MASTERFLEX GROUP
Connecting Values

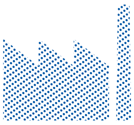
MASTERFLEX SE

ANNUAL REPORT 2017

CONNECTING VALUES

BRANDS

SPECIALISTS IN HIGH-TECH HOSES AND CONNECTION SYSTEMS

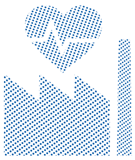


MASTERFLEX

Hoses and connection systems for all industrial applications
Spiral hoses – heated hoses – intelligent hose systems – connecting elements

MATZEN & TIMM

Vulcanised moulded parts and hoses for the aviation and aerospace sector and automobile industry
Special hoses – suction hoses – elastomer hoses – bellows



NOVOPLAST
SCHLAUCHTECHNIK

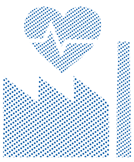
Hose and connection systems for industrial applications and for air conditioning and ventilation systems
Spiral hoses – smooth hoses – air conditioning and ventilation system hoses

FLEIMA-PLASTIC

Plastic injection-moulded parts and components for medical technology
Medical clamps – client-specific items – hose connectors – housing components

MASTERDUCT

Thermoplastic moulded parts and smooth hoses for industrial applications and medical technology
Pneumatic hoses – compressed air hoses – moulded hoses – medical hoses



APT

Hoses made of fluoroplastics with extremely high chemical resistance
Smooth hoses – shrink tubes

AMPIUS

The Masterflex Group is digitalising the hose and connection element business
Intelligent, network-compatible hoses and connection systems

“Our
vision is
global market
leadership
in all
our relevant
markets.”

KEY FIGURES

Masterflex at a glance

In €k	31.12.2017	31.12.2016	Change
Consolidated revenue	74,675	66,486	12.3 %
Ebitda	10,263	8,811	16.5 %
Ebit (operative)	7,081	6,097	16.1 %
Ebit	6,601	5,897	11.9 %
Ebt	5,420	4,574	18.5 %
Consolidated earnings from continued business units	4,365	3,418	27.7 %
Consolidated earnings from discontinued business units	-62	-555	88.8 %
Consolidated net income	4,311	2,928	47.2 %
Consolidated equity	37,396	28,701	30.3 %
Consolidated total assets	72,967	60,412	20.8 %
Consolidated equity ratio	51.3 %	47.5 %	
Employees	642	601	3.3 %
Ebit margin (operative)	9.5 %	9.2 %	
Return on sales	5.8 %	5.1 %	
Consolidated earnings per share (€)			
from continued business units	0.46	0.40	15.0 %
from discontinued business units	-0.01	-0.06	83.3 %
from continued and discontinued business units	0.45	0.34	32.4 %

Masterflex share price performance 2017 compared with SDAX

Please note: Only the German version is legally binding.

VISION
INNOVATION
FUTURE

As an internationally established group of companies with German roots, the Masterflex Group specialises in solving connection problems. For decades, we have focussed successfully on the development, production and consultant-oriented marketing of high-quality hoses and complete connection systems. With our material and technology know-how, we process demanding high-performance plastic for products which set international standards.

Our values determine our actions: as a reliable partner, we provide safety and service. German Engineering supplied worldwide with a uniform international quality standard.

We strive for above-average, profitable growth. We pursue this goal with a sustainable, medium-term growth strategy.

GLOBAL MARKETS IN FOCUS

We strive for value-oriented, dynamic growth in all our relevant markets. Above all, we want the core of our sales, which today still lies in Europe, to gradually shift and to achieve a larger share of sales on the American and Asian continents. For this purpose, we are represented through our own activities in North and South America, in China and Singapore and in Europe.

INNOVATION IS OUR DRIVING FORCE

We continuously develop new hoses and connecting elements. The stimulation for this often feeds from close customer contact. From the variety of high-performance plastics and fabrics, our technicians design, test and produce products that can replace conventional connections. In this way, we have been the technology leader in the market for special flexible connection systems for several years.

OPERATIONAL EXCELLENCE

We want to continue to make our growth profitable. Measures for scaling and to increase efficiency in all areas of the Masterflex Group will substantially reinforce this.

DIGITAL TRANSFORMATION

The focus is on our new digital brand AMPIUS with which our customers not only convey media but also collect data and use it to control their plant. In addition, this includes our network and automation activities, which will allow our operations to be yet further improved.

Dear shareholders,

We can look back on a successful 2017, which was also a year of transition. We have successfully completed the projects and measures from our approximately two-year reorganisation phase, and have largely met the targets we set. Revenue growth in 2017 was 12.3%, above our forecast range of 6-10%. We generated 74.7 million in revenues from the development, production and service-oriented distribution of our high-tech hoses and connection systems in the past year: a new record high. We were also able to increase our earnings power, as announced, with operating Ebit climbing from EUR 6.1 million to EUR 7.1 million. This growth in earnings shall also result in an increase in the dividend from 5 to 7 cents per share, subject to shareholder approval.

Our Ebit margin was 9.5%, somewhat short of our original target value of 10%. Until December, we had expected that we would be able to meet this 2017 target as well. But we had to contend with some unexpected one-off effects in our financial statements which, taken together, created a noticeable drag on earnings. One factor was a temporary and unexpected loss of revenues in the US, which we expect to make up, at least in part, in 2018. Another effect resulted from differences in inventories between the various subsidiaries, which exceeded the provision which had been made for the purpose. The primary cause of this situation, and the reason for its late recognition, is that some of our smaller subsidiaries continue to lack sophisticated controlling processes. To us, these very events demonstrate how important it is to further streamline our Group and continue to improve its processes and data management so that we will be optimally positioned in the future, both structurally and in terms of growth, personnel and controlling. The commencement of these tasks is another reason why I designate 2017 as another year of transition.

Clearly, an Ebit margin of well above 10% continues to be the mid-term goal of Masterflex SE. But in light of our overall assessment for 2017, we have decided to undertake our next future projects from a position of strength. Almost without transition, we will be therefore entering into a transformation process which will position our Group even more strongly for the future, particularly in the fields of digitization and integrated processes. This will also allow us to eliminate the causes of the one-off effects which occurred at the end of last year. At the same time, this will allow us to better respond to the challenges which mid-sized manufacturers in particular will have to confront, such as market transparency and a faster pace of change. This process requires investments and will also result in investment-like expenditures. Examples include the new ERP system, a noticeable and strategic reinforcement of our team of employees with new and expanded competency profiles and an innovation strategy which will assure us a pioneering role in smart digitally-supported product solutions.

We have already laid the groundwork for these developments. In fact, the considerable efforts we have made in the past two years are increasingly bearing fruit, the most important example of which is the extensive expansion to the Gelsenkirchen site, which allow us to supply our customers in Germany and Europe more quickly. In addition, the Industry 4.0-capable machinery and equipment needed for this purpose have largely been acquired over the course of the past year and brought online. Moreover, the various measures we have taken to improve the efficiency of our processes are a constant and work-intensive presence.

We also acquired a new company in 2017, APT, with registered office in Neuss, which has been successfully integrated into the Group structures. The new technological expertise obtained by Masterflex Group with this acquisition, the processing of fluoropolymers, opens up new applications in a variety of markets. For several years already, we have been focusing strategically on the so-called “white industries,” i.e. the medical, biotech, pharmaceuticals and food industries, as well as the demanding chemical industry and the mechanical and plant engineering sectors. We expect APT‘s expertise to provide an additional boost in this regard. We secured financing for this acquisition in part through the successful placement of a capital increase in March 2017, as well as through our long-term syndicated financing arrangement, with a built-in option for an acquisition facility.

In addition to these major projects, we were also able to introduce various innovations in 2017. We also made significant progress in our digitized product activities under the AMPIUS brand. We plan to use this brand in the future to make our hoses available in network-capable and smart varieties, meaning hoses and connection systems which are capable of exchanging readable identification, operational and status data with their system environment. We are convinced that customer- and solution-oriented hose and connection systems will have great potential in the future in an increasingly demanding integrated production chain.

Industry 4.0 and digitization have arrived for our company. This creates opportunities, but also a broad array of challenges. It is not enough just to expand our product range by adding digital solutions. The transformative processes affect all areas of the company. This is a challenge which confronts nearly all industrial companies, but particularly mid-sized companies and manufacturers of products with no image component or global USP. We are seeing significantly higher transparency in the markets, which is affecting competition and creating noticeably higher margin pressure in individual product segments. The pace of change, which was already fast, will continue to increase noticeably, both in terms of the rate of innovation and the time span in which innovations are overtaken by copycat products.

You will find answers to your questions about how we at Masterflex Group are positioning ourselves so as to be optimally prepared for these challenges and opportunities in an interview which is published on Page 8 of this Annual Report. We have also presented our updated strategy to you on 27 June 2017, at our annual general meeting. We need to be prepared for the possibility that markets and technologies will develop at a much faster pace in the future. We must and will respond to these changes with a high degree of adaptability. In light of these circumstances, we are building upon our two existing strategic initiatives "innovation" and "internationalisation" and adding two more: "operational excellence" and "digital transformation."

With this expanded strategy, we are seeking to anticipate external factors which will affect our environment in the coming years. At the same time, we will be adapting our strategy to our growing size and internal needs. As our revenues cross the EUR 75 million mark and as we approach our next revenue target, EUR 100 million, we believe that we have reached a decisive milestone. We must and will dedicate more thought to the question of how we intend to leverage our new size to generate advantages in terms of efficiency and profitability. This will be a highly important challenge if we are to continue to grow while at the same time posting satisfactory earnings.

We will not dilute our strengths and our central quality commitment. Our ambition is and continues to be developing, producing and supplying customised high-performance products with high added value for customers and distributing these products with application and technology expertise. Our extensive know-how and our service- and solution-oriented specialised market strategy will continue to set us apart in the hose and connections market in the future. This commitment will remain intact in the future. However, because our business involves a certain amount of compartmentalisation, there is always the challenge that further growth will affect earnings. It is therefore necessary to supplement our strengths with new expertise, such as integrated supply chain approaches, process scaling and new approaches and solutions in standardisation.

Although the times remain challenging and the pace of technological change is accelerating, we are certain that, with our strategy and the individual measures behind it, we are on the right track to further improve our earning power in the coming years and to continue to grow faster than the market. Accordingly, we have set targets for 2018 which are in a similar range to those of 2017: revenue growth of between 5 and 10%, further strengthening of our earning power and corresponding growth in Ebit.

In light of the fact that our transformation process is gathering speed, we intend to keep our Ebit margin as stable as possible at first. Aside from the improvement in operating income, earnings per share in 2017 benefited from one-off effects arising from the use of loss carry-forwards. These effects are not expected to arise in the same way in 2018. Nevertheless, our goal is to continue our dividend strategy unchanged. We also remain open to further acquisitions in 2018 and subsequent years. But the premise remains that such acquisitions must clearly contribute to our company strategy, such as by extending our technological range and/or expediting entry into a new market. We will not act just for the sake of doing something, as you have been able to observe in recent years. Instead, we will approach this topic with all requisite commercial prudence and with strategic vision, as was the case with our acquisition in 2017.

On behalf of the Executive Board, I would like to take this opportunity to thank all of our shareholders for their trust in the company. We view our company's positive performance in 2017 and the successful cash capital increase as proof of the trust which our shareholders have in us and in our future development. I would also like to expressly and particularly thank all of our employees, as well as our customers, suppliers and technology partners for the successful cooperation which has made our company's long-term success possible. We are very much looking forward to you, dear shareholders, continuing to accompany us on the path that lies ahead as we open the next chapter in our company history.

Gelsenkirchen,
14 March 2018

Dr. Andreas Bastin
Chief Executive Officer

THE 4 STRATEGIC PILLARS OF MASTERFLEX GROUP

INNOVATION

Innovation

Based on its business model, the distribution of hoses and connection systems with a focus on advice and service, Masterflex has taken a leading position today in many different markets and applications. Maintaining this high level and building upon it in the future will require massive and structured investments in new products and solutions. In accordance with the company's "connecting values" philosophy, this will be done in intensive collaboration with the customers, based on an efficient, state-of-the-art innovation process. By bundling technical know-how and exploiting synergies, Masterflex Group will be able to further enhance the impact of its integrated technology approach, allowing it to solidify and expand its lead in the future.

INTERNATIONA-
LISATION

Internationalisation

The growing uncertainty and fluctuations in the global economy in recent years demonstrate how important it is to position the business so as to minimise dependence on individual regions. At the moment, Masterflex Group remains heavily focused on Germany and Europe. Moreover, economists believe that the potential for long-term growth is particularly strong in America and Asia. For this reason, Masterflex is increasingly internationalising its operations and has been gradually expanding its international business for a few years, particularly in China/Asia and North America. At the end of 2017, Masterflex reinforced its export team, which handles markets beyond the regions where the company currently maintains offices.

OPERATIONAL EXCELLENCE

Operational excellence

Top-shelf connection solutions in collaboration with customers for specialised applications: this high degree of specialisation necessarily results in a certain amount of compartmentalisation in our operations. Masterflex will focus more in the future on cost degression effects through high margins and standardised processes in order to create a balance between specialisation and flexibility.

By defining “operational excellence” as an additional priority, Masterflex is identifying the measures described above as the clear focus of the company‘s overall activities and day-to-day operations. In effect, this means that measures to scale the business, in terms of its financial operations and processes, will go hand in hand with measures to boost efficiency in all areas of the company, on a lasting basis.

All processes must be integrated, interconnected and optimised so as to be equipped for the future and for sustainable growth. At the same time, this will allow Masterflex to further increase the scale effects arising from our organic and inorganic growth. The company is working very diligently on these issues, but sometimes cultural obstacles have to be overcome and complex projects and measures simply take a certain amount of time.

DIGITIZATION

Digitization

Digitization is spreading in the value chain. Industrial companies cannot avoid it if they wish to remain successful in the medium and long terms. As many components as possible need to be digitized, and not only in order to maximise the efficiency of the companies’ machinery and equipment, but rather to create additional opportunities, as even today, hoses are often part of digitized systems and equipment, e.g. robots, vehicles or machinery.

For this reason, Masterflex has begun to equip its products with functions which can be read out digitally and integrated into customer-specific networks. An example is a system for monitoring wear and tear and subsequent actions, such as preventive maintenance.

As the first company in the high-tech hose market, Masterflex intends to offer network-capable and smart versions and options for its entire range of connection systems. Solutions which are identified for the various hoses and applications are developed in close collaboration with customers. What is needed is not digitization for its own sake, but in such a way as to provide added value for the customer or in order to meet a specific need for a smart solution developed and supplied by Masterflex. Developments in this field will be steadily expanded in the coming years so as to reinforce the company‘s leading position in the hose and connection system market.

INTERVIEW

A VERY DYNAMIC DEVELOPMENT PROCESS

DR. ANDREAS BASTIN
Chairman of the Executive Board since 2008. Doctorate in Engineering majoring in mechanical engineering.

“Digitization is opening up additional opportunities for us with new smart products, while at the same time triggering transformative processes in nearly all business units.”

Digitization and the internet are fundamentally changing the business world, as the pace of digital change and progress towards Industry 4.0 are accelerating significantly. As an innovation leader, Masterflex is decisively driving digitization in the hose market with products that are equipped accordingly. At the same time, the company is actively shaping digital change in many business units. The following is a conversation with the Chief Executive Officer, Dr. Bastin, about the impact of digital change for Masterflex SE.

Dr. Bastin, what does digitization mean for Masterflex SE?

DR. BASTIN: “Digitization,” “digital transformation” and “Industry 4.0” seem to be the buzzwords of our time. The problem is that, while these terms are everywhere, everyone understands them a little differently. In short, what digital transformation means to me is the need to upgrade to the digital age in all areas.

Do the opportunities for Masterflex in this regard outweigh the risks?

DR. BASTIN: The entire business world is changing fundamentally. There is no escaping that. Therefore, we have actively taken on this issue: we began equipping hoses with digital systems in 2017. These products will start to hit the market in 2018, and we see even more applications and markets. But digitization goes beyond new market opportunities. We have new technological possibilities to optimise processes, to further improve quality in the production process and to set a new course in research and development using the feedback from product data. There are almost no business units which are not on the brink of major changes.

For this reason, we made a very conscious decision in 2017 to take on this transformation process in an even more dynamic and fundamental manner.

That means, primarily, more investment in technology?

DR. BASTIN: Yes and no. As the digitization process progresses, it is very quickly becoming clear that the biggest challenge we face is not technology. The implementation process has revealed how wide the gap actually is between the new understanding of technology and traditional thinking in corporate cultures. Moreover, the real challenge of digital transformation, the speed of change, is frequently underestimated by many organisations and employees. It is necessary to create a joint consciousness in this regard so that implementation can be managed successfully.

Can mid-sized companies meet at all this wide variety of new requirements?

DR. BASTIN: There is no question that this process places very heavy demands on available resources. This is true with regard to the company's team of employees, necessary expertise, necessary capacity, necessary financial resources and necessary processes and process changes. The challenge is to manage this change in a sensible manner. We began our analysis early, then we completed the strategy development in 2017 and we are now in the implementation phase, but with clear priorities so as not to overburden the company.

We reformulated our growth strategy in 2017 in the sense that we significantly extended its scope. You cannot take the issue of digitization more seriously than we do.

Can you name sample projects?

DR. BASTIN: It is most visible with our new digitized "smart" hoses. With smart functions like monitoring wear and tear and continuous data collection concerning the condition of the transported media, we will be able to offer our customers clear added value in the future.

In addition, we began investing in Industry 4.0-capable production facilities as far back as 2016. With noticeably expanded data collection and a new network, we were able to significantly improve the transparency of our production processes. Thanks to permanent and seamless monitoring of our production, we are now in a position to improve the overall quality of the production process as well as automation and flexibility. Together, "smart products" and "Industry 4.0-capable production" are basic requirements if we are to continue to offer smart services in the future.

A third important level is our corporate IT system. In 2017, we began implementation of a new cloud-based ERP system. While in the past, IT systems have helped us optimise processes, in the future IT will make it possible to develop new business models, new products and new ways of approaching the market. Instead of thinking about IT systems as segmented and monolithic systems, as before, the new approach calls for deeper integration, more flexible use and maximum adaptability so as to keep up with requirements, which are changing at an ever-increasing pace in our company.

Are the capabilities which are needed for these digital projects already available within the company?

DR. BASTIN: We have a great team which supports these changes out of conviction. A very important factor is that we have already created the conditions, to a great extent, for the implementation of our digitization strategy. And that was and remains a unique, a gigantic challenge, especially for a mid-sized company, and that includes Masterflex Group. Personnel with the right training, the right IT architects, agile working methods, a focus on costs and customer needs, shortage of time and multi-functional teams which operate autonomously and largely independently: all these are more than just relevant buzzwords, but tasks which must be accomplished day after day.

> "Digitization has become ubiquitous and shapes our everyday lives and thus the way we work."

How specifically can companies strengthen their team of employees for this process?

DR. BASTIN: The fact is that they have to work together. Companies will need to display intellectual flexibility and promote innovation among the ranks of their employees if they are to survive in competition as innovation cycles become increasingly faster. Most companies apply a conventional lean approach for increasing internal agility. Masterflex, for example, took a step towards introducing agile development and process methods with introduction of the design thinking method in 2017.

That does not sound like a traditional industrial and technology company any more…

DR. BASTIN: Even manufacturers and suppliers of highly successful products may be facing decisive change. Those who view Industry 4.0 and digital transformation merely as technical issues are being short-sighted. Certainly, it is not enough just to buy a few new machines. Rather, it is necessary for work organisations and corporate cultures to evolve along with these developments. A critical factor in the success of digital transformation in our Group, aside from improving efficiency and increasing transparency, is our ability to consistently optimise all processes which enable us to cut costs and particularly those which measurably improve our flexibility and agility. The measurability of these improvements lies both in a massive reduction in process and project times and in a significant reduction in costs.

So, do your internal digital projects serve above all to improve efficiency and reduce costs?

DR. BASTIN: That remains an important aspect, but the requirements and potential of digitization go far beyond that. As a matter of strategy, we need to avoid being reduced to a mere manufacturer, since otherwise we will have to devote our entire innovative capacity in the medium term to boosting efficiency without benefiting from the real profit sources of the future: new products and business models. That is where our focus lies.

Do you think companies need to achieve a critical mass to overcome these challenges? Is this particularly true for established mid-sized manufacturers?

DR. BASTIN: Size alone will not be the sole deciding factor, but rather the flexibility and agility of management and of the entire team, and the corporate culture which has been created. But Masterflex also faces a very fundamental question: How will we manage our future growth while at the same time maintaining or increasing our margin? We earn EUR 75 million in revenues today and we expect to reach EUR 100 million soon; from organic growth, mind you. At the moment, we stand for outstanding expertise in providing solutions for specialised customer requirements for connection systems. The challenge is how to maintain and expand these strengths while at the same time generating greater scaling effects. The high revenues and volume should also result in correspondingly higher profit margins.

Are you thinking primarily about price effects on the procurement side?

DR. BASTIN: Of course, we are also trying to optimise our procurement costs. To a certain extent, we have been helped in this effort by the fact that global markets are becoming increasingly transparent, in part as a consequence of digitization. But to be honest, we must also say that this transparency is more of a challenge than an opportunity. I rather expect the margins of all manufacturers to come under pressure in the future because of the increased transparency, except for those with USPs. This is why it is so important for us to work diligently to continue our digitization activities so as to allow us in the future to more efficiently market our core expertise in connection with the service-oriented distribution of specialty hoses and connection systems. I am also convinced that new markets will emerge for smart services.

What will these smart services look like?

DR. BASTIN: The smart services which we are working on use knowledge and current information about the status of products, systems and equipment as a baseline and provide customers with direct added value through transparency and analysis. Smart services of this kind represent a paradigm change for a service which is typically focused on technical availability. The system level of this new kind of data-driven services goes far beyond that of the product itself. These new services operate at the level of the customer's product system and therefore relate to its entire machine park and to organisational aspects of production.

Do you see independent revenue and earnings potential in this area?

DR. BASTIN: Yes, we see entirely new possibilities for providers of smart services through products and business models like these. Based on the disruptive potential of digitization, new revenue sources can be developed over the entire life cycle of existing and future products. We expect a smart services market to develop not only for products but also for machinery and equipment as well; that is to say, Masterflex Group's hoses and connection systems.

You already mentioned your digitally equipped hoses: what unique features do they have and how do they benefit customers?

DR. BASTIN: In many industrial applications, hoses and connection systems are a key factor in the productivity, functioning, quality and safety of machinery, laboratory and equipment operators. Granted, what you think of first is the digitization of complex components like pumps, drives and valves. But there is a great deal of interest in smart functions for hoses as well. Collecting process data is important in laying the groundwork for efficient automated operation and for preventive measures for the maintenance of machinery and equipment. For example, smart hoses may come with systems which warn about wear and tear. In principle, we would like to equip all types of hoses with multiple smart functions, which can then be read out and used to maximise profits. But above all, these will be functions which come out of specific questions or requests from our customers. The customer-centered character of our entire organisation is the chief guiding principle of our business.

"The hose of the future is intelligent: it communicates proactively."

MASTERFLEX NOVOPLAST SCHLAUCHTECHNIK

Modern industry robots are inconceivable without high-tech hoses. Here, spiral hoses serve as protection for media-carrying hose lines. In these, for example, paint powder is conveyed to paint car parts or adhesives conveyed to spray heads. Or compressed air is transferred to the pneumatic control system. And the next generation is already set to go: digitized high-tech hoses which convey data – thus, robots will be even better controlled in the future.

Connecting Values: Connections that create value

COMBINED
MANAGEMENT REPORT
OF THE MASTERFLEX GROUP AND MASTERFLEX SE

A BASICS OF THE GROUP

COMBINED MANAGEMENT REPORT OF THE MASTERFLEX GROUP AND MASTERFLEX SE

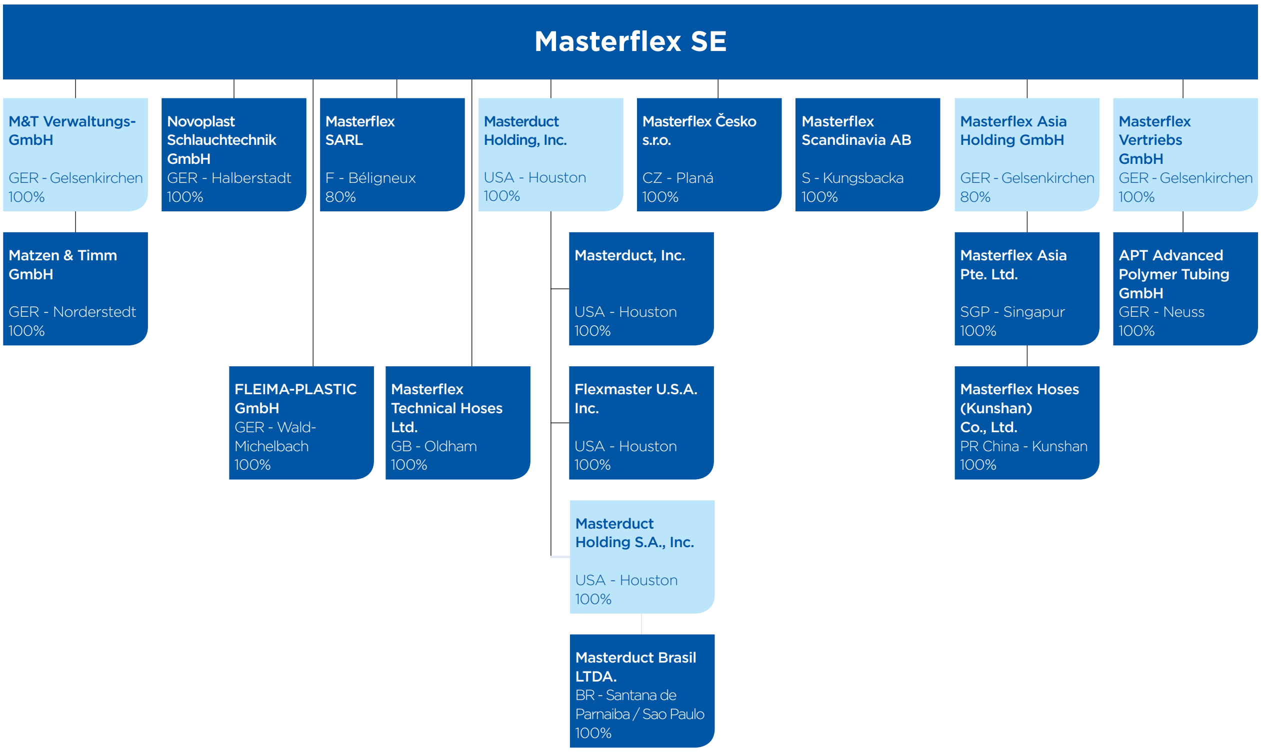
A FUNDAMENTAL INFORMATION ABOUT THE GROUP

I. BUSINESS MODEL

Masterflex SE in Gelsenkirchen is the parent company of the Masterflex Group (also referred to here as Group). The business activity of Masterflex SE and of the Group concentrates on the development, manufacture and marketing of high-tech hoses and connection systems for a wide range of applications in industry and manufacturing. In addition, since the previous financial year, consultation and development has also been marketed as a separate service.

The main production sites of Masterflex Group with 14 operating subsidiaries and six corporate brands are Gelsenkirchen, Neuss, Halberstadt, Norderstedt and Houston (USA). In addition, the Masterflex Group has different locations in Europe, America and Asia through our subsidiary branches with small production lines and sales partners.

The Group structure is illustrated in the following diagram.



Since 2000, Masterflex SE shares (Securities Code Number 549 293) have been traded on the Frankfurt Stock Exchange in the segment with the highest requirements of transparency, known as the Prime Standard.

II. VISION, OBJECTIVES AND STRATEGIES

We are suppliers of products, systems and consulting know-how which solve connection problems. Our particular expertise lies in the use of sophisticated plastics. Our vision is global market leadership in all our relevant markets.

The development, production and engineering-oriented marketing of high-tech hose and connection systems as well as the consulting hold considerable growth potential. We create value through high-quality products and provide our customers with reliability, safety and service. This deliberately consulting-oriented special market strategy differentiates us from other hose manufacturers. We pursue the goal of sustainable, above-average and profitable growth.

A very broad diversification amongst customers, their industries and the areas of application of the Masterflex products is characteristic for the business model. This diversity is accompanied by very small batch sizes.

Advanced growth strategy

Since the end of the restructuring phase in 2010, the Masterflex Group has been pursuing a long-term, value-driven growth strategy based on the two pillars of “internationalisation” and “innovation” until the beginning of 2017. On average, the Masterflex Group has grown annually by around 7% since 2010.

If this strategy remains unchanged, there is a danger that this will be detrimental to internal efficiency due to the fragmentation of the business. Moreover, increasing market transparency associated with the digitization of the economy leads to an increasing cost pressure on virtually all manufactured products. This cost pressure will continue to increase over the next few years.

As a result of these new challenges, we have further developed our growth strategy: in addition to our targeted internationalisation and the acceleration of foreseeable marketable innovations, the Masterflex Group has developed two further approaches, “operational excellence” and “digital transformation”, as additional strategic pillars for the Masterflex Group. Gradual implementation began at the German sites in 2017.

Internationalisation

We strive for value-oriented, long-term growth in all our relevant markets. In doing so, we want to gradually broaden our sales base, which today still lies in Europe, and to achieve a larger share of sales on the American and Asian continents by growing disproportionately there. In North America, the focus is on the USA, in South America on Brazil and in Asia on the Chinese market. Moreover, we are working a series of markets through cooperative partnerships which either adjoin our key regions or which have a close relationship with them. In addition, for some time, our focus has been on providing the entire product range of the Masterflex Group in all the addressed markets.

Innovation

Our declared objective is to occupy and expand our position as technology leader in the market for high-tech hoses. Our innovation strategy is the main pillar for achieving this objective. Our engineers continually design, test and produce new products from a variety of high-performance plastics and manufacturing processes which can substitute traditional connection solutions or its materials to the benefit of our customers. In many cases, starting points, ideas and development directions for new products are also initiated by the request of our customers. The market position we have achieved as technology and innovation leader supports the company’s own price-setting power, the acceptance of new products continuously being introduced onto the market and the acquisition of new customers and projects.

Details of the implementation and the results of our innovation strategy from 2017 can be found in section A IV. Research and development.

Operational excellence
With the additional strategic focus of operational excellence, we meet the challenge of combining maximum flexibility with the best possible efficiency. We place processes at the focus of our overall corporate activities with the aim of creating and standardising them in a simple, fast and flexible way in order to continue to deliver precise solutions and products combined with manageable complexity. Important target values and individual measures are reduced turnaround times for customers, much simpler and faster processes in all areas of the company, higher revenue per employee and appropriate automation. With the strategic focus of operational excellence, Masterflex wants to permanently secure its own earning power by means of reduced complexity and, at the same time, differentiate itself from the competition with high individuality. The reduction of complexity and its efficient management are important challenges for us over the next few years.

Digital transformation
The second new and, from now on, fourth direction of the growth strategy places digital transformation at the core. One aim is to expand the future range of products and services. Under the new AMPIUS brand, intelligent connection systems and hoses will be developed which, thanks to their additional digital functions, provide customer- and application-specific added value. In the medium term, smart services can create completely new business models. Masterflex works on services which use the knowledge and up-to-date information on the status of the products or systems and facilities and which provide direct added value to the customer through transparency and analysis. At the same time, the strategic approach of digital transformation affects all divisions as well as the entire corporate culture. The aim is to become faster and more flexible – just more agile – on the basis of a better data- and thus better decision-making basis. Networked production with Industry 4.0-compatible machines is accompanied by a considerable expansion of the internal and external networking with our customers, suppliers and partners.

III. CONTROL SYSTEM

Masterflex SE is a European stock corporation in accordance with SE Regulations and German law.

The basic principle of German stock corporation law is the dual management principle consisting of an Executive Board and a Supervisory Board which each have their own areas of responsibility.

1. Bodies

Executive Board
The Masterflex Group is run by the Executive Board consisting of two members. Dr. Andreas Bastin has been CEO of the stock corporation since 2008. Mark Becks, industrial engineer, has been CFO since 2009.

Supervisory Board
Since 2016, the three-member Supervisory Board of Masterflex SE has consisted of the Chairman, Georg van Hall, his deputy Dr. Gerson Link and member Jan van der Zouw.

The deliberately small size of the Supervisory Board means that no separate Supervisory Board committees are formed. Between meetings, the Executive Board and the Supervisory Board discuss key topics in telephone conference calls and strategy discussions arranged at short notice. The Chairman of the Supervisory Board also receives regular information on the Group's business development and forthcoming projects.

2. Internal corporate management system

The starting point for strategic corporate planning is an annually updated five year plan dealing with the income statement, balance sheet, investments and liquidity. Budget planning for the following financial year is derived from this strategic planning and broken down into individual months. Controlling in the Group is driven by the monthly target-actual deviation analyses. Forecasts are prepared quarterly allowing a rolling earnings projection. The management is informed on a weekly basis about the sales and incoming orders from the preceding week. Within the scope of monthly reporting, the operating result (Earnings before interests and taxes, Ebit) is reported to the Board for the entire Group.

The Masterflex Group focuses on key figures and their development which are more oriented towards liquidity and corporate value and support the corporate strategy. These include in particular:

- Turnover compared to actual, target (budget) and previous year and
- Ebit development at Group level.

IV. RESEARCH AND DEVELOPMENT

As global leader and technology driver for technical hoses and connection systems, the area of research and development (R & D) forms a central component for the success of the Masterflex Group. Through the development of innovative products and processes, we are able to offer hoses and individual connection solutions for the highest demands. Moreover, R&D forms the basis for marketing our engineering-based connection solutions which are also marketed as a separate service under the “Engineering Services” banner.

The cooperation between the different product brands and locations was further intensified in order to optimise the use of resources for seamless interlinked development. Since the start of 2017, the research and development side of Masterflex, Novoplast Schlauchtechnik and FLEIMA-PLASTIC have been under one unified management. The development team also increased its personnel. Furthermore, an intensified exchange with the foreign locations was maintained. With the deployment of one our development engineers to the USA in 2017, this was also realised for the first time at the level of personnel exchange.

The innovation process (Stage-Gate process) to shorten the throughput times of new products which has been implemented in the meantime and active since then has proven itself. In the regularly occurring project and milestone meetings, developments are discussed and examined both in terms of the market, technology and customer as well as in the view of their economic relevance. For this purpose, external partners from research institutes or selected supplier bases are involved. This ensures a multipolar point of view on possible innovations, both from the market side as well as with regard to both new technologies and new raw materials.

Due to the high innovation competence, Masterflex products cannot easily be substituted by other products. Nevertheless, the high-tech plastics processed by Masterflex offer significant substitution potential for conventional materials, especially for steel and rubber. The company renounces contract manufacturing; almost all products and services are developed and largely self-produced by our engineers and skilled works – also to safeguard the established production and process know-how.

For every individual product innovation, we review whether it is necessary and legally possible or reasonable in the context of our corporate strategy to apply for patents or other property rights in order to protect our intellectual property. Today, the Masterflex Group has a series of intellectual and industrial property rights in an increasing number of countries.

Important projects in 2017

A key focus of development in 2017 were the new, intelligent hoses which are grouped under the AMPIUS brand and are being successively launched on the market. Behind this is the conviction that digitization and the possible networking of all stages of the value chain in the entire industry will also massively change the market for high-tech hoses. On the one hand, this development is driven by technology leaders like Masterflex, on the other hand, the need arises specific customer requirements to comprehensively digitize the own production facilities in order to optimise the own manufacturing processes.

Initial concepts for the added value from the data obtained from digital equipment is the “life cycle traceability”. These hoses provide digital information on their operating status. A first potential application is the information on the usage-dependent own wear and thus on upcoming maintenance or the need for an exchange. Early detection enables customers to optimise the service life of their systems. In addition, hoses from the AMPIUS series always have individual identification which makes accurate traceability possible and provides digital information as to whether the hoses can be installed in the respective application or not.

The requirements for such hoses, but also their functional capabilities will grow considerably over the next few years, which is why Masterflex is already carrying out extensive development work on the technological possibilities today. The focus of our work is on customer benefit. In addition, we want to ensure that our products contribute to the digitization and optimisation of our customers’ production processes.

Due to the high strategic importance of this new product generation, we decided at the start of 2017 to position our products and product groups with digital functions on the market under our own internationally registered AMPIUS brand. With AMPIUS, we want to emphasise even more clearly our technological market leadership and point it out to the market.

In addition to this extremely important issue for the future, a series of further product innovations was developed. In this way, we were able to conclude the development of a PU hose with drinking water approval (for cold and warm water). Marketing began successfully at the end of 2017.

APT Advanced Polymer Tubing, which has been a new subsidiary in the Group and a brand in the Masterflex Group since the start of 2017, was able to expand its own product portfolio by corrugated hoses made from fluoropolymers. Corrugated hoses made from fully fluoridated polymers like PTFE, FEP or PFA are resistant to almost all types of chemicals such as solvents, acids or alkaline solutions. Depending on which polymer is used, they are also permanently resistant to temperatures up to +260 degrees Celsius and withstand even cryogenic applications (applications in an extremely low temperature range). They are also UV and weather resistant and hardly age at all. Corrugated hoses made from fluoropolymers are always used when a high degree of flexibility is needed combined on the one hand with extreme temperatures or, on the other hand, with aggressive media. Typical areas of application are thermal insulation in switchboard cabinets, protective pipes in chemical plants or ventilation and extraction applications under extreme conditions such as in aircraft galleys or ventilation systems for stadium roofs.

In 2017, Masterflex developed a new suction and transport hose made from polyurethane (PUR) specifically for use in the food and pharmaceutical industries: the Master-PUR FOOD A Multi. Due to its novel material composition, it is suitable for transporting food according to the simulant groups A to E and is also permanently anti-static. The new premium product is tested and certified in accordance with EU regulation no. 10/2011 and is also approved in the USA. The result of the R & D work as well as the expansion investments in production facilities at the Gelsenkirchen site in 2016 is the expansion of the Master-PUR Performance and Master-PUR Inline hose series. Since 2017, these unique and completely abrasion-resistant suction and conveying hoses can also be produced and sold in longer versions, namely 15 and 20 meter lengths. In this way, Masterflex reacted to continuously increasing customer requests for this unique, high-performance hose.

At the Halberstadt site, powder conveying hoses have been further developed. In the painting industry, these hoses are used to convey powders (including colour particles). Here, it is important that the clumping of the medium and resulting blockage of the hose are prevented. By introducing two electrically conductive strips on the inside of the hose wall, an electrostatic charge of the medium to be conveyed (powder) is prevented and thus, the clumping and the associated clogging of the hose are avoided.

At FLEIMA-PLASTIC GmbH, based in Wald-Michelbach, the vertical range of toolmaking production has been expanded. By using new high-performance tools to process high-alloyed tool steels and stainless steels, FLEIMA-PLASTIC was able to act as a reliable partner in metal processing for external customers as well as for the Masterflex Group. With our own modern toolmaking facilities integrated into the Group‘s innovative development environment, we can offer our customers – today preferably from the medical and biotechnology industries – outstanding engineering expertise for solving their demanding product development tasks.

Masterduct in the USA has successfully developed a product for temporary external use, which replaces rigid, insulated sheet metal ducts flexibly and cost-effectively. This innovative solution for renovation and extension work on large building complexes was launched at the start of 2017. In the first year already, we were able to acquire and implement the first project successes of this highly flexible and efficient solution for temporary ventilation and air conditioning technology in hospitals. It is currently the only flexible outer tube replacement product of this type and it significantly shortens the installation times for installers.

For our R & D activities, we do not solely rely on our knowledge. In order to remain at the forefront of technological development, we maintain close contact with suppliers as well as with universities and research institutes such as the Fraunhofer Institute. Some of these cooperations were also regulated by contract. These included the optimisation of tools but also materials with special properties or new production processes in order to improve production. In addition, in 2017, we began the comprehensive introduction of so-called agile development methods. For example, the first sizeable number of employees from the German sites were trained in the methodology of Design Thinking. Further, a first so-called creative space was set up, intended to inspire and encourage all employees from all areas in their creativity both with its design and furnishings and also with its casual, open architecture. Agility and absolute customer focus are at the center of our aspired corporate and innovation culture.

External evaluations

Following the awards received in 2016 as official world market leader and TOP innovator, the innovative capacity of the Masterflex Group was also reconfirmed by several organisations in the last year.

For example, our templine® Vario-heating hose was awarded Top Product of the year 2017. In the rankings of the renowned trade journal Process, the hose convinced the jury and was placed within the TOP 10, in particular due to its outstanding properties and the clever system of exchangeable inner core.

Further proof of our future strength is the award as one of the test winners in the study “Germany’s best jobs with a future” which was carried out by the magazine Focus Money in collaboration with Prof. Dr. Werner

Sarges. Here, Masterflex Group is one of the companies with the most secure and sustainable jobs in Germany. This title underlines the fact that the Masterflex Group is an important and attractive employer – and not only in Germany but also in sites worldwide.

V. THE MARKET FOR HIGH-TECH HOSES

The global market for high-tech hoses and connection systems comprises many rather regionally-oriented specialist markets which are served by mostly medium-sized companies. Customers primarily come from the manufacturing industry including industrial applications (B2B market); they range from internationally operating corporations to wholesale and medium-sized industrial companies to small regional small businesses. Due to the difficult to obtain material, processing and application expertise and the variety of applications of the demanding plastics, it is a market with corresponding market entry barriers, good margins and intact growth prospects. This market is characterised by small batch sizes in both production and sales as well as by the consulting intensity and development competence for customer-specific solutions. By contrast, the market better known to the general public for mass-produced hoses is rather focused on end customers, is determined by large batch sizes, lower margins and major international providers.

Due to the rather inhomogeneous and not easily demarcated structure, there is little reliable third-party data about the overall market. That is why the Masterflex Group had already started in 2008 to build a systematic data analysis of the global market and its participants. This extensive knowledge constitutes the know-how of the Masterflex Group which uses it to differentiate its product portfolio from competitors. Moreover, this specialised knowledge is used in the M & A strategy. On the basis of this internal data base, we estimate the size of the market in all of our addressed regions at a volume of around € 2 billion.

In the future, the possible uses of high-tech hoses will increase further. The general trend in the manufacturing industry towards increasingly demanding industrial production processes generates corresponding impulses. In particular, three parameters drive the demand for connection solutions which can meet a variety of needs: firstly, the increasing speed of a manufacturing process; secondly, the desire for its high flexibility in terms of small end product volumes with frequent production variations and, thirdly, the quality requirements of the end product to be manufactured.

The application areas for high-tech hoses are broadly diversified across industries and applications: in mechanical engineering, in the aerospace and automotive industries, by energy companies or in the manufacture and processing of food and pharmaceutical products as well as in the medical industry, flexible connection solutions are increasingly gaining in importance. Together with the outstanding know-how in the processing of sophisticated plastics, these different application areas enable us to design and produce connection solutions which can only be achieved inadequately or not at all with conventional materials.

VI. BRAND IDENTITY AND PRODUCTS

By the beginning of 2017, the Masterflex Group had five corporate brands, which are also the most important operating companies with their own production capacities. Since January 2017, the newly acquired company APT belongs to this brand family as a product brand for fluoridated plastic connections. The six brands with their respective product portfolios are the components for the unified market presence under the MASTERFLEX GROUP umbrella brand. In addition to these brand companies, there are eight other operating subsidiaries in Europe, USA and Asia which sell and sometimes also manufacture products of these brands.

Our slogan "Connecting Values" reflects our core competency: holistic connection systems which are adapted to customer-specific requirements; combined with German engineering, which is used in global production and close customer proximity for consulting, service, reliability and safety. In summary, "Connecting Values" means: We connect values with added value for our customers.

MASTERFLEX

The spiral hose business is the core competence of the Masterflex brand with production focus in Gelsenkirchen. In addition to extruded spiral hoses, clip hoses and PU hoses are developed, produced and distributed. Connecting elements like cuffs, flanges, threaded sockets, clamps and other accessories round off the range of solutions for flexible connection tasks or sometimes create unique system solutions.

The extensive range offers products that meet individual requirements and demanding tasks. Regardless of whether very abrasive solids, aggressive chemicals, gaseous media up to +1,100 degrees Celsius or, for example, food has to be transported: the hoses made of high-tech plastics and fibres always constitute an application- and customer-oriented flexible solution.

MATZEN & TIMM

The brand company Matzen & Timm is a renowned, international manufacturer of special hoses, bellows and moulded parts made of high-quality synthetic rubber materials such as silicone. The products are manufactured by industrial handwork to a large extent and are used wherever precision and special resilience are required. In particular, this includes the aerospace industry, the automotive sector and rail transport. Production takes place in Norderstedt near Hamburg and in Plana (Czech Republic). Special hoses can be found, for example, in the air conditioning system of the Airbus A 380 and Airbus A 350, in racing car engines at the DTM (German Touring Car Masters race events) or in modern train systems. As a manufacturer with its own development department, the value chain includes all sub-steps from design, simulation (FEM) as well as evaluation on customer premises, prototype manufacture through to series production. Almost all products are customer-specific custom-made products

Thanks not least to its adept handling of a wide variety of qualification requirements and its high development expertise for more than 50 years, Matzen & Timm is one of the key suppliers to the aerospace, special vehicle and mechanical engineering industries. Innovative products such as the weight-reduced and/or electrically conductive hose or the protective hose for aircraft fuel lines meet the highest requirements for safety and function.

NOVOPLAST
SCHLAUCHTECHNIK

The brand company Novoplast Schlauchtechnik GmbH in Halberstadt specialises in the extrusion of hoses and profiles in the diameter range of 0.5 to 50 mm for industrial and medical-technical applications. These products are sometimes also further processed such as by thermosetting or by other special assembly and moulding processes. Thermosetting can be used to produce moulded hoses with complex geometries and bending radii according to customer requirements and with high precision in 2D or 3D variants. These abilities in particular open up hitherto little-known areas of application, such as the substitution of metal pipes with low-noise or vibration-free plastic compounds.

State-of-the-art equipment is used for hose and profile extrusion. The large range of materials is regularly supplemented with other special materials. For the production of medical technology, clean rooms are equipped according to ISO class 6, 7 and 8.

Novoplast Schlauchtechnik works closely with the sister company FLEIMA-PLASTIC GmbH, manufacturer of medical precision injection-moulded parts. Using this approach, it is possible to provide customers with the full medical package from one source, consisting of hose and medical components such as Luerlock connectors, drip chambers or roller clamps.

FLEIMA-PLASTIC

The brand company FLEIMA-PLASTIC GmbH which was founded in 1974 from Wald-Michelbach/Odenwald has been part of the Masterflex Group since 2004. High-quality injection-moulded parts and assembled plastic components are produced mainly for the medical technology, cosmetics and food technology industries. In the modern factory, injection-moulded components (also in multi-component technology) are manufactured, assembled and finished in ISO class 7 and 8 clean rooms. In addition, there is vast experience in the construction of precision injection-moulded tools in their own mould-making and in the creation of prototypes in all common rapid prototyping methods.

MASTERDUCT

In North and South America, the Masterflex Group is represented by Masterduct Holding Inc., a wholly-owned subsidiary of Masterflex SE. Masterduct Holding has three operating subsidiaries: Masterduct Inc. and Flexmaster U.S.A. Inc, in Houston, Texas, and Masterduct Brasil Comércio de Dutos LTDA in Sao Paulo, Brazil.

The companies operating in North and South America, Masterduct and Flexmaster U.S.A., also act as brand companies with a corresponding product portfolio.

Flexmaster U.S.A. is a hose specialist for heating, ventilation and air conditioning (HVAC) in the air conditioning and ventilation sector and a leader in public sector construction applications, such as hospitals, school, sports facilities and universities. Flexmaster U.S.A. is a preferred supplier in the healthcare sector because the products do not contain any adhesives or solvents. Further, sound-insulating hoses are used for sound insulation instead of metal compounds, as they are less expensive, more flexible and more sound-absorbing.

Masterduct sells the portfolio of the Masterflex and Novoplast Schlauchtechnik brands to the American market under its brand. Its customers range from the wood industry, mechanical engineering and the plastics industry to the aviation and service industry and the US government.

APT

At the beginning of 2017, APT Advanced Polymer Tubing GmbH from Neuss was acquired. The company specialises in smooth and shrink tubes from fully or partly fluoridated plastics. APT hoses can be permanently used at temperatures from -200 to +260 degrees Celsius. In addition, they are resistant to many chemicals used in industrial manufacturing processes. APT products owe these skills to the processed raw materials FEP (fluoridated ethylene-propylene), PFA (perfluoralkoxy) and PTFE (polytetrafluoroethylenes). These fluoroplastics require a very special processing know-how and a high-quality machinery designed for this purpose. The Masterflex Group has benefited from this specialised expertise since the acquisition of APT. In the future, especially companies from the field of medical technology will also be addressed on the sales side.

AMPIUS

In the future, all networkable, intelligent hoses and connection solutions of the Masterflex Group will be marketed under the brand name AMPIUS which was launched in February 2017. The digitization possibilities of hoses and connections will play a significant role initially, especially in the operations monitoring of industrial production processes. The scope and application of digital data collection and use in hoses will be adapted to the individual customer requirements. With these new so-called “smart products”, the Masterflex Group will take a pioneering role in the development of digitized connection solutions.

B FINANCIAL REPORT

B BUSINESS REPORT

I. MACROECONOMIC CONDITIONS

In 2017, the world economy as well as the economies that are most important to the Masterflex Group performed well with growth rates that were almost consistently above original expectations. According to the International Monetary Fund (IMF), global economic growth was able to accelerate noticeably at a rate of 3.7%. According to the Institute for the World Economy (IfW) in Kiel, the most vigorous expansion of the global production in any half year since 2010 took place at a little more than 2%, particularly in the 2017 summer half year. The economy in virtually all large economies was on an upwards trend and world trade had picked up considerably. This is particularly attributable to a noticeable expansion of Asian foreign trade, primarily originating from China.

The economic recovery has continued in the euro zone too. After 1.8% in 2016, growth in 2017 reached a new high at 2.4% and a strong increase. From a regional perspective, this growth in the euro zone was broadly based on growth in all major economies. In Europe, Great Britain is the exception amongst the large economies. Here, as a result of Brexit, the growth rate has weakened to 1.7%, but it was still slightly above expectations.

The US gross domestic product rose by 2.3% in 2017, largely due to higher investments.

ECONOMIC GROWTH IN SELECTED COUNTRIES WHERE THE MASTERFLEX GROUP HAS A PRESENCE

Change of GDP compared to previous year in %

Country	2017 (figure from the 2016 Annual Report*)	2016
Euro zone	**2.4 (1.8)**	**1.7**
Germany	2.5 (1.6)	1.9
France	1.8 (1.6)	1.5
Great Britain	1.7 (1.6)	2.0
World	**3.7 (3.3)**	**2.8**
Brasil	1.1 (0.8)	-3.4
China	6.8 (6.5)	6.7
USA	2.3 (2.3)	1.6

Source: IMF, Commerzbank AG
*(in brackets, the expected 2017 value, as indicated in the 2016 Annual Report)

Economic development in Germany also gained momentum in 2017 and is further characterised by a solid, continuous economic growth. According to the calculations of the Federal Statistical Office, the price-adjusted gross domestic product was 2.2% higher in 2017 than in the previous year. The “World Economic Outlook” issued by the International Monetary Fund in January expects an increase in the German gross domestic product of even 2.5% in 2017. Significant drivers of growth for the German economy remained domestic consumption and investments in the construction industry.

Despite the broad-based growth of the global economy, large geopolitical uncertainties still persisted in 2017 – with an even increasing tendency, but so far without a dampening effect on the economy. These uncertainties, combined with the continuing varying pace of growth in Europe, America and Asia, further encourage us regarding our internationalisation strategy. The broad regional base is essential in order to position the Masterflex Group as a broad-based and profitable company, independent from single cycles, single sectors and single regions. International positioning is also demanded by the customer: Not only our major customers, but also the European hidden champions who are so important to us, for example, in machinery and plant construction, place more and more emphasis on global presence amongst their suppliers and solution providers, and this we offer them with the highest possible proximity to customers. Thus, our international activities also have a positive impact on the business development in Europe and Germany.

The plastics processing industry in Germany has increased its turnover by 4.8% in 2017 to € 63.7 billion. Thus, the development was considerably more dynamic than expected at the start of 2017 by the German Association of the Plastics Converters (GKV) with a growth of 2.5%. Export sales developed more dynamically than domestic sales. The volume processed rose by 4.6% to 14.7 million tonnes. The number of employees grew by 1.9% to 323,000 people.

The good development was based on the solid growth of important export-oriented customer industries like mechanical engineering and the automotive industry. At the same time, the industry benefited from good domestic demand and the high consumption trends of private consumers. However, the industry association also saw dampening effects due to price increases on the raw materials side which particularly affected manufacturers of technical plastic products and which at best could be passed on in part to customers.

II. BUSINESS DEVELOPMENT

For the Masterflex Group, the 2017 financial year had a successful shape to it. Turnover and sales figures rose significantly. We achieved absolute growth in all key earnings figures. According to our estimates, the market position in each of the target markets addressed could be confirmed or further expanded upon in 2017. With the successful acquisition and integration of APT Advanced Polymer Tubing GmbH, Masterflex has also continued to grow from an M & A perspective and has strategically supplemented its product portfolio.

Financing was already placed on a very stable basis in the medium term, thanks to a new syndicated loan. In 2017, it was also possible to further strengthen the equity position through the capital market thanks to a successful 10% capital increase.

Our good development in 2017 also received a positive impetus through appropriate framework conditions. The economy which is running above expectations and an internationally-intact investment activity in our key target markets added to the momentum. At the same time, important price developments in energy, raw materials and exchange rates remained within the range of our expectations.

In terms of its own forecasts, the 2017 financial year was also satisfactory on the whole, even if there is a mixed picture. The growth in turnover of 12.3% was even above its own target of 6 to 10%. Despite a 16.1% increase in the Ebit to € 7.1 million, the margin target of 10% was narrowly missed. The operating Ebit margin was 9.5% in 2017. Until December, we could assume that we would achieve this sub-objective in 2017. In the annual financial statements, however, we had to process some unplanned one-off effects which in their addition resulted in a noticeable negative impact on the result. One factor was a short-term, unexpected loss of revenue in the USA, but we expect to make this up again at least partially in 2018. Another effect resulted from inventory differences at individual subsidiaries which went beyond the provisions made. Nevertheless, the development of earnings, particularly with a significant increase in the Group result, also offers scope for an increase in the dividend proposal.

In Europe, the key brands and regions developed well to very positively on the revenue side. These included Novoplast Schlauchtechnik, Masterflex SE and Matzen & Timm with the related operation Masterflex Cesko. The year was more subdued for us particularly at FLEIMA-PLASTIC GmbH and in Francer; here, the general economic situation and increased competition play a role. In terms of earnings, Matzen & Timm GmbH remained below our expectations in 2017. Despite well-filled order books, a tense staff situation with a high turnover rate contributed to the fact that we could not achieve our Ebit target.

With our activities on the American double continent, we focus on North America and here on the United States (USA). We were able to achieve significant progress in sales and earnings in 2017 through our Masterduct brand and subsidiary. At the second subsidiary, Flexmaster, an unexpected decline in sales in December meant that we were slightly below the previous year's figure. However, we still see high potential in the USA for this part of our product portfolio.

In South America, we are concentrating on the Brazilian market which we are processing through our Sao Paulo-based subsidiary. Since our launch in 2010, the macroeconomic conditions have developed significantly differently than initially expected. After examining various options, we have taken a series of measures there in 2016 and 2017 to increase efficiency. Brazil remains an interesting region and a future market for use due to its high level of industrialisation. In 2017, the economy there also recovered somewhat again and the situation eased a little overall. We are on the right track and almost achieved a break-even result in 2017 which was our target.

Our activities in Asia focus on the Chinese market. There, we were able to perform very well in 2017 associated with a significant increase in sales and earnings. On the other hand, the development in Singapore fell slightly. There, we achieved a stable sales performance in 2017 but this was still accompanied by negative earnings contributions. Accordingly, measures have already started in 2017 and will be intensified again in 2018 in order to make this development more positive.

III. SIGNIFICANT EVENTS IN THE 2017 FINANCIAL YEAR

In January 2017, Masterflex SE completed the purchase of APT Advanced Polymer Tubing GmbH which had already been communicated at the end of 2016. The purchase price for 100% of the shares in the fluoropolymer specialist APT was within the upper € million single-digit range. Financing took place by means of the acquisition line of the syndicated loan which was designed for such opportunities. The integration of the new, fully consolidated subsidiary into the Group in 2017 proceeded as planned in the reporting year. In particular, the initial projects planned for joint market development were implemented. Here, the primary objective was the future-oriented medical technology market.

The additional warehousing and production capacities at the Gelsenkirchen site completed at the end of 2016 were inaugurated, sourced and integrated into the new processes and structures in January 2017. Thus, the Masterflex Group has additional space for production of up to 2,400 sqm and for warehousing of almost 4,600 sqm. In addition, there will be new office space, a modern laboratory, a new workshop and enlarged social rooms. The loading and unloading zones at the Gelsenkirchen site have also significantly improved and a smooth roundabout for heavy good vehicles has been introduced. In addition, today all external warehouses are centralised in one location. In 2016, the Masterflex Group has already primarily invested around € 7.0 million in new buildings and machinery for the entire site expansion, including modern, Industry 4.0-capable facilities.

With the launch of the new AMPIUS brand, Masterflex took a major step in 2017 in bundling and the underlying planned product line for networkable and intelligent hoses and connection solutions within the Group and in visibly positioning them on the market. In cooperation with the customers, products and product groups with intelligent functions will be developed in the future. For the Masterflex Group, these new products are a further step towards confirming and further expanding its own technological market leadership which has been repeatedly confirmed and honoured externally over the last few years.

In March 2017, Masterflex SE successfully completed a 10% cash capital increase. On the occasion of the acquisition of the fluoropolymer specialist APT, we had already communicated that we were considering increasing our equity base. This took place through the issuance of 886,586 new non-par-value bearer shares with a dividend entitlement from 1 January 2016. The company's share capital therefore increased by € 886,586 from € 8,865,875 to € 9,752,460. The new shares were issued under exemption of subscription rights of existing shareholders within the framework of a non-public private placement and were subscribed by J.F. Müller & Sohn AG from Hamburg at the subscription price of € 6.70. The company received gross proceeds of around € 5.9 million from the capital increase.

By resolution of the 2017 annual general meeting, Masterflex SE has started to pay out a dividend. The payout of 5 cents per share is in line with the dividend strategy communicated in 2017 aiming for a dividend per share at least equal to the previous year in the interest of future dividend continuity. In line with the requirements of our internal and external growth path, we intend to allow our shareholders to participate to an appropriate degree in the success of the company in the future through regular dividend payouts.

The comprehensive strategy expansion was of central importance in the 2017 financial year. In addition to the two pillars of innovation and internationalisation, the topics of digital transformation and operational excellence have now been added as further pillars in the corporate strategy (further information can be found in section A II. Vision, objectives and strategies).

IV. ECONOMIC SITUATION

1. Results of operations of the Group

	2017		2016		Abweichung	
	in €k	in %	in €k	in %	in €k	in %
Revenue	74,675	98.9	66,486	99.2	8,189	12.3
Stock changes	94	0.1	-174	-0.3	268	-154.0
Capitalised services	746	1.0	763	1.1	-17	-2.2
Total operating performance	**75,515**	**100.0**	**67,075**	**100.0**	**8,440**	**12.6**
Other operating revenue	512	0.7	1,041	1.6	-529	-50.8
Operating revenue	**76,027**	**100.7**	**68,116**	**101.6**	**7,911**	**11.6**
Cost of materials	-24,311	-32.2	-20,804	-31.0	-3,507	16.9
Staff costs	-28,522	-37.8	-26,496	-39.5	-2,026	7.6
Depreciation, amortisation and impairments	-3,182	-4.2	-2,714	-4.0	-468	17.2
Other business expenses	-12,627	-16.6	-11,740	-17.5	-887	7.6
Other taxes	-304	-0.4	-265	-0.4	-39	14.7
Operating expenses	**-68,946**	**-91.2**	**-62,019**	**-92.4**	**-6,927**	**11.2**
Operating Ebit	**7,081**	**9.5**	**6,097**	**9.2**	**984**	**16.1**
Financial result	-1,181		-1,323		142	
Non-operating expenses	-480		-200		-280	
Net profit before income taxes	**5,420**		**4,574**		**846**	
Income taxes	-1,055		-1,156		101	
Earnings after taxes from continued operations	4,365		3,418		947	
Earnings after taxes from discontinued operations	-62		-555		493	
Consolidated result	**4,303**		**2,863**		**1,440**	
thereof minority interests	-8		-65		57	
thereof interests of shareholders of Masterflex SE	4,311		2,928		1.383	

1.1 Turnover development

When comparing the individual items of the profit and loss statement (and the individual balance sheet items) to those of the previous year, the effects of the first-time consolidation of APT Polymer Tubing GmbH since 4 January 2017 have to be taken into account. This transaction alone increases income and expense items as well as balance sheet items. These as well as other operating effects are addressed below.

In the 2017 financial year, the Masterflex Group turned over € 74.7 million with the production and sale of high-tech hoses and connection systems; this is a growth of 12.3%. The acquisition of APT Polymer Tubing GmbH, with its head office in Neuss, in 2017 made a significant contribution to this growth. Organic growth is 3.9%, inorganic growth 8.4%.

Almost all sites contributed to the organic growth in turnover. The development of Novoplast Schlauchtechnik GmbH, Masterflex SE, Masterduct Inc. in the USA and Masterflex Hoses Ltd. In China was particularly positive this year. FLEIMA-PLASTIC GmbH and Flexmaster Inc. in the USA were below the turnover of the previous year.

1.2 Earnings development

Operating earnings before interest and taxes (Ebit before discontinued operations and non-operating income and expenditure) amounted to € 7.1 million compared to € 6.1 million in 2016. This corresponds to a revenue-related operating EBIT margin of 9.5% (previous year: 9.2%). The development of further items of the consolidated income statement are explained in brief below.

The inventory of finished and unfinished goods rose slightly as at 31 December 2017, in particular, due to the increase in delivery capacity at the Gelsenkirchen site. After a drop in 2016, the change in inventories was around € 0.1 million in 2017.

Capitalised services at € 0.7 million were slightly under the previous year's figure (€ 0.8 million). These include activations of product and process development projects and the ERP project started in the summer.

Other operating income was halved compared to the previous year's level. In 2017, they amounted to € 0.5 million (previous year: € 1.0 million), predominantly comprising grants and allowances.

The cost of materials increased from € 20.8 million in 2016 to € 23.4 million in 2017. This is mainly attributable to the acquisition of APT Polymer Tubing GmbH as its cost of materials was not included in the 2016 figures. The material usage ratio (cost of materials in relation to total operating performance) also rose to 32.2% (previous year: 31.0%). On the one hand, this was again down to the acquisition as APT Polymer Tubing GmbH has a high material usage ratio owing to the comparatively expensive raw materials (counter effect is then a lower staff cost ratio). On the other hand, price effects on revenue had a negative impact on the material usage ratio.

Personnel expenses amounted to € 28.5 million in the past financial year and were therefore € 2.0 million higher than the previous year's figure of € 26.5 million due to the personnel costs of APT Polymer Tubing GmbH added in 2017 and due to the annual wage and salary adjustments. The staff usage ratio dropped from 39.5% in the previous year to 37.8% in 2017. Besides the APT effect, this also reflects the higher turnover per employee. This rose by € 111 thousand in the previous year to € 116 thousand in 2017.

Other operating expenses amounted to € 12.6 million (previous year: € 11.7 million). This is due to the APT effect and to higher shipping costs owing to the increased turnover volume.

Depreciation increased by € 0.5 million to € 3.2 million, predominantly as a result of the expansion investments at the Gelsenkirchen site (buildings and machinery).

The consolidated operating result (Ebit) increased by 16.1% from € 6.1 million to € 7.1 million. Improved business development and the successful integration of APT Polymer Tubing GmbH are reflected in this substantially higher profitability.

In addition, Novoplast Schlauchtechnik GmbH, Masterflex SE and Masterduct Inc. in the USA contributed considerably to this increase in Ebit. Matzen & Timm GmbH, which generated a significantly lower Ebit in 2017 due to high staff turnover despite rising revenues, and Flexmaster Inc., which also lost earnings as a result of the unexpected decline in sales in December, remained in part significantly below expectations. Our companies in Brazil and Asia developed positively and are now close to the break-even target.

The financial result of € -1.2 million improved slightly over the previous year's result (€ -1.3 million). Despite the increased financial liabilities due to the acquisition of APT Polymer Tubing GmbH and the associated drawing of credit lines, the financial result was improved as the additional expenses for concluding the new syndicated loan agreed in 2016 were no longer recorded in 2017.

Non-operating effects stood at € 0.5 million. These include the expenses for the acquisition of APT Polymer Tubing GmbH and legal costs in connection with the legal dispute with the former French Managing Director.

Income tax expenses at € 1.1 million were slightly lower than the previous year's figure of € 1.2 million. These include current income tax liabilities of € 1.5 million (previous year: € 0.6 million) and deferred taxes (2017: income of € 0.4 million, previous year: expenses of € 0.6 million).

Earnings after taxes from continued operations thus amount to € 4.4 million. Compared to the previous year (€ 3.4 million), this is an increase of 27.7%. The income from discontinued operations amounts to € -0.1 million compared to € -0.6 million in the previous year.

The consolidated result amounts to € 4.3 million compared with a figure of € 2.9 million for the previous year. Including non-controlling interests in two Group companies, the shareholders of Masterflex SE account for € 4.3 million (previous year: € 2.9 million). The non-controlling interests include the ownership structure of the subsidiary in France (Masterflex SE: 80%) and Masterflex Asia Holding GmbH (Masterflex SE: 80%).

Earnings per share from continued operations rose from € 0.40 to € 0.46. Taking into account the earnings per share from discontinued operations (€ -0.01), the overall earnings per share in 2017 thus amount to € 0.45.

1.3 Comparison of the actual business results with the forecasts

For the 2017 financial year, we forecast an increase in turnover of 6 to 10%. With growth of 12.3%, we are well above our forecast. Our organic growth in turnover was 3.9%. Here too, we were above the growth of the global economy.

In terms of earnings, a clear increase in our operating result (Ebit) was expected for the 2017 financial year compared to the previous year (€ 6.1 million). In actual fact, the operating result before special effects increased by 16.1% to € 7.1 million. Therefore, we also achieved our earnings forecast.

Unfortunately, due to special effects at the end of the year, we slightly missed our target of a two-digit Ebit margin. With an Ebit margin of 9.5%, we fell slightly below our expectations.

2. Net assets of the Group

2.1 Asset structure

Assets	31.12.2017 in €k	31.12.2017 %	31.12.2016 in €k	31.12.2016 %	Change in €k	Change in %
Intangible assets	11,233	15.4	4,499	7.4	6,734	149.7
Fixed assets	31,413	43.1	29,033	48.1	2,380	8.2
Financial assets	78	0.1	91	0.2	-13	-14.3
Other assets	40	0.1	74	0.1	-34	-45.9
Deferred taxes	1,546	2.1	1,463	2.4	83	5.7
Non-current assets	**44,310**	**60.8**	**35,160**	**58.2**	**9,150**	**26.0**
Inventories	15,236	20.9	13,562	22.4	1,674	12.3
Receivables and other assets	8,085	11.0	7,696	12.8	389	5.1
Current assets	**23,321**	**31.9**	**21,258**	**35.2**	**2,063**	**9.7**
Cash	**5,336**	**7.3**	**3,994**	**6.6**	**1,342**	**33.6**
	72,967	**100.0**	**60,412**	**100.0**	**12,555**	**20.8**

The main reasons for the increase in the balance sheet total from € 60.4 million to € 73.0 million are three facts, all of which relate to the acquisition of APT Polymer Tubing GmbH. These are:

1. An increase in intangible assets for the accounting of goodwill in connection with the acquisition of APT Polymer Tubing GmbH amounting to € 5.9 million and the first-time consolidation of APT Polymer Tubing GmbH.
2. The use of the acquisition line of the syndicated loan agreement in the amount of € 4.5 million.
3. The increase in share capital by 10% within the context of the capital increase which had an effect of € 5.9 million. On the one hand, this increased equity and, on the other hand, also the liquid assets of the company.

The individual changes in the asset structure are explained as follows:

The intangible assets rose from € 4.5 million in 2016 to € 11.2 million in 2017. The increase of € 6.7 million is predominantly attributable to the accounting of goodwill (effect = € 5.9 million) and to the activation of capitalised services, amongst other things for the ERP project as well as for the development of formulations and processes.

Property, plant and equipment grew by € 2.4 million to € 31.4 million. This primarily relates to the site expansion and the associated expansion of machinery (extrusion, coating) at the Gelsenkirchen site (the effect of this alone is € 1.8 million). Moreover, as part of the purchase price allocation in connection with the acquisition of APT Polymer Tubing GmbH, machines to the amount of € 1.0 million were revalued.

In the 2017 financial year, deferred taxes of around € 0.7 million were used. Due to the change in the tax rate in the USA, active deferred taxes of € 0.1 million were liquidated. In addition, further loss carryforwards which up to now had not been capitalizable could be activated. Activation is particularly associated with the acquisition of APT Polymer Tubing GmbH. This effect amounts to € 0.9 million resulting in a total increase in deferred taxes of € 0.1 million to € 1.5 million. In total, these factors increased the non-current assets from € 35.2 million to € 44.3 million.

Inventories rose from € 13.6 million in 2016 to € 15.2 million in 2017. On the one hand, the rise is volume and reporting date related and on the other hand is accounted for by the first-time consolidation of APT (the effect from this amounts to € 1.0 million).

Receivables and other assets only rose slightly by € 0.4 million to € 8.1 million which is almost exclusively attributed to the APT effect.

In total, these factors increased the current assets by € 2.1 million to € 23.3 million in 2017.

Liquid assets increased by € 1.3 million to € 5.3 million (see explanations in section B IV. 3.3 Liquidity, in this regard).

2.2 Capital structure

	31.12.2017		31.12.2016		Change	
Liabilities	**in €k**	**%**	**in €k**	**%**	**in €k**	**in %**
Consolidated equity	37,736	51.7	29,033	48.0	8,703	30.0
Balancing items for non-controlling interests	-340	-0.5	-332	-0.5	-8	2.4
Total equity	**37,396**	**51.2**	**28,701**	**47.5**	**8,695**	**30.3**
Provisions	225	0.3	197	0.3	28	14.2
Financial liabilities	18,293	25.2	20,694	34.3	-2,401	-11.6
Other liabilities	948	1.3	977	1.6	-29	-3.0
Deferred taxes	916	1.3	849	1.4	67	7.9
Non-current liabilities	**20,382**	**28.1**	**22,717**	**37.6**	**-2,335**	**-10.3**
Provisions	2,290	3.1	2,135	3.6	155	7.3
Financial liabilities	7,404	10.1	2,432	4.0	4,972	204.4
Other liabilities	5,495	7.5	4,427	7.3	1,068	24.1
Current liabilities	**15,189**	**20.7**	**8,994**	**14.9**	**6,195**	**68.9**
	72,967	**100.0**	**60,412**	**100.0**	**12,555**	**20.8**

The equity capital of the Masterflex Group increased from € 28.7 million in the previous year to € 37.4 million as at 31 December 2017. This corresponds to an equity ratio (equity in relation to balance sheet total) of 51.2% compared with a rate of 47.5% in the previous year. The increase in absolute terms of equity is essentially based on the consolidated result of € 4.3 million (listed in the retained earnings) as well as the effects of the capital increase in subscribed capital (increase of € 0.9 million) and in the capital reserve (increase of € 5.0 million) of € 5.9 million in total. Furthermore, exchange rate differences amounting to € -1.0 million, slight changes in the fair value of financial instruments and the dividend payout of € 0.5 million (listed in the retained earnings) had to be processed.

Non-current liabilities of the Masterflex Group decreased from € 22.7 million to € 20.4 million. This is mainly due to the scheduled repayments agreed in the syndicated loan agreement of € 2.5 million.

Current liabilities increased by € 6.2 million and stood at € 15.2 million as at 31 December 2017. This is predominantly due to the increase in financial liabilities. These rose by € 5.0 million to € 7.4 million due to the utilisation of the acquisition line of € 4.5 million and a further drawing of € 0.5 million within the framework of the syndicated financing (operating credit line).

3. Financial position of the Group

3.1 Principles and objectives of financial management

The short- to medium-term objectives of financial management were achieved in 2017. These included in particular:

- Realisation of an acquisition without maxing out the significant covenant (in particular, net debt to EBITDA) of the syndicated loan agreement.
- Further strengthening of our equity.

In connection with the purchase of APT Polymer Tubing GmbH, Masterflex SE made use of the acquisition line on the one hand (net drawing of € 4.5 million) and, on the other, completed a 10% capital increase (cash inflow of € 5.9 million) to strengthen the equity and finance part of the purchase price (€ 4.0 million).

Thus, the key covenants of the syndicated loan agreement were maintained at around the previous year's level and the equity ratio could be bolstered. Hence, the equity ratio as at 31 December 2017 was 51.2% (previous year: 47.5%).

3.2 Financing analysis

Long and short-term financial liabilities amounted to € 25.7 million as at 31 December 2017 and were therefore € 2.6 million higher than the year-end value for 2016.

The liquid assets of the Masterflex Group amounted to € 5.3 million at the end of 2017 (previous year: € 4.0 million). Net debt thus stood at € 20.4 million at the end of 2017 (previous year: € 19.1 million). Thus, the ratio of net debt to Ebitda stood at 2.0 at the end of the year (previous year: 2.2). This key figure is a measure of the Group's debt-to-equity ratio and indicates how quickly debt can be reduced.

The structure of the financial liabilities of € 25.7 million consists of long- and short-term tranches of the syndicated loan agreement (previous year: € 23.1 million). There were no other bank liabilities at the end of 2017.

Collateral has been secured for most of the borrowed funds provided.

There is no significant off-balance sheet financing – apart from standard business activities such as vehicle leasing.

3.3 Liquidity position
Cash and cash equivalents increased by € 1.3 million year-on-year to € 5.3 million.

The cash and cash equivalents mainly benefited from:
- Positive earnings before depreciation (Ebitda) of € 10.3 million.
- Borrowing of € 9.0 million.
- Capital increase of € 5.9 million.

The following factors had a negative impact on cash and cash equivalents:
- Payouts in connection with the acquisition of APT Polymer Tubing GmbH of € 8.8 million.
- Investments in property, plant and equipment and intangible assets of € 4.7 million.
- Repayment of acquisition loans from the proceeds of the capital increase of € 4.0 million.
- Scheduled repayments within the framework of the syndicated loan agreement of € 2.5 million.
- Interest payments of € 1.1 million.
- Income taxes paid of € 0.8 million.
- Increase in inventories of € 0.7 million.
- Payout of dividends of € 0.5 million.

The cash flow statement, showing the transfer of cash in hand and bank balances in the last financial year, can be found in section 3 (consolidated financial statements, consolidated cash flow statement)..

The Masterflex Group was solvent at all times throughout 2017. In addition, at the 2017 year-end, Masterflex SE had a freely available non-utilised credit line – in observance of defined covenants – of € 16.0 million from the syndicated loan agreement, of which € 3.3 million is short-term overdraft and € 12.7 million from the acquisition line.

V. OVERALL STATEMENT ON THE ECONOMIC POSITION

As of the reporting date, taking into account
- the growth particularly in the international markets,
- the secure medium-term Group financing,
- the stability of the Group's equity and
- the ratio of net debt to Ebitda of 2.0

the Group management considers the net assets, financial position and results of the Masterflex Group to be overall significantly strengthened on the previous year and a good foundation for the future development of the Masterflex Group.

VI. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION OF THE MASTERFLEX SE

In addition to the reporting on the Masterflex Group, the development of Masterflex SE is described below for the 2017 financial year.

Masterflex SE is the parent company of the Masterflex Group with its headquarters in Gelsenkirchen, Germany. Its business activity essentially comprises the development, production and sale of high-tech hoses and connection systems from high-performance plastics in Germany as well as the control of the worldwide operations of the Masterflex Group. Masterflex SE produces its hoses and connection systems at their headquarters in Gelsenkirchen and through domestic and foreign subsidiaries. Distribution takes place through the Masterflex SE distribution system, through domestic and foreign subsidiaries and through selected partners of the Masterflex Group.

The main management functions of the Masterflex Group are the responsibility of the Masterflex SE Executive Board. It defines the Group strategy and controls the allocation of resources and the organisation of the Group. In addition, the Executive Board determines the funding and the communication with the most important target groups of the Group and is responsible for global M&A activities. The economic development of Masterflex SE is largely determined by its production and sales success and its operating subsidiaries. Alongside the sales success of Masterflex SE, the investment result from profit transfers and profit distributions of the investments is of crucial importance to the economic position of Masterflex SE. Accordingly, the statements made in section D Opportunity and risk report in particular and the non-financial report published on the homepage of the Masterflex Group also apply, in particular, to Masterflex SE.

The annual financial statements of Masterflex SE are prepared in accordance with the provisions of the German Commercial Code (HGB) and German Stock Corporation Act (AktG). The consolidated financial statements follow the International Financial Reporting Standards (IFRS). This results in differences in the accounting and valuation methods.

Revenue and turnover of Masterflex SE

PROFIT AND LOSS STATEMENT OF MASTERFLEX SE ACCORDING TO THE GERMAN COMMERCIAL CODE (SUMMARY)

	2017		2016		Change	
	in €k	in %	in €k	in %	in €k	in %
Revenue	19,927	96.7	19,011	97.2	916	4.8
Stock changes	115	0.6	20	0.1	95	475.0
Work performed by the enterprise and capitalised	562	2.7	522	2.7	40	7.7
Total operating performance	**20,604**	**100.0**	**19,553**	**100.0**	**1,051**	**5.4**
Other operating revenue	197	1.0	113	0.5	84	74.3
Operating revenue	**20,801**	**101.0**	**19,666**	**100.5**	**1,135**	**5.8**
Cost of materials	-7,347	-35.6	-6,820	-34.9	-527	7.7
Staff costs	-8,630	-41.9	-8,371	-42.8	-259	3.1
Depreciation, amortisation and impairments	-704	-3.4	-492	-2.5	-212	43.1
Other business expenses	-3,803	-18.5	-3,855	-19.7	52	-1.3
Other taxes	-57	-0.3	-43	-0.2	-14	32.6
Operating expenses	**-20,541**	**-99.7**	**-19,581**	**-100.1**	**-960**	**4.9**
Operating profit	**260**	**1.3**	**85**	**0.4**	**175**	**205.9**
Financial result	2,928		2,169		759	
Non-operating expenses	2,281		-200		2,481	
Non-operating result	9		14		-5	
Net profit before income taxes	**5,478**		**2,068**		**3,410**	
Income taxes	-990		-508		-482	
Net income for the year	**4,488**		**1,560**		**2,928**	

The results of operations of Masterflex SE is largely determined by the business in high-tech hoses and connection systems at the Gelsenkirchen site as well as the distribution and transfer of profits of the operating subsidiaries which conduct such business at other national and international sites.

The turnover of Masterflex SE at € 19,927 thousand grew by 4.8% over the previous year's figure (€ 19,011 thousand). This is due to an increase in revenue from external customers as well as from subsidiaries (particularly in Scandinavia, France, England and China). This reflects the successful improvements of the sales process as well as in terms of the increase in delivery reliability and the reduction of replacement times to the customer.

Compared to the previous year, inventories in finished goods and work in progress increased slightly. The change of inventories was € 115 thousand (previous year: increase of € 20 thousand). This increase essentially served to improve the delivery capacity of finished goods in stock.

Capitalised services were in line with last year's figure, at € 562 thousand (previous year: € 522 thousand). These include the capitalisation of product and process development projects and the ERP project which was started in summer.

The overall operating performance (sum of sales, change of inventories and capitalised services) of Masterflex SE increased from € 19,553 thousand in 2016 to € 20,604 thousand in 2017.

Other operating revenue (predominantly salary replacement benefits like maternity benefit) of € 197 thousand was slightly higher than the previous year's level of € 113 thousand. Operating performance (sum of overall performance plus other operating revenue) accordingly rose by € 1,135 thousand to € 20,801 thousand in 2017.

The cost of materials rose by € 527 thousand to € 7,347 thousand in 2017. The material cost ratio (cost of materials as a percentage of overall operating performance) increased from 34.9% in 2016 to 35.6% in 2017. The rise in the material cost ratio is based on increased material costs, especially in the second half of the year, and on price effects on sales (price discounts on a few product lines).

Personnel expenses rose by 3.1% to € 8,630 thousand; this results in a staff cost ratio (personnel expenses as a percentage of overall operating performance) of 41.9% (previous year: 42.8%). The increase is mainly due to normal wage increases. Despite the clear increase in volume, personnel was not built up by a significant amount.

Other operating expenses have dropped slightly. Compared to the previous year (€ 3,855 thousand), they fell by 1.3% to € 3,803 thousand. This is due to reduced rental expenses in terms of storage (external warehouses were dissolved by the site extension in Gelsenkirchen) and to high one-off expenses in 2016 (the expenses taken into account in the discontinued operations in the Group in connection with the CAB/Velodrive claim).

Due to expansion investments (buildings and machinery) at the Gelsenkirchen site in 2015 and above all in 2016, depreciations rose sharply. These amounted to around € 704 thousand in 2017 and were therefore well above the previous year's figure (€ 492 thousand).

In summary, this resulted in an operating profit of € 260 thousand, € 175 thousand higher than in the previous year of € 85 thousand.

The financial result rose significantly compared to 2016. In 2017, it amounted to € 2,928 thousand and thus was € 759 thousand above the previous year. There are three effects predominantly behind this:

- On the one hand, interest expenses fell by € 247 thousand due to the high amount the previous year (2016) thanks to the conclusion of the syndicated loan agreement and the associated financial expenses incurred.
- Secondly, interest income grew by € 265 thousand due to higher loan financing from Masterflex SE to subsidiaries (essentially also induced by the acquisition of APT Advanced Polymer Tubing GmbH by Masterflex Vertriebs GmbH).
- And thirdly, investment income rose by € 182 thousand.

Non-operating effects amounted to € 2,281 thousand in 2017 (previous year: € -200 thousand). This includes expenses for legal disputes (€ 137 thousand) and the capital increase which took place in March (€ 37 thousand). On the other hand, the purchase of APT Advanced Polymer Tubing GmbH by Masterflex Vertriebs GmbH opened up new earnings potential with the result that the value-adjusted loans and trade receivables from Masterflex SE to Masterflex Vertriebs GmbH that had been impaired in previous years could be reversed again (effect of this impairment: € 2,456 thousand).

In particular due to the high financial result, the earnings before taxes therefore rose to € 3,410 thousand to € 5,478 thousand.

Owing to the reversal of deferred tax assets amounting to € 834 thousand and a more positive operating result, income taxes increased by € 482 thousand to € 990 thousand in 2017 (previous year: € 508 thousand). The annual net income of Masterflex SE rose by € 2,928 thousand and thus amounted to € 4,488 thousand in 2017.

With a growth rate of 4.8%, our forecast for Masterflex SE in 2017 to achieve a faster rising revenue growth in comparison to the global economy has been fully fulfilled. The operating income, described as the earnings before interest and taxes (Ebit) of € 260 thousand was up on the previous year's figure of € 85 thousand which also corresponds to our forecast of a slight increase in earnings.

Development of the net assets and the financial position of Masterflex SE

As at 31 December 2017, the balance sheet total of Masterflex SE with a value of € 82,153 thousand was € 13,277 thousand above the previous year's value of € 68,876 thousand. The main related business transactions were the acquisition of APT Advanced Polymer Tubing GmbH, based in Neuss, the borrowing associated with this acquisition in January 2017 and the capital increase in March 2017.

ASSETS	31.12.2017		31.12.2016		Abweichung	
	in €k	%	in €k	%	in €k	in %
Intangible assets	1,414	1.7	970	1.4	444	45.8
Fixed assets	14,297	17.4	12,516	18.2	1,781	14.2
Financial assets	53,538	65.2	42,234	61.3	11,304	26.8
Deferred tax assets	559	0.7	1,393	2.0	-834	-59.9
Non-current assets	**69,808**	**85.0**	**57,113**	**82.9**	**12,695**	**22.2**
Inventories	3,487	4.2	3,094	4.5	393	12.7
Receivables and other assets	7,597	9.3	7,010	10.2	587	8.4
Prepaid expenses	355	0,4	402	0.6	-47	-11.7
Current assets	**11,439**	**13.9**	**10,506**	**15.3**	**933**	**8.9**
Cash	**906**	**1.1**	**1,257**	**1.8**	**-351**	**-27.9**
Total assets	**82,153**	**100.0**	**68,876**	**100.0**	**13,277**	**19.3**

The main effects on the assets side were:

Intangible assets increased by € 444 thousand to € 1,414 thousand. This is due to the capitalised services, amongst other things, for the ERP project as well as to the development of formulations and processes.

Tangible assets rose by € 1,781 thousand to € 14,297 thousand which is associated with the site expansion and the associated upgrade of the machinery (extrusion, coating).

Financial assets showed a sharp increase. These rose from € 42,234 thousand in 2016 to € 53,538 thousand in 2017, a total increase of € 11,304 thousand. The dominant effect was the significant increase in loans to subsidiaries amounting to € 9,914 thousand (of which a loan was made to Masterflex Vertriebs GmbH for the acquisition of APT Advanced Polymer Tubing GmbH of € 8,820 thousand alone). The liquidity required for this was created by the utilisation of the acquisition line in January 2017 as well as through the cash inflow due to the capital increase in March 2017 (see also the notes to the liabilities side of the balance sheet). Another effect was the loan impairment to Masterflex Vertriebs GmbH of € 1,670 thousand.

In 2017, deferred tax assets of € 834 thousand were used, amounting to € 559 thousand as at 31 December 2017.

In total, long-term assets increased due to these effects by € 12,695 thousand to € 69,808 thousand in 2017.

In terms of current assets, inventories increased in 2017 by € 393 thousand to the current figure of € 3,487 thousand. Two effects are responsible for this: Firstly, the increase of the stock of finished products to boost delivery capability, secondly, the increase of unfinished goods in the inventories of € 200 thousand.

Receivables and other assets also increased by 8.4% to € 7,597 thousand as a result of the reporting date and due to the higher sales volume.

Prepaid expenses at € 355 thousand were only slightly under the previous year's figure (€ 402 thousand), so that the current assets increased by € 933 thousand to € 11,439 thousand due to the described effects on the inventories and receivables.

Liquid assets fell by € 351 thousand to € 906 thousand (see also the notes to the financial position of Masterflex SE).

EQUITY & LIABILITIES	**31.12.2017**		**31.12.2016**		**Deviation**	
Liabilities	**in €k**	**%**	**in €k**	**%**	**in €k**	**in %**
Subscribed capital	9,618	11.7	8,732	12.7	886	10.1
Capital reserves	26,120	31.8	21,067	30.6	5,053	24.0
Retained earnings	4,115	5.0	4,115	6.0	0	0.0
Net profit	9,683	11.8	5,676	8.2	4,007	70.6
Total equity	**49,536**	**60.3**	**39,590**	**57.5**	**9,946**	**25.1**
Liabilities to bank	18,500	22.5	21,000	30.5	-2,500	-11.9
Long-term borrowed capital	**18,500**	**22.5**	**21,000**	**30.5**	**-2,500**	**-11.9**
Tax provisions	68	0.1	72	0.1	-4	-5.6
Other provisions	2,261	2.8	2,061	3.0	200	9.7
Liabilities to banks	7,504	9.1	2,505	3.6	4,999	199.6
Debts to suppliers	565	0.7	1,024	1.5	-459	-44.8
Liabilities for associated companies	3,455	4.2	2,519	3.6	936	37.2
Other liabilities	264	0.3	105	0.2	159	151.4
Short-term borrowed capital	**14,117**	**17.2**	**8,286**	**12.0**	**5,831**	**70.4**
Total liabilities	**82,153**	**100.0**	**68,876**	**100.0**	**13,277**	**19.3**

The main effects on the liabilities side were:

The equity capital of Masterflex SE increased due to the capital increase and thanks to the annual net income to € 49,536 thousand (previous year: € 39,590 thousand). The equity ratio lies at around 60% (previous year: around 57%).

The effect of the 10% capital increase of € 5,940 thousand can be seen in the subscribed capital of € 886 thousand (issue of 886,586 new no-par value bearer shares with a nominal value of € 1.00) as well as in the capital reserve (effect from the capital increase of the issued shares with an offering price of € 6.70 per share), amounting to € 5,053 thousand.

Thanks to the annual result, net profit for the year increased by € 4,488 thousand and fell by € 481 thousand due to the dividend payout in June 2017 of € 0.05 per share, resulting in an overall increase in net profit of € 4,007 thousand.

As at 31 December 2017, amounts excluded from distribution totalled € 1,121 thousand, of which € 559 thousand related to deferred tax assets and € 562 thousand related to the capitalisation of development costs.

Long-term borrowed capital dropped by € 2,500 thousand to € 18,500 thousand. This is attributed to the repayments agreed in the syndicated loan agreement.

Short-term borrowed capital increased by € 5,831 thousand to € 14,117 thousand. This is essentially due to making use of the acquisition line amounting to € 4,500 thousand and a further withdrawal of € 500 thousand in the context of the syndicated financing (operating credit line).

In addition, liabilities to associated companies increased from € 936 thousand to € 3,455 thousand. These are loans from the subsidiaries to Masterflex SE.

Financial position of Masterflex SE

Cash and cash equivalents fell from € 1,257 thousand to € 906 thousand in the year under review. There are currently no cash and cash equivalents pledged.

	in €k	2017	2016
	Annual net income before non-operating expenses	2,207	1,760
+/-	Non-operating revenue/expenses	2,281	-200
=	Annual net income	4,488	1,560
+	Write-down on tangible fixed assets	603	436
+	Write-downs on intangible assets	100	56
+	Write-downs on non-current financial assets	13	40
-	Other non-operating income	-2,455	-3
=	**Cash flow as per DVFA/SG**	**2,749**	**2,089**
+	Losses from disposals of property, plants and equipment	20	0
+	Increase in medium- and short-term provisions	195	393
-	Increase in inventories, trade receivables and other assets	-3,570	-4,212
+	Increase in trade payables and other liabilities	636	1,509
+	Interest expenses	678	1,193
-	Other investment income	-398	-218
+	Income tax expense	990	-508
-	Income tax payments	-164	-421
		-1,613	**-1,248**
=	**Cash flow from ongoing business activities**	**1,136**	**841**
+	Income received from disposals of property, plants and equipment	2	0
-	Payments for investments in intangible assets	-564	-529
-	Payments for investments in tangible fixed assets	-2,386	-6,799
+	Income received from the repayment of financial assets	3,784	4,190
-	Payments for investments in financial assets	-9,618	-314
+	Interest received	1	2
+	Dividends received	394	584
=	**Cash flow from investment activities**	**-8,387**	**-2,866**
+	Income received from equity capital	5,940	0
-	Payments to company owners	-481	0
+	Income received from the redemption of bonds and the raising of (finance) loans	9,000	28,500
-	Payments for the redemption of bonds and (finance) loans	-6,500	-25,250
-	Interest paid	-1,059	-1,357
=	**Cash flow from financing activities**	**6,900**	**1,893**
	Change in cash and cash equivalents	-351	-132
+	Cash and cash equivalents at the start of the financial year	1,257	1,389
=	**Cash and cash equivalents at the end of the financial year**	**906**	**1,257**
	Composition of cash and cash equivalents at the end of the financial year		
+	Currency	906	1,257

The cash and cash equivalents mainly benefited from:
- Borrowing of € 9,000 thousand
- Capital increase of € 5,940 thousand
- Repayments of subsidiaries of € 3,784 thousand
- Dividends received of € 394 thousand

The negative impact on cash and cash equivalents mainly resulted from:
- Loans to Masterflex Vertriebs GmbH for the acquisition of APT Advanced Polymer Tubing GmbH in the amount of € 8,820 thousand
- Repayment of acquisition loans from the inflow of the capital increase in the amount of € 4,000 thousand
- Scheduled repayments under the terms of the syndicated loan agreement amounting to € 2,500 thousand
- Investment in fixed assets of € 2,386 thousand
- Interest payments of € 1,059 thousand
- Payment of dividends amounting to € 481 thousand

Composition of the cash and cash equivalents

The company does not have any bank liabilities or cash equivalents that are due immediately.

Proposal for the appropriation of net profit

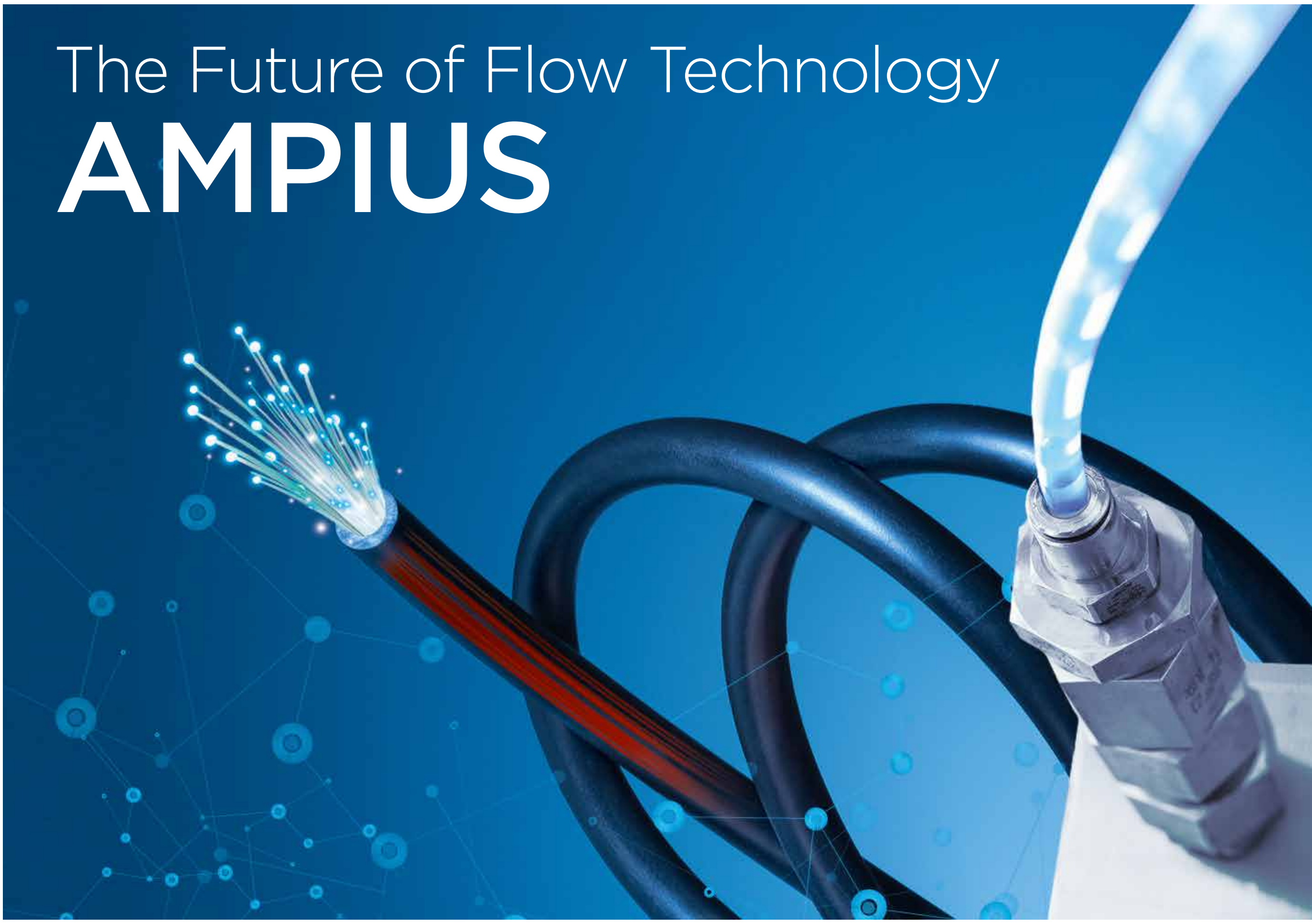
The Executive Board and the Supervisory Board propose to the Annual General Meeting paying a dividend to the shareholders amounting to € 673,283.38 for 9,618.334 shares of the share capital as at 31 December 2017 out of the net profit as at 31 December 2017 of Masterflex SE of € 9,682,741.44, and to carry forward the remaining amount of € 9,009,458.06 to a new state of accounts. This corresponds to a dividend of € 0.07 per share.

The distribution will be made on the basis of the dividend-bearing shares at the time of the Annual General Meeting on the next banking day following the Annual General Meeting.

VII. NON-FINANCIAL STATEMENT

The combined non-financial report and non-financial Group report in accordance with the CSR Directive Implementation Act will be published in a separate 2017 Sustainability Report, which will be available on the corporate website at **www.MasterflexGroup.com***/en/investor-relations/financial-reports/financial-reports-2017.html*.

The Future of Flow Technology
AMPIUS



C CORPORATE GOVERNANCE REPORT

(also report pursuant to section 3.10 of the German Corporate Governance Code)

C CORPORATE GOVERNANCE REPORT

(also report pursuant to section 3.10 of the German Corporate Governance Code)

I. DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH §§ 289A, 315 OF THE GERMAN COMMERCIAL CODE

1. Declaration of conformity to corporate governance pursuant to § 161 of the German Stock Corporation Act (AktG)

Corporate governance enjoys high priority at Masterflex SE. Masterflex's corporate principles are based on responsible management and supervision of the company geared towards long-term value creation. Key aspects of this corporate governance are efficient cooperation between the Executive Board and the Supervisory Board, protecting shareholders' interests and open and transparent corporate communications.

In accordance with § 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board are both required to submit an annual declaration stating that the company has complied with and will comply with the recommendations of the Government commission on the German Corporate Governance Code published by the German Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette or stating which recommendations have not been or will not be applied and why not. This declaration of conformity is to be made permanently available to shareholders. The current declaration of conformity was adopted by the Executive Board and Supervisory Board in December 2017 and since then has been available for public inspection on the website at **www.MasterflexGroup.com**.

The vast majority of the provisions and recommendations of the German Corporate Governance Code (in short 'Code' or 'DCGK') have long been embodied in Masterflex's corporate culture. The company follows the recommendations of the Code. Any deviations from the Code are explained below.

The declaration of conformity of December 2017 is worded as follows

Declaration of conformity to corporate governance pursuant to § 161 of the German Stock Corporation Act (AktG)

The Executive Board and Supervisory Board of Masterflex SE declare that the recommendations of the Code on the basis of the current version of 7 February 2017 have been observed since the last declaration of conformity in December 2016 with the exceptions stated hereinafter and will be observed further on. The declaration of conformity is permanently available to Masterflex SE shareholders on the company website. There, all of the company's previous declarations of conformity can also be accessed.

Exceptions

4.2.2 Supervisory Board – committees

With a total of three members, the Masterflex SE Supervisory Board is deliberately kept small in order to allow resolutions to be passed quickly, efficiently and flexibly through streamlined structures, as is the case throughout the Group. The appointment of recognised experts to the Supervisory Board is a key pillar of Masterflex SE in order to set the course for successful company growth through continual dialogue. In this context, establishing committees, which would also be required to have three members from the Supervisory Board, is illogical.

5.3. Aufsichtsrat - Ausschüsse

With a total of three members, the Masterflex SE Supervisory Board is deliberately kept small in order to allow resolutions to be passed quickly, efficiently and flexibly through streamlined structures, as is the case throughout the Group. The appointment of recognised experts to the Supervisory Board is a key pillar of Masterflex SE in order to set the course for successful company growth through continual dialogue. In this context, establishing committees, which would also be required to have three members from the Supervisory Board, is illogical.

Supervisory Board Chairman Mr van Hall is an established financial expert. Where necessary, the Supervisory Board calls on qualified external help in order to assess difficult matters.

Gelsenkirchen, December 2017
Executive Board & Supervisory Board

A central Compliance Officer supports the implementation of the Code of Conduct in the Group and reports regularly to the Executive Board and to the Supervisory Board. Under his leadership, the group-wide compliance management system is also being developed as part of good corporate governance. He is supported by locally based and appropriately equipped compliance staff who are represented at all Masterflex Group sites.

2. Relevant disclosures on corporate management practices

The structures for the management and supervision of Masterflex SE are set out in the company's articles of association as well as the Rules of Procedure for the Executive Board and Supervisory Board. The company's articles of association can be examined at **www.MasterflexGroup.com** under *Investor Relations/Annual General Meeting*.

3. Description of the working methods of the Executive Board and Supervisory Board

Masterflex SE is a European stock corporation in accordance with SE Regulations and German law. The basic principle of German stock corporation law is the dual management principle consisting of an Executive Board and a Supervisory Board which each have their own areas of responsibility.

The Executive Board of Masterflex SE manages the transactions of the company and is bound to observe the best interests and business policy principles of the company in the context of the provisions of the German Stock Corporation Act (AktG). It consists of at least two members and determines the company's strategic orientation. The Executive Board currently consists of two members: the Chairman and the Chief Financial Officer.

The work of the Executive Board is governed by a system of Rules of Procedure, which sets out the matters limited to the full Executive Board and subject to the approval of the Supervisory Board, department responsibilities and the required resolution majority. Each Executive Board member manages his area of work independently and on his own authority. In so doing, he is obliged to keep the entire Executive Board informed about the significant business affairs, as the allocation of individual areas of work does not exempt any member of the Executive Board from the joint responsibility for the corporate management as a whole.

The Executive Board generally attends all meetings of the Supervisory Board, reports on the individual agenda items and resolution proposals in writing and verbally and answers any questions posed by the individual Supervisory Board members. The regular, generally written reports issued by the Executive Board follow the contents of the applicable Rules of Procedure for the Executive Board issued by the Supervisory Board.

The Supervisory Board advises and monitors the Executive Board. With a total of three members, this Masterflex body within Masterflex SE is deliberately kept small in order to allow resolutions to be passed efficiently, rapidly and flexibly via streamlined structures, as is the case throughout the Group. The Supervisory Board also has its own Rules of Procedure. Pursuant to Section 11 (5) of the articles of association, members of the Supervisory Board may not have completed their 70th birthday when making their appointment. Moreover, a standard limit for membership of the Supervisory Board of 15 years was set in the resolution on the declaration of intent by the Supervisory Board.

The Supervisory Board may form committees from its own members, to which – if legally permissible – decision-making powers can also be assigned. However, there are currently no committees in place, as the Supervisory Board is made up of three members, meaning that its duties can be performed effectively and competently on a plenary basis.

Important topics are also discussed outside the meetings between the Management Board and the Supervisory Board in telephone conferences or in short-term strategy discussions. In addition, the Chairman of the Supervisory Board regularly informs himself about the business development and forthcoming projects of Masterflex SE.

The appointment of recognised experts to the Supervisory Board is an important basis for Masterflex SE in order to set the course for successful corporate development on a joint basis in a continuous dialogue. Where necessary, the Supervisory Board calls on qualified external help in order to assess difficult matters.

The Supervisory Board regularly discusses business development, planning, strategy and its implementation as well as the risk situation, risk management and compliance issues with the Executive Board. Significant business decisions, such as the determination of the annual budget and investment plan, the acquisition or disposal of equity interests, the conclusion of business agreements and larger financial measures, are subject to its approval. The Supervisory Board may designate further transactions as being subject to approval. It is also responsible for adopting or approving the annual financial statements and consolidated financial statements submitted by the Management Board, unless this is left to the Annual General Meeting.

All members of the Supervisory Board fulfil the criteria of independence in the sense of the agreed target definition as well as the requirements of the Corporate Governance Code communicated for this purpose.

Each year, the Chairman of the Supervisory Board explains the activities of the Supervisory Board both in the Annual Report ("Report of the Supervisory Board") and at the Annual General Meeting. The remuneration system for the Executive Board is also explained in this process.

Diversity

The Supervisory Board agrees with the objectives of the Code that, in addition to achieving a balance in terms of its staff's technical qualifications, an appropriate mix of nationalities and an appropriate number of female members should be attained in the management boards by taking account of diversity. In this context, the term diversity must be understood more as international origin, education, training or professional activity and less as citizenship or gender diversity and age diversity. This means that the composition of the Supervisory Board must take appropriate account of the diversity currently observable in an open, innovative and internationally active company such as Masterflex SE and its subsidiaries. However, it also means that nobody will be excluded as a candidate for the Supervisory Board or proposed for the Supervisory Board simply because he or she has or does not have a specific characteristic. In this context, women must be taken into account appropriately if they have the same qualifications and aptitude.

Therefore, a few years ago, the Supervisory Board defined targets for its composition which were intended to fulfil the requirement for diversity and take account of both appropriate participation by women and also people with an international background. In so doing, the Supervisory Board has identified the following targets for the composition of the Supervisory Board which were last updated in 2015:

- Consideration of the international activity of the company.
- Availability and operational readiness: a maximum of three other Supervisory Board mandates in listed companies.
- Consideration of technical expertise and industry knowledge, particularly with regard to taking into account the knowledge of the company and its subsidiaries.
- Consideration of the special knowledge and experience in the application of accounting and auditing as well as internal control procedures.
- Significant and not just temporary conflicts of interest should be avoided, for example, by board functions or advisory tasks for important competitors of the company. In case of doubt, they are to be reported to the Chairman of the Supervisory Board or the Vice Chairman as an alternative. The Supervisory Board should always include a large number of independent shareholder representatives.
- Consideration of the age limit of 70 years at the time of election as well as a regular membership of the Supervisory Board of 15 years.
- Proposal and inclusion, if possible, of a woman with suitable qualifications to the Supervisory Board at the next regular election of the shareholder representatives.

Diversity also includes the increased integration of people with international or migrant backgrounds. A key component of our future personnel planning is to appoint an increasing number of people with foreign roots as staff and managers in line with the business development.

Further, in 2017, the Supervisory Board decided a target figure of zero for the participation of women in this Board until 30 June 2019, in accordance with the Act on Equal Participation of Women and Men in Management Positions in the Private and Public Sectors. This is because for Masterflex SE, there is the peculiarity that the Supervisory Board consists of only three people and thus has a size which would exceed the legal target figure of 30% in the event that only one female participated. This also illustrates why the selection has to be made with care and consideration. The Chairman of the Supervisory Board, who has been a member of the Committee since 2009, as an auditor, in particular, has the qualifications of a "financial expert". The two other Supervisory Board members each have extensive experience in the field of corporate governance, some of them in niche markets with small batch production and some of them in larger international industrial companies. In addition, with Mr van der Zouw, an internationally and professionally experienced member of Dutch descent has been won, which underlines the diversity targets and their representation in the Supervisory Board. Against this background, it is to be assumed for the current appointment period of the acting Supervisory Board that no participation of a woman in the Supervisory Board will take place. Nevertheless, it is expressly stated that the fundamental objective is to propose, if possible, a woman as a member of the Supervisory Board in future Supervisory Board elections. Similarly, a target value of zero for the participation of women until 31 March 2022 has also been decided for the Executive Board because the Executive Board is considered to be sufficiently staffed with currently two members. Both Executive Board members have ongoing terms of appointment until then and have corresponding Executive Board contracts. In addition, both Executive Board members hold significant amounts of share capital in the company which not only exhibits their high sense of loyalty to the company but from the point of view of the Supervisory Board is also a recognised factor in the assessment.

Moreover, the company exhibits a defining characteristic of flat hierarchies throughout the Group. Therefore, there is only one management level below the Executive Board, not two. Within this management level immediately below the Executive Board, the proportion of women already accounts for over 30% and hence the legal guideline has already been met unlike with most companies. The Masterflex Group is committed at all times and over the entire structure to its claim to an appropriate participation of women in management positions and has also demonstrated this through appropriate implementations compatible with the structures.

Shareholders and the Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting. The company's Annual General Meeting takes place within the first six months of the financial year in the context of the statutory requirements of Section 54 para. 1 of the SE Regulation. The Chairman of the Supervisory Board chairs the Annual General Meeting. The Annual General Meeting makes decisions on all tasks assigned to it by law (including granting discharge to the management, appropriation of net profit, electing Supervisory Board members, appointing the auditor, amendments to the articles of association, capital measures).

Securities requiring disclosure of the Executive Board and Supervisory Board

An overview of the acquisition or sale of Masterflex shares by the Executive Board or the Supervisory Board can be found on the internet at **www.MasterflexGroup.com** under *Relations/Corporate Governance/Directors Dealings*.

An overview of the equity investments, in particular in accordance with Section 6.2 sentence 1 of the Code, provides information as to how the members of the Executive Board and the Supervisory Board have a stake, whether direct or indirect, in Masterflex SE. The two Executive Board members jointly hold more than 5.6% of the company through BBC GmbH. No Supervisory Board member holds shares in the company.

These disclosures are not necessarily of the kind required by the Securities Trading Act (WpHG) or the German Stock Corporation Act (AktG) but are made solely for the purposes of corporate governance.

Stock options plans
According to section 7.1.3 of the German Corporate Governance Code, the corporate governance report must also contain specific disclosures on stock option plans and similar securities-based incentive schemes of the company. There are still no stock option plans or similar securities-based incentive schemes in place at the company.

Transparency
Providing standardised, comprehensive and timely information is a high priority at Masterflex SE. Reports on the development of the company are issued via the internet, in annual and interim reports and statements, at analysts' conferences, press conferences and general capital market conferences as well as via ad hoc and press releases.

All information can be assessed on the website at **www.MasterflexGroup.com** under *Investor Relations*.

Masterflex SE keeps an insider list in accordance with article 18 para. 1 of the market abuse regulation. The persons listed there have been informed about legal obligations and sanctions.

Conflicts of interest are, should any exist, discussed in depth and disclosed if necessary and taken into account for the assessment of the independence of each individual Supervisory Board member. In the past, conflicts of interest have not been identified or communicated.

Accounting and auditing
The consolidated financial statements are prepared in accordance with the International. Financial Reporting Standards (IFRS). After preparation by the Executive Board, the consolidated financial statements are audited by the auditor, then, in turn, audited and approved by the Supervisory Board. The separate financial statements are prepared in accordance with the German Commercial Code (HGB). After preparation by the Executive Board, the separate financial statements are audited by the auditor, then, in turn, audited and approved by the Supervisory Board. Interim reports are not reviewed by an auditor. In addition, a monthly report is issued in accordance with International Financial Reporting Standards (IFRS). For competitive reasons, all details except individualised profit figures are disclosed for the associated companies in the consolidated financial statements.

It was agreed with the auditor that he will inform the Chairman of the Supervisory Board – who as an auditor is also the financial expert on the Supervisory Board – immediately of any significant findings or events during the audit.

Control parameters and control system
The internal corporate control systems have been continually improved in recent years in order to detect undesirable developments at an early stage and initiate countermeasures. To this end, new methods of business and action planning were developed and the internal reporting system was considerably expanded.

Corporate management focuses on earnings and liquidity ratios. With regard to the key figures used for corporate management, we refer to the comments in the 2017 Annual Report under section A III. Control system.

Risk management
Masterflex SE has set up a group-wide risk management system which is being continuously refined in order to in order to be able to rely on an always efficient, group-wide internal control system. We view risk management as the central responsibility of the Executive Board members, the managers and all employees. Risks can thus be identified, monitored and controlled at an early stage without having to forego entrepreneurial opportunities. Risk management is described in detail in the 2017 Annual Report, section D Opportunity and risk report.

To avoid legal risks, Masterflex SE maintains a compliance management system which controls and monitors the required activities. Details on the group-wide, centrally-managed compliance management system can be found in the risk report (section D).

Furthermore, the Executive Board and the Chairman of the Supervisory Board continually exchange views on the establishment of and status of risk management, of compliance as well as of the measures required for this in the company. In addition, the Supervisory Board informs itself externally about the contents of proper compliance and its implementation.

4. Code of conduct

The code of conduct of the Masterflex Group forms the basis of the compliance management system and, on the one hand, provides an overview of the legal topics that are relevant to the Masterflex Group. On the other hand, it sets (minimum) standards for ethical and law-abiding conduct. It is available for download in German and English at any time. With this code of conduct, we illustrate the claim that we make regarding the conduct of our employees and Executive Board members as well as our business partners and at the same time reveal the essential principles of our business conduct. We see the code of conduct principles as a minimum benchmark for the collaboration and interaction with customers, suppliers, competitors, shareholders and authorities. At the same time, with the implementation of this code into our day-to-day business activities, we demonstrate our commitment against any form of unfair competition, corruption and deception.

Managers bear a special responsibility to avoid legal violations. All managers of the Masterflex Group commit to it in a written declaration and pledge to inform their employees about the contents and meaning of the code of conduct and make them aware of the legal risks. On their own initiative, managers have to regularly verify compliance to the principles of conduct and seek dialogue on this issue with their employees.

Managers and employees are systematically trained on the basics of compliance. In addition to the basic training, target group-specific training measures are carried out on certain compliance topics. We see the ongoing development and group-wide establishment of an effective compliance management system as a significant contribution not only to risk avoidance within the Group, but also as an expression of the self-image of Masterflex SE and its commitment to fair, responsible and lawful trading on a global level.

II. COMPENSATION REPORT

Masterflex SE complies with the recommendations of the Corporate Governance Code and publishes the individualised compensation of the Executive Board and Supervisory Board. The compensation of the Executive Board members includes fixed and variable components; the members of the Supervisory Board only receive a fixed compensation.

1. Executive Board compensation

For the company, giving a transparent and comprehensible presentation of the Executive Board compensation has been a key element of good corporate governance for years. The Supervisory Board plenum is responsible for determining the individual Executive Board compensation in accordance with legal requirements and a regulation in the rules of procedure that was established long before the law came into force.

In principle, the compensation of the Executive Board members consists of non-performance-related and performance-related components. The non-performance-related component comprises fixed compensation and fringe benefits. The performance-related variable components comprise an immediately effective and a long-term incentive component. The short-term bonus which makes up two thirds of the total variable compensation is paid once the parameters for success and the degree to which they have been achieved are determined by the Supervisory Board. The second, longer term part of the bonus, comprising around one third of the total variable compensation is held by the company for a further two years and is only paid if the parameters for success are regularly achieved over the entire three-year period. In contrast, if these parameters are not fulfilled over this period, this component will be forfeited accordingly in whole or in part.

Contrary to the usual practice in comparable companies, the members of the Executive Board do not receive any pension commitments. A review of the total amount and the parameters takes place regularly every two years.

The current compensation system was adopted by the Supervisory Board in April 2010 and last approved by resolution of the Annual General Meeting in 2016 in accordance with § 120 (4) of the German Stock Corporation Act (AktG).

Criteria for the appropriateness of the compensation of the Executive Board are the responsibilities of the individual Executive Board member, his personal performance, the economic situation, the success and future prospects of the company and the extent to which the compensation can be seen as customary taking into account its comparable industry peers and the current compensation structure in the company. The performance-related components – the bonus – include components with a multi-year assessment basis. Thus, they set long-term incentives for behaviour and align the compensation structure with sustainable corporate development. Further, share-based incentive systems, such as a stock option plan, do not exist in the company.

The total compensation of the Executive Board in 2017 and its breakdown into fixed and variable compensation can be found in the following tables recommended by the Corporate Governance Code.

COMPENSATION OF THE EXECUTIVE BOARD (GRANT CONSIDERATION)

	Dr. Andreas Bastin Chief Executive Officer since 1 April 2008				Mark Becks Chief Financial Officer since 1 June 2009			
in €k	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*
Fixed compensation	342	357	357	357	237	247	247	247
Fringe benefits	31	42	42	42	41	38	38	38
Total	**373**	**399**	**399**	**399**	**278**	**285**	**285**	**285**
Annual variable compensation								
Bonus	137	142	0	158	75	94	0	106
Multi-annual variable compensation								
Bonus 2017 - 2019		73	0	82		49	0	54
Bonus 2016 - 2018	71		0	82	38		0	54
Total compensation	**581**	**614**	**399**	**721**	**391**	**428**	**285**	**499**

COMPENSATION OF THE EXECUTIVE BOARD (INFLOW CONSIDERATION)

	Dr. Andreas Bastin Chief Executive Officer since 1 April 2008				Mark Becks Chief Financial Officer since 1 June 2009			
in €k	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*
Fixed compensation	342	357	357	357	237	247	247	247
Fringe benefits	31	42	42	42	41	38	38	38
Total	**373**	**399**	**399**	**399**	**278**	**285**	**285**	**285**
Annual variable compensation								
Bonus	111	141	0	158	60	76	0	106
Multi-annual variable compensation								
Bonus 2017 - 2019		62	0	82		34	0	54
Bonus 2016 - 2018	29		0	82	16		0	54
Total compensation	**513**	**602**	**399**	**721**	**354**	**395**	**285**	**499**

In the 2017 financial year, fixed and performance-related compensation was granted to the Executive Board. The variable compensation components were determined by the Supervisory Board on the basis of the bonus regulations agreed with the members of the Executive Board at the beginning of the past financial year. In the past financial year, not all the objectives were achieved according to the contractual agreement and the variable remuneration was taken into account in accordance with the degree of target achievement.

The Executive Board members also receive fringe benefits in the form of benefits in kind. These primarily consist of insurance premiums for occupational disability insurance, a life insurance and private use of a company car.

The Executive Board contracts include a compensation payment in the event that the Executive Board activities prematurely end without good cause. It is limited to less than the maximum permitted annual compensation for two years including fringe benefits (severance payment cap) and provides compensation for no longer than the remaining term of the employment contract. In the event of a change of control and a subsequently terminated Executive Board activity (so-called change-of-control regulation), there are commitments for benefits in the corresponding manner and amount.

2. Supervisory Board compensation

The Supervisory Board's compensation system, which was last amended in 2015, takes account of the requirements of the German Corporate Governance Code. In accordance with the articles of association, the compensation for the Supervisory Board members since that time includes fixed compensation which is staggered according to function. This structure complies with the more recent recommendations of the Corporate Governance Code.

Each member of the Supervisory Board receives an annual fixed compensation in addition to the reimbursement of his expenses, payable at the end of a financial year. The fixed compensation of the Chairman amounts to € 30,000 per year, that of the Vice Chairman of the Supervisory Board to € 25,000 and that of an ordinary member of the Supervisory Board to € 20,000 per year. Supervisory Board members who are only members for part of the financial year will receive compensation prorated to the duration of their Board activity. Members of the Supervisory Board are also paid attendance fees of € 500 per meeting. The total compensation of the Supervisory Board in 2017 and its breakdown can be found in the following table.

THE MEMBERS OF THE SUPERVISORY BOARD WERE PAID AS FOLLOWS

in €k	Fixed	Attendance allowance	Total disbursement-relevant compensation
Chairman of the Supervisory Board, Georg van Hall (since 14.06.2016) (Previous year)	30 (28)	2 (2)	32 (30)
Chairman of the Supervisory Board, Friedrich W. Bischoping (until 14.06.2016) (Previous year)	0 (15)	0 (1)	0 (16)
Vice Chairman of the Supervisory Board, Dr. Gerson Link (since 14.06.2016) (Previous year)	25 (13)	2 (1)	27 (14)
Supervisory Board member, Jan van der Zouw (since 14.06.2016) (Previous year)	20 (10)	2 (1)	22 (11)
Supervisory Board member, Axel Klomp (until 14.06.2016) (Previous year)	0 (10)	0 (1)	0 (11)
Total compensation **(Previous year)**	**75** **(76)**	**6** **(6)**	**81** **(82)**

III. OTHER DISCLOSURES IN ACCORDANCE WITH §§ 289 AND 315 OF THE GERMAN COMMERCIAL CODE (HGB)

By means of a capital increase on 21 March 2017, the share capital of Masterflex SE rose by € 886,586.00 from € 8,865,874.00 to € 9,752,460.00 and is fully paid up.

On the basis of the "2016 authorised capital" created by the 2016 Annual General Meeting, the Executive Board made use of the authorisation in the reporting year to increase the share capital of the company by € 886,586.00 through cash contributions. This took place through the issuance of 886,586 new non-par-value bearer shares with a dividend entitlement from 1 January 2016. The new shares were issued under exemption of subscription rights of existing shareholders within the framework of a non-public private placement and subscribed at the subscription issue price of € 6.70.

The subscribed capital in the financial year now amounts to € 9,752,460.00, divided into 9,752,460 no-par value bearer shares, each with a notional interest in the share capital of € 1.00. Each share grants one voting right.

The Executive Board of Masterflex SE is not aware of any restrictions affecting voting rights or the transfer of shares.

The company is aware of three cases of direct or indirect equity investment in the capital exceeding 10% of the voting shares:

- SVB GmbH & Co. KG/the Schmidt Family is a long-term strategic investor who holds 17.6% of shares in Masterflex SE according to the company's most recent knowledge.
- Stichting Administratiekantoor Monolith is a long-term and income-oriented investor from the Netherlands who holds 13.1% of the shares in Masterflex according to the company's most recent knowledge.
- According to the latest information, J.F. Müller & Sohn AG hold 11.9% of the shares. This investor exceeded the limit of 10% of the voting rights in 2017 as it fully subscribed the capital increase in March 2017. It is a 6th generation family-led investment holding with broadly diversified investments primarily in established medium-sized companies in Europe. There are no shares with special rights that grant the authority to control.

In accordance with § 76 of the German Stock Corporation Act (AktG) and § 7 of the articles of association of Masterflex SE, the Executive Board consists of at least one person. In accordance with § 84 of the German Stock Corporation Act (AktG) and § 7 of the articles of association of Masterflex SE, the Supervisory Board is responsible for appointing the members of the Executive Board and for determining the number of members. In the event of a change of control, the Executive Board is entitled under certain circumstances to a special right of termination combined with severance pay which is limited in amount.

Any amendment to the articles of association requires a resolution by the Annual General Meeting. In accordance with § 179 of the German Stock Corporation Act (AktG), a resolution by the Annual General Meeting requires a majority of at least three quarters of the share capital represented when the resolution is passed. The articles of association can stipulate a different majority, although only a larger majority for a change to the purpose of the company. In accordance with § 18 of the articles of association, resolutions of the Annual General Meeting are passed by a simple majority, unless mandatory statutory provisions preclude it. If the law also requires a majority of the share capital represented at the passing of the resolution, the simple majority of the capital represented is sufficient, if permitted by law. This also applies to amendments to the articles of association. In accordance with § 14 (5) of the articles of association, the Supervisory Board is authorised to make changes to the articles of association that effect only the wording.

The Annual General Meeting on 27 June 2017 changed the articles of association with regard to the dismissal of § 11 (2) (composition of the Supervisory Board) and the re-numbering of the previous paragraphs 3 to 7. In addition, the articles of association were re-worded in § 4 (7) of the articles of association (2017 authorised capital).

Purchase of treasury shares

By resolution of the Annual General Meeting on 14 June 2016, the Executive Board was authorised

a) with the approval of the Supervisory Board, to acquire treasury shares of up to 10% of the company's share capital as at the date the resolution was passed or – if this value is lower – as at the time the authorisation is exercised. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with § 71 d and § 71 e of the German Stock Corporation Act (AktG), may not exceed 10% of the company's share capital at any time. The authorisation came into force on 15 June 2016 and is valid until 14 June 2021. This authorisation may not be used for the purpose of trading in treasury shares.

b) b) Modalities of the purchase
The acquisition is to be made (1) via the stock exchange or (2) via a public offer to buy directed at all shareholders of the company or via invitation to all shareholders to submit offers to sell ("public offer").

   a. a.If treasury shares are acquired via the stock exchange, the purchase price per share (not including incidental acquisition costs) may not deviate from the market price of the company shares by more than 10%. The relevant market price for the purposes of the authorisation is the unweighted arithmetic average price for the company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last three trading days prior to the purchase of the treasury shares.
   b. If treasury shares are acquired via a public offer to buy to all company shareholders, the purchase price offered or the limits of the purchase price range offered per share (not including incidental acquisition costs) may not deviate from the market price of the company shares by more than 10%. The relevant market price for the purposes of this section (2) is the unweighted arithmetic average price for the company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last three to six trading days prior to the publication of the public offer.

   Purchase volumes can be restricted. If, in the case of a public offer, the volume of the offered shares exceeds the designated purchase volume, the offer may take place in proportion to the respective shares offered (tender quota) instead of according to the proportion of the company's tendering shareholders (participation quota) (i). Small lots of shares offered and tendered for purchase (up to 100 per shareholder) may be preferred (ii), and the number of shares may be rounded in accordance with commercial principles in order to avoid fractional shares (iii). Any further right of tender of the shareholders in cases (i) to (iii) is excluded.

c) Use of treasury shares
The Executive Board can sell the acquired treasury shares subject to compliance with the principle of equal treatment (§ 53a of the German Stock Corporation Act (AktG)). In particular, sale via the stock exchange or by means of an invitation to all shareholders in proportion to their participation quota is sufficient.

The Executive Board is also authorised with the approval of the Supervisory Board to offer or grant the acquired treasury shares to third parties, with exclusion of shareholders' subscription rights, in the following cases:

   a. a.In exchange for cash or cash contributions if the agreed price is not significantly lower than the market price of the company shares at the time of the sale.
   b. In the context of company mergers or in the context of (also direct) acquisition of companies, parts of

companies or equity interests in companies including the increase of existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company.

c. To fulfil conversion or option rights which were granted by the company or a direct or indirect majority shareholder upon the issuance of bonds, or to fulfil conversion obligations from the bonds issued by the company or by an indirect or direct majority shareholder.
d. As employee shares in the context of agreed remuneration or of special programmes to employees of the company or associated companies (including members of its executive bodies); if treasury shares are to be offered, granted or transferred to members of the Executive Board of the company, this authorisation also applies to the Supervisory Board of the company.
e. To carry out a so-called share dividend (scrip dividend) through the sale of the transfer of dividend claims from shareholders in whole or in part.

d) d) The authorisation in accordance with section (1) above applies with the proviso that the treasury shares sold with exclusion of subscription rights may not exceed 10% of the share capital, which means 10% of the share capital as of the date the authorisation was given, as well as 10% of the share capital as of the date the authorisation with exclusion of shareholders' subscription rights is exercised. Shares are to be included in the above 10% limit that were sold or issued during the term of this authorisation as a result of other authorisations in direct or analogous application of article 186 (3), sentence 4 of the German Stock Corporation Act (AktG) under exemption of subscription rights ("allocation"). If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right with the direct or analogous application of § 186 (3) sentence 4 of the German Stock Corporation Act (AktG).

In accordance with section (1) above, the shares may only be sold to third parties at a price that is not significantly below the market price of company shares at the time of the sale. The relevant market price for the purposes of the authorisation is the unweighted arithmetic average price for the company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last five trading days prior to the sale of the treasury shares.

Moreover, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders in the case of the sale of treasury shares in the context of an offer made to the shareholders for fractional amounts.

Furthermore, the Executive Board is also authorised, with the approval of the Supervisory Board, to withdraw the treasury shares without a further Annual General Meeting resolution. It is also authorised to withdraw no-par value shares either with or without a capital reduction. If the no-par value shares are withdrawn without capital reduction, the proportion of other shares in the share capital is increased in accordance with § 8 (3) of the German Stock Corporation Act (AktG). In this case, the Executive Board is also authorised to adjust the number of shares of the company in the articles of association (§ 237 (3) no. 3 of the German Stock Corporation Act (AktG)).

e) Further details
The Executive Board will determine the precise details of the respective authorisation utilisation. The above authorisations may be exercised on one or several occasions, individually or in combination. The provisions of the German Securities Acquisition and Takeover Act (WpÜG) must be observed to the extent that they are applicable. When acquiring treasury shares, the Executive Board is required to observe the statutory provisions for the hypothetical creation of reserves in the amount of the expenses for acquisition (§ 71 (2) sentence 2 of the German Stock Corporation Act (AktG)).

Neither the Executive Board nor the Supervisory Board exercised any of these authorisations in 2017.

The company currently holds 134,126 treasury shares. The notional interest in the share capital of the acquired treasury shares amounting to € 134,126.00 which corresponds to a share of 1.38% of the share capital was deducted from the share capital.

The shares were acquired between September 2004 and July 2005 based on the corresponding Annual General Meeting resolutions in accordance with § 71 (1) no 8 of the German Stock Corporation Act (AktG). The Annual General Meeting resolutions from 9 June 2004 and 8 June 2005 authorised the company to acquire treasury shares with a notional interest in the company's share capital of up to € 450,000. At the date of the Annual General Meeting, this was 10% of the company's total share capital of € 4,500,000. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with § 71 a ff. of the German Stock Corporation Act (AktG), could not exceed 10% of the company's share capital at any time. This authorisation could not be used for the purpose of trading in treasury shares.

Accordingly, Masterflex SE reports subscribed capital of € 9,752,460.00.

Authorised capital

By resolution of the Annual General Meeting on 14 June 2016, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the company's share capital by up to € 4,432,937 by 14 June 2021 by issuing up to 4,432,937 no-par value bearer shares on one or more occasion in exchange for cash and/or non-cash contributions (2016 authorised capital). The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 (1) sentence 1 or § 53 b (1) sentence 1 or (7) of the German Banking Act (KWG) with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

a) for fractional amounts;

b) for capital increases in exchange for non-cash contributions, particularly

   I. for granting shares for the acquisition of companies, parts of companies or equity interests in companies including existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company,
   II. for the acquisition of other assets or entitlements to the purchase of assets as well as
   III. to carry out a so-called stock dividend in which the shareholders are offered dividends due to them either, in whole or in part, as non-cash contributions against the provision of new shares in the company;

c) for cash contributions provided that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the company at the date the issue price is finalised;

d) d) in order to grant the holders or creditors to new shares in the company with option or conversion rights to shares in the company and/or with the associated option or conversion obligations which are or were issued by the company or to an indirect or direct major shareholder to the extent that they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder.

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions must not exceed 20% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised. The exclusion of the subscription right for fractional amounts is not taken into account in this 20% limit. Shares are included in this 20% limit that were issued or sold during the term of this authorisation on the basis of other authorisations which fall under exclusion of the subscription right ("allocation"). The issuance of shares in this sense also applies to the issuance or justification of option or conversion rights or obligations of company shares from the bonds issued by the company or its direct or indirect majority shareholders, if the bonds are issued on the basis of a corresponding authorisation during the term of this authorisation, under exclusion of the subscription right. If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right.

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions in accordance with subsection c) must not exceed 10% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised.

Shares are included in this 10% limit that were issued or sold during the term of this authorisation which fall under exclusion of the subscription right ("allocation"). Furthermore, those shares that have been or will be issued in order to service bonds with conversion or options rights or an option or conversion obligation are to count towards this limit, provided that these bonds are issued during the term of this authorisation under exclusion of subscription rights by the company or an indirect or direct majority shareholding in accordance with § 186 (3) sentence 4 of the German Stock Corporation Act (AktG). If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right with the direct or analogous application of § 186 (3) sentence 4 of the German Stock Corporation Act (AktG).

On 15 March 2017, the Executive Board was authorised, with the approval of the Supervisory Board, to partially exercise the 2016 authorised capital and to increase the company's share capital under exclusion of the subscription right of the shareholders in accordance with §§ 203 (2), 186 (3), sentence 4 of the German Stock Corporation Act (AktG) by € 886,586 from € 8,865,874 to € 9,752,460 through the issuance of 886,586 new no-par value bearer shares with a dividend entitlement from 1 January 2016, in exchange for cash and cash contributions. This corresponds to an increase in the company's existing share capital of 10% at the time the proposed authorisation took effect and also at the time the 2016 authorised capital was exercised. The capital increase was entered into the company's commercial register on 21 March 2017 with the result that since this date, the company's share capital totals € 9,752,460. The 2016 authorised capital currently consists of € 3,546,351 owing to the partial utilisation illustrated.

By resolution of the Annual General Meeting on 27 June 2017, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the company's share capital by up to € 1,329,879 by 14 June 2021 by issuing up to 1,329,879 no-par value bearer shares on one or more occasion in exchange for cash and/or non-cash contributions (2017 authorised capital). The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 (1) sentence 1 or § 53b (1) sentence 1 or (7) of the German Banking Act (KWG) with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

a) for fractional amounts;

b) for capital increases in exchange for non-cash contributions, particularly

   I. for granting shares for the acquisition of companies, parts of companies or equity interests in companies including existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company,
   II. for the acquisition of other assets or entitlements to the purchase of assets as well as
   III. to carry out a so-called stock dividend in which the shareholders are offered dividends due to them either, in whole or in part, as non-cash contributions against the provision of new shares in the company;

c) for cash contributions provided that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the company at the date the issue price is finalised;

d) in order to grant the holders or creditors to new shares in the company with option or conversion rights to shares in the company and/or with the associated option or conversion obligations which are or were issued by the company or to an indirect or direct major shareholder to the extent that they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder.

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions must not exceed 20% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised. The exclusion of the subscription right for fractional amounts is not taken into account in this 20% limit. Shares are included in this 20% limit that were issued or sold during the term of this authorisation on the basis of other authorisations which fall under exclusion of the subscription right ("allocation"). The issuance of shares in this sense also applies to the issuance or justification of option or conversion rights or obligations of company shares from the bonds issued by the company or its direct or indirect majority shareholders, if the bonds are issued on the basis of a corresponding authorisation during the term of this authorisation, under exclusion of the subscription right. If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right.

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions in accordance with subsection c) must not exceed 10% of the share capital at the time the proposed authorisation took effect or, if this value is less, then at the time that this authorisation of existing share capital is exercised.

Shares are to be included in the above 10% limit that were sold or issued during the term of this authorisation as a result of other authorisations in direct or analogous application of article 186 (3), section 4 of the German Stock Corporation Act (AktG) under exemption of subscription rights ("allocation"). Furthermore, those shares that have been or will be issued in order to service bonds with conversion or options rights or an option or conversion obligation are to count towards this limit, provided that these bonds are issued during the term of this authorisation under exclusion of subscription rights by the company or an indirect or direct majority shareholding in accordance with § 186 (3) sentence 4 of the German Stock Corporation Act (AktG). If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right with the direct or analogous application of § 186 (3) sentence 4 of the German Stock Corporation (AktG).

The Executive Board is authorised to amend the wording of § 4 of the articles of association following the full or partial implementation of the share capital increase to reflect the extent to which 2017 authorised capital has been utilised and, if the 2017 authorised capital is not fully utilised by 14 June 2021, after the authorisation period expires

The Executive Board has not yet made use of the above authorisation.

Contingent capital
At the company's Annual General Meeting on 24 June 2014, the Executive Board was authorised, with agreement of the Supervisory Board, to once or repeatedly issue convertible or option bonds in bearer or registered form up to 23 June 2019 in the total nominal value of up to € 45,000,000.00 with a term of 20 years. The shareholders have a legal right to bonds and debentures. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

(i) for fractional amounts,

(ii) for the issuance of bonds and debentures against cash benefits if the issue price is significantly lower than the theoretical market value of the bonds and debentures determined in accordance with accepted actuarial principles and the bonds and debentures on the basis of shares to which a proportionate amount of the share capital of no more than 10% of the share capital, is attributable, subscribed or pledged or

(iii) with the issuance of bonds and debentures against non-cash contributions if the value of the contribution is not unduly low compared to the theoretical market value of the bonds and debentures in accordance with accepted actuarial principles.

The sum of shares which are issued on the basis of the issuance of bonds and debentures under exclusion of the subscription right must not exceed 20% of the share capital of the company in total..

Option or conversion rights of holders or creditors of bonds with warrants and convertible bonds, up to a total of 4,432,937, can be granted to holders of new no-par value bearer shares of the company with a pro-rata amount of the share capital of up to € 4,432,937.00 or the corresponding obligations are agreed. To satisfy these rights and obligations, the share capital of the company was conditionally increased by resolution of the Annual General Meeting of 24 June 2014.

The Executive Board has, thus far, not made use of the authorisation to issue warrants and convertible bonds which was given on 24 June 2014.

The company has not set up an employee participation programme. To the extent that employees of the company have participated in other ways in the company's share capital, the Executive Board is not aware that, like other shareholders, they cannot exercise the control rights they are entitled to, in accordance with the statutory regulations and the provisions of the articles of association.

In the event of a change of control, the existing syndicated loan agreement, as part of good corporate governance, contains a customary right to cancel by the participating credit institutions.

D OPPORTUNITY AND RISK REPORT

D OPPORTUNITY AND RISK REPORT

I. OPPORTUNITY AND RISK MANAGEMENT SYSTEM FOR VALUE-ORIENTED CORPORATE MANAGEMENT

Corporate activity always involves risks and rewards. A risk is understood as a possible future development or event which can lead to a negative deviation from forecast or objective for the company. As for opportunity, we define this as a possible future development or event that can lead to a positive deviation from forecast or objective for us.

For all business activities we engage in, the opportunities must clearly outweigh the risks. We strive to limit existing risks to an acceptable and manageable level. Amongst other things, we use insurance and contractual provisions for this purpose.

The Masterflex Group operates in a dynamic market environment which is characterised by many usually smaller competitors, broadly diversified industries, wide customer variety, technical expertise, close interaction with customers and suppliers as well as high material and processing expertise.

Our opportunity and risk management is firmly anchored in the communications, management and planning structures. In our regular management meetings, the opportunities and risks are discussed with the management of the operating units. Tracking of relevant issues is performed via checklist. The individual risks of the companies are resolutely discussed in the annual planning meetings. The basis for this is our risk manual which is the guideline for how risks are identified, assessed and tracked.

II. OPPORTUNITY MANAGEMENT

We analyse market data within the framework of our opportunity management, analyse our competitors and scrutinise the orientation of our product portfolio, our organisation's efficiency and resources, as well as the changes in customer requirements. Market opportunities are derived from this and over-achievement in these areas brings about additional opportunities. By means of both the planning process and also regular monthly consultations with management, opportunities on accessibility, necessary investments and potential risks are analysed and pursued.

III. INDIVIDUAL OPPORTUNITIES

1. Opportunities through positive market development
In our planning assumptions, we assume broadly stable economic conditions (see outlook section in the management report). Should the world economy develop more sustainably and evolve more dynamically than we anticipate, this will have a positive impact on our sales and operating results (Ebit) over the next few years.

2. Opportunities through research and development
Our strategic planning is based on the four strategic cornerstones of innovation, internationalisation, digital transformation and operational excellence. The continuation of our growth crucially depends on continuously launching innovative solutions in the marketplace in order to create added value for our customers.

We are continually working on our innovation management. Should we be in a position to launch a significantly higher number of innovations than planned in a much faster time, then this will have a positive effect on our net assets, financial position and results of operations.

3. Benefits of increasing efficiency

We are continually working on the optimisation of our procedures and processes at an accelerated rate in order to improve the efficiency of our global organisation. There have also been staff changes over the last year. For optimisation, we use recognised methods to continue the improvement of our processes. These methods make use of the know-how and experience of all the staff involved from the areas concerned in order to continuously improve business processes in terms of corporate goals. In part, we also cooperate with external partners for this. Measures for optimisation and implementation are identified in regular workshops aimed at improving effectiveness, avoiding inefficiencies and continuously increasing our efficiency.

4. Opportunities through internationalisation

The focus of our distribution of turnover will continue to be Germany and Europe. These regions have forecast growth rates of partly more than 2.0%. Our internationalisation strategy predominantly assumed higher growth rates in the global target markets addressed by us, namely China and North America.

Should we be able to implement the internationalisation steps faster, accelerate in particular the market success of the sales activities and thus generate sales faster, then the growth in these regions will exceed our forecasts.

A further focus will to be make available worldwide all the products that are sold in Germany. In this regard, we still see significant potential for growth in all regions of the world.

5. Opportunities through digitization

Through ongoing digitization of the entire economy, in addition to new market opportunities, this will also present new technological possibilities to optimise processes, to further increase quality in the production process, to bring new and innovative products to the market and to develop new business models.

Essential for the success of the digital transformation for us will be recognising the right applications (products, processes, business models) for ourselves or our customers in good time and to measurably improve our flexibility and agility based on the accelerating pace of technological changes (particularly in information technology).

If we succeed in implementing our digitalisation strategy consistently in all areas, this will have a positive impact on the overall company result.

6. Opportunities through personnel management

Our employees are the basis of our success. They are sources of added value, sources of ideas for innovations and partners for our customers and suppliers and therefore the driving force behind our growth and the improvement in profitability.

Moreover, we will focus on the development of our employees and thus an increase in efficiency of our global organisation. Should we succeed faster than anticipated, this will have a particularly positive impact on turnover, Ebit margin and cash flow.

IV. THE RISK MANAGEMENT SYSTEM

The Masterflex Group has implemented an integrated risk management system in order to ensure the continuity and future targets of the Group through early identification, assessment and management of risks. Universal standards, methods and tools are available to the Executive Board which guarantee prompt reporting.

As part of the comprehensive risk management system, Masterflex has an internal control system based on the (Group) financial reporting system. The aim is to ensure orderly and effective accounting and financial reporting.

The risks of financial reporting lie in the fact that our annual, consolidated and interim financial statements could contain misrepresentations that could potentially have a significant influence on the decisions of recipients. We have therefore developed an internal control system (ICS) for accounting which aims to identify potential sources of error and to limit risks arising from them. This internal control system extends to the entire Masterflex Group and is constantly being refined. The major foundations of accounting are documented in a Group accounting manual which is also being developed on an ongoing basis and adapted to new legal requirements.

The structure of the accounting-oriented ICS is based on the organisation of our accounting and financial reporting procedures. One of the key functions of this process is the management of the Group and its operating units. The targets developed by the Executive Board of Masterflex SE form the starting point. Rolling medium-term plans are drawn up on the basis of these and our monthly forecast plans for operating development. The ICS is reviewed thoroughly at least once a year to ensure that it is effective and efficient.

We identify risks in financial reporting at the level of the individual areas using quantitative, qualitative and process criteria. Our generally binding guidelines and ethical values form the basis of the ICS. In an annual control process, we verify whether the necessary control measures have in fact taken place and been correctly implemented. This is carried out by auditors, an internal risk manager and the Managing Directors or heads of department responsible for implementing the checks.

The accounting-related internal control system and its effectiveness are a regular feature of Supervisory Board meetings.

On this basis, risk management at Masterflex Group stands for the targeted safeguarding of existing and future earnings potential as well as the specific management of known risks. Our risk management system comprises the identification, assessment, monitoring and control of risks. Moreover, we have set up communication channels for the principal opportunities and risks in the central departments and the operating units. This controlled approach is intended to safeguard the net assets, financial position and results of operations of the Group. The Masterflex Group‘s risk management is integrated into existing structures and is therefore an inextricable component of corporate management and business processes. Strategic corporate planning, internal reporting and the internal control system are the core elements of the risk management system together with the risk manual.

Our risk management is standardised and applicable throughout the Group. This ensures that all risks are analysed and assessed systematically, uniformly and on a group-wide basis. The focus is the risk inventory taken by the management of the operating units in which individual risks are identified and risk areas assigned and assessed. The risk transparency thus created helps us to select suitable management and countermeasures.

Our risk assessment consists of the two components of likelihood of occurrence and extent of damages.

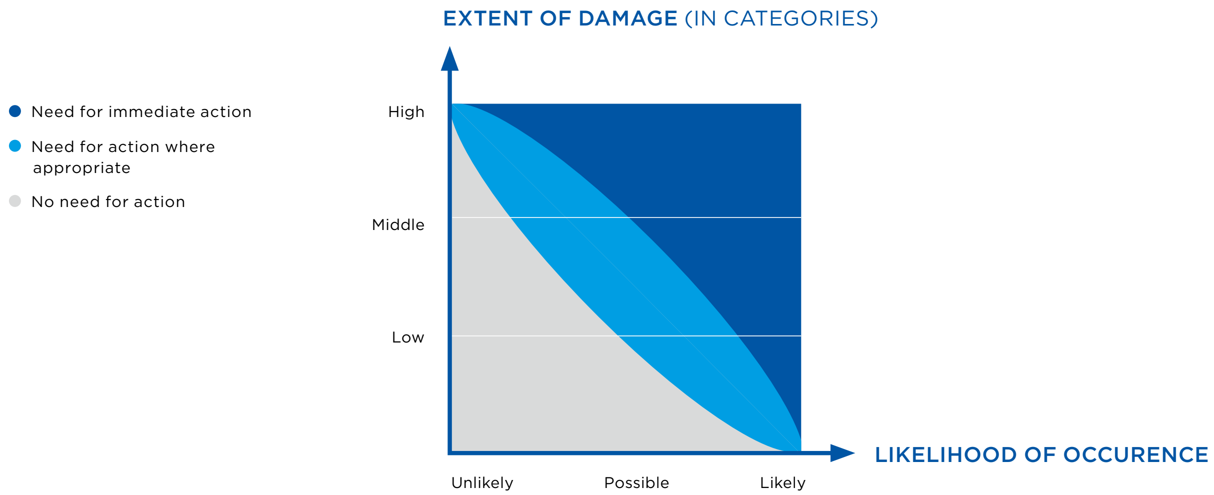
With the likelihood of occurrence of a risk, we distinguish between the categories ‚unlikely' (less than 30% probability), ‚possible' (probability greater than or equal to 30% and lower than 60%) and ‚probable' (probability of above or equal to 60%).

With the extent of damage, we distinguish between ‚low', ‚medium' or ‚serious' impact on our cash flow as well as net assets, financial position and results of operations.

With the combination of both components, we distinguish between

- High risk ➞ Need for immediate action
- Medium risk ➞ Need for action where appropriate
- Low risk ➞ No need for action

The following diagram illustrates these relationships.



The following section contains information on the key risk areas potentially affecting our business development as well as net assets, financial position and results. The Group may also be exposed to risks that are not yet known as well as risks that we currently consider to be negligible but that could have an adverse effect on the Group in the event of a change in circumstances.

V. INDIVIDUAL RISKS

1. Economic, political and social risks

The global economy, financial markets, as well as the broader political framework are characterised by a high level of uncertainty around the world. Events such as a global financial crisis, collapse of the euro zone, recession in our target countries, unsustainable increase in public debt as well as significant tax increases and natural disasters can all affect our business negatively. Growing nationalism, pioneering elections, increasing protectionism and terror threats also constitute increasing political and economic risks. An instability of the economic and political situation could thus have a negative impact on our net assets, financial position and results.

The Executive Board shall take reasonable measures to mitigate the potential adverse effects of these risks occurring. These primarily involve concentration on independent economic sectors, internationalisation with regard to sales and procurement markets, flexibility of costs associated with ongoing cost management, simplification of processes and organisational structures, production in the respective continents and ensuring long term financing.

Despite the measures introduced, we cannot exclude the occurrence of this risk. We classified it as high risk because its occurrence could have a significant negative impact on our sales and Ebit targets.

2. Personnel risks

The expertise and commitment of our employees are vital factors in the Masterflex Group's economic success and future development. We counter the intensive competition for qualified technical and management staff, and the associated risks in the form of a loss of expertise caused by employee turnover, with attractive opportunities for acquiring additional qualifications, family-friendly working time models and a compensation system that rewards performance. The loss of experts or experienced technical and management staff is one of the greatest risks for the Group, although no such trend can be seen at present.

The ability of the Masterflex Group to recruit young technical and management staff and retain them in the company long-term is gaining increasing significance. The necessary personnel recruitment and development steps have already been introduced. They include performance-related pay, conducting annual assessment meetings, providing employees with further qualifications, developing future prospects and cooperating with technical colleges and research institutions. These efforts will be further intensified in future. Women, people of other nationalities, older people and help in improving their qualifications will all be targeted to lend even more impetus to the above measures and widen the pool of potential new technical and management staff for the Masterflex Group. As a medium-sized company, we see a chance in the already noticeable shortage of technical and management staff to balance out possible competitive disadvantages against large-scale enterprises on the human resources market.

3. IT risks

The continuous availability of IT systems is a vital factor in ensuring operations at the Group's individual sites and offices. Accordingly, internal and external experts work continuously to optimise the Group's central and decentralised information security systems, their availability and reliability. Accordingly, internal and external experts work continuously to optimise the Group's central and decentralised information security systems, their availability and reliability. Among others, the protective measures implemented include the use of virus scanners and state-of-the-art firewall systems, as well as extensive user access controls. Masterflex SE and a few of its subsidiaries also use an external computer centre in order to fulfil these service requirements.

However, IT outages or even cyber-attacks cannot be ruled out. We see the likelihood of this against the background of the general discussion held on issues of data security and espionage or external attacks as entirely possible. This would have serious impacts on our net assets, financial position and results of operations so we view this as a high risk.

4. Production risks

We counteract possible production downtime, e.g. due to disasters or fire damage, by performing preventive maintenance work and maintaining adequate inventories of key replacement parts, as well as through fire prevention measures, employee training and the establishment of a network of suppliers both external to and within the Masterflex Group. We also have reasonable insurance coverage for any damages that may arise in spite of these measures. Moreover, our production is not limited to one location.

Based on past experience, we see the probability of a catastrophic event as low. The impact would be severe when entering a transition phase, so we classified the risk as a high risk despite the low likelihood of occurrence being a high risk.

5. Procurement market risks

On the procurement side, the availability of raw materials and of intermediate products as well as changes in purchase prices constitute a risk for our companies. We strive to reduce these price and availability risk through international purchasing, the conclusion of long-term supply agreements and the continuous optimisation of our supplier portfolio. When selecting suppliers, the Masterflex Group focuses on efficiency and quality. For particularly important purchased parts or quantities, we aim to ensure close cooperation with the suppliers and incorporate them into new development projects at a very early stage. This cooperative approach means that the Masterflex Group is also exposed to the risk of dependence on specific suppliers. However, in order to limit this risk, we pursue a second-source strategy to avoid dependence on one supplier.

We estimate the risk as to the availability of raw materials and the exclusion of suppliers to be at medium level, with potential impact on the net assets, financial position and results of operations of medium probability.

On the other hand, we consider it likely that the purchase prices will develop unfavourably and burden our cost structures, contrary to the aforementioned countermeasures.

6. Acquisitions and divestments

The strategy of Masterflex includes strengthening the hose business through mergers or acquisitions.

Despite careful planning, company mergers and acquisitions are exposed to risks which can negatively impact our net assets, financial position and results of operations. Moreover, there is the risk that considerable costs may be incurred as a result of such measures. Company acquisitions can have a negative impact on the financing structure of the company carrying out the acquisition. There is also the risk that write-downs on non-current assets including goodwill could become necessary as a result of unscheduled developments.

Acquisitions are always a significant risk. We meet this through a variety of methodical and organisational measures. So, we will be carrying out technical, operational, financial and legal due diligence of potential acquisition targets. With regard to the process control, we expect a low risk. An acquisition has a considerable impact on the results of operations, nets assets and financial position. Thus, we consider such a potential future event as a medium risk.

No divestments are planned at this time. Acquisitions supporting the Masterflex Group strategy may follow in the next few years. The Masterflex Group has already strengthened its workforce with the necessary skills to handle this process in a structured and professional manner.

7. Legal risks

We only know of two cases of legal proceedings that could have a tangible effect on the net assets, financial position and results of operations of the Masterflex Group.

This is based on the buyer of the two companies which belonged to the former Mobility Group, Clean Air Bike GmbH and Velodrive GmbH, suing Masterflex SE primarily for rescission of the trade sale agreement. In the first instance, this claim has been rejected. The pending court case before Dusseldorf Higher Regional Court came to an end on 16 June 2016. Afterwards, Masterflex SE was sentenced to pay the plaintiff € 880,827.82 plus interest amounting to 5 percentage points above the base interest rate since 9 November 2012. The costs of the legal dispute of both instances were offset against each other. Masterflex SE could not comply with this ruling and in 2016 lodged an appeal (non-admissible complaint) before the Federal Supreme Court. This situation in this legal dispute is still unchanged and the Federal Supreme Court has not made its ruling on the appeal. Masterflex SE has formed accounting provisions to the corresponding amount in its consolidated and annual financial statements.

Furthermore, the former managing director of the French subsidiary took legal action against his termination and is suing Masterflex S.a.r.L for damages of € 1.3 million. The procedure was referred back to the social welfare court at Bourg en Bresse Labour Court in France and will be argued verbally there. Based on our documentation, we feel there is a good chance of winning and therefore there is currently no need to amend the recognised provision of € 0.1 million.

Should it end differently in either of the two legal proceedings than we expect, there is a risk that the costs of this will exhaust or exceed our accounting provisions. Similarly, the likelihood that such risks will arise from legal proceedings in future cannot be entirely ruled out. Provision has been made for threatened or pending legal disputes to an appropriate and sufficient extent. Nevertheless, it also cannot be excluded that balance sheet provisions are insufficient. In order to avoid new legal risks, contracts of economic significance for the Masterflex Group are reviewed by external lawyers before they are concluded.

Overall, we see here a low probability of occurrence of these risks coupled with potential high impact, thus, on balance, we assume a medium risk.

8. Risks associated with deteriorating efficiency

Through a series of efficiency measures, savings were able to be achieved in the reporting year reflected particularly in the personnel area (streamlining of the leadership structures, less manpower owing to process improvements), the material costs with the maximisation of synergy effects in purchasing and design-to-cost measures as well as in other operating expenses. However, increases in personnel costs (especially in the production areas) to improve delivery capabilities have also occurred at different sites. Should we fail to sustainably develop these personnel measures and optimise the staff cost ratio, the general cost increases will once again negate the effects of the measures already implemented.

We categorise this risk as medium because the savings achieved show that we are well on the way towards a sustainable increase in efficiency. However, the efficiency measures to be implemented need to be sustainable in all areas and not allowed to be expended by negative effects again.

9. Tax risks

Tax risks arise in particular from ongoing and upcoming tax audits. Due to future audits, there is a risk of tax back payments. Tax back payment would impact on the liquidity of the Group.

Due to the moderate impact on the cash flow with a potential likelihood of occurrence, we regard the tax risks as medium.

10. Financial risks

Financial risks include liquidity risk, market price risk and receivable default risk. These risks may arise from transactions conducted by the Group in the course of its operating activities and consequent hedging, financing decisions or changes in the values of the financial items recognised in the balance sheet. Financing and the limitation of financial risks are controlled and monitored centrally within the Masterflex Group.

The Group has binding provisions on the types of financial instruments that may be used, their maximum limits and the list of preferred banks. Compliance with all regulations is constantly examined and revised. Receivable default risk is reduced by systematically obtaining information on creditworthiness, setting credit limits and performing active debtor management, including dunning and proactive collective measures. Nevertheless, individual – even major – defaults on receivables from customers cannot be ruled out.

The fundamental risk strategies for interest rate, exchange rate and liquidity management are determined on a centralised basis by the Executive Board. Financing and hedging decisions are made on the basis of all business units‘ financial and liquidity forecasts.

Business and financing activities in foreign currencies do not exist to any noteworthy degree, with the exception of individual customers. With individual customers and individual components, the Masterflex Group evaluates the potential exchange rate risks taking into account all the major variables (such as the size of the transaction, term, exchange rate trend) and, if necessary, hedges against these risks by employing conservative hedging instruments. Only one such case currently exists within the Masterflex Group. Cross-currency financing within the Group which naturally leads to foreign exchange situations in the Group, does not exist to any noteworthy degree. Translation risks arising from the conversion of balance sheet items originally in foreign currency are not hedged in the Group. Likewise, Masterflex SE does not hedge its net asset claims from Group companies outside the euro zone.

The financial risks in the Masterflex Group are viewed as low through the use of the new syndicated loan agreement which was concluded in 2016 with a remaining term of three and a half years plus fewer foreign currency transactions as well as the relatively small scale of the business.

The interest-rate risk is significantly limited because of the further reduction in debt, regulations in the syndicated loan agreement and the conclusion of an interest-rate hedge (interest-rate cap) imposed by the loan agreement. The interest-rate cap hedges the balance due from the various tranches of the syndicated loan over its entire term against an increase in short-term interest rates beyond a specified amount. Therefore, the Masterflex Group does not give itself the opportunity to benefit from current low interest rates. There was no noteworthy financing with variable rates of interest in the Masterflex Group.

Three covenants have been agreed in the syndicated loan agreement. Here, Masterflex SE agrees to comply at Group level with defined financial key ratios, the debt-to-equity ratio, the equity ratio and the interest-cover ratio. If Masterflex is not in compliance with these covenants, the lenders are entitled to cancel the entire loan commitment.

Based on current and planned business development, we anticipate being in compliance with these covenants. The upper limit for the key figure ‘debt-to-equity ratio’ (calculated in accordance with the syndicated loan agreement) in 2017 was initially 3.0. However, due to debt being greatly reduced, Masterflex SE has maintained a debt-to-equity ratio continuously below 2.4 since the beginning of 2017. As of the 2017 balance sheet date, this key figure was 2.2.

The lower limit of the second key figure ‘equity ratio’ (calculated according to the credit agreement, which fixes the balance sheet equity capital to certain assets), reached a value of 30% in 2017. In contrast, Masterflex SE initially achieved an equity ratio of 44.8% until the 2017 balance sheet date of 47.0% and thus was also always considerably above the prescribed lower minimum. The lower limit of the third key figure ‘interest-cover ratio’ (calculated in accordance with the guidelines from the syndicated loan agreement in which the adjusted Ebitda is divided by the adjusted net interest expense) was 7.0 in 2017. In contrast, Masterflex SE initially achieved an interest-cover ratio of 9.1 in 2017, and until the 2017 balance sheet date of 10.2 and thus was also always considerably above the prescribed lower minimum. Thus, the covenants would only be breached by a dramatic deterioration of future results.

11. Sales market risks

On the sales market side, long-standing existing customers can fall away.

However, since the Masterflex Group is involved in many sectors and markets and also supplies many different customers, it is not dependent on one sector or one individual customer.

General customer-related risks (e.g. loss or insolvency of major customers, increased price pressure due to dominant marketplace position) are mitigated by ensuring a broad-based customer structure. Furthermore, we are expanding our activities, especially in those sectors that are relatively independent of economic fluctuations such as medical technology or the food industry.

We will counteract the potential increase in competitive pressure in our product groups, amongst other things, due to increased market transparency, by continuously improving our products, services and business processes. Our pricing may suffer as a result of the aggressive behaviour of our competitors and increasing market transparency. We mitigate this by constantly reviewing our cost structures and also by developing new one-of-a-kind products with unique selling points.

Due to our broad customer and industry diversification we see this risk as low, because the exclusion of individual customers would have only a limited impact on our net assets, financial position and results of operations. However, through increased market transparency, this risk may be weighted more highly in future.

12. Technology and quality risks

As a technology leader offering internationally competitive products and services, the Masterflex Group is at risk of losing this position due to decreasing innovative power or even human errors as well as loss of expertise. In order to avoid this, we are accelerating a permanent research and development process in order to meet the demanding requirements of customers. With corresponding agreements regarding privacy and protection of inventions as well as making employees aware of their dealing with confidential information, we counteract the risk of losing expertise. Furthermore, confidential data will only be made accessible to selected and limited group of people. In order to guarantee this also in the future, an innovation management process has been put into place which has been optimised over the last year. A panel of internal experts will decide further developments according to clear process and assessment requirements (so-called Stage-Gate process). In particular, the members make decisions on the basis of market analyses and considerations of economic viability.

The Group also aims to maintain close cooperation with its customers in order to help it to develop new applications and leverage new markets at an early stage. Further details on this process can be found in section A IV. Research and development.

The recognised quality of our products and high delivery capacity are important requirements for our success. In order to control such risks relating to our goods and services, we give a high degree of priority to quality assurance. By setting ambitious quality standards for our development activity, intensively examining the entire process chain and maintaining permanent contact with suppliers, quality-specific risks within the Group are limited in a systematic manner.

Due to the diversity of products and thus the independence of a product or manufacturing process, as well as the low number of warranty cases in the past, we see the technology and quality risks in terms of impact on our net assets, financial position and results of operations as low.

13. Regulatory risks

The strategy of the Masterflex Group is based on the four pillars of innovation, internationalisation, digital transformation and operational excellence. This means that the Group is actively pursuing working with its own employees and companies in many places of the world in the future.

Moreover, there are an increasing number and complexity of rules to be observed and laws at national and international levels. The regulatory environment has become significantly more onerous over the last few years. A breach of such rules or even the allegation of a violation of law might adversely impact on our reputation and the stock price.

In cooperation with accountants and lawyers providing support, we are kept continually informed about new legal requirements, applicable jurisdictions as well as revisions on the subject of compliance.

The code of conduct of Masterflex SE sets out the ethical and legal framework for our economic activity. Our compliance management system should ensure that our economic activity is in line with current laws and legal systems worldwide as well as our internal company implementing provisions. We will pursue this goal through targeted staff training amongst others. We are working continuously to further develop our compliance management system in the Group and to reduce compliance risks.

Despite the comprehensive compliance programmes and existing internal controls, it is however impossible to entirely prevent employees from bypassing control mechanisms, infringing laws or acting fraudulently for their personal gain. Even if we classify this risk as low, we cannot completely exclude it. A violation could have a significant impact on our net assets, financial position and results, as well as on the reputation of the company. We regard this risk as low, although an exact assessment is difficult because of the amount of relevant statutory provisions and a wide variety of possible violations.

VI. OTHER INDIVIDUAL RISKS

We are not aware of other individual risks that jeopardise the existence of the company at present.

VII. SUMMARY AND OVERALL STATEMENT OF THE GROUP'S CURRENT RISK SITUATION

In addition to global risk factors, the expected positive development of the results of operations, net assets and financial position of the Masterflex Group may be considerably negatively impacted by negative or even recessive business trends in individual sectors or economies.

Also, a possible departure of a large number of specialists and managers within a relatively short period of time would adversely affect us in our further development. This also applies in the case of significant disruptions to our IT systems. In terms of staff, we will undertake all efforts to continue to be an attractive employer in the future. We try to minimise IT risks by optimising the central and decentralised information systems, their availability and reliability.

In addition, our results of operations, net assets and financial position could be considerably impacted in the future if the Masterflex Group does not satisfactorily manage to increase the efficiency in its internal processes. The same applies if the Masterflex Group does not sufficiently adapt to changes in the market, in particular, if no new, high-quality products are developed, manufactured and sold. An undesirable development of this kind could lead to extraordinary write-downs on internally-created assets and intangible assets.

The Group Executive Board currently sees the Masterflex Group as being well positioned to manage the identified risks. Any new risks arising will quickly become known to the Executive Board and dealt with purposefully, both with regard to processes and due to short communication channels.

VIII. THE ORGANISATION OF THE COMPLIANCE SYSTEM

Compliance is paramount to the Executive Board and Supervisory Board of the Masterflex Group and one of the prerequisites for its lasting success. Compliance describes the measures which ensure that the Executive Board and Supervisory Board and in fact the entire management team and all the employees of the Masterflex Group behave lawfully.

As an internationally oriented Group of companies, the Masterflex Group is subject to a variety of laws, guidelines, provisions and regulations. At the beginning of 2015, the mission statement was supplemented by a code of conduct which is valid group-wide for all employees and managers and encompasses all areas and sites. These codes of conduct set standards for ethical and law-abiding behaviour.

With regard to shareholders, employees, business partners, competitors and society in general, the Masterflex Group is committed to comply with the highest ethical and legal standards. They are embedded as an essential component of the corporate structure and are increasingly integrated into the operating processes.

Compliance is one of the basic requirements for sustainable management and the success of the Masterflex Group. The company management team expressly shares this view. In the reporting year, the Group Executive Board reaffirmed the importance of compliance to its specialist departments and to the entire Group as well as the adoption of the code of conduct of the Masterflex Group. Every newly employed member of the Masterflex Group receives its own copy of this and is instructed in writing to make the code's principles a binding framework for its own actions.

The Executive Board, Supervisory Board and management team act as role models and continually help their employees to comply with the relevant regulations. Even the merest appearance of incorrect behaviour by the company management or employees should be avoided over the entire business activities of the Masterflex Group.

The Masterflex Group has established a compliance management system (CMS) which pursues a preventative compliance approach and strives to create a corporate culture that raises awareness among and familiarises employees, thus detecting and eliminating potential rule violations in advance.

The compliance organisation is headed by the Chief Compliance Officer (CCO) who reports directly and regularly on all compliance-relevant issues to the Executive Board of Masterflex SE. In particular, on the steps towards further development of the Masterflex Group CMS and about violations that have come to light, their sanctions as well as the corrective and preventative measures. The Executive Board reports to the Supervisory Board regularly and, when necessary, on an ad-hoc basis, about the current status of compliance activities in the Masterflex Group.

In the reporting year, training sessions on compliance and the code of conduct, anti-corruption and other relevant compliance issues took place which aimed to ensure lawful and ethnically sound, autonomous actions. In addition, special measures were conducted for employees who are particularly vulnerable to risks as well as training sessions for all new management employees on the code of conduct of the Masterflex Group.

By communicating compliance-related topics to relevant employees in the individual Group companies, compliance also provides support, offers guidance, raises awareness and informs. Thus, compliance in the Masterflex Group is an integral part of operational processes and a prerequisite for sustainable economic activity.

E FORECAST REPORT

E FORECAST REPORT

The following statements on the future business development of the Masterflex Group and on the key underlying assumptions concerning the economic development of markets and industries are based on our estimates which we currently regard as realistic according to information we have available. However, these are associated with a certain degree of uncertainty as a result of the current economic environment and thus carry the unavoidable risk that forecast developments will not actually occur, either in terms of general trends or to the extent predicted.

I. OUTLOOK

1. Projected macroeconomic development

2018 economic situation

In its economic outlook, the Institute for World Economy (IfW) in Kiel is forecasting further growth in the global economy over the next two years. Based on global economic development in 2017, the IfW slightly raised its forecast to 3.9% and 3.6% respectively for 2018 and 2019. The International Monetary Fund (IMF) also paints a similar picture and, for both 2018 and 2019, assumes growth of the global economy of 3.9%. In the advanced economies, the IMF expects an increase in the gross domestic product of 2.3% in 2018 and 2.2% in 2019. The forecast reflects the expectation that the favourable global financial conditions and the positive mood will help to sustain the recent acceleration in demand, particularly in investments. This effect would impact substantially on the growth of global economies with a high export ratio. In addition, it is expected that the US tax reform and the tax incentives associated with it will temporarily increase growth in the USA, whereby a positive boost in demand will be expected for the USA's preferred trade partners during this period. With growth rates of 2.3% and 2.0% respectively over the next couple of years, growth in the euro zone will slow down slightly according to IfW forecasts. For the German economy in 2018, the IfW forecasts growth of 2.5%.

Thus, economic growth in all of the regions addressed by the Masterflex Group will remain on an upwards trend according to experts. The increase is expected to be more pronounced in the regions addressed outside the European continent. This applies, in particular, to the large economic regions of North America and Asia, and specifically, China. But Brazil, too, is on the road to recovery.

FORECASTED ECONOMIC GROWTH IN SELECTED COUNTRIES WHERE THE MASTERFLEX GROUP HAS A PRESENCE
(Change compared to previous year, in %)

Country	2018	2019
Euro zone	2.2	**2.0**
Germany	2.3	2.0
France	1.9	1.9
Great Britain	1.5	1.5
World	3.9	**3.9**
Brazil	1.9	2.1
China	6.6	6.4
USA	2.7	2.6

Source: IMF

2. Projected development of the Masterflex Group

Since the start of the decade, the growth strategy of the Masterflex Group has been based on the two pillars of continual internationalisation and innovation. This strategy brought an average growth in revenue for the Masterflex Group of 7.1% over the past few years and a sustained increase in profitability. Against the backdrop of current challenges – on the one hand, within the industry and marketplace, such as through digital transformation and, on the other hand, within the company, through the management of scale effects in small-volume batch sizes and consultancy-heavy sales processes – the Masterflex Group has expanded its growth strategy around two additional pillars. These are digital transformation and operational excellence (more information can be found in section A II. Vision, objectives and strategies). The implementation of appropriate measures from this expanded growth strategy will shape the 2018 financial year and coming years. We continue to adhere to our overall goal of profitable growth over economic growth – as well as our target yield of an Ebit margin over 10%. In light of the current challenges, we see this margin target as more medium-term in nature and aim for confirmation of the current earning power in the short-term.

In addition, growth through acquisitions also remains an option in the future. Here, the focus is not purely on volume and sales growth, it should also be possible on this path to acquire new technologies beyond the already existing internal know-how and expertise from external sources.

A focus of our product innovations in 2018 lies in digitally readable hoses, so-called intelligent hoses. Here, the first joint project with customers have successfully started in the initial stages. In parallel, in-house developments will be brought to market maturity. These products will be marketed under the AMPIUS brand.

The economic prospects in the regions and countries we serve have differed significantly over the past years. In Germany, where we are the market leader for high-tech hoses and connection systems, we anticipate good, if not quite as strong growth as in previous years. We expect similar development in the euro zone. In Great Britain, the economic dynamic is rather subdued along with our development, due to the changed political conditions.

One of the strategically important markets for us over the next few years will be North America and more specifically, USA. Here, the prospects remain good. At the same time, we still have great potential and a backlog demand – not least because of the unexpected sales shortfalls at the end of the 2017 financial year. Following the course set over the last few years, we expect a further rise in sales and earnings contributions here.

We have made a clear commitment to our activities in Brazil, even though we are aware that due to the gradual recovery but still weak economy, expectations must not be set too high. However, our business volume is still comparably low. The aim here will be to improve and stabilise profitability at a level that is sustainable.

We expect good opportunities and an additional impetus in the medical technology market. The importance of this target market has already grown in recent years. In the future, we expect increasing momentum. With our new brand company APT and its fluoridated polymer products, we have been able to expand our product range especially for this market.

In conclusion, we expect our long-term growth path will continue. On average over the past four years, the growth of our business without acquisitions was above that of the global economy. Since 2017, the fluoropolymer expert, APT, has also been part of the Masterflex Group. Overall, we expect that our turnover in 2018 will rise by around 4 to 8%. This would presuppose stability in our important sales markets.

We will also implement further measures to improve our profitability in 2018. After the various measures to optimise internal operations completed between 2015 and 2017, by means of our expansion strategy and corresponding first steps, such as the introduction of our cloud-based ERP system, we started creating the conditions for sustainable medium- and long-term profitability strengthening in 2017. In the last financial year, we were again able to improve our Ebit margin to 9.5%. Our particular focus in 2018 and in subsequent years will now lie in confirming the earning power achieved and to secure it for the future. Above all, we need to further standardise our, in part, rather fragmented business and achieve economies of scale. We also accept that we cannot temporarily increase margins further. However, our goal for 2018 is to continue to grow from an earnings perspective proportionate to sales. In the medium-term, we again want to achieve profitability ratios well above the 10% mark.

3. Projected development of Masterflex SE

For 2018, we set ourselves a comparable goal for sales growth as in 2017 and want to increase it between 4 and 8%. However, this presupposes a comparably stable economic development without any major external challenges. From a financial perspective, we will concentrate on measures for improved efficiency and additional economies of scale. Due to the variety of new projects, we temporarily accept not increasing the Ebit margin further, yet we want to increase the Ebit to the same extent as sales.

II. SUMMARY STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

In summary, the Executive Board considers the Masterflex Group to be well on track on its long-term growth path. The potential for our innovative connection systems is predominantly characterised by our markets. Especially with active digitization of our solutions under the AMPIUS brand, we will expand and intensify our position as technology leader and strengthen our bonds with strategic customers. For some time, we have continually driven the necessary structural and procedural changes in order to set the Masterflex Group up on a clearly growing scenario. Not least, this was the motivation for the clear strategy expansion in 2017. In this way, we want to achieve significant growth in operating income and an increased consolidated net income. This will permanently support the possibility of paying a dividend in line with objectives which include reducing debt, financing further growth and the financing of potential new company acquisitions.

Gelsenkirchen, 14 March 2018

Dr. Andreas Bastin (Chief Executive Officer)	Mark Becks (Chief Financial Officer)

MASTERFLEX SHARE

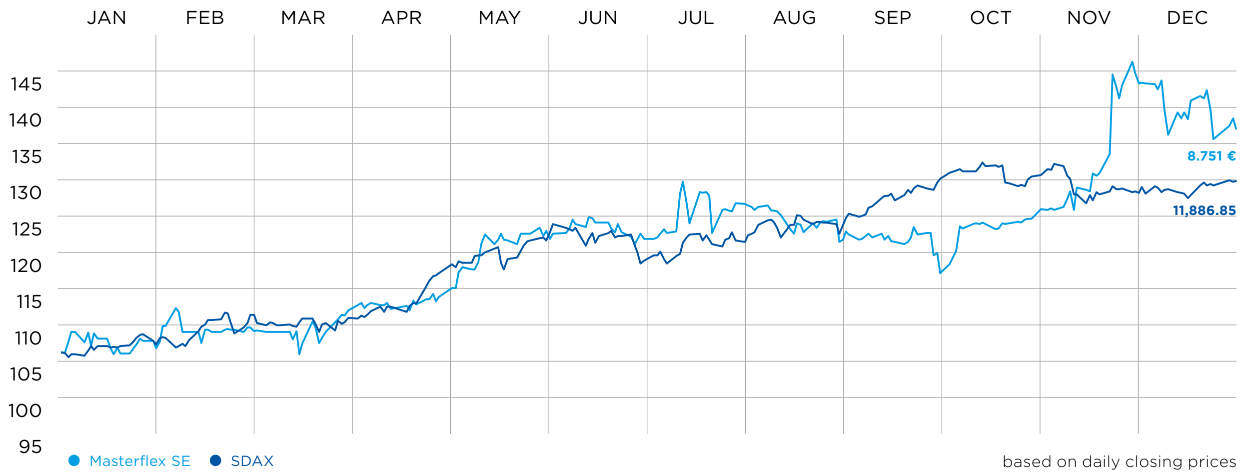
MASTERFLEX SHARE

SHARE INFORMATION

ISIN Code	DE0005492938
German Securities Code Number (WKN)	549 293
Class of shares	No-par value bearer shares
Stock Ticker Symbol	MZX
Bloomberg symbol	MZX GR
Reuter code	MZXG.DE
Market segment	Prime Standard

Member of the following indices	CDAX Prime All Share Index Classic All Share Index Prime Industrial Index
Designated Sponsor	ICF Bank AG, Lang & Schwarz Broker GmbH, DZ Bank AG
Number of shares (31.12.)	9,752,460
Theoretical interest in share capital per share	€ 1.00

Masterflex share price performance 2017 compared with SDAX (JANUARY TO DECEMBER 2017)



based on daily closing prices

THE STOCK MARKET YEAR

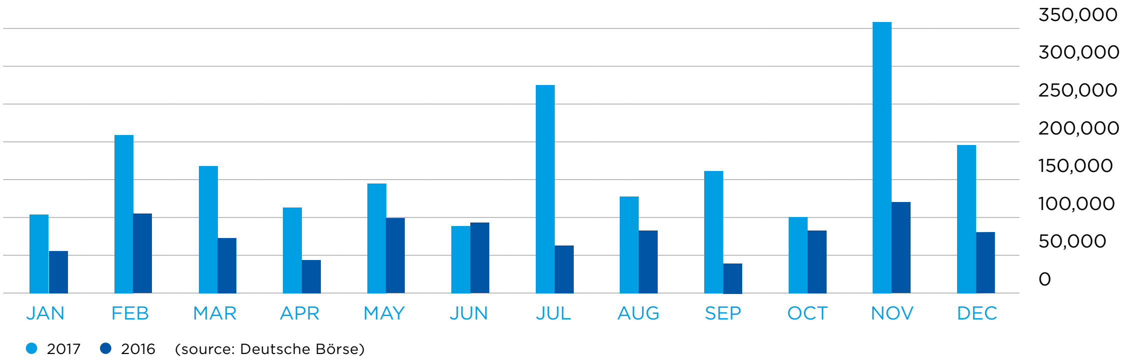
The Masterflex share performed outstandingly in 2017. The title rose by 32% to a closing price of € 8,571 k and readily outperformed the SDAX (performance: +24.9%). Hence, the positive achievement of 2016 when the Masterflex share performance (+12.4%) also exceeded the benchmark (+6.5%) was repeated last year.

During the year concerned, there has been an almost parallel development compared to the index in the run-up to summer. The 10% capital increase carried out on 16 March only resulted in short-term dampening as the share again briefly touched the lows from early 2017. The title price then rallied neatly, analogous to the index, gaining additional momentum through good interim results. Especially after the publication of the 2017 nine-month figures, the share was more sought after so that the share price rose temporarily up to € 9.50 along with comparatively high sales volumes. By the end of the year, the lively trade calmed down a little and the share closed at a price of € 8.751.

At this level, the share price moved sideways in the first two months of 2018. At the end of February, the Masterflex share had increased in the run-up to the publication of the preliminary figures up to a new record high for 2017/2018 of € 9.52.

LIQUIDITY OF THE MASTERFLEX SHARE

Order book turnover

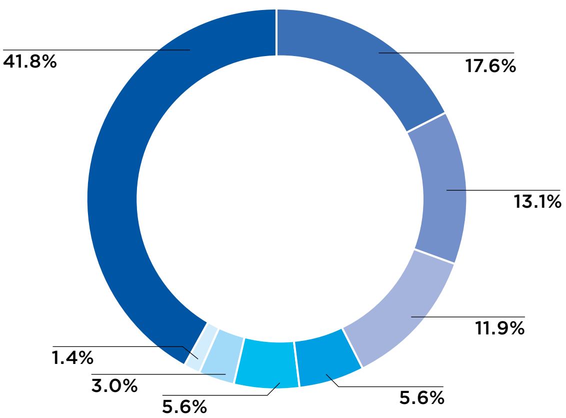


The good price development was also accompanied by a sharp rise in stock exchange trading. The Xetra share turnover with total sales of 1.4 million shares was well above the level of the previous year (0.9 million shares).

The reasons for this are partly due to a change in block ownership shareholders (see shareholder structure). In addition, the interest of the capital market in the Masterflex Group continued to rise, particularly after the 10% capital increase in March 2017. Furthermore, in May 2017, an additional designated sponsor, Lang & Schwarz Broker GmbH, was added to track the share alongside those responsible to date, ICF Bank AG and DZ Bank AG. All in all, this is a welcome development which we will continue to push.

Shareholder structure

In the case of larger shareholders, some shifts have taken place in 2017. Instead of Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte which had held 3.6% of the share capital up to March, in spring Grondbach GmbH gradually engaged with a total of 5.6% of the shares. In addition, J.F. Müller & Sohn AG significantly increased its commitment from its initial 3.1% to 11.9% through a full subscription of the capital increase which took place on 16 March 2017. As a result of this net increased block ownership of shares, the free float fell to almost 42%.



- **Free float:** 41.8%
- **SVB GmbH & Co. KG/Family Schmidt:** 17.6%
- **Stichting Administratiekantoor Monolith:** 13.1%
- **J. F. Müller & Sohn AG:** 11.9%
- **BBC GmbH/Dr. Bastin, Becks:** 5.6%
- **Reinhart Zech/Grondbach GmbH:** 5.6%
- **Families Bischoping:** 3.0%
- **Treasury shares:** 1.4%

The information on the shares usually refers to the most recent German Securities Trading Act notifications to the company.

Xetra share price, Capitalisation and free float over the last five years

		2017	2016	2015	2014	2013
Xetra						
Highest price	€	9.500	6.990	7.410	7.650	7.300
Lowest price	€	6.575	5.453	5.600	6.390	4.800
Opening price	€	6.631	5.806	7.000	7.000	4.999
Closing share price	€	8.751	6.575	5.950	6.970	7.000
Share performance		+ 32.0%	+ 12.4%	- 15.0%	- 0.4%	+ 40.0%
Earnings per share	€	0.45	0.34	0.22	0.34	0.29
Number of shares (31.12.)		9,752,460	8,865,874	8,865,874	8,865,874	8,865,874
Number of treasury shares		134,126	134,126	134,126	134,126	134,126
Market capitalisation (31.12.)	€ m	84.0	58.2	52.8	61.8	62.1
Free float	%	41.8	48.7	51.9	56.7	56.7

Analyst research

During 2017, the Masterflex share was continually followed by several analysts and research teams. The reports were updated and published for all quarterly announcements and reports. The majority of these reports can be downloaded at **www.MasterflexGroup.com** under *Investor Relations/Analysts*.

DZ Bank AG issued a recommendation to buy the share several times with target prices from its initial € 8.50 to € 9.20, which was adjusted to a "hold" recommendation with a share price of € 9.25.

SMC Research which specialises in small-cap shares has followed the Masterflex share for several years. Most recently, the experts recommended buying the share with a target price of € 9.30.

Over the past two years, **Bankhaus Lampe** has followed the development of the Masterflex Group and its share. Most recently, it was recommended to buy the title with a target price of € 10.50.

Annual General Meeting 2017

The regular Annual General Meeting took place on 27 June 2017 at the traditional venue, Schloss Horst, in Gelsenkirchen. 63.4% of the share capital was represented. Again, this is an increase over the previous year (55.3%), which may be attributable to the increased number of block ownership shareholders.

The agenda items submitted for resolution were all approved with a clear majority. These included the appointment Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft as auditor for the 2017 financial year, an editorial change to the articles of association as well as the renewal of the so-called anticipatory resolutions for equity financing (see section C III. Other disclosures in accordance with §§ 289 and 315 of the German Commercial Code (HGB)) and lastly the appropriation of profit.

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Dividends

A dividend of € 0.05 per share was distributed on 30 June 2017 from the 2016 net profit of € 5.7 million. The remaining net profit of € 5.2 million was carried forward to a new statement of accounts.

Capital market communications

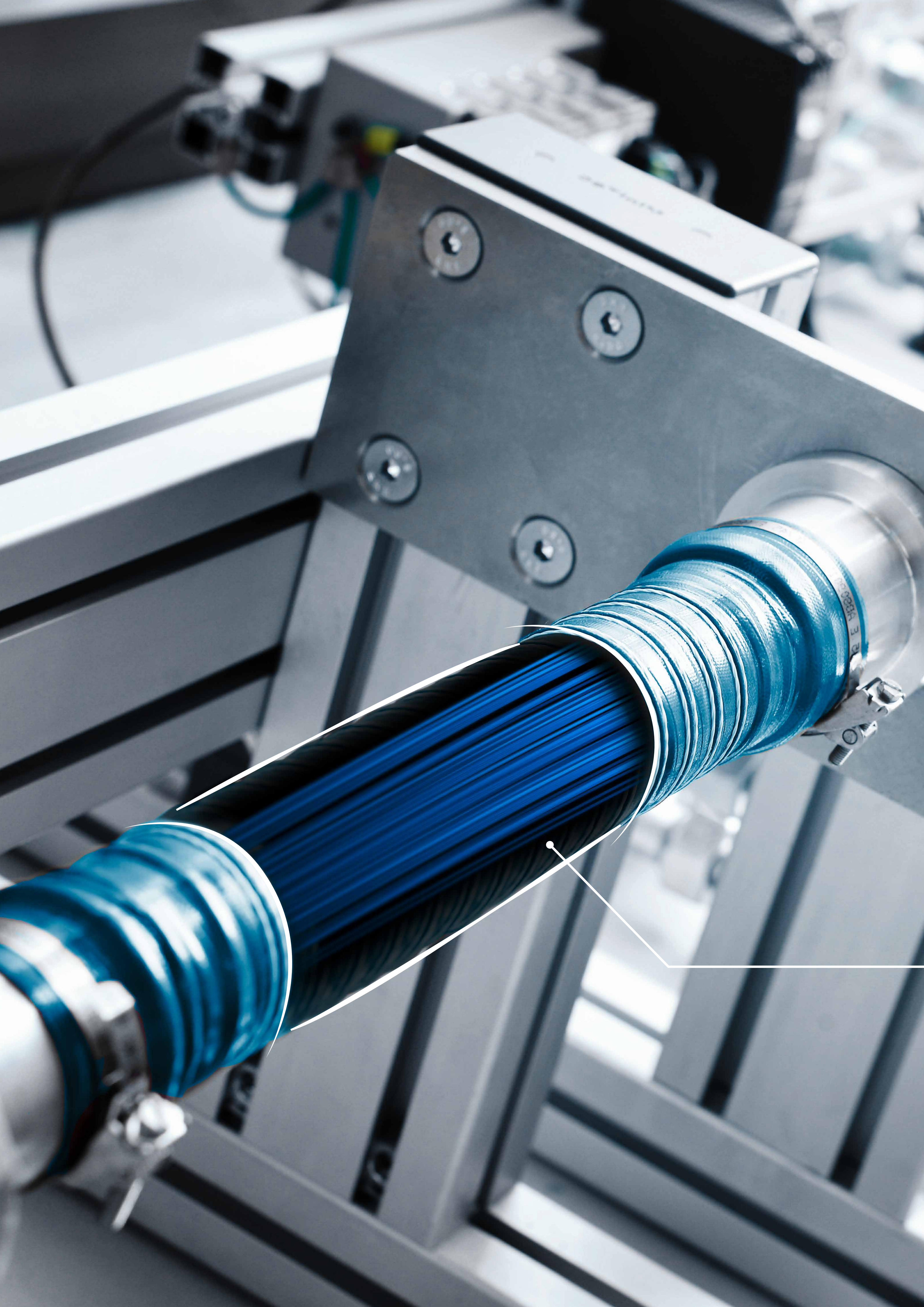
The Masterflex Group maintains an open, simultaneous and consistent information policy which is directed to all participants of the capital market. Concerns of investors or analysts are promptly dealt with as far as the competitive standing of the Masterflex Group permits, being one of the few publicly listed hose manufacturers. The opportunity was once again taken to give presentations of the company at capital market conferences.

The aim of capital market communications is to contribute to a fair evaluation of the share through regular reporting on the capital market. The aim of the Masterflex Group is to become the market leader in all the addressed markets. Profitable, sustainable growth should also be reflected in the performance of the shares.

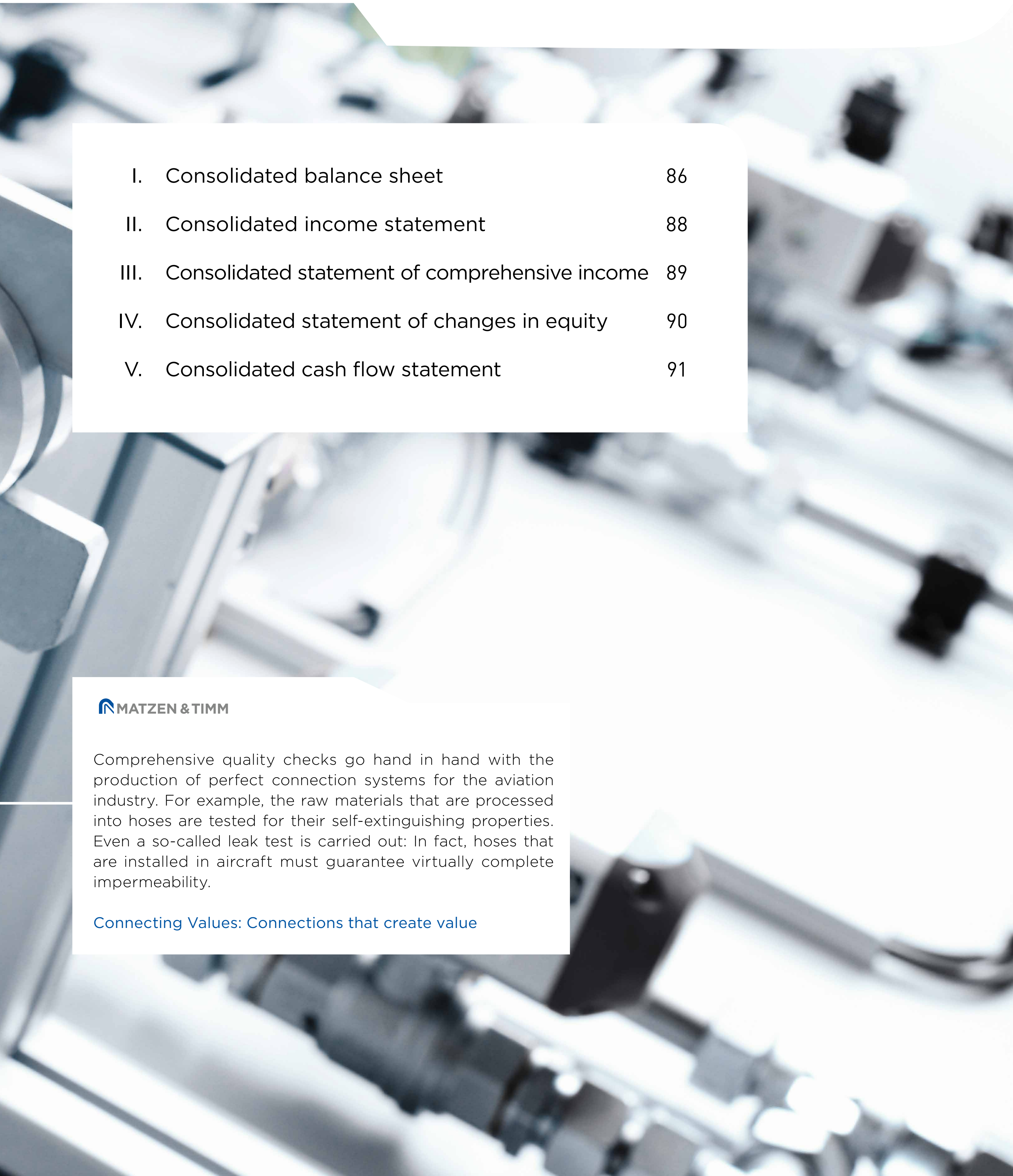
FINANCIAL CALENDAR 2018

29 March	Financials press conference, presentation of the 2017 Annual Report, Dusseldorf
11 May	Communication on Q1/2018
14/15 May	Analysts' conference within the framework of the Spring Conference, Frankfurt/Main
26 June	Annual General Meeting, Gelsenkirchen
10 August	2018 Half-year Report
9 November	Communication on Q3/2018
26 – 28 November	German Equity Forum, Frankfurt

The financial calendar was published on the Group's website (**www.MasterflexGroup.com/investor-relations/finanzkalender.html**) and will be regularly updated there.



CONSOLIDATED FINANCIAL STATEMENTS



MATZEN & TIMM

Comprehensive quality checks go hand in hand with the production of perfect connection systems for the aviation industry. For example, the raw materials that are processed into hoses are tested for their self-extinguishing properties. Even a so-called leak test is carried out: In fact, hoses that are installed in aircraft must guarantee virtually complete impermeability.

Connecting Values: Connections that create value

I. CONSOLIDATED BALANCE SHEET

Assets in €k	Notes	31.12.2017	31.12.2016
NON-CURRENT ASSETS			
Intangible assets	4, 24	**11,233**	**4,499**
Concessions, industrial property rights	4	846	483
Development costs	4	677	464
Goodwill	4, 24	9,187	3,258
Advance payments	4	523	294
Property, plant and equipment	4	**31,413**	**29,033**
Land and buildings		17,047	17,094
Technical equipment		10,584	8,802
Other assets, operating and office equipment		2,721	2,407
Advanced payments and construction in progress		1,061	730
Financial assets	4	**78**	**91**
Non-current financial instruments		78	91
Other loans		0	0
Other assets	6	**27**	**49**
Other financial assets	6, 17	**13**	**25**
Deferred taxes	27	**1,546**	**1,463**
		44,310	**35,160**
CURRENT ASSETS			
Stocks on hand	5	**15,236**	**13,562**
Raw materials and consumables used		7,633	6,397
Unfinished goods and services		955	878
Finished products and goods purchased and held for sale		6,643	6,266
Advance payments		5	21
Receivables and other assets	6, 7	**7,593**	**7,254**
Trade receivables	7	6,777	6,240
Other assets	6	811	1,007
Other financial assets	6, 17	5	7
Income tax assets	8	**492**	**431**
Cash in hand and bank balances	9	**5,336**	**3,994**
		28,657	**25,241**
Assets held for sale	6	**0**	**11**
		28,657	**25,252**
Total assets		**72,967**	**60,412**

I. CONSOLIDATED BALANCE SHEET

Liabilities in €k	Notes	31.12.2017	31.12.2016
CAPITAL			
Consolidated equity	10	37,736	29,033
Subscribed capital		9,618	8,732
Capital reserves		31,306	26,252
Retained earnings		-1,511	-5,341
Revaluation reserve		-629	-616
Exchange differences		-1,048	6
Balancing items for non-controlling interests of other shareholders	11	-340	-332
Total Capital		37,396	28,701
NON-CURRENT LIABILITIES			
Provisions	12	225	197
Financial liabilities	13	18,293	20,694
Other liabilities	15	948	977
Deferred taxes	27	916	849
		20,382	22,717
CURRENT LIABILITIES			
Provisions	12	2,290	2,135
Financial liabilities	13	7,404	2,432
Income tax liabilities	14	984	163
Other liabilities	15, 16	3,434	3,236
Trade payables	16	1,964	2,232
Other liabilities	15	1,470	1,004
		14,112	7,966
Liabilities directly connected with assets held for sale	15	1.077	1.028
		15,189	8,994
Total liabilities		72,967	60,412

II. CONSOLIDATED INCOME STATEMENT

Continued business units in €k	Notes	2017	2016
1. Revenue	18	74,675	66,486
2. Increase or decrease of inventories in finished and unfinished goods		94	-174
3. Work performed by the enterprise and capitalised		746	763
4. Other income	19	512	1,041
Operating revenue		**76,027**	**68,116**
5. Cost of materials	20	-24,311	-20,804
6. Staff costs	23	-28,522	-26,496
7. Depreciation, amortisation and impairments		-3,182	-2,714
8. Other expenses	21	-12,931	-12,005
9. Financial result	25		
Financing costs		-1,192	-1,339
Other financial income		11	16
10. Earnings before taxes and non-operating expenses		**5,900**	**4,774**
11. Non-operating expenses	26	-480	-200
12. Earnings before taxes		**5,420**	**4,574**
13. Income taxes	27	-1,055	-1,156
14. Earnings after taxes from continued operations		**4,365**	**3,418**

Discontinued business units in €k			
15. Earnings after taxes from discontinued business units	28	**-62**	**-555**
16. Group profit or loss		**4,303**	**2,863**
of which: non-controlling interests		-8	-65
of which: controlling interests attributable to shareholders of Masterflex SE		**4,311**	**2,928**
Earnings per share (diluted and non-diluted)			
from continued business units	29	0.46	0.40
from discontinued business units	29	-0.01	-0.06
from continued and discontinued operations	29	0.45	0.34

III. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in €k	Notes	2017	2016
Group profit or loss		4,303	2,863
Other income or loss			
Items which are subsequently reclassified into profit or loss if certain conditions are fulfilled			
1. Exchange rate gains/losses from the translation of foreign financial statements	10	-1,117	33
2. Changes in the fair value of financial instruments		-13	-40
3. Income taxes		63	53
4. Other income after taxes		**-1,067**	**46**
5. Overall results		**3,236**	**2,909**
Overall results:		3,236	2,909
of which: non-controlling interests		-8	-65
of which: controlling interests attributable to shareholders of Masterflex SE		3,244	2,974

IV. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Sub-scribed capital	Capital reserves	Retained earnings	Revaluation reserve from financial instruments	Exchange rate differences	Controlling interests attributable to share-holders of Masterflex SE	Adjustment item for non-controlling interests	Equity
Notes	10	10	10	10	10		11	
Equity as at 01.01.2016	**8,732**	**26,252**	**-7,726**	**-576**	**-623**	**26,059**	**-47**	**26,012**
Distributions	0	0	0	0	0	0	0	0
Capital measures	0	0	0	0	0	0	0	0
Other changes		0	-543	0	543	0	-220	-220
Overall results	**0**	**0**	**2,928**	**-40**	**86**	**2,974**	**-65**	**2,909**
Group profit or loss	0	0	2,928	0	0	2,928	-65	2,863
Other income after income tax		0	0	-40	86	46	0	46
Changes in the fair value of financial instruments	0	0	0	-40	0	-40	0	-40
Exchange rate gains/ losses from the translation of foreign financial statements	0	0	0	0	33	33	0	33
Income relating to other earnings	0	0	0	0	53	53	0	53
Equity as at 31.12.2017	**8,732**	**26,252**	**-5,341**	**-616**	**6**	**29,033**	**-332**	**28,701**
Distributions	0	0	-481	0	0	-481	0	-481
Capital measures		5,054	0	0	0	5,940	0	5,940
Other changes	0	0	0	0	0	0	0	0
Overall results		**0**	**4,311**	**-13**	**-1,054**	**3,244**	**-8**	**3,236**
Group profit or loss	0	0	4,311	0	0	4,311	-8	4,303
Other income after income tax		0	0	-13	-1,054	-1,067	0	-1,067
Changes in the fair value of financial instruments	0	0	0	-13	0	-13	0	-13
Exchange rate gains/ losses from the translation of foreign financial statements	0	0	0	0	-1,117	-1,117	0	-1,117
Income relating to other earnings	0	0	0	0	63	63	0	63
Equity as at 31.12.2017	**9,618**	**31,306**	**-1,511**	**-629**	**-1,048**	**37,736**	**-340**	**37,396**

V. CONSOLIDATED CASH FLOW STATEMENT

in €k	2017	2016
Result for the period before taxes, interest expenses and financial income	6,547	5,406
Non-operating expenses having no effect on liquidity	-90	0
Non-operating expenses having an effect on liquidity	-390	-200
Income taxes paid	-862	-1,187
Write-downs on intangible assets	337	166
Reversals of properties	0	0
Amortisations/reversals of fixed assets	2,845	2,548
Increase/decrease in provisions	233	14
Other non-operating income/expenditure/profit/loss from the disposal of fixed assets	-765	-831
Increase/decrease in inventories	-682	-4
Increase/decrease in trade receivables and other income which is attributable from investing and financing activities.	1,225	1,264
Increase/decrease in trade payables and other liabilities that are attributable from investing and financing activities.	-52	-957
Cash flow from ongoing business activities	**8,346**	**6,219**
Income from the disposal of assets	8	9
Payments for investments in intangible assets	-747	-759
Payments for investments in property, plants and equipment	-3,926	-8,047
Payments from the acquisition of associated companies	-8,755	0
Income received from the repayment of financial assets	0	135
Expenditure for investments financial assets	0	0
Cash flow from investment activities	**-13,420**	**-8,662**
Cash received from equity injections	5,940	0
(Capital increase, sale of treasury shares)	-481	0
Payouts to shareholders and minority interests	8	5
(Dividends, purchase of shares)	-1,059	-1,361
Interest and dividend income	0	-32
Interest expenses	9,000	28,500
Payments from the sale of securities/fixed term deposit investments	-6,537	-25,295
Proceeds from taking out loans	**6,871**	**1,817**
Change in cash and cash equivalents	**1,797**	**-626**
Exchange rate-related and other value changes of cash and cash equivalents	-1,054	629
Cash and cash equivalents at the start of the period	**4,005**	**4,002**
Change in consolidation group	**588**	**0**
Cash and cash equivalents at the end of the period	**5,336**	**4,005**

FLEIMA-PLASTIC

Particularly interesting for medical technology: Luerlock connectors, screw terminals, connectors and hoses. Everything produced under cleanroom conditions, everything from a single source. And produced in accordance with recognised standards.

Connecting Values: Connections that create value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF FINANCIAL REPORTING

Basis of presentation

Masterflex SE as parent company of the Group is registered in the Commercial Register at Gelsenkirchen District Court under no. HRB 11744. The company's head office is in Gelsenkirchen (Germany). The address is Masterflex SE, Willy-Brandt-Allee 300, 45891 Gelsenkirchen. The articles of association exist in the version adopted on 27 June 2017. The company name is Masterflex SE.

The present consolidated financial statements have been prepared in accordance with § 315 e of the German Commercial Code ("Consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRSs) and the interpretations issued by the International Accounting Standards Board (IASB), as applicable within the EU, in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. These comprise the obligatory IASs, IFRSs and relevant interpretations (SIC/IFRIC) as of balance sheet date 31 December 2017. The prior-period amounts were calculated in accordance with the same principles.

The consolidated financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement. The notes to the consolidated financial statements also contain segment reporting.

For clarity, some individual balance sheet and statement of comprehensive income items have been combined; these items are discussed in detail in the notes to the Group consolidated financial statements. Assets and liabilities are broken down into current and non-current Items. The Group income statement is prepared in accordance with the nature of expense method.

The Group cash flow statement is prepared in accordance with the indirect method for cash flow from operating activities and the direct method for cash flow from investing and financing activities.

The consolidated financial statements are prepared in euro (€). All amounts, including prior period amounts, are stated in thousands of euro (€k). All amounts are rounded in accordance with standard commercial practice. In some cases, this can result in negligible differences between the sum of the individual amounts and the stated total. The single-entity financial statements of the companies included in consolidation are prepared to the same reporting date as the consolidated financial statements.

The Executive Board of Masterflex SE released this financial statement for publication on 14 March 2018. Endorsement took place in the Supervisory Board meeting on 14 March 2018.

2. ACCOUNTING PRINCIPLES

Basis of consolidation

The consolidated financial statements of Masterflex SE contain all companies in which Masterflex SE holds a majority of the voting rights or over whose financial and business policy it can otherwise exercise a controlling influence, either directly or indirectly. Subsidiaries are fully consolidated from the date at which the Group is able to exercise a controlling influence over them and are deconsolidated from the date at which this controlling influence ends.

As at 31 December 2017, a total of 8 domestic (previous year: 8) and 11 foreign subsidiaries (previous year: 11) were consolidated in addition to Masterflex SE. The table below shows the subsidiaries that were fully consolidated as at 31 December 2017:

Company name	Company headquarters		Equity interest held by Masterflex (%)
Masterflex SARL	France	Béligneux	80
Masterflex Technical Hoses Ltd.	Great Britain	Oldham	100
Masterduct Holding, Inc.*	United States	Houston	100*
• Flexmaster USA, Inc.	United States	Houston	100*
• Masterduct, Inc.	United States	Houston	100*
• Masterduct Holding S.A., Inc.	United States	Houston	100*
• Masterduct Brasil LTDA.	Brazil	Santana de Parnaiba	100
Novoplast Schlauchtechnik GmbH	Germany	Halberstadt	100
FLEIMA-PLASTIC GmbH	Germany	Wald-Michelbach	100
Masterflex Handelsgesellschaft mbH	Germany	Gelsenkirchen	100
Masterflex Česko s.r.o.	Czech Republic	Plana	100
M & T Verwaltungs GmbH*	Germany	Gelsenkirchen	100*
• Matzen & Timm GmbH	Germany	Norderstedt	100
Masterflex Scandinavia AB	Sweden	Kungsbacka	100
Masterflex Vertriebs GmbH	Germany	Gelsenkirchen	100*
• APT Advanced Polymer Tubing GmbH	Germany	Neuss	100
Masterflex Asia Holding GmbH*	Germany	Gelsenkirchen	80*
• Masterflex Asia Pte. Ltd.	Singapore	Singapur	100*
• Masterflex Hoses (Kunshan) Co., Ltd.	People's Republic of China	Kunshan	100

*= Partially consolidated

The basis of consolidation has changed in comparison with the previous year. In the previous year's consolidated financial statements, Masterflex Entwicklungs GmbH, Gelsenkirchen, merged with Masterflex Vertriebs GmbH effective from 1 January 2017. This did not have any impact on the net assets, financial position and results of the Group. On the other hand, APT Advanced Polymer Tubing GmbH was consolidated for the first time on 4 January 2017 and therefore is a component of the consolidated companies for the first time on 31 December 2017.

Acquired subsidiaries are accounted for using the purchase method. The cost of acquisition is calculated on the basis of the cash and cash equivalents transferred and the fair values of the assets given up, the equity instruments issued, and the liabilities assumed as of the transaction date, plus any costs directly attributable to the acquisition. Expected changes in cost as a result of future events are taken into account at the acquisition date depending on the probability of the respective event and the extent to which the resulting change can be reliably estimated. On initial consolidation, the assets, liabilities and contingent liabilities identified in the course of a business combination are measured at their fair value at the transaction date, irrespective of any minority interests.

The excess of the cost of acquisition over the parent company's share in the fair values of the acquired net assets of the subsidiary is recognised as goodwill. If the cost of acquisition is lower than the total fair value of the acquired net assets of the subsidiary, the difference is recognised in the income statement.

The single-entity financial statements of the companies included in consolidation as prepared in accordance with the respective national accounting standards were adjusted to reflect IFRS requirements.

Some of the subsidiaries included in the consolidated financial statements make use of partial use of the exemption clause of § 264 (3) of the Commercial Code (HGB). A list of the exemption clauses made use of by these companies can be found in Note 40.

Consolidation

With the exception of income and expense items between continued and discontinued operations, all intragroup receivables, liabilities, profits and losses are eliminated.

In accordance with IFRS 3, capital consolidation is performed by offsetting the carrying amounts of subsidiaries against the Group's proportionate interest in their shareholders' equity. The shareholders' equity of acquired subsidiaries is calculated at the acquisition date on the basis of the fair values of the assets, liabilities, contingent liabilities and deferred taxes of the subsidiaries and any goodwill as of this date.

Currency conversion

Group companies prepare their annual financial statements in their respective functional Currency.

Foreign-currency transactions by consolidated companies are converted into the functional currency using the exchange rate at the transaction date. Monetary assets are adjusted to reflect the exchange rate at each balance sheet date. As a matter of principle, the resulting exchange rate gains and losses are reported in other income and expenses.

The financial statements of all companies with a functional currency other than the Group reporting currency are converted into the reporting currency of Masterflex's consolidated financial statements. The assets and liabilities of the consolidated companies are translated using the middle rates prevailing at the balance sheet date, while their income statements are translated using moving average rates for the year as a whole. If the average rate for the year is not a reasonable approximation of the actual exchange rates on the respective transaction dates, the latter rates are applied. Any exchange differences are classified as a separate component of equity and reconverted at each balance sheet date. On 31 December 2017, these differences amounted to € 1,048 thousand (previous year: € 6 thousand).

Goodwill from the acquisition of foreign subsidiaries whose functional currency is different to the Group reporting currency and adjustments due to fair value measurement are converted as assets of the respective companies by using the prevailing exchange rate at the balance sheet date.

For currency conversion purposes, the following exchange rates were applied as at the balance sheet date:

In €	31.12.2017
1 pound sterling (£)	1.1271
1 US-Dollar ($)	0.8338
1 Brazilian Real (BRL)	0.2517
1 Czech Koruna (CZK)	0.0392
1 Swedish Krona (SEK)	0.1016
1 Singapore-Dollar (SGD)	0.6241
1 Renminbi (CNY)	0.1281

Income and expense items, including those contained in the annual financial statements, were converted using the average exchange rates for the year as follows:

In €	2017
1 pound sterling (£)	1.1414
1 US - Dollar ($)	0.8855
1 Brazilian Real (BRL)	0.2775
1 Czech Koruna (CZK)	0.0380
1 Swedish Krona (SEK)	0.1038
1 Singapore - Dollar (SGD)	0.6418
1 Renminbi (CNY)	0.1311

Intangible assets

Intangible assets include both internally generated and acquired assets. Internally generated intangible assets relate to work performed by the company and capitalised and are carried at the cost incurred between the date on which their technological and economic feasibility was established and the date on which they were completed. Acquired intangible assets include concessions, licences, industrial and similar rights and assets, as well as technologies. Acquired intangible assets are carried at cost.

Intangible assets whose useful lives can be determined are amortised on a straight-line basis over this period. The carrying amounts of intangible assets are reviewed if there is evidence to suggest that they may be impaired as a result of events or changes in circumstances. Intangible assets with uncertain useful lives are tested for impairment annually. Intangible assets with uncertain useful lives are tested for impairment annually. Impairment testing is performed in the same way as for property, plant and equipment. If the reasons for impairment no longer apply, the corresponding write-down must be reversed up to a maximum of the amortised cost of the respective asset.

Goodwill

Goodwill arising from company mergers is recognised as an intangible asset.

Goodwill is tested for impairment at the level of the respective cash-generating units at least once a year at the end of the financial year and whenever there is evidence of impairment (“Cash-Generating Unit”). Here, the recoverable amount of the individual cash-generating units is contrasted with the carrying amount including the goodwill. The recoverable amount of a cash-generating unit is the higher of its internal value in use and its fair value less disposal costs. If the carrying amount of the assets attributable to an individual cash-generating unit exceeds the recoverable amount, a write-down is recognised in income in the amount of the difference.

Write-downs for impairment are deducted from Goodwill. Any excess is allocated proportionately to the carrying amounts of the other assets of the cash-generating unit being tested for impairment.

The value in use of the individual cash-generating units is calculated in the fourth quarter of each financial year in accordance with the discounted cash flow method. It is only necessary to estimate the selling price if the value in use is lower than the carrying amount.

Fixed assets

Property, plant and equipment encompasses all tangible assets that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one period.

Property, plant and equipment is carried at cost less accumulated depreciation and write-downs, plus any reversals of write-downs.

The carrying amounts of items of property, plant and equipment are reviewed if there is evidence to suggest that they may be impaired as a result of events or changes in circumstances. Impairment is assessed by comparing the carrying amount of an asset with its recoverable amount (impairment testing). If the carrying amount is higher than the recoverable amount, it is written down to the lower amount. In order to assess impairment, assets are grouped at the lowest level for which the respective cash flows can be separately identified. If the reasons for impairment no longer apply at a subsequent reporting date, the corresponding write-down may be reversed up to a maximum of the amortised cost of the respective asset.

Useful lives

The depreciation of property, plant and equipment and the amortisation of intangible assets is based on the following useful lives:

	Useful life	Depreciation method
Software	3 years	Linear
Licences and similar rights	Over the term of the lease	Linear
Buildings/parts of buildings	10-50 years old	Linear
Technical equipment	2-18 years	Linear
Other assets, operating and office equipment	2-10 years	Linear

Financial assets

Financial assets include securities and financial receivables (excluding trade receivables).

Securitised debt instruments that the company intends to hold to maturity are carried at amortised cost in accordance with the effective interest method. All other securities are carried at their fair value, with any fluctuations in value taken directly to equity.

Financial receivables are carried at amortised cost in accordance with the effective interest method.

Derivative financial instruments are employed exclusively for hedging purposes, and in particular for hedging against interest rate fluctuations arising from financial transactions, as well as exchange rate risks and changing prices. They are always carried at their fair value. Fair value fluctuations are recognised in income.

The settlement date is relevant for the initial recognition of financial assets and their subsequent derecognition. Financial assets are recognised when Masterflex becomes a contracting party to the respective financial instrument and are derecognised when the right to receive money or another financial asset expires as a result of settlement, waiver, limitation or offsetting or in another manner or this right is transferred to another party, including the corresponding risks.

Financial assets or groups of financial assets are tested for impairment at each balance sheet date, with any write-downs recognised in income. With the exception of equity instruments, the carrying amounts of financial assets are written up if the reasons for impairment no longer apply.

Deferred taxes

Deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts in the respective domestic tax accounts and the IFRS accounts used in preparing the consolidated financial statements. Deferred tax assets are also recognised for tax loss carryforwards. Deferred tax assets are only recognised for tax loss carryforwards to the extent that future taxable income is expected to be available.

In accordance with the IFRSs, amounts relating solely to tax law are not recognised in the consolidated financial statements.

Inventories

Inventories are carried at the lower of cost and net realisable value. The majority of the company's inventories are measured using the FIFO (first-in, first-out) method. The cost of inventories includes direct costs, indirect materials and indirect labour costs relating to production and depreciation, as well as production-related administrative expenses, but not borrowing costs. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. Impairment testing is performed in the same way as for property, plant and equipment. The corresponding write-down must be reversed up to a maximum of the amortised cost of the respective asset.

Receivables and other assets

Receivables and other assets are accounted for on the basis of the amortised costs which represent a reasonable estimate of the market value in view of the short maturities. If there is substantial objective evidence for a write-down then an impairment loss is recorded. Such evidence of the existence of a write-down is, for example, a deterioration of creditworthiness of a debtor and the associated payment obligations, or an imminent insolvency. The necessary value adjustments are oriented towards the actual credit risk. Receivables are comprised of financial receivables, trade receivables and other receivables.

Cash in hand and bank balances

Cash in hand and bank balances are primarily composed of bank balances, cash in hand and uncredited cheques, and are carried at their nominal amount which corresponds to the market value. Cash and cash equivalents denominated in foreign currencies are translated at the exchange rate as at the balance sheet date.

Subscribed capital

Ordinary shares are classified as shareholders' equity. Treasury shares are deducted from the shareholders' equity attributable to the shareholders of Masterflex SE.

Provisions

Provisions are recognised when the Group has a current (legal or constructive) obligation from a past event that it is expected to be required to settle, and the amount of this obligation can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the current obligation as of the balance sheet date, taking into account the risks and uncertainties underlying the obligation. If the economic benefit required to settle the provision is expected to be reimbursed by a third party, either in part or in full, the corresponding right is recognised as an asset if reimbursement is virtually certain and the amount to be reimbursed can be reliably estimated.

Other obligations to employees include all short-term benefits. Short-term employee benefit obligations are generally due in full within 12 months of the end of the respective service, and include wages, salaries, social security contributions, paid vacation and profit-sharing. These benefits are expensed at the same time as the remunerated service is performed. At the balance sheet date, the excess of the total expense over the payments already made is recognised as a deferred liability.

Provisions for warranties are measured on the basis of actual past warranty costs and the assessed overall risk of our product range. Provisions are also recognised when the company is aware of a warranty claim and a loss is considered likely. Recourse claims against suppliers are capitalised if the services in question are covered by a warranty and it is highly likely that the company will be able to assert the respective claims.

Liabilities

Liabilities are recognised at amortised cost. The determination of these amortised costs takes place using the effective interest method. Liabilities from finance lease agreements are carried as liabilities at the amount at the fair value beginning of the lease agreement or the present value of the minimum lease instalment if this value is lower. Liabilities are comprised of financial liabilities, trade liabilities and other liabilities.

Financial instruments

The financial instruments recognised on Masterflex AG's balance sheet relate in particular to cash and cash equivalents, available-for-sale securities, trade receivables, trade payables and liabilities to banks. Financial instruments held for trading, which primarily consist of derivatives, are carried at fair value with any changes recognised in the income statement. Available-for-sale securities are carried at fair value. Unrealised changes in fair values are reported in the reserve for the marking-to-market of financial instruments as a separate component of shareholders equity. The Executive Board is responsible for determining the allocation of financial instruments to the aforementioned categories at the acquisition date and reviewing this allocation at each subsequent reporting date. The securities held by the Group are reported as financial assets.

Overall, there are no significant differences between the carrying amounts and fair values of the other financial instruments held by the Group. The Group holds cash and cash equivalents at various banks and aims to minimise its dependence on individual banks as part of its risk strategy. Customer-specific financial risk is controlled by constantly monitoring customer creditworthiness.

There are no material default risks in excess of the carrying amounts of the financial assets held by the Group.

Revenue recognition

Revenue from the sale of products is recognised when the respective products are delivered and transferred to the buyer. Revenue is measured at the fair value of the consideration received or receivable. No revenue is recognised if significant risks relating to the receipt of the consideration or a possible return of goods exist. Customer bonuses, trade discounts and volume rebates serve to reduce revenue.

Interest income is recognised on a time proportion basis over the remaining term of the respective asset on the basis of the effective interest rate and the amount of the outstanding receivable.

Borrowing Costs

Borrowing costs are expensed in the period in which they are incurred.

Research and development

Research costs are expensed when they are incurred. Development costs relating to the significant development of a product or process are capitalised when the product or process is technically and economically realisable, the development is marketable, the relevant expenses can be reliably measured, and the company has sufficient resources to complete the development project. All other development costs are expensed as incurred. Capitalised development costs for completed projects are carried at cost less any accumulated amortisation.

Government grants

Government grants are carried at fair value if the Group meets the necessary conditions for receiving the grant. Cost subsidies are recognised over the period in which the costs they are intended to subsidise are incurred. Government investment grants are reported as deferred income and reversed over the useful life of the respective asset in accordance with the depreciation pattern.

Estimates

The preparation of the financial statements requires the use of estimates and assumptions affecting the company's assets, liabilities, provisions, deferred tax assets and liabilities, income and expenses, as well as the recognition of contingent liabilities. Although the company ensures that such estimates and assumptions are made in a careful and conscientious manner, the possibility that the actual amounts will deviate from the estimated amounts cannot be excluded.

Factors that could cause a negative deviation include a deterioration in the global economy, exchange rate and interest rate developments, significant legal proceedings and amendments to the provisions of environmental law or other statutory provisions. Manufacturing defects, the loss of key customers and rising finance charges could also adversely affect the Group's future success.

The following section presents the potential effects of changes in estimates on the recognition and measurement of assets and liabilities:

a. Development costs

In order to calculate the goodwill of amounts capitalised, the management must make assumptions on the amount of future-expected cash flow from assets, the time period of the inflow of the future-expected cash flow generated by the assets, and the interest rates to be applied. Best possible estimates were calculated at the balance sheet date (see Note 4).

b. Goodwill

The Group checks annually whether a write-down of goodwill is available. The recoverable amount of cash-generating units is determined on the basis of the value in use, which in turn is calculated on the basis of assumptions by the Group's Executive Board (see Note 24).

c. Deferred taxes

When estimating the realisability of deferred tax assets, the Group's management assesses the extent to which the factors in favour of realisation outweigh those against it. The actual realisability of a deferred tax asset depends on the availability of future taxable income that can be offset against the tax loss carryforwards. To this end, the Group's management considers the timing of the reduction of deferred tax liabilities and the future expected taxable income. Based on Masterflex's expected future business development, the Group's management assumes that the deferred tax assets recognised will be realisable (see Note 27).

d. Provisions and contingent liabilities

Changes in the estimated probability of a current obligation or an outflow of economic resources may lead to the reclassification as provisions of items that were previously classified as contingent liabilities, or to changes in the amounts recognised as provisions (see Note 12).

In addition, assumptions and estimates are required for write-downs on doubtful debts as well as contingent liabilities and other provisions. They are also necessary when calculating the fair value of long-term property, plant and equipment and intangible assets, and when determining the net realisable value of inventories.

In some cases, actual values can deviate from the assumptions and estimates made, meaning that it is necessary to adjust significantly the carrying amount of the assets or liabilities concerned. Changes to estimates are recognised in income in accordance with IAS 8 at the time they become known.

New accounting standards

The option regarding the early application of new standards, revisions of standards and interpretations already approved as of 31 December 2017 and adopted by the European Union by the time the consolidated financial statements were approved, was not exercised.

The following interpretations have been passed by the International Accounting Standards Board (IASB) and are to be applied for the first time in the current financial year:

- IAS 12 Amendments regarding the recognition of deferred tax assets for unrealised gains
- IAS 7 Changes as a result of the information initiative

as well as the change relating to the annual "improvement" project cycle 2014-2016 regarding IFRS 12 (Clarification of the area of application).

The initial application of these regulations did not materially affect the financial statements of Masterflex SE during the process of preparation.

The following accounting standards, interpretations and amendments to existing standards were published as of the reporting date, but were not yet required to be applied in preparing the IFRS consolidated financial statements for the year ending 31 December 2017:

- IFRS 9 — Instruments: classification and measurement
- IFRS 15 — Revenue from contracts with customers
- IFRS 2 — Changes to certain issues relating to accounting for providing share-based subsidies with cash settlements
- IFRS 4 — Changes in the correlation between IFRS 4 and IFRS 9
- IFRS 16 — Leases
- IFRS 15 — Clarification of IFRS 15 (Identification of contractual obligations/Principal/Agent considerations and licences)

The new standard relating to **Financial Instrument IFRS 9** was published in its final version by the IASB in July 2014. The new regulations include fundamental changes to their classification and valuation which, in the future, will be based on the characteristics of the business model and the contractual cash flows, in particular for financial assets. In this context, the recording of write-downs was also amended to the effect that these are now no longer just based on incurred losses (incurred loss model) but also on expected losses (expected losses). In addition, the recognition of hedging relationships took place so long as they were able to be aligned more strongly to the company's economic risk management. With the complete reworking of IAS 39 into IFRS 9, additional disclosure requirements result.

The date of the initial application has been set for the first fiscal year beginning on or after 1 January 2018. The first application must be retrospective, and simplification options are provided for. Early application is permitted. Adoption of the standard in European Law took place in November 2016. The new regulations will lead to a re-classification of financial assets for the Masterflex Group from today's standpoint. The new regulations concerning financial liabilities will not have any fundamental consequences for the Masterflex Group. Additional qualitative and quantitative effects may result from the recognition of hedging relationships. From the application of the new impairment model, there are no significant changes in the recording of value adjustments since receivables are only short-term maturities.

In May 2014, the IASB adopted the **IFRS 15 standard "Revenue from contracts with customers"** with the aim of bringing together the regulations pertaining to revenue recognition previously contained in different standards and interpretations into one standard. In so doing, IFRS 15 will apply across industries for all revenues arising from contracts with customers, unless these contracts fall under the scope of another standard, like for instance leases, insurance and financial instruments. Both the extent and the timing of revenue recognition period is determined on the basis of the following five steps:

(1) identification of the contracts with customers,
(2) identification of contractual obligations,
(3) determining the transaction price,
(4) breakdown of the transaction price for the contractual obligations,
(5) Revenue recognition if (or as soon as) a performance obligation was fulfilled.

In addition to this basic model, in IFRS 15 a series of further factual circumstances such as, for instance, contractual costs and contractual amendments are regulated and additional disclosure requirements listed in the Notes. The new standard must be applied for the first time for the financial year which begins on or after 1 January 2018 whereby an early application is possible. Adoption of the standard in European Law took place in November 2016. The Masterflex Group will not make use of the early application. From today's standpoint, it is assumed from the Masterflex consolidated financial statements that there are no significant changes in the representation of revenues because the type of contractual obligations and the revenue recognition has no impact on the time of the transfer of the control of goods to the customer compared to the previous method for revenue realisation.

With the standard adopted by the IASB in January 2016, IFRS 16, "leasing relationships" are essentially new regulations laid down to classify leasing contracts with the lessee. This means that the previously valid risks and - rewards approach will be relinquished in favour of recognition of all leasing relationships in the form of use rights (right-of-use asset) and an appropriate corresponding leasing obligation. Exemptions from this rule only exist for leases with a term of up to 12 months or for low-value non-current assets. By contrast, the lessor continues to be classified taking into consideration the opportunities and risks to the leasing asset in operating and finance leases. The new standard IFRS 16 must be applied for the first time for the financial year which begins on or after 1 January 2019. Early application is possible. Adoption in European Law is still pending. Due to the current inventories in operating leasing, an increase in assets and liabilities is likely to be recorded in the balance sheet. Other impacts on the Masterflex Group are currently being examined.

The following accounting standards and interpretations as well as changes of standards and interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) are yet to be adopted into European law by the European Union and are currently not being used:

- IAS 40 — Changes in relation to real estate held as financial assets
- IFRIC 22 — Share-based payments
- IFRIC 23 — Uncertainty regarding income tax handling
- IAS 28 — Changes in relation to long term investments
- IFRS 9 — Changes in relation to early repayment penalties
- IAS 19 — Changes in relation to plan changes, plan curtailments or settlements
- IFRS 17 — Recognition of insurance contracts

as well as the changes to various IFRSs within the framework of the annual "Improvement" project cycle 2015-2017.

- IFRS 10, IAS 28 — Changes in relation to the sale or transfer of assets between an investor and an associated company or Joint Ventures*

** The original initial application period planned was postponed for an indefinite period and newly issued by the ISAB.*

3. COMPANY ACQUISITION

On 4 January 2017, the acquisition of all the shares took place in the fluoropolymer specialist, APT Advanced Polymer Tubing GmbH, Neuss. The shares in the capital stock correspond to voting rights. The purchase price of € 8,755 million was paid in cash. There are no contingent considerations or compensation claims.

APT GmbH specialises in the manufacture of high-tech hoses made from fluoridated ethylene/propylene, PFA (Perfluoralkoxy) and PTFE (polytetrafluoroethylenes) as well as other fully or partially fluoridated polymers. Through this acquisition, the Masterflex Group supplements its technological competence with further highly interesting plastics for technical connection systems and thus can provide an even broader spectrum of innovative product variants.

The acquisition costs for the acquired net assets of APT Advanced Polymer Tubing GmbH amounted to € 8,755 million. In the context of the acquisition, costs of € 204 thousand were recognised in the non-operating expenses in 2017 in profit or loss. Acquisition lines of credit agreed in the syndicated loan agreement were used to finance this.

ACQUIRED NET ASSETS ARE MADE UP AS FOLLOWS AT THE TIME OF ACQUISITION:

in €k	Fair value before acquisition	Adjustment of the fair value	Fair value at the time of acquisition
Current assets			
Currency	588	0	588
Trade receivables	361	0	361
Stocks on hand	932	60	992
Other	179	0	179
Non-current assets			
Intangible assets	2	431	433
Property, plant and equipment	594	987	1,581
	2,656	**1,478**	**4,134**
Current liabilities			
Trade payables	-71	0	-71
Provisions	-134	0	-134
Other	-637	0	-637
Non-current liabilities			
Other	-21	0	-21
Deferred taxes from revaluation	0	-444	-444
	-863	**-444**	**-1,307**
Balance of acquired assets and liabilities	**1,793**	**1,034**	**2,827**
Goodwill from company acquisitions			5,928
Transferred consideration			**8,755**

CASH OUTFLOW DUE TO COMPANY ACQUISITION

in €k	
Cash acquired from subsidiaries	588
Cash outflow	-8,755
Cash outflow due to company acquisition	**-8,167**

All acquired assets and liabilities were recognised at fair value on the day of acquisition. Additional intangible assets for customer relations (€ 264 thousand), order backlog (€ 87 thousand) and brand (€ 80 thousand) which were not recorded in the company's balance sheet, have been recognised. Associated deferred tax liabilities were recognised. The residual value method (multi-period excess earnings method) was used for valuing customer relations. There are no significant differences between the gross value and book value of the receivables. There are no non-controlling interests. On the basis of the fair value of the acquired net asset, tax amortisable goodwill amounts to € 5,928 thousand. This is not subject to scheduled amortisation. The goodwill is determined by the growth opportunities resulting from the acquisition. Through the acquisition of APT Advanced Polymer Tubing GmbH, the Group can expand and consolidate its services to existing customers and directly enrich them with the additional components.

APT Advanced Polymer Tubing GmbH has achieved turnover of € 5,564 thousand in the current financial period since the acquisition and contributed to earnings after taxes of € 741 thousand.

COMMENTS ON THE BALANCE SHEET: ASSETS

4. NON-CURRENT ASSETS

The development of non-current assets is presented in a separate statement of changes in non-current assets (see annex). Liabilities to banks are secured by way of entries in the land register in the amount of € 15,868 thousand (previous year: € 15,678 thousand) and transfers of title to production facilities totalling € 8,913 thousand (previous year: € 7,933 thousand).

As at 31 December of each financial year, the assets held by foreign companies with a different functional currency are converted to euro using the prevailing exchange rates at the balance sheet date, while all changes during the financial year are converted using the average rates for the year. The exchange differences resulting from these different methods of conversion are shown separately in the statement of changes in non-current assets.

a) Intangible assets

All intangible assets are purchased, with the exception of individual industrial rights and developments by Masterflex SE, Matzen & Timm GmbH and Novoplast Schlauchtechnik GmbH. The industrial rights held by the company relate to internally generated patents, while developments consist of capitalisable expenses incurred in the development of marketable products.

The cost of, additions, disposals and reclassifications are composed as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 01.01.2016	**498**	**2,748**	**9,161**	**12,407**
Additions	420	339	0	759
Disposals	0	828	0	828
Reclassifications	-61	0	0	-61
As at 31.12.2016	**857**	**2,259**	**9,161**	**12,277**
Change in consolidation group	0	434	5,929	6,363
Additions	288	459	0	747
Disposals	33	8	0	41
Reclassifications	0	1	0	1
Exchange rate differences	0	1	0	1
As at 31.12.2017	**1,112**	**3,146**	**15,090**	**19,348**

Current and accumulated amortisation are composed as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 01.01.2016	**286**	**2,251**	**5,903**	**8,440**
Depreciation and amortisation for fiscal year	28	138	0	166
Disposals	0	828	0	828
As at 31.12.2016	**314**	**1,561**	**5,903**	**7,778**
Change in consolidation group	0	0	0	0
Depreciation and amortisation for fiscal year	42	295	0	337
Disposals	0	1	0	1
Exchange rate differences	0	1	0	1
As at 31.12.2017	**356**	**1,856**	**5,903**	**8,115**

The carrying amounts of intangible assets are composed as follows:

in €k	Internally generated intangible assets	Acquired tangible assets	Goodwill	Total
As at 31.12.2016	543	698	3,258	4,499
As at 31.12.2017	756	1,290	9,187	11,233

b) Financial assets

Financial assets are composed as follows:

in €k	31.12.2017	31.12.2016
Non-current financial instruments	78	91

Investment securities relate to income-yielding stock from a European Share Index and available-for-sale financial instruments within the meaning of IAS 39. The financial instruments are categorised at level 1 as input factors with quotes prices in active markets for identical assets or liabilities.

In the 2017 financial year, write-downs amounting to € 13 thousand were recognised in equity with neutral effects on profits (See Note 10).

The following table shows the cost, unrealised gains and losses and fair values of available-for-sale securities as at 31 December 2017:

Acquisition cost in €k	**Unrealised losses** in €k	**Fair value** in €k
707	629	78

Income from securities totalled € 3 thousand (previous year: € 5 thousand).

5. INVENTORIES

Inventories are composed as follows:

in €k	31.12.2017	31.12.2016
Raw materials and consumables used	7,633	6,397
Work in progress	955	878
Finished products and goods purchased and held for sale	6,643	6,266
Advance payments	5	21
Total inventories	15,236	13,562

Inventories in the amount of € 23,933 thousand were recorded under cost of materials (previous year: € 20,545 thousand) (see Note 20).

Depreciation of inventories to the net realisable value amounted to € 109 thousand (previous year: € 99 thousand).

6. RECEIVABLES AND OTHER ASSETS

Receivables and other assets are composed as follows:

in €k	31.12.2017	31.12.2016
Trade receivables	6,777	6,240
Other assets	838	1,056
Other financial assets	18	32
Assets classified as available-for-sale	0	11
Total receivables and other assets	**7,633**	**7,339**

Other assets of € 27 thousand (previous year: € 49 thousand) have a residual maturity of more than 1 year and are reported under non-current assets.

Other assets are composed as follows:

in €k	31.12.2017	31.12.2016
Deferred income	354	418
Bonus receivables	202	336
Creditors with debit balances	67	14
Receivables from tax authorities	57	115
Deposits	54	83
Receivables from health insurance companies	42	34
Receivables from employees	27	22
Other	35	34
Total other assets	**838**	**1.056**

The carrying amounts of other assets correspond to their fair values.

Prepaid expenses primarily relate to prepayments of trade fair expenses, rental expense, commission, licence fees, lease instalments and insurance premiums.

Receivables from tax authorities primarily relate to VAT receivables.

“Other financial assets” are discussed in Note 17.

In the previous year “Assets retained for sale” included the assets of the following discontinued operations:

- Masterflex Entwicklungs GmbH (formerly Masterflex Mobility GmbH)
- Masterflex Vertriebs GmbH (formerly Masterflex Brennstoffzellentechnik GmbH).

7. TRADE RECEIVABLES

The valuation of trade receivables is composed as follows:

in €k	31.12.2017	31.12.2016
Nominal value of trade receivables	6,812	6,272
Write-downs	-35	-32
Trade receivables	**6,777**	**6,240**

The carrying amounts of trade receivables correspond to their fair values.

The total write-downs from trade receivables for individual risks amount to € 35 thousand (previous year: € 32 thousand).

The company's average payment terms and outstanding receivables are in line with standard market conditions.

The maturity structure of trade receivables is composed as follows:

2017	**€k**	**€k**
Carrying amount		**6,777**
1. of which: non-impaired and non-overdue at the balance sheet date		**5,141**
2. of which: non-impaired, but overdue at the balance sheet date		**1,636**
less than 30 days	1,111	
30 to 59 days	349	
60 to 89 days	72	
90 to 119 days	71	
120 days or more	33	

2016	**€k**	**€k**
Carrying amount		**6,240**
1. of which: non-impaired and non-overdue at the balance sheet date		**4,794**
2. of which: non-impaired, but overdue at the balance sheet date		**1,446**
less than 30 days	1,029	
30 to 59 days	248	
60 to 89 days	92	
90 to 119 days	60	
120 days or more	17	

8. INCOME TAX ASSETS

Income tax assets amounted to € 492 thousand at the balance sheet date (previous year: € 431 thousand). All income tax assets are due within one year.

9. CASH IN HAND AND BANK BALANCES

Cash in hand and bank balances comprise credit at banks and cash in hand. Cash in hand and bank balances at the balance sheet date were calculated as follows:

in €k	31.12.2017	31.12.2016
Cash in hand and bank balances	5,336	3,994

The effective interest rate for short-term bank deposits was between 0.00% and 0.35%.

COMMENTS ON THE BALANCE SHEET: LIABILITIES

10. TOTAL EQUITY

Capital management

The Masterflex Group strategic orientation sets the framework for the optimisation of capital management. The Group intends to generate a sustainable increase in enterprise value in the interests of its shareholders, customers and employees by way of a continuous increase in earnings driven by growth and the improved efficiency of our business processes. This requires a balance between the business and financial risks and the financial flexibility of the Masterflex Group, which is achieved through intensive communications with the financial markets and banks in particular.

The articles of association of Masterflex SE do not prescribe any specific capital requirements.

The development of shareholders' equity can be seen in the statement of changes in shareholders' equity.

Subscribed capital

The subscribed capital of Masterflex SE increased by € 886,586.00 from € 8,885,874.00 to € 9,752,460.00 through a capital increase on 21 March 2017 and is fully paid up.

On the basis of the "2016 authorised capital" created on the basis of the 2016 annual general meeting, the Executive Board made use of the authorisation to increase the company's share capital by € 886,585.00 through cash contributions. This took place through the issuance of 886,586 new non-par-value bearer shares with a dividend entitlement from 1 January 2016. The new shares were issued under exemption of subscription rights of existing shareholders within the framework of a non-public private placement and subscribed at a price of € 6.70.

No treasury shares were sold or newly acquired in the 2017 financial year. At the balance sheet date, Masterflex SE held a total of 134,126 treasury shares (previous year: 134,126).

The 134,126 no-par value bearer shares have a nominal amount of € 134,126. They represent 1.38% of the share capital. The shares were acquired between September 2004 and July 2005. The relevant Annual General Meeting resolutions from 2004 and 2005 authorised the company to acquire treasury shares with a notional interest in the company's share capital of up to € 450,000. At the date of the Annual General Meeting, this was 10% of the company's share capital of € 4,500,000. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with § 71 a ff. of the German Stock Corporation Act (AktG), could not exceed 10% of the company's share capital at any time. This authorisation could not be used for the purpose of trading in treasury shares.

Accordingly, Masterflex SE reports subscribed capital of € 9,752,460.

Exercising the right to buy treasury shares

The Annual General Meeting on 14 June 2016 authorised the Executive Board with the approval of the Supervisory Board from 15 June 2016 to 14 June 2021 to acquire treasury shares of up to 10% of the company's share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with § 71 d and 71 e of the German Stock Corporation Act (AktG), cannot exceed 10% of the company's share capital at any time, neither from 10% of the share capital which exists at the time the authorisation is granted, nor 10% of the share capital which exists at the time the authorisation to exclude subscription rights is utilised. Shares are to be included in the

10% limit that were sold or issued during the term of this authorisation as a result of other authorisations in direct or analogous application of Article 186 (3), Sentence 4 of the Stock Corporation Act (AktG) under exemption of subscription rights. This authorisation may not be used for the purpose of trading in treasury shares.

The acquisition is to be made via the stock exchange or via a public offer to buy directed at all shareholders of the company or via invitation to all shareholders to submit offers to sell.

The Executive Board can sell the acquired treasury shares subject to compliance with the principle of equal treatment (§ 53a of the German Stock Corporation Act (AktG)). In particular, a sale via the stock exchange or by means of an invitation to all shareholders in proportion to their participation quota is suffice. The Executive Board is further authorised, with the approval of the Supervisory Board, to offer or grant the acquired treasury shares to third parties with the exemption of shareholders' subscription rights for cash, particularly in the context of company mergers and the acquisition of companies, to fulfil conversion and option rights, as employee shares in the context of agreed remuneration or of special programmes to company employees, to carry out a stock dividend or transfer of shareholders' entitlement to dividends.

Neither the Executive Board nor the Supervisory Board exercised any of these authorisations.

Authorised capital

By resolution of the Annual General Meeting on 14 June 2016, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the company's share capital by up to € 4,432,937 by 14 June 2021 by issuing up to 4,432,937 no-par value bearer shares on one or more occasion in exchange for cash and/or non-cash contributions (2016 authorised capital).

The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 (1) sentence 1 or § 53b (1) sentence 1 or (7) of the German Banking Act with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

a) for fractional amounts;

b) for capital increases in exchange for non-cash contributions, particularly

   I. for granting shares for the acquisition of companies, parts of companies or equity interests in companies including existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company
   II. for the acquisition of other assets or entitlements to the purchase of assets as well as
   III. to carry out a so-called stock dividend in which the shareholders are offered dividends due to them either, in whole or in part, as non-cash contributions against the provision of new shares in the company
   IV. in the case of cash contributions, if the issue amount of the shares does not significantly exceed the stock market price of the company's shares already listed on the date the issue price is finalised
   V. in order to grant the holders or creditors to new shares in the company with option or conversion rights to shares in the company and/or with the associated option or conversion obligations which are or were issued by the company or to an indirect or direct major shareholder to the extent that

they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder.

On 15 March 2017, the Executive Board decided, with the approval of the Supervisory Board, to make partial use of the 2016 authorised capital and increase the company's share capital under exclusion of the shareholders' subscription rights in accordance with §§ 203 (2), 186 (3) sentence 4 of the AktG by € 886.586 from € 8,856,874 to € 9,753,460 by issuing 886,586 new, no-par value bearer shares in exchange for cash with a dividend entitlement from 1 January 2016. This corresponds to an increase of the company's existing share capital of 10% at the time the proposed authorisation took place and likewise at the time the company's 2016 authorised capital was made use of. The capital increase was then entered into the relevant commercial register on 21 March 2017 so that since that date the company's share capital totalled € 9,752,460. The 2016 authorised capital currently consists of € 3,546,351 due to the partial utilisation described.

By resolution of the Annual General Meeting on 27 June 2017, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the company's share capital by up to € 1,329,879 by 14 June 2021 by issuing up to 1,329,879 no-par value bearer shares on one or more occasion in exchange for cash and/or non-cash contributions (2017 authorised capital). The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 (1) sentence 1 or § 53b (1) sentence 1 or (7) of the German Banking Act with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

a) for fractional amounts;

b) b) for capital increases in exchange for non-cash contributions, particularly

   I. for granting shares for the acquisition of companies, parts of companies or equity interests in companies including existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company
   II. for the acquisition of other assets or entitlements to the purchase of assets as well as
   III. to carry out a so-called stock dividend in which the shareholders are offered dividends due to them either, in whole or in part, as non-cash contributions against the provision of new shares in the company

c) in the case of cash contributions, if the issue amount of the shares does not significantly exceed the stock market price of the company's shares already listed on the date the issue price is finalised

d) in order to grant the holders or creditors to new shares in the company with option or conversion rights to shares in the company and/or with the associated option or conversion obligations which are or were issued by the company or to an indirect or direct major shareholder to the extent that they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder.

   The total shares issued under the exclusion of the subscription right against cash and/or non-cash contributions must not exceed 20% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised.

The exclusion of the subscription right for fractional amounts is not taken into account in this 20% limit. Shares are included in the 20% limit quoted that were issued or sold during the term of this authorisation on the basis of other authorisations which fall under exclusion of the subscription right ("allocation"). In this sense, the issuance and justification of option or conversion rights and/or obligations relating to company shares from the outstanding bonds from direct or indirect majority shareholders also count as an issuance of shares if the bonds are issued during the term of this authorisation on the basis of a corresponding authorisation under exclusion of the subscription right. If other authorisations which are exercised during the term of this authorisation are renewed by the annual general meeting, the allocation shall be waived to the extent in which the renewed authorisation permits the issuance of shares under exclusion of the subscription right.

The total shares issued under the exclusion of the subscription right against cash referred under subsection c) must not exceed 10% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised.

Shares are to be included in the above 10% limit that were sold or issued during the term of this authorisation as a result of other authorisations in direct or analogous application of Article 186 (3), sentence 4 of the Stock Corporation Act (AktG) under exemption of subscription rights ("allocation"). Furthermore, those shares that are or will be issued in order to service bonds with conversion or options rights or an option or conversion obligation are to count towards this limit, provided that these bonds were issued during the term of this authorisation under exclusion of subscription rights or a direct or indirect majority shareholdings of the company in accordance with § 186 (3) sentence 4 of the German Stock Corporation Act (AktG). If other authorisations which are exercised during the term of this authorisation are renewed by the annual general meeting, the allocation shall be waived to the extent in which the renewed authorisation permits the issuance of shares under exclusion of the subscription right in direct or corresponding application of § 186 (3), sentence 4 of the AktG.

The Executive Board is authorised to amend the wording of § 4 of the articles of association following the full or partial implementation of the share capital increase to reflect the extent to which 2017 authorised capital has been utilised and, if the 2017 authorised capital is not fully utilised by 14 June 2021, after the authorisation period expires.

The Executive Board has not yet made use of the above authorisation.

Contingent capital

At the company annual general meeting on 24 June 2014 the Executive Board of the company authorised, with agreement of the supervisory board, once or repeatedly the issue of convertible or option bonds in bearer or registered form up to 23 June 2019 in the total nominal value of up to € 45,000,000.00 with a term of 20 years.

The shareholders have a legal right to bonds and debentures. However, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

(i) for fractional amounts

(ii) for the issuance of bonds and debentures against cash benefits if the issue price is significantly lower than the theoretical market value of the bonds and debentures determined in accordance with accepted actuarial principles and the bonds and debentures on the basis of shares to which a proportionate amount of the share capital of no more than 10% of the share capital, is attributable, subscribed or pledged or

(iii) with the issuance of bonds and debentures against non-cash contributions if the value of the contribution is not unduly low compared to the theoretical market value of the bonds and debentures in accordance with accepted actuarial principles.

The sum of shares which are issued on the basis of the issuance of bonds and debentures under exclusion of the subscription right must not exceed 20% of the share capital of the company in total.

Option or conversion rights of holders or creditors of bonds with warrants and convertible bonds up to a total of up to 4,432,937 granted to holders of new no-par value bearer shares of the company with a pro-rata amount of the share capital of up to € 4,432,937.00 can be or the corresponding obligations are agreed. To satisfy these rights and obligations, the share capital of the company was conditionally increased by resolution off the General Meeting of 24 June 2014.

The Executive Board has, thus far, not made use of the authorisation to issue warrants and convertible bonds which was issued on 24 June 2014.

Capital reserves

The capital reserve amounted to € 31,306 thousand at the balance sheet date (previous year: € 26,252 thousand).

As a result of the capital increase recorded on 21 March 2017, the capital reserve increased by € 5,053,540.20 compared to the 2016 financial year. The shares were issued at a price of € 6.7. The increase results from the premium from the issued shares.

Retained earnings

Changes in retained earnings are presented in the statement of changes in shareholders' equity.

Revaluation reserve

In accordance with IAS 39, the company's investment securities are classified as "available for sale". These securities are carried at their fair value at the balance sheet date. After adjustment for income tax effects, the resulting unrealised losses for security are recognised directly in equity and reported in the reserve for the marking-to-market of financial instruments.

Exchange differences

The exchange differences recognised in equity are composed as follows:

in €k	Exchange differences from the conversion of foreign financial statements	Exchange differences in accordance with IAS 21.17	Exchange differences in accordance with IAS 21.19	Exchange differences in accordance with IAS 21.32	Total
As at 31.12.2015	**-499**	**-219**	**95**	**0**	**-623**
Change in 2016	752	-123	0	0	629
As at 31.12.2016	**253**	**-342**	**95**	**0**	**6**
Change in 2017	-991	96	0	-159	-1,054
As at 31.12.2017	**-738**	**-246**	**95**	**-159**	**-1,048**

Taxes relating to items recognised directly in equity were also recognised, directly in equity in accordance with IAS 12.61 and taken into account in the changes in exchange differences presented above.

The changes in fair value recognised directly in equity in the amount of € -63 thousand (previous year: € -123 thousand) are established when the foreign currency obligation is repaid, in accordance with IAS 21.17/21.19/21.32 in conjunction with IAS 21.37. The exchange differences recognised directly in equity are not reversed in income until the time of disposal of the economically independent unit.

11. NON-CONTROLLING INTERESTS

There were non-controlling interests in Masterflex Group companies totalling € -340 thousand (previous year: € -332 thousand).

12. PROVISIONS

Provisions are composed as follows:

in €k	As at 01.01.2017	Change of consolidation scope	Utilisation	Reversal	Addition	As at 31.12.2017
Incentive payments, severance payments, commission	630	70	681	19	743	743
Bonuses	478	0	286	0	358	550
Outstanding invoices	411	0	405	6	221	221
Vacation	106	50	155	1	189	189
Year-end closing costs	161	14	175	0	178	178
Customer bonuses	126	0	125	1	127	127
Employers' Liability Insurance Association	103	0	101	2	98	98
Warranties	92	0	92	0	98	98
Other taxes	24	0	24	0	130	130
Other	201	0	34	41	55	181
Total	2,332	134	2,078	70	2,197	2,515

a) Non-current provisions

Non-current provisions relate to the performance-related components of Executive Board remuneration amounting to € 225 thousand (previous year: € 197 thousand) which are only to be paid out in the third year following the base year.

b) Current provisions

Staff-related provisions include incentive payments and commission, as well as severance payments for employees leaving the company.

Expenditure for goods and services for the past financial year for which no invoice has been received as at the balance sheet date were recorded under the provisions for outstanding invoices.

Provisions for vacation are calculated on the basis of the outstanding vacation entitlement and the individual remuneration paid to the individual employees.

Provisions for year-end closing costs relate to external costs for the preparation and audit of the separate financial statements and consolidated financial statements.

Provisions for bonuses are based on the respective contractual agreements and the corresponding annual revenue figures.

Provisions for contributions to the Employers' Liability Insurance Association are recognised on the basis of the corresponding pay slips and the contributions made in the previous year.

Provisions for warranties are recognised for warranty and ex-gratia payments relating to the revenue generated in the year under review.

13. FINANCIAL LIABILITIES

As at 31 December 2017, financial liabilities were composed as follows:

in €k	31.12.2017	31.12.2016
Liabilities to banks	18,293	20,694
• of which due in > 5 years	0	0
Non-current financial liabilities	**18,293**	**20,694**
Liabilities to banks	7,404	2,432
Current term financial liabilities	**7,404**	**2,432**
Total financial liabilities	**25,697**	**23,126**

Liabilities to banks

In terms of maturity, liabilities to banks can be broken down as follows:

in €k	31.12.2017	31.12.2016
Liabilities due within 1 year	7,404	2,432
Liabilities due between 1 and 5 years	18,293	20,694
Liabilities due in more than 5 years	0	0
Total liabilities to banks	**25,697**	**23,126**

If the financial liabilities relate to short term financial liabilities, then the fair values are the same as their carrying amounts. If the financial liabilities relate to the syndicated loan agreement, then the effective interest method is applied.

The syndicated loan agreement concluded in June 2016 has a volume of € 45.0 million and an expiry date of June 2021. The exercise price was € 26 million on the balance sheet date. Owing to the use of effective interest methods, a difference arose between the credit amount used of € 26,000 thousand and the liabilities to banks reported at amortised cost of € 25,698 thousand as at 31 December 2017 amounting to € 302 thousand.

The syndicated loan agreement was reduced in the balance sheet by the directly attributable transaction costs of € 480 thousand at initial recognition. The subsequent measurement is carried out at amortised cost according to the effective interest rate method. The difference between the disbursed amount (after deduction of transaction costs) and the redemption amount is distributed over the term at a rate consistent with the effective interest rate and recorded under net interest income.

The receivables from the bank consortium from the syndicated loan agreement are secured by the Masterflex Group companies by assets with a book value of € 38,422 thousand (previous year: € 36,156 thousand).

Of this, € 15,868 thousand is attributable to land charges, € 8,913 thousand to other non-current assets, € 9,828 thousand to inventories, € 3,813 thousand to current receivables and other assets.

The fair values of liabilities to banks are the same as their carrying amounts.

In the euro zone, interest was charged on liabilities to banks at rates of between 1.4% and 2.5% p.a. depending on the maturity and purpose of the respective liabilities (previous year: 2.5%).

As at 31 December 2017, the company had cash advance facilities totalling € 21,200 thousand. Of this, credit lines totalling € 16,200 thousand were not utilised. Additional guarantee facilities for contractual fulfilment, advance payments and warranties consisted of € 1,500 thousand in 2017 of which € 1,162 thousand were made use of.

14. INCOME TAX LIABILITIES

Income tax liabilities relate to current taxes and totalled € 984 thousand at the balance sheet date (previous year: € 163 thousand).

15. OTHER LIABILITIES

Details of other liabilities can be seen in the following table:

in €k	31.12.2017	31.12.2016
Trade payables	1,964	2,232
Other liabilities	2,051	1,844
Advanced payments received for orders	367	137
Liabilities directly connected with assets held for sale	1,077	1,028
Total other liabilities	**5,459**	**5,241**

Miscellaneous other liabilities include the following items:

in €k	31.12.2017	31.12.2016
Deferred income	977	1,075
Tax liabilities	501	326
Liabilities to employees	285	186
Social security liabilities	155	111
Debtors with credit balances	56	62
Other	77	84
Total	**2,051**	**1,844**

Deferred income relates almost exclusively to government grants and subsidies for investment purposes.

The following amounts were recognised as deferred income as at 31 December:

in €k	31.12.2017	31.12.2016
Investment grants	615	679
Subsidies	362	396
Total	**977**	**1,075**

The following amounts were reversed to income in each year:

in €k	31.12.2017	31.12.2016
Reversal of investment grants	64	102
Reversal of subsidies	34	66
Total	**98**	**168**

The investment grants reversed to income primarily relate to grants for the expansion of operating facilities and technical equipment and machinery in the period from 1995 to 2011. The subsidies were granted for the acquisition of machinery and office and operating equipment. The required evidence of the utilisation of investment grants and subsidies has been provided in full.

The other liabilities item includes liabilities totalling € 948 thousand (previous year: € 977 thousand), which do not fall due until one year after the balance sheet date.

The “Liabilities directly connected with assets held for sale” item includes liabilities for discontinued operations. “Receivables and other assets” are discussed in Note 6.

16. TRADE PAYABLES

At the balance sheet date 31 December, the company had the following trade payables:

in €k	31.12.2017	31.12.2016
Trade payables	**1,964**	**2,232**

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 1,964 thousand (previous year: € 2,232 thousand) are due within one year.

17. DERIVATIVE FINANCIAL INSTRUMENTS

Recognition of future transactions and options carried the fair value of € 18 thousand (previous year: € 32 thousand). Derivative financial agreements for hedging against varying interest payments from variable-rate loans (interest cap) were completed amounting to € 32 thousand and, for the hedging of US dollar and euro operating currencies, to € 26 thousand.

This is reported under other financial assets on the basis of the current market conditions on the balance sheet date. The financial instruments are categorised at level 2 as input factors which are to be observed for assets or liabilities either directly or indirectly.

Level 2 valuation was carried according to the Black-Scholes model and was conducted by the financial institutions with which they were concluded.

The change in fair value shall be recognised in profit and loss amounting to € 14 thousand (previous year: € 28 thousand).

Derivative financial instruments	Valuation category in accordance with IAS 39	Historical carrying amount €k	Fair value €k 31.12.2017	Fair value €k 31.12.2016
Derivatives without hedging relationship	held-for-trading	58	18	32

The following table illustrates the carrying amount and recognised amounts per valuation category.

In the 2017 financial year, recognised amounts per valuation category in acc. with IAS 39:

in €k	Valuation category	Carrying amount	Fair value recognised without affecting the result	Fair value recognised in income	Amortised cost	Fair value
Currency	loans and receivables	5,336	0	0	5,336	5,336
Trade receivables	loans and receivables	6,777	0	0	6,777	6,777
Other receivables (excluding taxes and derivatives)	loans and receivables	838	0	0	838	838
Financial liabilities	Financial liabilities recognised at amortised cost	25,697	0	0	25,697	25,697
Trade payables	Financial liabilities recognised at amortised cost	1,964	0	0	1,964	1,964
Other liabilities (excluding taxes and derivatives)	Financial liabilities recognised at amortised cost	2,418	0	0	2,418	2,418

Categories of financial instruments 2017	in €k
Loans and receivables	12,951
Financial liabilities recognised at amortised cost	30,079

In the 2016 financial year, recognised amounts per valuation category in acc. with IAS 39:

in €k	Valuation category	Carrying amount	Fair value recognised without affecting the result	Fair value recognised in income	Amortised cost	Fair value
Currency	loans and receivables	3,994	0	0	3,994	3,994
Trade receivables	loans and receivables	6,240	0	0	6,240	6,240
Other receivables (excluding taxes and derivatives)	loans and receivables	1,056	0	0	1,056	1,056
Financial liabilities	Financial liabilities recognised at amortised cost	23,126	0	0	23,126	23,126
Trade payables	Financial liabilities recognised at amortised cost	2,232	0	0	2,232	2,232
Other liabilities (excluding taxes and derivatives)	Financial liabilities recognised at amortised cost	1,981	0	0	1,981	1,981

Categories of financial instruments 2017	in €k
Loans and receivables	11,290
Financial liabilities recognised at amortised cost	27,339

Net results of financial instruments

2017 net results broken down by valuation category:

in €k	From interest	Measured at fair value in the profit and loss for the period	Foreign currency conversion	Impairment	2017 net results
loans and receivables	O	0	-63	-35	-98
Financial liabilities recognised at amortised cost	-575	0	0	0	-575
Total	**-575**	**0**	**-63**	**-35**	**-673**

2016 net results broken down by valuation category:

in €k	From interest	Measured at fair value in the profit and loss for the period	Foreign currency conversion	Impairment	2016 net results
loans and receivables	O	0	-123	-32	-155
Financial liabilities recognised at amortised cost	-331	0	0	0	-331
Total	**-331**	**0**	**-123**	**-32**	**-486**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

The "Income from discontinued operations" item is recognised in the expenses from winding up the following companies:

* Masterflex Entwicklungs GmbH (formerly Masterflex Mobility GmbH)
* Masterflex Vertriebs GmbH (formerly Masterflex Brennstoffzellentechnik GmbH).

18. REVENUE

Revenue is composed as follows:

in €k	2017	2016
Gross revenue	80,439	71,426
Elimination of intragroup revenue	5,764	4,940
Total	**74,675**	**66,486**

19. OTHER INCOME

The other income generated by the Group was as follows:

in €k	2017	2016
Other income	**512**	**1,041**

Other income is composed as follows:

in €k	2017	2016
Income from non-typical incidental sales	132	116
Subsidies	98	66
Other prior-period income	95	229
Income from the reversal of provisions	70	91
Investment grants	47	142
Currency conversion gains	31	231
Compensation	13	65
Income from the reversal of value adjustments for receivables	5	45
Other	21	56
Total	**512**	**1,041**

20. COST OF MATERIALS

The cost of materials is composed as follows:

in €k	2017	2016
Cost of raw materials, consumables and supplies	23,933	20,545
Expenditure for related transactions	378	259
Total	**24,311**	**20,804**

21. OTHER EXPENSES

The other expenses generated by the Group were as follows:

in €k	2017	2016
Other expenses	**12,931**	**12,005**

Other expenses are composed as follows:

in €k	2017	2016
Selling costs	5,559	4,826
Incidental premises expenses	2,387	2,278
Operating costs	2,442	2,151
Administrative expenses	1,695	1,683
Insurance costs	423	430
Currency conversion losses	22	143
Cost of valuation allowances	16	84
Other	83	145
Other taxes	304	265
Total	**12,931**	**12,005**

22. RESEARCH AND DEVELOPMENT COSTS

Capitalisable development costs are reported under “Intangible assets”. Research costs and noncapitalisable development costs are expensed as incurred. In the 2017 financial year, research and development costs totalled € 325 thousand (previous year: € 399 thousand).

23. STAFF COSTS

In 2017, staff costs increased by € 2,026 thousand to € 28,522 thousand (previous year: € 26,496 thousand). Staff costs include wages and salaries in the amount of € 23,592 thousand (previous year: € 21,964 thousand) and social security, post-employment and other employee benefit costs totalling € 4,930 thousand (previous year: € 4,532 thousand).

Defined contribution plans exist for the company pension scheme. With defined contribution plans, the company makes no further commitments regarding the payment of contributions to the fund. Expenditure is posted in current staff costs; no provision is recognised. Expenses amounted to € 337 thousand (previous year: € 218 thousand). Employer contributions to the pension insurance scheme are not included in these expenses.

24. IMPAIRMENT OF ASSETS

In accordance with IFRS 3 (Business Combinations), IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill or internally generated intangible assets which have not been produced are subject to regular impairment tests.

Goodwill and internally generated intangible assets which have not yet been produced are reviewed for impairment annually. If events or changes in circumstances suggest that an asset may be impaired, impairment testing must be performed more frequently.

In the course of impairment testing within the Masterflex Group residual carrying amounts of the individual cash-generating units are compared with their recoverable amounts, i.e. the higher of the fair value less costs to sell and the value in use.

If the carrying amount of a cash-generating unit is higher than its recoverable amount, an impairment loss is recognised in the amount of the difference.

The recoverable amount is determined by calculating the value in use in accordance with the discounted cash flow method. The cash flow applied in calculating the value in use is determined on the basis of the medium-term forecasts by Group management. These forecasts are based on past experience and expected future market developments, taking into account strategic and operating business unit management measures that have already been initiated. The detailed planning period is generally five years.

The cost of capital is calculated as the weighted average cost of equity and debt capital (WACC). The cost of equity derives from a peer-group analysis of the relevant market, and thus from available capital market information.

In order to take into account the different yield/risk profile in our areas of activity, we calculate individual capital cost rates for our companies (CGUs). The weighted average costs of capital before taxes that have been applied when discounting cash flow are between 2.87 and 4.96% (previous year: 2.40 and 10.23%).

The acquisitions and sales of companies carried out by subsidiaries and through successive share purchases in the year under review and in previous years resulted in the recognition of the following (amortised) goodwill:

in €k	
APT Advanced Polymer Tubing GmbH	5,929
Flexmaster USA, Inc.	1,488
FLEIMA-PLASTIC GmbH	1,075
Novoplast Schlauchtechnik GmbH	462
Matzen & Timm GmbH	233
Total	**9,187**

No impairment requirement arose in the impairment test of the business or goodwill in the 2016 and 2017 financial years. An increase in the discounting interest rate by 1 percentage point would not have led to an extraordinary write-down of the business or goodwill.

25. FINANCIAL RESULT

The finance result is composed as follows:

in €k	2017	2016
Other interest and similar income	11	16
Interest and similar expenses	-1,192	-1,339
Total	**-1,181**	**-1,323**

Interest income relates to current items.

26. NON-OPERATING EXPENSES

The non-operating expenses include non-recurring and/or unusual transactions. In the interests of clarity, these expenses were removed from “Other expenses” and included as a single item in the income statement.

These include expenses for legal disputes amounting to € 239 thousand and due diligence expenses for the acquisition of APT Advanced Polymer Tubing GmbH of € 204 thousand.

in €k	2017	2016
Non-operating expenses	**480**	**200**

27. INCOME TAX EXPENSE

The income tax expense in the income statement is composed as follows:

in €k	2017	2016
Income tax expense	-1,459	-623
Deferred taxes		
From time differences	345	-263
From loss carryforwards	59	-270
Total deferred taxes	404	-533
Total income tax expense	**-1,055**	**-1,156**

The following reconciliation of income tax expense for the 2017 financial year is based on an overall tax rate of 30% (previous year: 30%) reconciled to an effective tax rate of 19.5% (previous year: 25.3%):

in €k	2017	2016
Net profit before income taxes	5,420	4,574
Expected tax expense 30%	-1,626	-1,372
Changes to deferred tax assets for tax loss carryforwards and the use of loss carryforwards in the financial year/unused losses	390	-215
Tax refunds tax payments for the previous year	-111	0
Effect of non-deductible expenses and tax-exempt income	50	242
Tax effect on the change in tax rate	232	192
Other	10	-3
Total income tax expense	**-1,055**	**-1,156**

The accounting profit (net profit before income taxes) corresponds to the consolidated net profit for the period plus the income taxes and deferred taxes recognised in the income statement. The "Other" item includes the effects of different foreign tax rates.

Deferred taxes resulted from the individual balance sheet items as follows:

		31.12.2017		31.12.2016
in €k	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	1,594	0	1,535	0
Non-current assets	313	1,423	274	1,282
Stocks on hand	9	0	21	0
Receivables	16	27	0	54
Other assets	74	13	96	0
Provisions	32	0	0	0
Liabilities	173	118	192	168
Before offsetting	**2,211**	**1,581**	**2,118**	**1,504**
Of which non-current	1,362	1,400	1,230	1,305
Offsetting	-665	-665	-655	-655
Consolidated balance sheet	**1,546**	**916**	**1,463**	**849**

Deferred tax assets and liabilities are offset if the company has a legally enforceable right to offset current tax assets and liabilities and the deferred taxes relate to income taxes levied by the same taxation authority.

The recoverability of deferred tax assets for tax loss carryforwards was performed using a five-year plan, taking into account the minimum taxation. Recoverability exists in particular due to the restructuring measures completed and positive earnings expectations derived on the basis of a medium-term plan. In addition, parts of the tax loss carryforwards resulted from extraordinary expenses in connection with the refinancing and capital increase. The realisation of these tax loss carryforwards is guaranteed with sufficient certainty.

As at 31 December 2017, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of € 1,594 thousand (previous year: € 1,535 thousand).

For foreign companies, the applicable tax rates vary between 19% and 38%.

No deferred tax assets were recognised for tax loss carryforwards in the amount of € 7,918 thousand (previous year: € 7,871 thousand), as their utilisation is not sufficiently certain. Tax losses at German companies may be carried forward for an unlimited period. By contrast, tax loss carryforwards at foreign companies are generally limited.

Taxes amounting to € -63 thousand (previous year: € -53 thousand) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognised directly in equity.

28. DISCONTINUED BUSINESS UNITS

The result components from the discontinued business unit included in the income statement are shown below. The comparative disclosures regarding results and cash flows from discontinued business units have been adjusted to take into consideration business units classified as discontinued in the current financial period.

in €k	2017	2016
Earnings from discontinued business units		
Other expenses	-62	-555
Earnings after taxes from discontinued business units	**-62**	**-555**

in €k	2017	2016
Cash flows from discontinued business units		
Net cash flows from operating activities	-9	-31
Total net cash flows	**-9**	**-31**

29. EARNINGS PER SHARE

Earnings per share are calculated as follows:

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for the 2017 financial year (€k)	4,373	-62	4.311
Weighted average number of shares in circulation	9,433,629	9,433,629	9,433,629
Earnings per share (€)	**0.46**	**-0.01**	**0.45**

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for the 2016 financial year (€k)	3,483	-555	2.928
Weighted average number of shares in circulation	8,731,748	8,731,748	8,731,748
Earnings per share (€)	**0.40**	**-0.06**	**0.34**

There were no dilutive effects in the 2017 financial year or the previous year.

30. APPROPRIATION OF NET RETAINED EARNINGS

The single-entity financial statements of Masterflex SE in accordance with the German Commercial Code for the year ended 31 December 2017 reported a net profit of € 9,683 thousand.

The Executive Board and the Supervisory Board propose to the Annual General Meeting that, of the net profit of Masterflex SE for the 2017 financial year amounting to € 9,682,741.44, € 673,283.38 in the form of 9,618,334 shares of the share capital be paid as a dividend to shareholders and the remaining amount of €9,009,458.06 carried forward to a new account. This corresponds to a dividend of € 0.07 per share.

As at 31 December 2017, the amounts excluded from distribution by Masterflex SE amounted to € 1,121 thousand in total of which € 559 was allocated to deferred tax assets and € 562 thousand for capitalisation of development costs.

31. FINANCIAL RISK MANAGEMENT

In addition to the identification, valuation and monitoring of risks in its operating activities and, in particular, the resulting financial transactions, the Executive Board manages risk in close cooperation with the Group companies with a particular focus on hedging specific risks such as exchange rate, interest rate, price, counterparty default and liquidity risks.

In addition to originated financial instruments, the Group may employ various derivative financial instruments such as currency futures, currency option transactions and interest rate swaps. Derivative financial instruments are employed exclusively to hedge existing or planned underlyings in order to reduce the risks associated with exchange rates, interest rates and raw materials prices. The use of derivatives must be agreed with the Executive Board of Masterflex SE in each case.

Exchange rate risk management

The global nature of the Group's business activities means that it has cash flows in a number of different currencies, particularly US dollars. Foreign-currency items include exchange rate risks relating to highly probable future transactions, foreign-currency receivables and liabilities, and fixed purchase and sale agreements denominated in foreign currencies. Orders in emerging economies are generally invoiced in US dollars or euro.

The sensitivity analysis of the outstanding US dollar-denominated monetary items, assuming a 10% appreciation or depreciation of the US dollar against the euro, did not have a significant impact on shareholders' equity and consolidated net profit.

Interest rate risk management

Due to the international nature of its business activities, Masterflex generates and invests cash on the global money and capital markets in various currencies.

The resulting financial liabilities and investments are subject to a degree of interest rate risk. In individual cases, derivative financial instruments may be employed with a view to minimising the interest rate volatility and financing costs of the respective underlyings, and hence hedging the related interest rate risk.

The sensitivity analyses performed by the Group were determined on the basis of its interest rate exposure at the balance sheet date. For variable-rate liabilities, the analysis is carried out under the assumption that the amount of the outstanding liability at the balance sheet rate remained outstanding for the entire year.

The sensitivity analysis assuming a 100 bp fluctuation in interest rates results in an increased/reduced cash outflow of approximately € 224 thousand.

Counterparty default risk management

At Masterflex, risks relating to receivables from customers are monitored and assessed on a decentralised basis, with potential defaults limited through the conclusion of trade credit insurance in certain cases.

At the balance sheet date, the Group had trade receivables from a large number of domestic and foreign customers across various industries. The resulting counterparty default risk was negligible.

Risks relating to loans to subsidiaries and equity investments are managed via a group-wide controlling system including fully consolidated forecasts, monthly consolidated financial statements and regular discussions of the course of business.

The maximum default risk is calculated as the sum of the carrying amounts of the financial receivables recognised on the face of the balance sheet.

Liquidity risk management

Group-wide liquidity management aims to secure cash and cash equivalents, the availability of sufficient credit facilities and the Group's ability to close out market positions.

The table below presents the contractually agreed repayments of financial liabilities:

2017 in €k	Carrying amount	2018	2019	2020	2021	2022	≥ 2023
Trade payables	1,964	1,964	0	0	0	0	0
Liabilities to banks	25,697	7,404	2,912	2,925	12,456	0	0
Other liabilities	1,074	1,074	0	0	0	0	0
Total	**28,735**	**10,442**	**2,912**	**2,925**	**12,456**	**0**	**0**

2016 in €k	Carrying amount	2017	2018	2019	2020	2021	≥ 2022
Trade payables	2,232	2,232	0	0	0	0	0
Liabilities to banks	23,126	2,432	2,400	2,912	2,925	12,457	0
Other liabilities	769	769	0	0	0	0	0
Total	**26,127**	**5,433**	**2,400**	**2,912**	**2,925**	**12,457**	**0**

This table only includes contractually agreed payments for financial liabilities at the balance sheet date, and hence does not include forecasts for new liabilities. Financial liabilities that can be repaid at any time are presented as due within one year. Payments under operating leases are reported in other financial commitments.

Deferred income reported under "Other liabilities" totalling € 977 thousand (previous year: € 1,075 thousand) does not have a cash impact. Its reversal is therefore not presented in this table.

32. OTHER FINANCIAL COMMITMENTS

At 31 December 2017, other financial commitments related to lease obligations and other commitments.

a) Lease obligations

Other financial commitments for subsequent periods due to operating leases are as follows:

in €k	2018	2019–2022	2023
Notional amount of future minimum lease payments	202	246	0

The operating lease liabilities relate primarily to office and operating equipment. Payments recognised as expenses amount to € 265 thousand (previous year: € 583 thousand).

b) Other commitments

All contingent liabilities at the level of the individual Group companies are recognised as liabilities in the consolidated balance sheet.

33. SEGMENT REPORTING

The Masterflex Group operates as a single-segment company. Control is based on the information which management receives and to which it refers when measuring the performance of operating segments and allocating resources (management approach).

As a result of the implementation of the Group strategy and associated concentration on the core business unit of High-Tech Hose Systems (HTS), business transactions are presented on a uniform basis under "Discontinued business units (GB)". In this way Masterflex SE has one operating segment, its core business unit (HTS). To ensure comparability with IFRS 8.28, the "Reconciliation" column is presented for Group/ holding expenditure as well as extraordinary expenses.

In the High-Tech Hose Systems (HTS) segment, which constitutes the core business of the Masterflex Group, the development and manufacture of high-tech hose systems, moulded parts and injection moulding elements from innovative advanced polymers for industrial and medical applications is the main focus of activities. Products from this segment are used across an extremely wide range of industrial applications such as chemicals, food, automotive engineering and medical technology.

The segments are controlled both in terms of revenue and earnings. Ebit serves as an earnings indicator in the Masterflex Group.

Intersegment revenue was settled at transfer prices in line with the market ("arm's length principle").

Segment assets include the operating assets of the individual segments such as property, plant and equipment, intangible assets including goodwill, inventories, receivables, other assets and cash in hand. Tax receivables, deferred tax assets and financial assets do not form part of the respective segment assets.

According to IFRS 8, segment liabilities are only to be included in segment reporting if these are regularly used and reported for corporate management purposes. Masterflex SE does not employ this indicator, meaning that it does not need to be reported.

The “Reconciliation” column contains amounts resulting from differences between the definition of the content of segment items and the corresponding items at Group level as well as those resulting from Group expenditure.

Segment information by business unit:

2017 In €k	HTS	Total for continued business units	Reconciliation	Discontinued business units	Group
Revenue from non-Group third parties	74,675	**74,675**	0	0	74,675
Ebit	9,034	**9,034**	-2,433	-62	6,539
Ebit (operative)	9,514	**9,514**	-2,433	-62	7,019
Investments in property, plant and equipment and intangible assets	4,669	**4,669**	0	0	4,669
Scheduled depreciation and amortisation	3,182	**3,182**	0	0	3,182
Assets	70,845	**70,845**	2,122	0	72,967

2016 In €k	HTS	Total for continued business units	Reconciliation	Discontinued business units	Group
Revenue from non-Group third parties	66,486	**66,486**	0	0	66,486
Ebit	8,163	**8,163**	-2,266	-412	5,485
Ebit (operative)	8,363	**8,363**	-2,266	-412	5,685
Investments in property, plant and equipment and intangible assets	8,806	**8,806**	0	0	8,806
Scheduled depreciation and amortisation	2,714	**2,714**	0	0	2,714
Assets	58,416	**58,416**	1,985	11	60,412

The geographical breakdown of revenue is carried out at Group level. The calculation is based on the headquarters of the customer. This results in the following geographical breakdown of revenue:

2017 in €k	**Revenue from non-Group third parties**	**Of which continued business units**
Germany	35,245	35,245
Rest of Europe	17,358	17,358
Rest of the world	22,072	22,072
Total	**74,675**	**74,675**

2016 in €k	**Revenue from non-Group third parties**	**Of which continued business units**
Germany	30,623	30,623
Rest of Europe	16,652	16,652
Rest of the world	19,211	19,211
Total	**66,486**	**66,486**

In the 2017 financial year, revenue equalling more than 10% of consolidated revenue was not generated with any customers from the continued business units.

The reconciliation of adjusted Ebit from continued business units to earnings after taxes is presented below:

RECONCILIATION TO CONSOLIDATED EARNINGS AFTER TAXES

in €k	**2017**	**2016**
Operating Ebit from continued business units	9,514	8,363
Non-operating expenditure from continued business units	-480	-200
Reconciliation	-2,433	-2,266
Ebit from continued business units	**6,601**	**5,897**
Interest income/income from equity interests	11	16
Interest expenses amongst others	-1,192	-1,339
Ebit from continued business units	**5,420**	**4,574**
Income taxes	-1,459	-623
Deferred taxes	404	-533
Minority interests	8	65
Earnings after taxes (Eat) from continued business units	**4,373**	**3,483**
Earnings from discontinued business units	-62	-555
Eat	**4,311**	**2,928**

Rounding differences may occur

In accordance with IFRS 8, the geographical distribution of non-current assets must be disclosed. Non-current assets include property, plant and equipment and intangible assets. Deferred taxes and financial assets do not form part of the non-current assets to be disclosed in accordance with IFRS 8.

NON-CURRENT ASSETS

in €k	2017	2016
Germany	37,477	27,714
Rest of Europe	1,232	1,257
Rest of the world	3,977	4,635
Total	**42,686**	**33,606**

The reconciliation of assets from continued segments to consolidated assets breaks down as follows:

RECONCILIATION TO CONSOLIDATED INCOME STATEMENS

in €k	2017	2016
Total assets of continued segments	70,851	58,416
Assets of discontinued segments	0	11
Deferred tax assets	1,546	1,463
Tax receivables	492	431
Financial assets	78	91
Total consolidated assets	**72,967**	**60,412**

34. CASH FLOW STATEMENT

A distinction is made between cash flows from operating, investing and financing activities. The cash and cash equivalents reported in the cash flow statement correspond to the cash in hand and bank balances reported on the balance sheet.

The cash and cash equivalents at the end of the period, as presented in the consolidated cash flow statement, can be reconciled to the associated items in the consolidated balance sheet as follows:

in €k	2017	2016
Cash and cash equivalents at the end of the period	**5,336**	**4,005**
Cash in hand and bank balances included in assets held for sale	0	11
Cash in hand and bank balances	**5,336**	**3,994**

The liabilities from financial activities have developed as follows between 1 January and 31 December 2017:

in €k	As at 31.12.2016	Impacting on cash flow	Does not have a cash impact (interest accrual)	Does not have a cash impact (change in exchange rate)	As at 31.12.2017
Current liabilities	2,432	4,866	106	0	7,404
Non-current liabilities	20,694	-2,401	0	0	18,293
Total liabilities from financing activities	**23,126**	**2,465**	**106**	**0**	**25,697**

35. GOVERNMENT GRANTS

Grants for depreciable assets are recognised over the depreciation period of the respective assets and in proportion to the depreciations recognised in each period. No government grants related to income were collected in the 2017 financial year.

36. RELATED PARTY DISCLOSURES

With the exception of income and expense items between continuing and discontinued operations, transactions between Masterflex SE and its consolidated subsidiaries are eliminated in consolidation.

The reportable remuneration of the key management positions in the Group in accordance with IAS 24 comprises the remuneration of the Executive Board and the Supervisory Board.

The compensation of the Executive Board is performance-related in its entirety and consisted of three components in the financial year: non-performance-related compensation, performance-related remuneration and components with long-term incentive effect.

Disclosure of the remuneration for the Chairman takes place in individualised form as is recommended in the German Corporate Governance Code and the standardised reference tables (as amended). The essential characteristic of these reference tables is the separate classification of the granted subsidies (Table 1) and the actual inflow (Table 2). For grants, the target values will also be specified (payment with 100% achievement of objectives) as well as the achievable minimum and maximum values.

The compensation of the Executive Board for its services is shown below:

TABLE 1: COMPENSATION OF THE EXECUTIVE BOARD (GRANT CONSIDERATION)

	Dr. Andreas Bastin Chief Executive Officer since 1 April 2008				Mark Becks Chief Financial Officer since 1 June 2009			
in €k	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*
Fixed remuneration	342	357	357	357	237	247	247	247
Fringe benefits	31	42	42	42	41	38	38	38
Total	**373**	**399**	**399**	**399**	**278**	**285**	**285**	**285**
Annual variable remuneration								
bonus	137	142	0	158	75	94	0	106
Multi-annual variable remuneration								
Bonus 2017 - 2019		73	0	82		49	0	54
Bonus 2016 - 2018	71		0	82	38		0	54
Total compensation	**581**	**614**	**399**	**721**	**391**	**428**	**285**	**499**

TABLE 2: COMPENSATION OF THE EXECUTIVE BOARD (INFLOW CONSIDERATION)

	Dr. Andreas Bastin Chief Executive Officer since 1 April 2008				Mark Becks Chief Financial Officer since 1 June 2009			
in €k	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*	2016 *Initial value*	2017 *Initial value*	2017 *Minimum*	2017 *Maximum*
Fixed remuneration	342	357	357	357	237	247	247	247
Fringe benefits	31	42	42	42	41	38	38	38
Total	**373**	**399**	**399**	**399**	**278**	**285**	**285**	**285**
Annual variable remuneration								
bonus	111	141	0	158	60	76	0	106
Multi-annual variable remuneration								
Bonus 2017 - 2019		62	0	82		34	0	54
Bonus 2016 - 2018	29		0	82	16		0	54
Total compensation	**513**	**602**	**399**	**721**	**354**	**395**	**285**	**499**

The members of the Supervisory Board were compensated as follows:

in €k	Fixed	Attendance allowance	Total compensation relevant to payment
Chairman of the Supervisory Board, Georg van Hall (from 14.06.2016) (Previous year)	30 (28)	2 (2)	32 (30)
Chairman of the Supervisory Board, Friedrich W. Bischoping (until 14.06.2016) (Previous year)	0 (15)	0 (1)	0 (16)
Vice Chairman of the Supervisory Board, Dr. Gerson Link (from 14.06.2016) (Previous year)	25 (13)	2 (1)	27 (14)
Supervisory Board member, Jan van der Zouw (from 14.06.2016) (Previous year)	20 (10)	2 (1)	22 (11)
Supervisory Board member, Axel Klomp (until 14.06.2016) (Previous year)	0 (10)	0 (1)	0 (11)
Total compensation (Previous year)	**75 (76)**	**6 (6)**	**81 (82)**

Members of the Supervisory Board have not received any additional remuneration in the reporting year and/or benefits for services provided personally, in particular, consulting and brokerage services. No credit or advances were granted to Supervisory Board members over the past year nor were any contingent liabilities in their favour entered into.

37. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

In December 2017, the declaration of conformity in accordance with § 161 of the German Stock Corporation Act (AktG) was again submitted by the Executive Board and Supervisory Board of Masterflex SE and made permanently available to shareholders via the company's website **www.MasterflexGroup.com**/*Investor_Relations/Corporate_Governance*.

38. NUMBER OF EMPLOYEES

At the balance sheet date, the number of employees was distributed across the operating functions as follows:

	2017	2016
Production	429	394
Sales	106	93
Administration	77	77
Technology	30	37
Number of employees in Group	**642**	**601**
of which trainees	24	21

39. AUDIT AND ADVISORY FEES

The fees expensed (provision) in the 2017 financial year for the auditors of the consolidated financial statements, Baker Tilly GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, amounted to € 115 thousand and consisted of fees for the audit of the consolidated financial statements and the statutory separate financial statements of Masterflex SE and its domestic subsidiaries. € 1 thousand is incurred for non-audit services in connection with the review of the tax assessment for the previous year.

40. EXEMPTION FROM PUBLICATION

In accordance with § 264 (3) of the HGB (German Commercial Code) the following consolidated companies are exempt from the requirement to publish their separate financial statements in the consolidated financial statements:

- Novoplast Schlauchtechnik GmbH
- Matzen & Timm GmbH
- M&T Verwaltungs GmbH
- FLEIMA-PLASTIC GmbH.

41. EVENTS AFTER THE BALANCE SHEET DATE

No events or developments of particular significance to the net assets, financial position and results of the Masterflex Group have occurred since the balance sheet date of 31 December 2017.

42. PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved for publication by the Executive Board on 14 March 2018 and published on 29 March 2018.

43. EQUITY INVESTMENTS

The complete list of equity investments of Masterflex AG is published in the Bundesanzeiger (Federal Gazette).

Gelsenkirchen, 14 March 2018

The Executive Board

Dr. Andreas Bastin
(Chief Executive Officer)

Mark Becks
(Chief Financial Officer)

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2017

€k	Historical costs 01.01.2017	Change in the scope of consoli-dation	Additions	Disposals	Reclassifi-cations	Exchange rate differences	Historical costs 31.12.2017
Intangible assets							
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	2,298	434	139	4	95	1	2,963
Development costs	524	0	281	33	0	0	772
Goodwill	9,161	5,929	0	0	0	0	15,090
Advance payments	294	0	327	4	-94	0	523
Total	**12,277**	**6,363**	**747**	**41**	**1**	**1**	**19,348**
Property, plant and equipment							
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	25,353	0	463	0	277	-148	25,945
Technical equipment	26,113	2,414	636	5	1,347	-642	29,863
Other assets, operating and office equipment	8,868	233	804	135	62	-171	9,661
Advanced payments and construction in progress	730	0	2,023	0	-1,687	-5	1,061
Total	**61,064**	**2,647**	**3,926**	**140**	**-1**	**-966**	**66,530**
Financial assets							
Non-current financial instruments	733	0	0	0	0	0	733
Other loans	0	0	0	0	0	0	0
Total	**733**	**0**	**0**	**0**	**0**	**0**	**733**
	74,074	**9,010**	**4,673**	**181**	**0**	**-965**	**86,611**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2017

€k	Accu-mulated amortisa-tion 01.01.2017	Change in the scope of conso-lidation	Amorti-sations financial year	Disposals	Profit-neutral market changes	Exchange rate differences	Accu-mulated amortisa-tions 31.12.2017	As at 31.12.2017	As at 31.12.2016
Intangible assets									
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	1,815	0	302	1	0	1	2,117	846	483
Development costs	60	0	35	0	0	0	95	677	464
Goodwill	5,903	0	0	0	0	0	5,903	9,187	3,258
Advance payments	0	0	0	0	0	0	0	523	294
Total	**7,778**	**0**	**337**	**1**	**0**	**1**	**8,115**	**11,233**	**4,499**
Property, plant and equipment									
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	8,259	0	746	0	0	-107	8,898	17,047	17,094
Technical equipment	17,311	943	1,457	5	0	-427	19,279	10,584	8,802
Other assets, operating and office equipment	6,461	123	642	135	0	-151	6,940	2,721	2,407
Advanced payments and construction in progress	0	0	0	0	0	0	0	1,061	730
Total	**32,031**	**1,066**	**2,845**	**140**	**0**	**-685**	**35,117**	**31,413**	**29,033**
Financial assets									
Non-current financial instruments	642	0	0	0	13	0	655	78	91
Other loans	0	0	0	0	0	0	0	0	0
Total	**642**	**0**	**0**	**0**	**13**	**0**	**655**	**78**	**91**
	40,451	**1,066**	**3,182**	**141**	**13**	**-684**	**43,887**	**42,724**	**33,623**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2016

€k	Historical costs 01.01.2016	Additions	Disposals	Reclassifi-cations	Exchange rate differences	Historical costs 31.12.2016
Intangible assets						
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	2,849	277	828	0	0	2,298
Development costs	185	400	0	-61	0	524
Goodwill	9,161	0	0	0	0	9,161
Advance payments	212	82	0	0	0	294
Total	**12,407**	**759**	**828**	**-61**	**0**	**12,277**
Property, plant and equipment						
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	18,837	87	69	6,444	54	25,353
Technical equipment	25,832	516	1,196	859	102	26,113
Other assets, operating and office equipment	8,311	646	176	80	7	8,868
Advanced payments and construction in progress	1,267	6,798	5	-7,322	-8	730
Total	**54,247**	**8,047**	**1,446**	**61**	**155**	**61,064**
Financial assets						
Non-current financial instruments	817	0	84	0	0	733
Other loans	135	0	135	0	0	0
Total	**952**	**0**	**219**	**0**	**0**	**733**
	67,606	**8,806**	**2,493**	**0**	**155**	**74,074**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2016

€k	Accu-mulated amortisa-tion 01.01.2016	Amorti-sations financial year	Disposals	Profit-neutral market changes	Exchange rate diffe-rences	Accu-mulated amortisa-tions 31.12.2016	As at 31.12.2016	As at 31.12.2015
Intangible assets								
Concessions, industrial property rights and similar rights and values as well as licences to such rights and assets	2,498	145	828	0	0	1,815	483	351
Development costs	39	21	0	0	0	60	464	146
Goodwill	5,903	0	0	0	0	5,903	3,258	3,258
Advance payments	0	0	0	0	0	0	294	212
Total	**8,440**	**166**	**828**	**0**	**0**	**7,778**	**4,499**	**3,967**
Property, plant and equipment								
Property, real estate, leasehold rights, rights equivalent to real property and buildings, incl. buildings	7,668	627	69	0	33	8,259	17,094	11,169
Technical equipment	17,117	1,331	1,196	0	59	17,311	8,802	8,715
Other assets, operating and office equipment	6,027	590	176	0	20	6,461	2,407	2,284
Advanced payments and construction in progress	0	0	0	0	0	0	730	1,267
Total	**30,812**	**2,548**	**1,441**	**0**	**112**	**32,031**	**29,033**	**23,435**
Financial assets								
Non-current financial instruments	686	0	84	40	0	642	91	131
Other loans	0	0	0	0	0	0	0	135
Total	**686**	**0**	**84**	**40**	**0**	**642**	**91**	**266**
	39,938	2,714	2,353	40	112	40,451	33,623	27,668

OTHER INFORMATION

RESPONSIBILITY STATEMENT

“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.”

Gelsenkirchen, 14 March 2018

The Executive Board

Dr. Andreas Bastin
(Chief Executive Officer)

Mark Becks
(Chief Financial Officer)

AUDIT REPORT OF THE INDEPENDENT AUDITOR

relating to Masterflex SE, Gelsenkirchen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of Masterflex SE and its subsidiaries (the Group) – comprising the balance sheet as at 31 December 2017, consolidated profit and loss statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2017 and the notes to the consolidated financial statements including a summary of the significant accounting methods. We have also audited the combined management report for the financial year from 1 January to 31 December 2017.

In our opinion, based on the findings obtained during the audit,

- the attached consolidated financial statements correspond to the IFRS in all material aspects as applicable in the EU and to the German statutory provisions which are to be applied in accordance with § 315e (1) of the German Commercial Code (HGB) and in compliance of these provisions gives a true and fair view of the financial position and results of the Group as at 31 December 2017 and its results of operations for the financial year from 1 January to 31 December 2017 and
- gives an accurate picture of the position of the Group in the attached combined management report. In all material aspects, this combined management report is consistent with the consolidated financial statements, corresponds to the German statutory regulations and accurately represents the opportunities and risks of future development.

In accordance with § 322 (3), sentence 1 of the HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the combined management report.

Basis for the audit report

We have carried out our audit of the consolidated financial statements and the combined management report in compliance with § 317 of the HGB and the EU regulations on statutory auditing (no. 537/2014; hereinafter "EU-APrVO") in observance of the German principles governing the proper conduct of audit promulgated by the Institute of Auditors (IDW). Our responsibility according to these regulations and principles is described in more detail in the "Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report" section of our audit remarks. We are independent from the Group in accordance with the provisions under European Law and German commercial and professional law and have fulfilled our other German professional duties pursuant to these requirements. Moreover, in accordance with Article 10 (2) Letter f) of the EU-APrVO, we declare that we have not provided any non-audit services in accordance with Article 5 (1) EU-APrVO). We believe that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions of the consolidated financial statements and combined management report.

Key audit matters in auditing the consolidated financial statements

Key audit matters are such matters which, to the best of our knowledge, were the most significant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were taken into consideration in the context of our audit of the consolidated financial statements as a whole and in the formation of our audit report; we will not issue a separate audit report on these matters

Below, we present the key audit matters from our perspective:
1. Acquisition of shares in APT Advanced Polymer Tubing GmbH
2. Impairment of goodwill
3. Impairment of the active deferred taxes for loss carryforwards

We have structured our presentation of these particularly key audit matters as follows:
1. Facts and discussion
2. Audit procedure and findings
3. Reference to more detailed information

1. Acquisition of shares in APT Advanced Polymer Tubing GmbH

1. Masterflex SE acquired control of APT Advanced Polymer Tubing GmbH with its head office in Neuss (APT GmbH) on 4 January 2017; the purchase price for the fully acquired shares was € 8,755 k. In the context of the purchase price allocation, the identification and valuation of intangible assets and goodwill are largely based on the assumptions and estimations of the legal representative which are not covered by the standardised processes within the accounting system. As a result, we believe that this is a particularly important key audit matter to examine.

2. For all key audit facts identified in the acquisition balance sheet on 4 January 2017, we have checked whether these have been recognised in line with IFRS 3 "Company mergers" and the purchase agreement. In essence, we conducted the following audit activities:
   - Inspection of the contractual agreements and obtaining an understanding of the purchase price paid in return for the shares received with the evidence submitted to us relating to payments made.
   - Valuation audit of the assets and liabilities of APT GmbH, made by an external auditor in the context of the purchase price allocation for its usability.
   - Furthermore, we called in an internal valuation specialist who, in particular, assessed the underlying baseline data and the appropriateness of the valuation model used and compared the discount rate with that of comparable transactions and other market data.
   - Assessment of the opening balance sheet and audit of the initial consolidation of APT GmbH at the time of initial consolidation on 4 January 2017 on the basis of the purchase price consolidation.
   - Moreover, we have assessed the description of the transaction in the consolidated financial statements.

   Overall, we are confident that the acquisition of the business operations was sufficiently documented and appropriately illustrated by the audit activities presented.

3. We refer to the consolidated financial statements Note 2 (Accounting principles), Note 3 (Company acquisition) and Note 4 (Intangible assets).

2. Impairment of goodwill

1. In the consolidated financial statements of Masterflex SE under the balance sheet item "Goodwill", goodwill of € 9,187 k (previous year: € 3,258 k) is recognised which is subject to an impairment test and reported by the company on 31 December of each financial year. The calculation of fair value takes place by means of a valuation model according to the discounted cash flow method. The result of this valuation depends to a large extent on the assessment of future cash flows by the legal representative and the discount rate used and therefore has considerable uncertainty. Against this background, the assessment of impairment of goodwill in the context of our audit was of particular significance.

2. We are satisfied with the appropriateness of the future cash flows used in the calculation by virtue of, amongst other things, comparing this information with the values from the five-year plan adopted by the legal representative and approved by the Supervisory Board, and by reconciling it with general and industry-specific market expectations. We primarily audited the parameters used in calculating the discount interest applied including the average capital costs ("Weighted Average Cost of Capital") and reproduced the method of calculating. Because of the material importance of goodwill (which accounts for around 13% of Group balance sheet total) and because of the dependence of the valuation on macroeconomic conditions beyond the scope of influence of the company, we have additionally audited the sensitivity analyses created by the company for the cash-generating units (carrying amount compared to cash value). The valuation parameters and assumptions applied by the legal representative correspond with our expectations on the whole.

3. The company's information on goodwill is contained in Note 24 of the consolidated financial statements.

3. Impairment of the active deferred taxes for loss carryforwards

1. In the Masterflex SE consolidated financial statements, active deferred taxes are recognised in tax loss carryforwards amounting to € 1,594 k. The impairment of active deferred taxes on tax loss carryforwards is measured on the basis of the forecast on the future earnings situation of the respective company. From our perspective, these were issues of particular significance because they depended, to a large extent, on the assessment and assumptions of the legal representative and are subject to uncertainty.

2. As part of our audit, we assessed the impairment of deferred tax assets on tax loss carryforwards based on the plan established by the legal representative and acknowledged the adequacy of the planning basis used. We were able to reproduce the assumptions made by the legal representative regarding the approach and calculation of deferred taxes.

3. The company's information on active deferred taxes on tax loss carryforwards is contained in the consolidated financial statements in the section "Accounting principles" and under Note 27.

Other information

The legal representative is responsible for other information. Other information consists of:

- The insurance of the legal representative,
- The Corporate Governance report in accordance with Section 3.10 of the German Corporate Governance Index,
- The non-financial reporting in accordance with §§ 315b to 315c of the HGB,
- The Corporate Governance statement in accordance with § 315d (5) in conjunction with § 289f (1) of the HGB,
- Other parts of the Masterflex SE annual report not required by law to be audited for the financial year ending 31 December 2017.

Our audit opinions on the consolidated financial statements and combined management report do not extend to other information and accordingly we do not issue an audit opinion or any form of audit conclusion.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information

- contains any significant discrepancies in the consolidated financial statements, the combined management report or the knowledge acquired in our audit or
- otherwise appears to be substantially misrepresented.

Responsibility of the legal representative and the Supervisory Board for the consolidated financial statements and combined management report

The legal representatives are responsible for the preparation of the consolidated financial statements which comply with the IFRS, as it applies in the EU and German statutory provisions applicable in accordance with § 315e (1) of the HGB in all material respects, and to ensure that the consolidated financial statements provide a true and fair view of the Group's assets, financial position and results of operations in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls which they have identified as necessary in order to enable the preparation of a consolidated financial statements which are free of intentional or unintentional, material misrepresentations.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue the business activity. In addition, they have the responsibility to indicate facts in connection with the continuation of the business activity, if relevant. In addition, they are responsible for recognising the continuation of business activities on the basis of the accounting principle, unless there is an intention to liquidate the group or cease business operations or there is no realistic alternative.

Furthermore, the legal representatives are responsible for compiling the combined management report, which provides a true picture of the Group's situation as a whole and is in line with the consolidated financial statements in all material respects, German statutory provisions and the opportunities and risks of future development. Moreover, the legal representatives are responsible for the provisions and measures (systems) which they deem necessary to enable the creation of a combined management report in accordance with German statutory provisions and to provide sufficient appropriate evidence for the statements in the consolidated management report. The Supervisory Board is responsible for monitoring the Group's accounting process used for the preparation of the consolidated financial statements and combined management report.

Responsibility of the auditor for auditing the consolidated financial statements and the combined management report

Our objective is to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free of material – intentional or unintentional – misrepresentations and whether the combined management report as a whole gives a true picture of the Group's position and corresponds with the consolidated financial statements as well as the findings obtained during the audit, in accordance with German statutory provisions and the opportunities and risks of future development, and to issue a report which contains our audit opinions on the consolidated financial statements and the combined management report.

Sufficient certainty provides a high level of certainty, but no guarantee that an audit carried out in accordance with § 317 of the HGB and the EU-APrVO, in compliance with the German principles established by the Institute of Auditors (IDW), will always reveal a material misrepresentation. Misrepresentations may result from violations or inaccuracies and are considered material if it could be reasonably expected that they could individually or collectively influence the economic decisions taken by the addressees on the basis of this consolidated financial statement and the combined management report.

During the audit, we exercise our professional judgement and maintain a critical stance. In addition, we

- identify and audit the risks of material – intentional or non-intentional – misrepresentations in the consolidated financial statements and in the combined management report; plan and conduct audit activities, in response to these risks and the auditing evidence obtained, which are sufficient and appropriate in order to serve as the basis for our audit opinions. The risk that material misrepresentations are not revealed is higher for violations than for inaccuracies, as violations may include fraudulent interaction, falsifications, intended incompleteness, misleading representations, or derogation of internal controls.
- gain an understanding of the internal control system for auditing the consolidated financial statements and the relevant precautions and measures for auditing the combined management report in order to plan auditing activities which are appropriate under the given circumstances, but not with the aim of giving an audit opinion on the effectiveness of these systems.
- assess the appropriateness of the accounting methods applied by the legal representatives and the viability of the estimated values and related information presented by the legal representatives.
- draw conclusions on the appropriateness of the accounting principle applied by the legal representatives for the continuation of the business activity and, on the basis of the audit evidence, of whether there is significant uncertainty in connection with events or circumstances which may raise significant doubts about the Group's ability to continue its business. If we come to the conclusion that there is a significant uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the combined management report in the audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the evidence that has been obtained up until the date of our auditor's report. However, future events or circumstances may cause the Group to no longer be able to continue its business activities.
- assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and determine whether the consolidated financial statements represent the underlying business transactions and events in such a way that the consolidated financial statements, in compliance with IFRS, as it applies in the EU and to German statutory provisions applicable in accordance with § 315 e (1) of the HGB, provide an accurate picture of the actual circumstances of the Group's assets, financial position and results of operations.

- collect adequate audit evidence for the accounting information of the company or business activities within the Group in order to make audit opinions on the consolidated financial statements and the combined management report. We are responsible for the guidance, monitoring and execution of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- assess the conformity of the combined management report with the consolidated financial statements, its legal equivalent and the picture it has given of the Group's position.
- conduct audits on the forward-looking statements presented by the legal representatives in the combined management report. On the basis of sufficient suitable audit evidence, we take into consideration in particular the important assumptions based on the future-oriented statements from the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not give a stand-alone examination of the future-oriented statements and the underlying assumptions. There is a significant unavoidable risk that future events will be substantially different from the future-oriented statements.

We will discuss with the person responsible for monitoring, amongst other things, the planned scope and schedule of the audit as well as significant audit findings including any deficiencies in the internal control system which we determine during our audit.

We will issue a statement to the person responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other issues that can reasonably be assumed to have an impact on our independence and the protective measures to this end.

We will determine from the issues that we have discussed with those responsible for monitoring, those aspects that were the most significant in the audit of the consolidated financial statements for the current reporting period and therefore the most important matters to audit. We will describe these matters in the audit report, unless laws or other legal regulations exclude the public disclosure of said matters.

OTHER STATUTORY AND REGULATORY REQUIREMENTS

Other disclosures in accordance with Article 10 EU-APrVO

We were chosen as auditors by the Annual General Meeting on 27 June 2017 and appointed by the Supervisory Board on 6 November 2017. We have been acting continuously as auditors of Masterflex SE since the 2010 financial year.

We declare that the audit opinions in this audit report are consistent with the additional report to the Supervisory Board in accordance with Article 11 EU-APrVO (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Alexandra Sievers.

Dusseldorf, 14 March 2018

Baker Tilly GmbH & Co. KG
(formerly Baker Tilly GmbH)
Wirtschaftsprüfungsgesellschaft (Dusseldorf)

Thomas Gloth	Alexandra Sievers
Auditor	*Auditor*

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,
We can look back on a good and successful 2017. The main goals that the company set out were accomplished. Once again, the company achieved greater organic growth than the economy as a whole. In addition, the newly acquired company APT Advanced Polymer Tubing GmbH, the fluoropolymer specialist based in Neuss, integrated extremely well into the Group structure. Its development within the Group continued successfully. The revenue and earnings targets were largely achieved even if the target value of a double-digit Ebit margin was missed slightly. This was due to unforeseen one-off effects in individual subsidiaries which, in addition, pushed the Ebit margin below the target level. However, the solid growth and earnings development remains intact.

The site expansion in Gelsenkirchen, associated with investments in new technology and equipment, led to a much faster and better supply to key markets. At the same time, the future brings a range of challenges. This can also be detected in the Executive Board's expanded strategy concerning "digitization" and "operational excellence". Operational excellence aims at continuous improvement of all value-added and service processes in the company. In times of increased transparency in our key markets and increasing competition, this is an essential requirement in order to remain competitive in the future. The often cited term "digitization" means nothing more than keeping pace with the technical capabilities which arise in information technology in particular, thereby generating added value for customers. Digitization is aimed at products, processes and new and revised business models.

We consider the Masterflex Group to be well-positioned to meet the challenges of the future and to continually increase revenue and operating income (Ebit) and the resulting margin.

Reports and meetings
In the 2017 financial year, the Supervisory Board of Masterflex SE performed the duties assigned to it by the German Stock Corporation Act (AktG) and the company's articles of association in full as well as regularly monitoring and advising the Executive Board. The basis was the regular written and oral reports provided by the Executive Board to the Supervisory Board about all issues concerning the planning, business development, risk situation and risk management of the company and the Group. The Supervisory Board was and is closely involved at all times in the approach and measures taken by the Executive Board.

In total, four meetings of the Supervisory Board took place in the 2017 financial year and all members of the Supervisory Board and Executive Board were present. In addition to the regular face-to-face meetings, several telephone conference calls were held to exchange information and pass resolutions. The Supervisory Board also discussed submissions by the Executive Board and issues concerning the Executive Board in separate conference calls.

In its meetings and conference calls, the Supervisory Board was comprehensively informed by the Executive Board about the Group's course of business, financial position, further development of the Compliance System, the personnel or organisational changes, and the status of corporate planning. The reports and proposals for resolution by the Executive Board were discussed in detail and evaluated following in-depth examination and consultation. In addition, various meetings amongst Supervisory Board members have taken place with the Executive Board providing professional support of their activities.

2017 focus issues
The Accounting Supervisory Board meeting took place in Gelsenkirchen on 14 March 2017. The Supervisory Board discussed the separate financial statements and the consolidated financial statements for the 2016 financial year in detail. The Corporate Governance Report was adopted and then published together with the 2016 financial report. The report of the Supervisory Board was also decided upon. With regard to the remuneration of the Executive Board, the decision was taken on establishing the objectives for the 2016 financial year as well as the adjustment and fixing of targets for the bonus agreements with the Executive

Board members for the 2017 financial year. A decision was taken on updating the Rules of Procedure for the Executive Board and the Supervisory Board. Other issues covered in the context of the Accounting Supervisory Board meeting were the current business development including the integration of the newly acquired company, APT, the risk management of the Group and the intensive discussion around the planned capital increase. The latter was the subject of a separate resolution passed by circulation.

Following the Annual General Meeting on 27 June 2017, the second Supervisory Board meeting of Masterflex took place. Following a short de-briefing of the Annual General Meeting, the Supervisory Board was able to report on the current economic development of the Masterflex Group to the Executive Board. This focussed on the continued positive development of the new subsidiary APT as well as dealing with the issue of price pressure in several markets for different products. Moreover, the Executive Board discussed the expansion of the corporate strategy in more detail.

The Supervisory Board meeting took place at the subsidiary, Matzen & Timm, in Norderstedt on 12 September 2017. In this context, the development of this site was the focal issue of the Supervisory Board meeting. In addition, the Executive Board reported on the current economic development, in particular, the delivery problems at Matzen & Timm, the continued positive development of APT as well as in other subsidiaries, such as the USA, China and Brazil. The Executive Board also reported on the issue of tax compliance relating to risk management and the expansion of the Compliance Management System. A further focus subject was the presentation and subsequent discussion on the introduction of a new ERP system in Gelsenkirchen. In the follow-up to the meeting, the Supervisory Board approved the project by circular procedure on 9 October 2017.

In the last Supervisory Board meeting of the year, on 11 December 2017, the Executive Board reported on the current status of the five-year plan, the current business development and the personnel and organisation changes in the Group. Furthermore, the new Head of Medical Technology Sales presented the strategic considerations for the next few years to the Supervisory Group. Additionally, the Supervisory Board endorsed the updating of the declaration of conformity for the German Corporate Governance Code. Moreover, the decisions to establish a target value for women in the Executive Board and in the Supervisory Board were discussed and subsequently passed again in the current form.

In addition, the Supervisory Board had previously been informed and trained in a separate meeting on 6 December 2017 on the subject of the new CSR guideline and the tasks ensuing from it.

The Supervisory Board received regular information on the company's sales and earnings development and change in key balance sheet items. The development of APT which was acquired at the beginning of 2017 played an important role in 2017. The Executive Board provided the Supervisory Board with extensive information on the current developments of the individual subsidiaries. The Executive Board reported in writing and verbally in meetings, periodic discussions and conference calls during the year, including on the preparation and content of the six-month and quarterly reports, discussing these extensively with the Supervisory Board.

Trusting cooperation with the Executive Board

The Supervisory Board continued its open and trusting cooperation with the Executive Board seen in the past financial year. The Chairman of the Supervisory Board also remained in contact with the Executive Board between the meetings and was kept informed about significant developments and forthcoming decisions, which were of particular significance for the company. The Chief Executive Officer informed the Chairman of the Supervisory Board without delay of all major events which were of material significance for assessing the situation and performance as well as for managing the company. All members of the Supervisory Board were comprehensively informed of these contents by the Chairman of the Supervisory Board in good time for the following meeting.

There have not been any changes to the Supervisory Board or Executive Board during the financial year.

Supervisory Board committees

With a total of three members, the Masterflex SE Supervisory Board is kept deliberately small in order to allow resolutions to be passed efficiently, rapidly and flexibly via streamlined structures, as is the case throughout the Group. Accordingly, no separate committees were formed.

Corporate Governance

The implementation of the German Corporate Governance Code is a key element of the meetings of the Supervisory Board of Masterflex SE. Again in 2017, the Supervisory Board and Executive Board discussed in depth the recommendations and suggestions of the Code along with the amendments that were made in 2017. In accordance with Section 5.6 of the Code, the Supervisory Board is required to examine the efficiency of its activities on a regular basis. In view of the tasks and content dealt with and the fact that the Supervisory Board with its three members is the minimum size prescribed by law, both the cooperation between the members and the way in which tasks are handled were assessed as efficient and very effective.

In December 2017, the Executive and Supervisory Boards approved and submitted a new Statement of Compliance in accordance with § 161 German Stock Corporation Act (AktG) taking into account the updated version of the code of 7 February 2017. This was made permanently available to shareholders on the company website.

The company is also committed to the principles of the German Corporate Governance Code. The current declaration of conformity submitted on the basis of the above-mentioned version and the previous explanations can be found at any time on the company website **www.MasterflexGroup.com**. In addition, the Executive Board reports on corporate governance in the Corporate Governance Report – including on behalf of the Supervisory Board – in accordance with Section 3.10 of the Code.

Adoption of the separate financial statements and approval of the consolidated financial statements

The annual financial statements of Masterflex SE, the consolidated financial statements and the combined management report for the Group and Masterflex SE for the 2017 financial year as submitted by the Executive Board, together with the bookkeeping system, were audited by Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, which was appointed as the Group's auditor by the Annual General Meeting on 27 June 2017 and issued with an unreserved audit certificate. This auditing company, formerly under the name of Rölfs WP Partner AG, was first mandated with auditing the accounts in 2010 for the 2010 financial year; the senior auditor, Thomas Gloth, has been entrusted with this task since the 2012 financial year. The auditor presented the mandate on the required declarations of independence prior to the audit to the Supervisory Board.

The documents to be audited and the auditor's reports were made available to all members of the Supervisory Board at the meeting convened to review the Group's accounts on 14 March 2018 and were sent to each member of the Supervisory Board sufficiently early for them to prepare for the meeting. The auditor took part in discussions regarding the separate financial statements and consolidated financial statements. He outlined the key findings of the audits and provided additional information where necessary. After a thorough audit of the documents and taking the auditor's reports into account, the Supervisory Board adopted the separate financial statements and approved the consolidated financial statements.

In addition, the Supervisory Board examined the planning documents, the risk position and the risk management system of Masterflex SE. All of the risk areas identified by the Executive Board and the Supervisory Board were discussed. Risk management was subject to a thorough examination by the auditor, who confirmed that the Executive Board of the company had implemented the measures required in accordance with § 91 (2) of the German Stock Corporation Act (AktG), in particular the establishment of a monitoring system, and that this monitoring system was suitable for the early recognition of developments that could endanger the continued existence of the company and for identifying undesirable developments. Lastly, the Supervisory Board exercised its first duty of scrutiny in accordance with § 171 (1), sentence 4 of the German Stock Corporation Act (AktG) with regard to Corporate Social Responsibility and did not raise any objections.

There were no conflicts of interest affecting Supervisory Board members in the period under review.

In 2017, Dr. Link was also a member of the following statutorily mandated Supervisory Boards: at Rodenberg Türsysteme AG, Porta Westfalica, (Chairman of the Supervisory Board) and at Waag & Zübert Value AG, Nuremberg.

Mr van der Zouw had the following notifiable mandates in accordance with § 125 (1), sentence 5 German Stock Corporation Act (AktG):
* Chairman of the Advisory Board of Europart Holding GmbH, Hagen-Haspe,
* Chairman of the Supervisory Board of Den Helder Airport CV, Den Helder/Netherlands,
* Supervisory Board member of Aalberts Industries NV, Langebroek/Netherlands,
* Chairman of the Supervisory Board of Van Wijnen Holding NV, Baarn/Netherlands,
* Supervisory Board member of HGG Group BV, Wieringerwerf/Netherlands,
* Chairman of the Advisory Committee of VIBA NV, Zoetermeer/Netherlands and
* Supervisory Board member of LievenseCSO Intra BV, Breda/Netherlands.

Mr. van Hall had no notifiable mandates in 2017.

The Supervisory Board would like to thank the Executive Board and all employees of the Masterflex Group for their commitment as well as their constructive, trusting and successful work over the past year.

Gelsenkirchen, 14 March 2018

For the Supervisory Board

Georg van Hall
Chairman of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD

Georg van Hall (Chairman of the Supervisory Board since June 2016)
After studying business administration at the Technical University of Berlin and the University of Illinois, USA, and taking the professional examinations, Mr van Hall held a number of management positions in his capacity as auditor and tax advisor. Since 2005, he has run his own business and, since May 2009, has been a partner at the accounting firm AccountingPartners in Dusseldorf. Following his election onto the Supervisory Board in 2009, he has been the Vice Chairman of the Supervisory Board since 2010. On 14 June 2016, he was selected as Chairman of the Supervisory Board.

Dr. Gerson Link (Member and Vice Chairman of the Supervisory Board since June 2016)
Following his degree in business administration, Dr. Link initially worked for capital investment company Kapitalbeteiligungsgesellschaft der Deutschen Versicherungswirtschaft AG. Since 2002, he has been the sole director of InnoTec TSS AG in Dusseldorf. Dr. Link has gained wide-ranging experience in restructuring and the expansion of companies in niche markets and has also successfully conducted company acquisitions. On 14 June 2016, he was selected as a member and Vice Chairman of the Supervisory Board.

Jan van der Zouw (Member of the Supervisory Board since 14 June 2016)
Following completion of a mechanical engineering degree, Mr van der Zouw gained more than 30 years' experience in running medium and large industrial companies. During his tenure as CEO of the Eriks Group from 2001 to 2011, he contributed significantly to transforming the Group from a traditional technical supplier into a modern supplier to industry. Since 2011, he has worked in Supervisory Board and Advisory Board roles for various international companies. On 14 June 2016, he was selected as a member of the Supervisory Board.

The Executive Board and the Supervisory Board of the Masterflex SE (from left to right): Mark Becks and Dr. Andreas Bastin (Executive Board); Georg van Hall, Jan van der Zouw und Dr. Gerson Link (Supervisory Board)

GLOSSARY

Gross Domestic Product (GDP)	The total value of all goods and services produced by an economy for the market within a reporting period.
Cash flow	The cash flows generated in a particular period, adjusted for significant noncash expenses and income. This demonstrates a company's ability to finance itself, i.e. its earning power.
Ebitda	Earnings before interest and taxes
Ebit	Earnings before interest and taxes
Ebt	Earnings before taxes
Extrusion process	Procedure for working with plastics. The raw materials in granulated form are broken down and heated in an extruder until they are plasticised, , i.e. moldable and can be processed further.
FEP	Fluoridated ethylene propylene: fully fluoridated plastics with high chemical resistance
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
PFA, PTFE	Perfluoroalkoxy (PFA) and polytetrafluoroethylene (PtFE): two fluoridated plastics with very high chemical resistance
Stage-Gate process	Scientific model for the process optimisation of innovation and development. The idea behind is to take into account also aims which so far have been neglected partially or total in innovation processes, e.g. focusing and setting priorities, parallel and rapid process management, assignment of a cross divisional team and an increased market orientation and assessment.
Working capital	Current assets minus current liabilities

IMPRINT

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Forecasts
This annual report contains a number of forecasts and estimates which are based on present expectations, anticipations and predictions on the part of the Executive Board and the information it currently has. Such estimates should not be construed as a warranty that the future developments and results therein stated will in fact materialise since these hinge on a host of factors, and encompass a variety of risks and imponderables while resting on assumptions that might bei inappropriate. We therefore oncur no obligation to update any forecasts or estimates herein made.

MASTERFLEX GROUP
Connecting Values

MASTERFLEX MATZEN & TIMM NOVOPLAST SCHLAUCHTECHNIK FLEIMA-PLASTIC MASTERDUCT APT AMPIUS