting more young and talented junior managers to our Company.

Our "*Treffpunkt Weiterbildung*" (Training venue) program, which is aimed at all staff in Germany, continues to attract growing levels of interest. For the first time more than 1,000 of our employees took part in the courses, for which they have to invest part of their free time – proof of their high level of commitment.

tesa

Our focus on systematically identifying and supporting talent also extends to tesa. We are consistently developing the long-term potential of our management after internationally voting and agreeing on measures in the reporting year to realize this goal. Successful managers demonstrate their ability and potential in a structured process. An external coach, along with the Board, recommend the implementation of steps for further development that are monitored by a mentor.

In 2006, the first group of young.professionals@tesa successfully completed the program of the same name. This gives university graduates access to a direct career path on an international level, where they are able to develop themselves in several different countries. We will be expanding this project based on the positive experiences we have had with the program.

One focus of human resources operations in 2006 was in Asia-Pacific region, especially in China, an important future market. The communication between the headquarters and regional management was intensified and promoted. Employees in the Hamburg office were familiarized with Chinese culture, including its regional needs and specific features, in special training sessions and workshops. The tesa facility near Shanghai began full production in 2006. Over 100 new employees received training and the necessary skills to carry out their jobs. We are able to guarantee a high standard of quality and safety through an international exchange of experiences so that production ran successfully and without any problems right from the beginning.

Business Developments – Beiersdorf AG

Structure and Organization

Headquartered in Hamburg, Beiersdorf AG is the parent company of and the largest operating company in the Beiersdorf Group. Beiersdorf AG's Executive Board is also the Beiersdorf Group's management body. Beiersdorf AG conducts the Group's German business and includes the international management functions as well as the usual administrative functions. It is also responsible for the vast majority of research and development activities for the Consumer business.

Accounting Principles

The notes to the annual financial statements of Beiersdorf AG prepared in accordance with German commercial law (German Commercial Code, *HGB*) and company law (German Stock Corporation Act, *AktG*) that are relevant for the dividend can be found below. The income statement was prepared using the nature of expense method.

Results of Operations – Beiersdorf AG

Income Statement of Beiersdorf AG

(in € million)	2005	2006
Sales	**1,278**	**1,369**
Operating income	63	60
Cost of materials	–428	–489
Personnel expenses	–228	–374
Depreciation and amortization of property, plant, and equipment and intangible assets	–42	–26
Other operating expenses	–502	–517
Expenses for the realignment of the Consumer Supply Chain	-	–11
Operating result	**141**	**12**
Financial result	243	550
Result from ordinary activities	**384**	**562**
Taxes on income	–74	–97
Profit after tax	**310**	**465**

Beiersdorf AG is focused on business with branded consumer products for skin and beauty care, combined in the Consumer business segment.

Sales by Beiersdorf AG rose by €91 million to €1,369 million (previous year: €1,278 million). €817 million (previous year: €804 million) of this figure was generated in Germany and €552 million (previous year: €474 million) abroad. Sales with foreign countries refer primarily to deliveries to affiliates.

Personnel expenses increased mainly due to the revaluation of the provisions for pensions according to international accounting standards. The one-time charge is €134 million. Expenses for the realignment of the Consumer Supply Chain at Beiersdorf AG amount to €11 million. Affected by these special factors EBIT decreased to €12 million.

Financial result rose to €550 million (previous year: €243 million). The development is caused by several special factors in the current and the previous year. The financial result in 2005 included the reversal of the write-down of own shares amounting to €155 million. In 2006, the income from the sale of BSN medical, contributed €366 million, the reversal of the write-down of own shares €82 million, to the financial result.

The result from ordinary activities was €562 million, €178 million up on the previous year. The tax rate improved to 17.2 % (previous year: 19.2 %) following a disproportionately low increase in taxes on income. Profit after tax rose to €465 million (previous year: €310 million). The Executive Board and the Supervisory Board will be proposing to distribute a dividend for fiscal year 2006 of €0.60 (previous year: €0.57) for each share carrying dividend rights, resulting in a distribution amount of €136 million.

Balance Sheet Structure and Financial Position – Beiersdorf AG

Balance Sheet of Beiersdorf AG

Assets (in € million)	**Dec. 31, 2005**	**Dec. 31, 2006**
Intangible assets	5	4
Property, plant, and equipment	133	125
Financial assets	1,104	1,044
Non-current assets	**1,242**	**1,173**
Inventories	84	84
Trade receivables	95	80
Other receivables and other assets	139	176
Cash and cash equivalents	966	1,518
Current assets	**1,284**	**1,858**
	2,526	**3,031**

Equity and Liabilities (in € million)	**Dec. 31, 2005**	**Dec. 31, 2006**
Equity	**1,510**	**1,846**
Provisions for pensions and other employee benefits	355	497
Other provisions	221	249
Provisions	**576**	**746**
Trade payables	53	61
Other liabilities	387	378
Liabilities	**440**	**439**
	2,526	**3,031**

Within the total non-current assets, no major changes occurred in either intangible assets or in property, plant, and equipment. Investment in property, plant, and equipment of €18 million was offset by depreciation of €24 million. The decrease in financial assets by €60 million to €1,044 million was caused by the sale of shares of the joint venture BSN medical.

Trade receivables were reduced by €15 million to €80 million. Other receivables and other assets include receivables from affiliated companies of €156 million (previous year: €126 million).

The cash and cash equivalents item includes own shares of Beiersdorf AG amounting €955 million. Due to the increase of the share price, the write-down of own shares was reversed in the amount of €82 million up to their historical costs. Other cash and cash equivalents are invested in short-term securities as of balance sheet date. They were invested as part of the Group's overall cash management strategy. Net liquidity – cash and cash equivalents without consideration of own shares and after deduction of liabilities due to banks – rose by €471 million to €563 million. Main cause is the cash received for the sale of the shares of BSN medical.

On July 17, 2006, Beiersdorf AG implemented a 1:3 share split, reflecting the substantial increase in the stock market price of the Beiersdorf share. The share split was preceded by a capital increase of €36.96 million that was financed from retained earnings.

Pension provisions increased by €142 million to €497 million. The strong increase was primarily caused by the remeasurement of pensions. In contrast to § 6a *Einkommensteuergesetz* (German income tax Act, *EStG*), an interest rate in line with the market of 4.25 %, a wage/salary rate of 3.0 % and a pension progression rate of 1.75 % formed the basis of the calculation.

Within the other provisions, tax provisions rose by €10 million. Other liabilities contain liabilities against affiliated companies amounting €371 million (previous year: €371 million) most of which are financial liabilities. Trade payables increased by €8 million to €61 million.

Total assets of €3,031 million (previous year: €2,526 million) shown in the balance sheet are with €1,185 million (previous year: €1,016 million) correspondingly 39 % (previous year: 40 %) financed by debt. Debt is divided in provisions of €746 million (previous year: €576 million) and liabilities of €439 million (previous year: €440 million).

Risk Management Report

Integrated Risk and Opportunity Management

Beiersdorf is exposed to a wide variety of risks that are inextricably linked with its entrepreneurial activities as part of its global business. Our risk and opportunity management policy therefore aims to maximize existing opportunities and to incur risks only if they offer the prospect of a corresponding increase in value. Part of our fundamental risk policy is that we only take risks that can be managed using established methods and measures within our organization.

Risk management is thus an integral part of company management and business process design at Beiersdorf. Management of operating risks is largely decentralized. Cross-functional international risks associated with brand and patent management, production and safety standards, financing, and value development within the Group are monitored centrally.

Integrated controlling and regular strategy reviews ensure that opportunities and risks are well balanced when entrepreneurial decisions are made, that they are identified in good time, and that they are presented transparently. Our Internal Audit department monitors compliance with the internal control system and ensures the integrity of our business processes. The risk early warning system was one of the focuses of the audit of our annual financial statements this year.

Risks and Opportunities of Strong Brands

Maintaining and increasing the value of our major consumer brands with their broad appeal – especially NIVEA – is of central importance for Beiersdorf's business development. We have therefore geared our risk management system towards protecting the value of our brands.

Our compliance with high standards of product quality and safety is the basis for our customers' continued trust in our brands. We therefore perform in-depth safety assessments when developing new products. Our products are subject to the strict criteria of our quality assurance system throughout the entire procurement, production, and distribution process.

Innovations based on strong research and development are a precondition for the acceptance by, and appeal of our products to, consumers. Prudent brand management captures consumer trends as well as the results of intensive market and competitive analyses, and at the same time ensures that the brand's core remains intact and is carefully enhanced.

In this context, our reorganization of our Global Marketing Services has created the basis for identifying consumer wishes even faster and reflecting them in the products we develop. Strong brands that balance innovation and continuity are our response to fierce global competition on price, quality, and innovation. They also counteract the growing retail concentration and the regional emergence of private label products.

Expertise-based brands require a high degree of upfront investment in innovation and marketing. The continuous expansion of our patent and trademark position therefore plays a key role. In particular, the systematic registration and enforcement of our intellectual property rights prevents the imitation and counterfeiting of our products and thus helps safeguard and further increase the earnings potential previously created.

In principle, the brand-specific risk factors also apply to tesa's business, although the product technology risk is more significant.

The risks described must be contrasted with specific opportunities offered by strong brands. Beyond the pure recognition and positioning effect, the umbrella brand strategy in particular offers substantial potential for exploiting synergy effects. The centralization of corporate functions entails the concentration of risk, but also creates considerable potential for synergies.

Other Significant Risks

We counter procurement risks relating to the availability and price of raw materials, merchandise, and services by continuously monitoring the relevant markets and ensuring proactive control of our supplier portfolio, as well as appropriate contract management. In 2006, we launched a project aimed at bundling our procurement activities more intensively worldwide and further improving their quality and cost.

Occupational safety, environmental and business interruption risks in our production and logistics activities are minimized by process control checks. We also transfer selected risks to insurance companies, when economically appropriate.

We minimize risks relating to the availability, reliability, and efficiency of our IT systems through continuous monitoring and process improvements, as well as emergency training.

Currency, interest rate, and liquidity risks are subject to active treasury management based on global guidelines. In most cases they are managed and hedged centrally. In this context, the specific requirements for the organizational separation of the trading, settlement, and controlling functions are taken into account. Derivative financial instruments serve solely to hedge operational activities and financial transactions essential to the business. They do not expose the Group to any additional risks.

We limit currency risks from intragroup deliveries of goods and services using currency forwards. About 75 % of forecast annual net cash flows are hedged (cash flow hedges of forecasted transactions). Currency risks from cross-border intragroup financing are transferred to third parties by the affiliate providing the financing through the use of currency forwards.

The Company limits potential risks relating to the investment of near-cash funds as a matter of principle by only making short-term investments with prime-rated counterparties.

Our financial risk management is characterized by the clear allocation of responsibilities, central rules for limiting financial risks as a matter of principle, the conscious alignment of the instruments deployed with the requirements of our business activities, and separate monitoring by a Treasury Committee that includes international members.

We counter the risk of bad debts through detailed monitoring of our customer relationships, proactive receivables management, and the selective use of trade credit insurance.

We maintain close contact with universities to recruit qualified specialists and management personnel. We develop management trainees and employees internally using special international training programs and continuing education measures.

Overall Risk

Based on our present judgement, no risks with a material influence on the net assets, financial position and results of operation of Beiersdorf AG and Beiersdorf Group exist.

Report by the Executive Board regarding Dealings among Group Companies

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

Report on Post-Balance Sheet Date Events

No significant events occurred after the end of the fiscal year that would have a material effect on the Beiersdorf AG's or the Group's business development.

Disclosure Requirements in Accordance with § 315(4) *HGB*

The appointment and removal from office of members of the Executive Board is governed by §§ 84 and 85 *AktG*, as well as by Article 7 of the Articles of Association in the version dated May 17, 2006. In accordance with Article 7 of the Articles of Association, the Executive Board is composed of at least three persons; apart from this provision, the Supervisory Board determines the number of members of the Executive Board. The Articles of Association may be amended in accordance with §§ 179 and 133 *AktG* and with Article 16 of the Articles of Association in the version dated May 17, 2006; according to the latter provision, the Supervisory Board is authorized to resolve amendments and additions to the Articles of Association that concern the latter's wording only.

By way of a resolution of the Annual General Meeting on May 17, 2006, Beiersdorf AG was authorized in accordance with § 71(1) no. 8 *AktG* to purchase own shares in the total amount of up to 10 % of the existing share capital in the period up until November 16, 2007. The Executive Board was also authorized by way of a resolution of the Annual General Meeting on May 17, 2006, with the approval of the Supervisory Board, to sell in whole or in part the own shares purchased on the basis of the above-mentioned or a prior authorization while disapplying the shareholders' preemptive rights in a way other than via the stock exchange or by way of an offer to all shareholders, to the extent that these shares are sold at a price that does not fall materially below the market price of the same class of shares of Beiersdorf AG at the time of the sale. The Executive Board is also authorized, with the approval of the Supervisory Board, to utilize the above-mentioned own shares in whole or in part as consideration or partial consideration as part of a merger or the acquisition of companies, equity interests in companies, or business units of companies, while disapplying the preemptive rights of shareholders. Moreover, the Executive Board is authorized, with the approval of the Supervisory Board, to utilize the above-mentioned own shares in whole or in part, while disapplying the preemptive rights of shareholders, in order to satisfy the subscription and/or conversion rights from convertible bonds and/or bonds with warrants issued by Beiersdorf AG or companies in which it holds a direct or indirect majority interest. Furthermore, the Executive Board is authorized to retire the above-mentioned own shares without requiring an additional resolution by the Annual General Meeting.

For information on the Executive Board's authority to issue shares, please refer to section 22, "Authorized Capital" in the Group Notes.

The creation of the authorized capital is intended to put the Company in the position of being able to react to growth opportunities and favourable capital market situations quickly and flexibly. The authorization to purchase and utilize own shares in particular enables the Company to offer shares of the Company also to institutional or other investors and/or to expand the shareholder base of the Company, as well as to utilize the purchased own shares as consideration for the acquisition of businesses or equity interests in businesses or as part of mergers. These are provisions which are common among listed companies comparable to Beiersdorf. They do not serve to render any takeover attempts more difficult.

For information on the composition of the share capital of and shareholdings in Beiersdorf AG, please refer to Section 21, "Share Capital" and to the section "Shareholdings in Beiersdorf AG" in the Group Notes.

Report on Expected Developments

Expected Macroeconomic Developments

We expect the macroeconomic situation to remain stable in the coming year, and are therefore largely basing our planning on the assumption that the growth rates recorded in 2006 will remain roughly constant in the coming years. However, we expect developments in North America to be relatively modest.

In contrast, we believe that real consumer spending in Western Europe will benefit from the upturn in employment conditions that is now setting in. We are also forecasting growth in Germany, despite an increase in the value added tax.

Thanks to the ongoing robust environment in Eastern Europe and Latin America, where economic growth rates are forecasted to be a good 5 %, and continued momentum in Asia, and especially in China and India, with expected growth rates of between 7 % and 11 %, we anticipate that global economic growth will remain constant at about 4 % in the coming years.

Research institutes believe that, in the next two years, global economic growth will remain at a level with that of 2006.

Sector Developments

In our opinion, the global cosmetics market will continue its long-term trend, with growth of 3 %. We expect growth in the major Western European markets to be somewhat subdued. We predict significant growth in Eastern Europe, Latin America, and Asia.

Growth in the adhesive tape markets around the world will be extremely mixed. Asian and Eastern European markets will benefit significantly from the outsourcing of production to these regions, as well as from an increase in purchasing power, and will experience medium to high single-digit growth. Growth rates in the lower single digits can be expected in the more mature markets in the rest of Europe, North America, and Australia. Overall, tesa is expecting average market growth of 2 % to 3 %.

Expected Business Developments

We are forecasting continued positive business development for the **Group** as a whole in the coming years. We aim to exceed general market growth. The EBIT margin (before special factors) should increase further.

In the next two years, earnings will continue to be impacted by expenses of approximately €100 million before taxes relating to the realignment of the Consumer Supply Chain. Approximately €70 million of this amount will be incurred in fiscal year 2007. Total estimated expenditures thus remain unchanged at €220 million. The benefits of the restructuring measures are expected to amount to €100 million annually upon completion of the project.

Profit after tax (before special factors) and the corresponding return on sales after tax will continue to increase.

The **Consumer** business segment is planning sales growth next year clearly above the market with a rate of 7 % to 8 %. In particular, we expect above-average growth in China, Russia, Brazil, and India. The EBIT margin before special factors is expected to increase further.

The **tesa** business segment is expected to continue growing faster than the market, further improving the EBIT margin.

We believe that with our existing brands, innovative product developments and focused process optimizations, as well as our overall strategy, we are well positioned to meet the challenges of the coming years.

The Executive Board