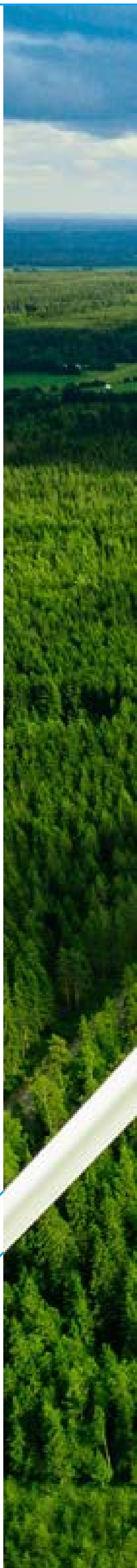
GLOBAL MARKET LEADER 2021 / TOP INNOVATOR 2021

## Connecting Values

# Annual report 2020

MASTERFLEX GROUP



# Focus on global markets

**We strive for value-oriented, dynamic growth in all of the markets we serve. In doing so, we intend to gradually shift the focus of our sales, which is currently still on Europe, and achieve a greater share of sales on the American and Asian continents. To this end, we are represented in North and South America, China and Singapore, and Europe with our own activities.**

**The basis of this internationalization strategy is a product portfolio that is equally appealing to industrialized nations and emerging markets. We achieve this by focusing on the megatrends of globalization and demographic change, digital transformation and sustainability.**

## Globalization and demographic change

The population is steadily increasing and getting older. As global population density changes, accompanied by dynamic urbanization, social patterns and demand structures are inevitably changing. These changes also have an impact on growth prospects in the industries of relevance to Masterflex.
While the demand structure of emerging markets is characterized by the desire for greater prosperity, industrialized nations are focusing on maintaining health and medical care aspects.

## Digital transformation

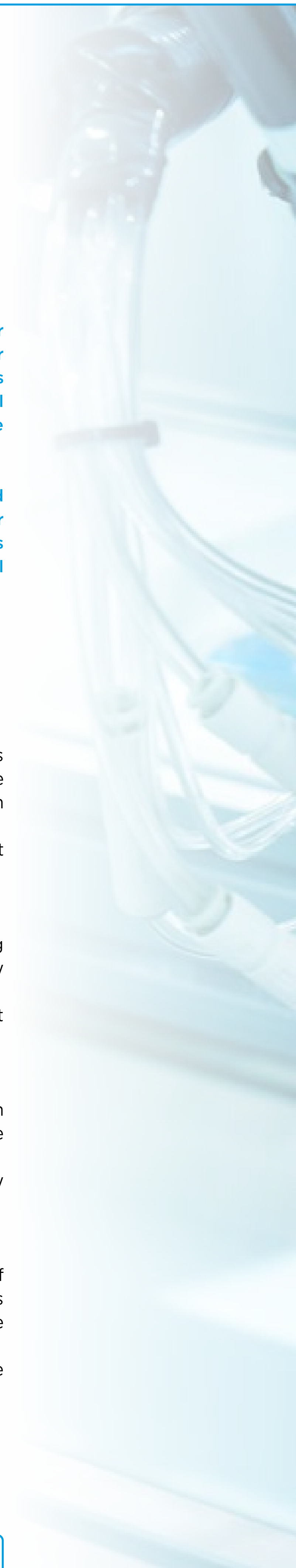
The digital transformation is accelerating technological developments and stands for the improvement of processes and efficiencies in the industrialized nations. Emerging economies in Asia, which are already on the cusp of becoming industrialized nations, are unable to detach themselves from these technological trends. China in particular is already a leader in some areas of digitalization.

## Sustainability

The increasingly evident scarcity of resources promotes sustainable use and consumption solutions at practically all levels and areas of material use.

Sustainability is based on the approach of assuming responsibility for the entire supply chain and thus affects application areas in emerging markets and industrialized nations alike.

Our compliance system, which has been established for years and is constantly being further developed, provides us with a clear set of values, also in the interest of our customers.



# Innovation is what drives us

**We constantly develop new products and solutions. Suggestions for this often arise from close cooperation with our customers and their usually very special and demanding requirements. We are always designing, testing and producing new possibilities for flexible special connections from a virtually infinite variety of high-performance plastics and fabrics.**

**In doing so, our internationalization and innovation strategies go hand in hand with our goal of developing innovative product solutions for sustainable growth markets. Consequently, our development process is focused on the aspects "Strengthening Customer Value," "Digital Transformation," "Sustainability" and "Engineering Services."**

## Focus on customer benefits

High-tech connecting hoses are increasingly being used where previous connecting solutions need to be made more efficient, safer and more sustainable. We are constantly involved in exchanges with our customers on new products.
Our customers' requirements form the basis of our strategic development roadmap.

## Digital transformation

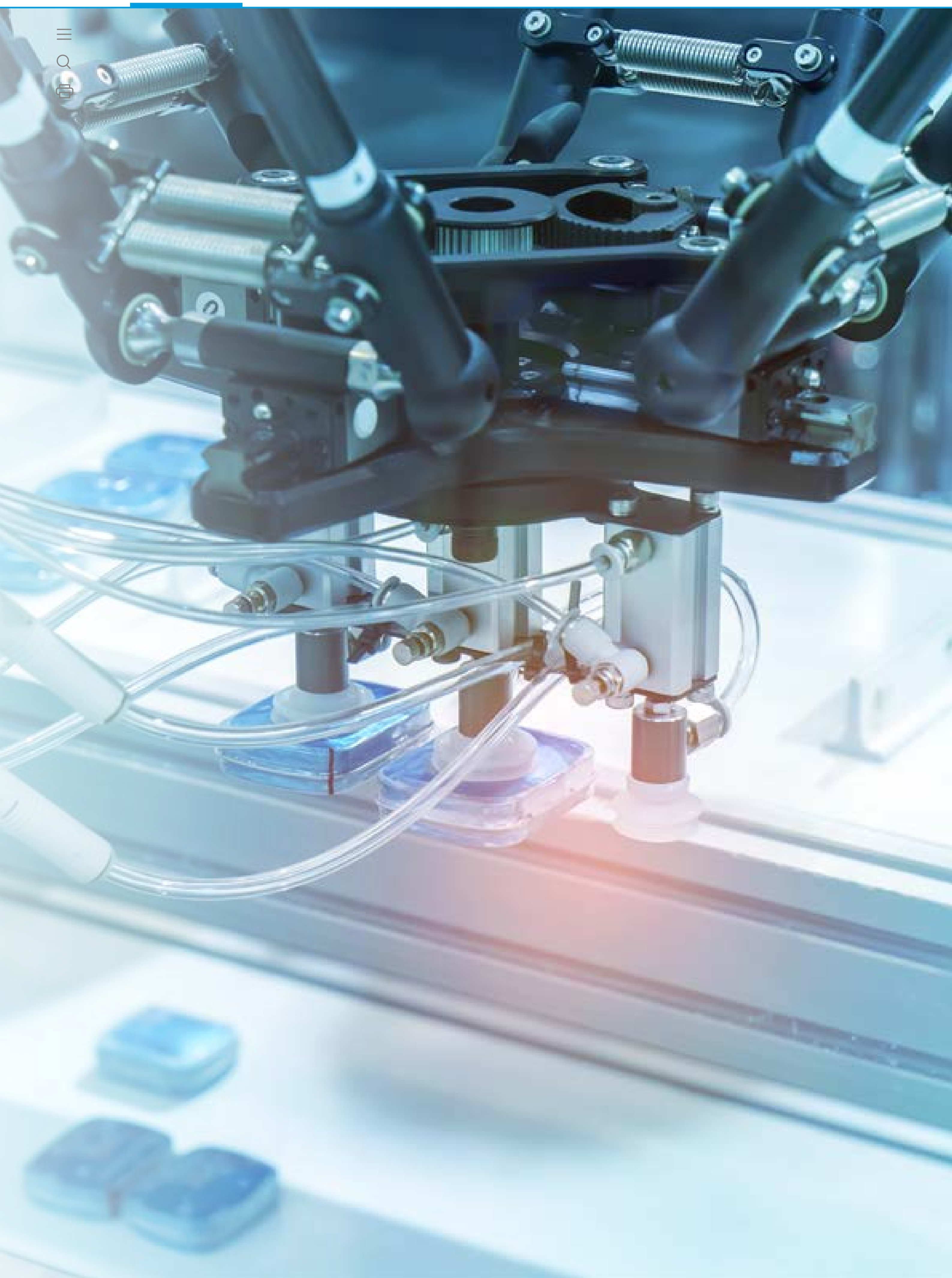
Digital transformation in the development process stands for increasing networking of processes and systems through intelligent connectivity solutions.
Our development strategy has a clear focus on disruptive innovations that arise in the course of digital transformation.

## Sustainability

The high-tech plastics processed by Masterflex offer considerable substitution potential for conventional materials, especially for steel and rubber, and make an active contribution with regard to sustainability.
Our innovation strategy is focused on the use of environmentally friendly plastics.

## Engineering Services

The field of application of special hoses requires a high level of knowledge of hose properties and application conditions. Masterflex advises its customers on the best possible design of the relevant process units, right through to the creation of individually designed connection solutions.
As a technology leader in our relevant markets, we allow ourselves to be measured by our consulting and service quality.



# Operational excellence

**We never stop optimizing our core processes in the value chain to ensure that we continue to achieve profitable growth. Measures aimed at scaling and increasing efficiency are being undertaken in all areas of the Masterflex Group and at all our sites. That's not all though: We combine operational excellence with digital expertise, from communication to production, and thus create added value for our customers.**

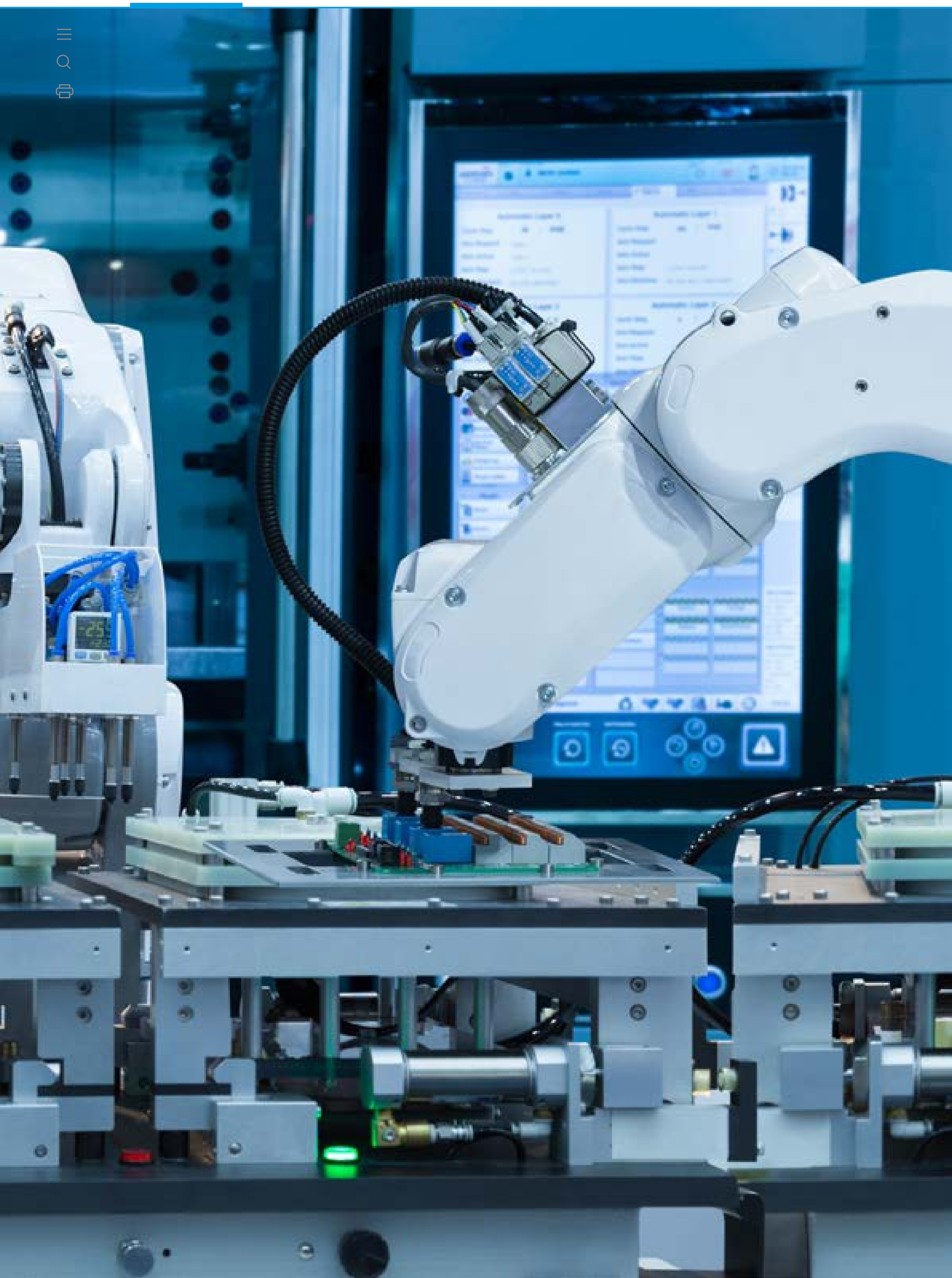
## Scaling through expansion of innovation leadership

We are steadily expanding our technology leadership with a clear focus on disruptive innovations. Our innovative products are the basis of our profitable growth strategy, which we support by expanding our international sales activities.

## Increased efficiency through continuous process improvements

We are committed to aligning manufacturing workflows and processes so that they mesh smoothly and are less prone to error. We therefore promote the advancement of networking and automation within our own production and value stream chains in order to continuously improve our manufacturing efficiency.

The increasing degree of networking of our processes also results in adjustments to our organizational structure as well as to the number of employees.



# Digital transformation

**We design our transformation process dynamically and fundamentally. There is practically no business unit within the Masterflex Group that doesn't deal with digital changes.**

**The focus here is also on our new digital brand AMPIUS®, with which our customers cannot only transport material, but also record data and control entire plants. It is here that we see completely new technological and business approaches for the future.**

## Continuous further development of the intelligent hose system series AMPIUS®

The AMPIUS® digital hose system series was further expanded in 2020. The recording of important operating and influencing parameters in production represents an important quality and control aspect for our customers.

For example, we have driven forward cross-site data collection in production and storage facilities in order to make influences on product quality transparent. These databases offer considerable information and optimization potential for both our own and our customers' processes.

In addition, an important milestone in the direction of predictive maintenance was reached with the equipping of production lines with specially developed AMPIUS® wear monitoring systems.

Another focus in the further development of the AMPIUS® hose series was on identifying real added value for customers through Industrial Internet of Things (IIoT) solutions in the markets and applications we address.

# Key figures

## Masterflex at a glance

| in EUR thousand | 2020 | 2019 | Change |
|---|---|---|---|
| Consolidated revenue | 71,881 | 79,969 | -10.1% |
| EBITDA | 7,892 | 9,656 | -18.3% |
| EBIT (operational) | 3,167 | 5,058 | -37.4% |
| EBIT | 2,335 | 4,542 | -48.6% |
| EBT | 1,425 | 3,251 | -56.2% |
| Consolidated net income (share of shareholders of Masterflex SE) | 793 | 2,532 | -68.7% |
| Consolidated equity | 41,285 | 42,015 | -1.7% |
| Consolidated balance sheet total | 76,354 | 81,559 | -6.4% |
| Consolidated equity ratio | 54.1% | 51.5% | |
| Employees (number) | 613 | 676 | -9.3% |
| EBIT margin (operational) | 4.4% | 6.3% | |
| Net return on sales | 1.1% | 3.2% | |
| Consolidated earnings per share (EUR) | 0.08 | 0.26 | -69.2% |

# Contents

# Foreword by the CEO

Dear shareholders,

Due to the corona pandemic, fiscal year 2020 was a year in which many special challenges had to be overcome in the economic as well as the private sector. In 2020, the Masterflex Group not only successfully mastered these challenges, but also set the course for the future.

Due to the effects of the COVID-19 pandemic and the related temporary standstill of the economy, the Masterflex Group recorded a decline in revenue of 10.1% to EUR 71.9 million in fiscal year 2020. Our operating EBIT reached a figure of EUR 3.2 million. This made 2020 the first fiscal year in eleven years in which we had to accept a decline in revenue compared to the previous year. At the same time, however, we managed to continue to achieve a positive result despite the adversity. Overall, we were able to meet our forecast, which called for a decline in revenue of 10% to 15% due to corona and EBIT of EUR 1.0 to 2.5 million, on the revenue side at the upper end and even exceeded it on the earnings side. Thanks to a combination of strict cost discipline and extensive efficiency measures as part of the “Back to Double Digit” (B2DD) optimization program, we also succeeded in generating positive earnings growth over the quarter. Against this backdrop and in view of the difficult framework conditions for a large number of companies, we are satisfied with the course of 2020.

The solid development at Masterflex in view of the circumstances is due, among other factors, to our broad branch diversification. Sectors such as automotive and mechanical engineering, which were already in a downturn before the pandemic, were massively affected by the corona crisis. In contrast to previous economic crises, deliveries to the aviation industry, which are otherwise stable, have also declined significantly. In contrast, however, some of our business units were even able to benefit from the pandemic. Particular mention should be made of the product areas for the medical, laboratory and pharmaceutical industries. With the growing business with customers from these industries, we were able to compensate for declining business in other areas. Our focus on these high-growth sectors gives us stability on the one hand and on the other hand will offer new growth prospects when the economy picks up again.

Early on in the corona crisis, we showed a high rate of adjustment in order to cushion the direct effects of the COVID-19 pandemic and to ensure the safety of our employees. At the German sites, we made use of the option of short-time working, which, in addition to our “B2DD” optimization program, which was presented in September 2019, led to additional savings in personnel costs. Due to the persistently challenging situation in the aviation industry, we have also adjusted our capacities by closing production at our site in the Czech Republic. We are thus taking into account the expectation that the aviation business is likely to remain noticeably below the pre-crisis level in the medium term. We expect a recovery to 60 to 70% of the old volume in 2021, for which our site in Norderstedt, which previously reached its capacity limit, especially in terms of staff availability, is now adequately dimensioned. We are proud of the fact that, despite the COVID-19 upheavals in the balance sheet, we did not have to make any unscheduled amortization of intangible assets and did not have to use state corona aid loans, but were even able to reduce debt even further on our own. These circumstances impressively document the solidity of our business as a whole and the success of our B2DD efficiency program, which we have been consistently pursuing since 2019.

## Sustainable action is one of the core values of our corporate strategy and is an important element of our decisions at all levels.

**Dr. Andreas Bastin**
CEO

The initial measures of our B2DD program, which are aimed exclusively at effects that increase efficiency and thus ultimately increase our profitability, have largely been completed. As a result, our cost situation has improved by at least EUR 2.5 million per year. We created the structures needed to be able to return to double-digit EBIT margins even before the pandemic. The stabilization of our result that we achieved with a challenging sales trend in the corona year 2020 is also a direct effect of B2DD and thus an expression of our operational excellence. What we have achieved so far makes us confident and makes it clear what is feasible in the course of an economic upswing expected in 2021 and 2022 or a renewed increase in revenue. We confirm our goal of gradually returning our operating EBIT margin to double-digit figures on a sustainable basis by 2022 through significantly higher staff productivity and significantly improved efficiency and return on capital employed.

## Outlook for 2021

Regardless of our medium-term forecast, we remain cautious for 2021. The economic outlook has improved significantly with the approval and availability of vaccines. However, it is not yet concretely foreseeable how quickly a vaccination can be implemented across the board and when one can speak of the usual normality again. In particular, it depends on how quickly catch-up effects actually take place in the various customer sectors. We have grown steadily over the past ten years and are therefore convinced that we will return to our growth path after the pandemic. Especially since the higher-level market drivers are intact and we benefit from the focus on medical and laboratory technology, lifesciences and the food industry and thus from the respective market growth.

We expect to see our revenue increase by 2.0% to 5.0% in 2021. As a result of our B2DD efficiency program, EBIT should be above the previous year in absolute and percentage terms.

Nevertheless, should the pandemic put the brakes on the global economy for much longer than we assumed, sales and operating EBIT will remain at the level of 2020 and, in extreme cases, could even be lower.

All in all, we are optimistic about the future and expect growth in 2021 and even stronger growth in 2022. Even if the first quarter of 2021 will probably still be below the same quarter of the previous year due to corona, we expect to see moderate growth in the second quarter and more rapid growth for the rest of the year, so we assume that the second half of the year will show significantly stronger growth than the first.

Dr. Andreas Bastin (CEO)
Mark Becks (CFO)

If we take a look at our stock exchange price, we can see that there has been a rotation on the stock exchanges towards value shares and cyclicals since the success reports about the various corona vaccines. In particular, small and mid-cap companies have recently returned to the focus for investors. This development, coupled with the visible successes of our B2DD program and intensified investor relations activity, has resulted in a trend reversal in our share. We are the world market leader for high-tech hoses and connection systems made of high-tech plastics – for which we were again recognized by Wirtschaftswoche in 2020 – and have strong brands as well as broad and well-balanced customer access from traditional mechanical engineering to the manufacturing industry to medical technology and life sciences. We have created the prerequisites for returning to our solid growth path and generating long-term double-digit EBIT margins. Against this backdrop, we are planning to allow our shareholders to participate in the company's success in the current fiscal year and to distribute EUR 0.08 per share as part of our long-term sustainable dividend policy. Please continue to place your trust in the Masterflex Group as a shareholder, for which we sincerely thank you!

We would like to thank our employees for their excellent performance in a challenging year. We look forward to the tasks we will face in the current year 2021, which we look forward to with great confidence.

Sincerely yours,

**Dr. Andreas Bastin**
CEO

# Report by the supervisory board

Dear shareholders,

The challenges posed by the COVID-19 pandemic also had a significant impact on the deliberations of the Supervisory Board. For the year as a whole, the Masterflex Group was able to keep its forecast in an economic environment of uncertainty at the upper end of the range and even to exceed it in terms of earnings. Among other things, this was a consequence of the different economic developments in Masterflex's relevant markets. In addition, the ongoing activities that are part of the "Back to Double Digit" program laid an economic basis for quick and needs-based action during the COVID-19 pandemic.

In fiscal year 2020, the Supervisory Board of Masterflex SE fully performed the duties incumbent on it under the German Stock Corporation Act and the company's Articles of Association and regularly monitored and advised the Management Board. This was based on the regular written and verbal reports provided by the Management Board on all planning, business development, risk position and risk management issues relevant to the company and the Group. The Supervisory Board was and is closely involved at all times in the procedures and measures of the Management Board and was informed by the Management Board in an appropriate manner.

A total of six Supervisory Board meetings were held in fiscal year 2020, each of which was attended by all Supervisory Board and Management Board members. Participation is disclosed in an individualized form in the following table:

| | January 24, 2020 | March 24, 2020 | June 2, 2020 | June 23, 2020 | September 8, 2020 | December 16, 2020 |
|---|---|---|---|---|---|---|
| Georg van Hall | x | x | x | x | x | x |
| Dr. Gerson Link | x | x | x | x | x | x |
| Jan van der Zouw | x | x | x | x | x | x |

The Supervisory Board also discussed the documents submitted by the Management Board and Management Board matters, if necessary, without the Management Board.

The Management Board provided the Supervisory Board with comprehensive information on the business and financial situation, the measures planned in the course of the COVID-19 pandemic, risk management and the further development of the compliance system. Personnel or organizational changes within the Masterflex Group as part of the "Back to Double Digit" program and the status of company planning were also the subject of the Supervisory Board's deliberations.

The Supervisory Board discussed and examined the reports and resolutions proposed by the Management Board in detail. In addition, various meetings of individual members of the Supervisory Board with the Management Board took place to provide factual support for its activities

## Main topics in 2020

The consultation and discussion of the medium-term planning of the Masterflex Group for the years 2020 to 2024 were the subject of the Supervisory Board meeting on January 24, 2020. The implementation of the planned measures to achieve a double-digit EBIT margin in 2022 was one of the main points of discussion at this meeting.

During the Supervisory Board meeting on March 24, 2020, to approve the annual financial statements, the Supervisory Board discussed the annual financial statements, the Consolidated Financial Statements and the non-financial declaration for fiscal year 2019. The report by the Supervisory Board, the declaration on corporate management and the Corporate Governance Report were also part of the review.

With regard to the remuneration of the Management Board, in the meeting of the Supervisory Board on March 24, 2020, resolutions were passed to determine the achievement of the targets for fiscal year 2019 and to set the targets for the bonus agreements with the Management Board members for fiscal year 2020.

In its meeting on June 2, 2020, the Supervisory Board dealt with the legal requirements for the organization of the Annual General Meeting in COVID-19 times and approved the resolution of the Management Board to hold a virtual Annual General Meeting in accordance with the COVID19 Act. The hedging of currency risks within the Masterflex Group was also discussed intensively at this meeting.

Masterflex SE's fourth Supervisory Board meeting was held following the Annual General Meeting on June 23, 2020. In addition to the follow-up to the Annual General Meeting and the exchange on the shareholder meetings of the Chairman of the Supervisory Board, the current status of the planned share buyback in Masterflex Asia Holding GmbH was the subject of the deliberations.

At this meeting, the Management Board also presented the Supervisory Board with various scenarios and packages of measures relating to the economic effects of the COVID-19 pandemic. Among other measures, this also pertained to the closure of production capacities in the Czech Republic. The Supervisory Board discussed the measures presented intensively with the Management Board and passed the necessary resolutions in each case.

In the Supervisory Board meeting on September 8, 2020, which took place at the APT Advanced Polymer Tubing GmbH site in Neuss, Germany, the Management Board and Supervisory Board dealt intensively with the various aspects and the resulting geopolitical challenges of the COVID-19 pandemic. The Supervisory Board discussed in detail the economic consequences for the Masterflex Group as well as accompanying packages of measures. Furthermore, the dates for the Supervisory Board meetings and the 2021 Annual General Meeting as well as the introduction of the new Managing Director of APT Advanced Polymer Tubing GmbH were on the agenda. Finally, the Supervisory Board also carried out its annual training there on current topics of the Supervisory Board's work and with an outlook on the so-called "Association Sanctions Act" on its resulting obligations.

At the last Supervisory Board meeting of the year, on December 16, 2020, the Management Board gave an outlook on the economic results in fiscal year 2020 and reported on the current status of the five-year plan. The Supervisory Board also received the report on the development of compliance from the Chief Compliance Officer.

The review of the current Management Board remuneration system in accordance with the legal requirements of the second shareholder implementation guideline, including the recommendations of the German Corporate Governance Code, was the subject of intensive discussions. The result of these deliberations was the redesign of the Management Board remuneration system, which will be submitted to the Annual General Meeting on May 19, 2021, for approval. In order to adapt the Management Board contracts directly to the new remuneration system, a new appointment for a further 6 years was resolved with the Management Board members on the basis of the newly resolved content of the remuneration system and correspondingly adjusted contracts.

The update of the Declaration of Compliance with the German Corporate Governance Code in its version dated December 16, 2019, was also resolved by the Supervisory Board. In line with the regular schedule, the review of the rules of procedure for the Supervisory Board was also on the agenda.

### Trusting cooperation with the Management Board

In the past fiscal year, the Supervisory Board continued its open and trusting cooperation with the Management Board. The Chairman of the Supervisory Board was also in regular contact with the Management Board between meetings and was informed of all significant developments and upcoming decisions of particular importance to the company. The Chief Executive Officer immediately informed the Chairman of the Supervisory Board of all important events that were of material importance for the assessment of the situation and development and for the management of the company. All members of the Supervisory Board were comprehensively informed of these matters by the Chairman of the Supervisory Board at the following meeting at the latest.

The Supervisory Board received regular information on the development of revenue and earnings, in particular the implementation of the cost-cutting measures, as well as changes in key balance sheet items, From the Management Board. The Supervisory Board also received detailed information from the Management Board on current developments at the individual subsidiaries, in particular with regard to the economic effects of the COVID-19 pandemic. The Management Board reported in writing and verbally in the meetings and discussions during the year as well as in conference calls on the preparation and content of the financial reports to be published quarterly and discussed these in detail with the Supervisory Board. In fiscal year 2020, the Supervisory Board approved all transactions subject to approval once these had been analyzed thoroughly and been discussed with the Management Board.

There were no changes to the Management Board in the past fiscal year.

The members of the Supervisory Board were elected at the Annual General Meeting in 2019 until the end of the Annual General Meeting that decides on the discharge for the fiscal year ending on December 31, 2024. Further information on the composition of the Supervisory Board is summarized in the Declaration on Corporate Governance.

## Supervisory Board committees

The Supervisory Board has not formed any committees. With three members, the Supervisory Board of Masterflex SE is deliberately kept small in order to be able to pass resolutions efficiently, quickly and flexibly, as is the case in the Group, thanks to lean structures.

## Corporate governance

The implementation of the German Corporate Governance Code is an integral part of the Supervisory Board meetings of Masterflex SE. In 2020 as well, the Supervisory Board and Management Board discussed the recommendations and suggestions contained in the Code in its new version of December 16, 2019, intensively. On this basis, in its meeting on December 16, 2020, the Supervisory Board adopted the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act, which is made permanently available to our shareholders on the company’s website.

In addition to the Declaration of Compliance, the Declaration on Corporate Governance and the Rules of Procedure for the Supervisory Board are also available on the Masterflex Group website (www.MasterflexGroup.com) for viewing by our shareholders.

The Supervisory Board attends regular training on good corporate governance. In fiscal year 2020, the focus of the training measures was on providing information on upcoming legislative changes and their effects on the work of the Supervisory Board. These include: the law on the "further development of restructuring and insolvency law," the government draft of the "law to strengthen business integrity" (Association Sanctions Act), the specifications for the "EU Whistleblower Directive" and the draft bill for the future "due diligence law" (supply chain law).

No conflicts of interest of Supervisory Board members arose in the reporting period.

## Adoption of the annual financial statements and approval of the Consolidated Financial Statements

The annual financial statements prepared by the Management Board for Masterflex SE, the Consolidated Financial Statements, the combined Management Report and the Remuneration Report for the Group and Masterflex SE for fiscal year 2020, including the bookkeeping, were audited for the first time by the auditor appointed by the Annual General Meeting on June 23, 2020, BDO AG Wirtschaftsprüfungsgesellschaft, Essen, and given an unqualified audit opinion.

The auditor submitted the requested declaration of independence to the Supervisory Board prior to the commencement of the audit. In the course of the tendering process that had taken place in 2019, the Supervisory Board also made its own judgment on the independence of the auditing firm.

The documents to be audited and the audit reports of the auditor were submitted to each member of the Supervisory Board in good time for preparation for the meeting on the financial statements held on March 30, 2021. The auditor took part in the discussion of the annual financial statements and the Consolidated Financial Statements. He reported on the main results of the audits and was available to provide additional information. At its meeting on March 30, 2021, after a detailed examination of the documents and taking the audit reports into account, the Supervisory Board adopted the annual financial statements and the Consolidated Financial Statements. Finally, the Supervisory Board performed its audit duty pursuant to Section 171 (1) sentence 4 AktG with regard to the company's non-financial statement on corporate social responsibility and had no objections.

The Supervisory Board also reviewed the planning documents, the risk situation and the risk management system of Masterflex SE. All risk areas that were identified by the Management Board and the Supervisory Board were discussed. The risk management system was reviewed in detail by the auditor. The auditor confirmed that the company's Management Board had taken the measures required in accordance with Section 91 (2) AktG, in particular those relating to the establishment of a monitoring system, in an appropriate manner and that the monitoring system is fundamentally suited for the early Identification of developments that could jeopardize the continued existence of the company and for taking any undesirable developments into account.

The Supervisory Board would like to thank the Management Board and all employees of the Masterflex Group for their commitment and for their constructive, trusting and successful work in the past year.

Gelsenkirchen, March 30, 2021
For the Supervisory Board

**Georg van Hall**
Chairman of the Supervisory Board

# Corporate Governance report

## Declaration on corporate governance according to sections 289f, 315d HGB (unaudited)

The Corporate Governance Declaration in accordance with Section 289f and Section 315d of the German Commercial Code HGB) is part of the Combined Management Report. Pursuant to Section 317, Paragraph 2, Clause 6 of the German Commercial Code, the auditor's review of the information in accordance with Section 289f Paragraphs 2 and 5 and Section 315d of the German Commercial Code is to be limited to whether the information has been provided. The information and documents mentioned in this chapter including the Articles of Association, the Rules of Procedure of the Supervisory Board as well as the Code of Conduct and the Modern Slavery Act Statement are available for our shareholders to review on the website of the Masterflex Group. (www.MasterflexGroup.com)

### Declaration of Conformity on Corporate Governance pursuant to Section 161 AktG

Pursuant to Section 161 AktG, the Management Board and Supervisory Board are obliged to declare each year that the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been and are being complied with or which recommendations have not been or are not being applied and why not. This Declaration of Conformity must be made permanently available to shareholders. The current Declaration of Conformity was adopted by the Management Board and Supervisory Board in December 2020 and has since been available for viewing on the Internet at www.MasterflexGroup.com. The Supervisory Board also agreed with the auditor that the auditor inform him and note it in the audit report if he discovers facts during the audit that indicate that the declaration made by the Management Board and Supervisory Board on the Code is incorrect.

The vast majority of the principles and recommendations of the German Corporate Governance Code (in short: Code or GCGC) have long been part of Masterflex's company culture. The company follows the recommendations of the Code. The version of the Code dated December 16, 2019, in effect when the declaration was issued is authoritative. Any deviations from the Code are explained below.

### The Declaration of Conformity of December 2020 has the following wording:

### Declaration of Conformity on Corporate Governance pursuant to Section 161 AktG

The Management Board and Supervisory Board of Masterflex SE declare that the recommendations of the Code in the version of February 7, 2017, with the exception of the deviations mentioned in the last Declaration of Conformity of December 2019, have been complied with and the recommendations of the Government Commission on the German Corporate Governance Code in the version of December 16, 2019, will be complied with in the future with the following deviations. The Declaration is permanently available to Masterflex SE shareholders on the company's website. All previously published Declarations of Conformity can also be found there.

## Exceptions:

B.2 HS2.
The procedure for filling the Management Board follows the usual standards for important personnel decisions and is designed with foresight by the Supervisory Board; however, it is not described in detail in the Declaration on Corporate Governance.

D.2 S.1 – D.3 and D.4 S.2 – D.5 Supervisory Board - Committees
With three members, the Supervisory Board of Masterflex SE has been deliberately kept small in order to be able to pass resolutions efficiently, quickly and flexibly, as in the Group as a whole, thanks to its lean structures. The fact that the Supervisory Board is composed of recognized experts is an important basis for Masterflex SE to jointly work out the key parameters for the successful development of the company in an ongoing dialogue. Against this backdrop, it does not make sense to set up committees that would also have to include at least three members of the Supervisory Board. In Mr. van Hall, we have a proven financial expert as Chairman of the Supervisory Board. If necessary, the Supervisory Board also seeks qualified external support to assess difficult issues.

G. 5 External remuneration expert
Should an external remuneration expert be deemed necessary to assess the appropriateness of the Management Board's remuneration, the independence of such an expert will also be ensured. However, in light of the expertise available within the Supervisory Board and the qualified support provided by the company's legal advisors, it has not yet been deemed necessary to consult with a separate independent remuneration expert as well.

G. 6 and G. 10 S.1 - G.10 S.2
The long-term variable remuneration (LTI) of the Management Board members is no greater than the short-term variable remuneration (STI) and is not share-based or invested in shares. The company's Board members have already held a significant stake in the company's share capital, which is why the long-term orientation of the variable remuneration based on the value development of the share ownership is guaranteed anyway. As before, after three years, the members of the Management Board may dispose of the variable amounts granted as LTI with continuous performance measurement over the entire assessment period, which also reflects the multi-year feature.

G. 11 S.2
A so-called claw-back was not agreed with the Management Board, as this would not have a separate behavioral control effect from the company's point of view and in view of its previous management structure, but would regularly result in an increase in remuneration from a risk perspective.

G. 13 S.2, G. 14 and G. 16
As before, a change of control regulation is planned with the Board members, which in the past also corresponded to a code recommendation which the company will continue to consider sensible in the future. No crediting of payments in consideration of a post-contractual non-competition clause agreed with the company takes place. There is also no offsetting of remuneration for Supervisory Board mandates outside the Group, which are limited in number and require prior approval by the Supervisory Board.

Gelsenkirchen, in December 2020
The Management Board and Supervisory Board

# Disclosures on corporate governance practices

## Integrity management: integrated governance, risk management and compliance (iGRC) Governance

Masterflex SE is a European stock corporation, for which German stock corporation law is additionally applied in accordance with the SE Council Regulation. The basic principle of German stock corporation law is the dual management principle of a Management Board and Supervisory Board, which both have their own competencies.

The structures for the management and supervision of Masterflex SE are regulated in the Articles of Association and the Rules of Procedure of the Management Board and Supervisory Board.

Corporate governance is a high priority for Masterflex SE. The corporate principles of Masterflex are based on responsible management and control of the company that is geared towards long-term value creation. Key aspects of this corporate governance include efficient cooperation between the Management Board and the Supervisory Board, respect for shareholders' interests and openness and transparency in corporate communications.

## Risk management

Masterflex SE has set up a Group-wide risk management system which is being continuously refined 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 Management 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 Combined Management Report for 2020, Section C Opportunity and Risk Report.

## Compliance

To avoid legal risks, Masterflex SE maintains a compliance management system which controls and monitors the necessary activities. Details on the Group-wide, centrally-managed compliance management system can be found in the Risk Report (Section C) of the Combined Management Report.

Furthermore, the Management 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 on the contents of proper compliance and its implementation.

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. The Code of Conduct is available for download on our website in German and English.

With this Code of Conduct, we reaffirm the claim that we make regarding the conduct of our employees and Management Board members as well as our business partners and at the same time express the main principles of our business conduct. We consider the Code of Conduct principles 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 in our day-to-day business activities, we demonstrate our commitment against any form of unfair competition, corruption and deception.

Managers bear a special responsibility when it comes to avoiding legal violations. All managers of the Masterflex Group commit to it in a written declaration and pledge to inform their employees of the contents and meaning of the Code of Conduct and make them aware of the legal risks. On their own initiative, managers must regularly verify compliance with 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 audience-specific training measures are carried out on certain compliance topics. We view 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 acting in a fair, responsible and lawful manner on a global level.

A central compliance officer supports the implementation of the Code of Conduct within the Group and reports regularly to the Management and Supervisory Boards. As part of good corporate governance, the Group-wide compliance management system is also developed further under his leadership. He is supported in this by decentralized and appropriately oriented compliance officers, who are represented at all Masterflex Group sites. An external ombudsman for internal reports has been implemented as an additional component of the compliance management system. As part of the ongoing development of compliance in the company, an external whistleblower system is planned for fiscal year 2021.

## Description of the working method between the management Board and the supervisory Board

### Management Board

The Masterflex Group is managed by a two-member Management Board. Dr.-Ing. Andreas Bastin has held the position of CEO of the Aktiengesellschaft or SE since 2008. Mark Becks, a graduate in industrial engineering, has been CFO since 2009.

The Management Board of Masterflex SE manages the company’s business and is bound by the interests and business policy principles of the company in accordance with the provisions of German stock corporation law. It consists of at least one member and determines the company’s strategic orientation.

The work of the Management Board is regulated by the Rules of Procedure. These set out the matters reserved for the entire Management Board and subject to the approval of the Supervisory Board, the responsibilities for individual departments and the required majority for resolutions. Each member of the Management Board manages his or her business area independently and under his or her own responsibility. They are obliged to keep the entire Management Board informed of all material business matters. This is because the allocation of business areas does not release any Management Board member from joint responsibility for the overall management of the business.

The Management Board participates in the Supervisory Board meetings, reports in writing and orally on the individual agenda items and draft resolutions and answers the questions of the individual Supervisory Board members. The reports regularly issued by the Management Board, which are generally in writing, follow the contents of the applicable Rules of Procedure for the Management Board issued by the Supervisory Board.

## Diversity concept in the Board

The Board currently has two Board members. Given the size of the company, this structure is considered sufficient. Both members of the Management Board have current or extended terms of office and have corresponding Board of Management employment contracts. In addition, both Management 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 recognized factor in the assessment. Against this backdrop, a target of zero for the participation of women in this body by March 31, 2022, was decided for the Management Board.

## Age limit on the Management Board and appointment of a Chairman of the Management Board

The Supervisory Board will not appoint a person to the Management Board who has already reached the age of 65. It can appoint a member of the Board as Chairman and other Board members as Deputy Chairmen. If the Supervisory Board does not make use of this right of appointment, the Management Board members elect a Management Board spokesman from among their members.

## Diversity in the company

Moreover, the company exhibits a defining characteristic of flat hierarchies throughout the Group. Therefore, there is only one management level below the Management Board, not two. Within this management level immediately below the Management Board, the share of women already accounts for over 30% and hence the legal guideline has already been met unlike with most companies, and this has been the case for a long period of time. 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. Last but not least, the Masterflex Group was one of the first companies to have a female CFO on a two-person board, even before the discussion on the participation of women on boards in the past.

However, 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.

## Supervisory Board

Since 2016 and following re-election by the Annual General Meeting 2019, the three-member Supervisory Board of Masterflex SE has been composed of the Chairman Georg van Hall, his Deputy Dr. Gerson Link and member Jan van der Zouw.

The Supervisory Board advises and monitors the Management Board. With three members, this body at Masterflex SE is deliberately kept small in order to be able to make decisions efficiently, quickly and flexibly – as in the Group – thanks to lean structures.

The Supervisory Board also has its own Rules of Procedure. In accordance with Section 11 (5) of the Articles of Association, Supervisory Board members may not yet be over 70 years of age when they are appointed. In addition, as part of the resolution on the declaration of objectives by the Supervisory Board, a regular limit of 15 years for membership on the Supervisory Board was set with a view to the corporate form of the SE.

The Supervisory Board may form committees from among its members, to which decision-making powers may also be delegated to the extent permitted by law. However, there are currently no committees, as the Supervisory Board is composed of three members and its tasks can therefore be performed effectively and competently by the full Supervisory Board.

Important topics are also dealt with outside the meetings between the Management Board and the Supervisory Board in conference calls or in strategy meetings convened at short notice. In addition, the Chairman of the Supervisory Board keeps himself regularly informed about Masterflex SE's business development and upcoming projects.

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 Management Board. Significant business decisions, such as the determination of the annual budget and investment plan, the acquisition or sale of investments, the conclusion of company agreements and major financial measures, are subject to its approval. The Supervisory Board may determine other transactions requiring its approval. It is also responsible for the adoption or approval of the annual financial statements and the Consolidated Financial Statements as well as the Combined Management Report and the Remuneration Report, including the non-financial statement, presented by the Management Board, unless this is left to the Annual General Meeting.

The Chairman of the Supervisory Board explains the activities of the Supervisory Board each year both in the Annual Report ("Report by the Supervisory Board") and at the Annual General Meeting.

The Supervisory Board regularly reviews the effectiveness of the cooperation in the committee and also in the cooperation with the Management Board every 2 years. The last self-evaluation took place in December 2019 and did not reveal any need for change. Individual suggestions are also taken up and implemented during the year.

## Members and mandates of the Supervisory Board

| Member | Regular occupation | Date of birth | Member since | Appointed until the AGM, which decides on the discharge of the fiscal year | Further mandates |
|---|---|---|---|---|---|
| **Georg van Hall**<br>Chairman and Financial Expert | Auditor | 10/14/1957 | August 11, 2009 | 2024 | • none |
| **Dr. Gerson Link**<br>Deputy Chairman | Board of Directors of InnoTec TSS AG, Düsseldorf | 08/05/1971 | June 14, 2016 | 2024 | • Waag & Zübert Value AG, Nuremberg<br>**Group mandate at Innotec TSS AG:**<br>• Rodenberg Türsysteme AG, Porta Westfalica (Chair) |
| **Jan van der Zouw** | Multi Supervisory Board<br>Formerly CEO of Eriks NV, Netherlands | 06/20/1954 | June 14, 2016 | 2024 | • Den Helder Airport CV, Den Helder / Netherlands (Chair)<br>• HGG Group BV, Wieringerwerf / Netherlands (Chair)<br>• Aalberts Industries NV, Langebroek / Netherlands |

## Composition of the Supervisory Board

The Supervisory Board of Masterflex SE should be staffed in such a way that qualified control and advice for the Management Board is ensured by the Supervisory Board. The Supervisory Board has given itself a competence profile for the composition of the Supervisory Board. The fact that the Supervisory Board is composed of recognized experts is an important basis for Masterflex SE to jointly work out the key parameters for successful corporate development in an ongoing dialogue. Where necessary, the Supervisory Board makes use of qualified external assistance to assess difficult issues.

The definition of the competence profile is geared towards the entrepreneurial challenges facing society. We are convinced that the combination of diverse areas of knowledge will result in the best entrepreneurial success.

## Competency profile

The candidates proposed for election to the Supervisory Board should, based on their knowledge, skills and experience, be able to perform the duties of a Supervisory Board member in an internationally active, listed company.

The Supervisory Board of Masterflex SE is deliberately kept small and thus reflects the fast and efficient decision-making processes of the Masterflex Group. Due to the size of the company, the composition of the Supervisory Board with industry insiders is of particular importance so that business issues can be advised on and discussed in the context of market developments.

Our Supervisory Board members should also bring knowledge of and experience in corporate management with them, particularly relating to the aspects of strategy, sales, purchasing, production, human resources, accounting, risk management and compliance.

At least one independent member of the Supervisory Board should have expertise in the areas of accounting or auditing as well as special knowledge and experience in the application of accounting principles and internal control procedures.

When making appointments to the Supervisory Board, attention must also be paid to compliance with the age limit defined for Masterflex SE on the Supervisory Board and to the aspects of independence as defined in the German Corporate Governance Code.

The competence profile of the Supervisory Board is regularly adapted to the business challenges of the Masterflex Group.

## Target agreement of the Supervisory Board

By aligning its competencies, the Supervisory Board is to make a contribution to the implementation of the Masterflex strategy. The objectives for the Supervisory Board are therefore based on legal and corporate aspects.

### Internationality

With a view to the international orientation of the company, care should be taken to ensure that the Supervisory Board includes personalities with many years of international management experience and international networks.

The aim is to have at least one member with international management experience and international networks represented on the committee in future Supervisory Board appointments.

### Innovation

The Masterflex Group sees itself as an innovation and technology leader in its relevant markets. In order to further expand this strategic positioning in the future, the majority of the Supervisory Board / at least one member should have appropriate technological knowledge.

### Diversity

The Supervisory Board agrees with the objectives of the Code that, in addition to a balanced professional qualification by taking diversity into account, an appropriate internationality and an appropriate representation of women in management bodies should be achieved. In this context, the term diversity is to be understood as international origin, upbringing, education or professional activity and less as citizenship, gender diversity or age diversity. This means that the composition of the Supervisory Board should also take appropriate account of the diversity that can be found today in an open, innovative and internationally active company such as Masterflex SE and its subsidiaries. It also means, however, that no one shall resign as a candidate for the Supervisory Board or be proposed for the Supervisory Board solely because he or she possesses or does not possess a particular characteristic. Appropriate consideration is given to women with equal qualifications and aptitude.

### Independence

The Supervisory Board should have what it considers to be an appropriate number of independent members on the Supervisory Board. The owner's interests should be adequately taken into account. According to the requirements of the German Corporate Governance Code, more than half of the shareholder representatives should be independent of the company and the Management Board. Criteria for the question of independence are defined in Section C.7 of the German Corporate Governance Code.

Significant and not just temporary conflicts of interest should be avoided. The members of the Supervisory Board should have sufficient time to exercise their mandate so that they can exercise the mandate with the necessary regularity and care. To ensure this, the members of the Supervisory Board of Masterflex SE should not hold more than three additional Supervisory Board mandates in listed companies.

### Age Limit And Duration Of Service

The age limit and length of membership are defined in the Rules of Procedure for the Supervisory Board. Only people who are not older than 70 should be proposed for election to the Supervisory Board. The nomination should take into account the regular limit of 15 years of membership in the Supervisory Board set by the Supervisory Board.

## Implementation of the objectives for the Supervisory Board

The competency profile, diversity concept and target agreement are taken into account by the Supervisory Board when filling positions on the Supervisory Board. The last Supervisory Board election took place in 2019.

All members of the Supervisory Board – Georg van Hall, Dr. Gerson Link, Jan van Zouw – are independent members of the Supervisory Board within the meaning of the German Corporate Governance Code.

The Chairman of the Supervisory Board, who has been a member of the Board 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.

With Mr. van der Zouw, an internationally and commercially experienced member of Dutch descent complements the Supervisory Board, which underlines the diversity goals and their representation on the Supervisory Board.

The statutory gender quota does not apply to Masterflex SE. At the same time, it is a declared goal to achieve an appropriate number of women on the Supervisory Board. In 2019, the Supervisory Board decided on a target figure of zero for the participation of women in this Board until June 30, 2022, 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.

Against this backdrop, 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.

# Shareholders, annual general meeting, transparency

## 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 fiscal year in the context of the statutory requirements of Section 54 (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).

## Transparency

Providing uniform, comprehensive and timely information is of great importance 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 Section 18 (1) of the market abuse regulation. The persons listed there have been informed of the legal obligations and sanctions.

Conflicts of interest, should any exist, are discussed in depth and disclosed if necessary and taken into account for the assessment of the independence of each individual Supervisory Board member. No conflicts of interest have been identified or communicated in the past.

## Accounting and auditing

The Consolidated Financial Statements are prepared in accordance with the International. Financial Reporting Standards (IFRS). After preparation by the Management 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 / AktG). After preparation by the Management 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 information is reported in the consolidated financial statements with the exception of the individualised profit statement.

It was agreed with the auditor that he would inform the Chairman of the Supervisory Board, who as 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 2020 Combined Management Report under Section A  Control system.

# Masterflex share

## Key figures for the Masterflex share

| | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Number of shares (December 31) | Number | 9,752,460 | 9,752,460 | 9,752,460 | 9,752,460 | 8,865,874 |
| Number of treasury shares | Number | 134,126 | 134,126 | 134,126 | 134,126 | 134,126 |
| Market capitalization (December 31) | EUR million | 55.1 | 43.7 | 68.9 | 85.3 | 58.3 |
| Opening price | EUR | 4.62 | 7,000 | 8,920 | 6,631 | 5,806 |
| Closing price | EUR | 5.65 | 4,480 | 7,060 | 8,751 | 6,575 |
| High | EUR | 6.40 | 7,260 | 9,560 | 9,500 | 6,990 |
| Low | EUR | 3.12 | 4,340 | 7,000 | 6,575 | 5,453 |
| Share performance | % | + 26.1% | -37.6% | -20.9% | + 32.0% | + 13.2% |
| Dividend per share | EUR | 0.08 | 0.07 | 0.07 | - | - |
| Earnings per share | EUR | 0.08 | 0.26 | 0.35 | 0.45 | 0.34 |
| Free float | % | 41.8% | 32.6% | 41.8% | 48.7% | 51.9% |

All information is based on Xetra prices

## The stock market year 2020

The development of the capital markets in the past stock market year 2020 was characterized overall by challenges as a result of the coronavirus pandemic. While the global indices started the new year on a positive note, the coronavirus pandemic and the restrictive containment measures associated with it caused prices to fall sharply. The DAX opened on January 2 at a level of 13,233 points and reached an interim high of 13,795 points on February 17. The drastic lockdown measures caused the German benchmark index to collapse and prices fell to the low for the year of 8,256 points on March 16. The decline in the first quarter of 2020 amounted to a total of 25%. Extensive state aid, flanked by further supporting central bank measures, contributed to a strong V-shaped recovery movement of the DAX in the second quarter. The increase slowed down in the further course due to the effects of the second corona wave in the third quarter. However, the monetary aid programs, the prospect of a COVID-19 vaccine and the US elections again ensured rising prices, growing optimism and more visibility in the course of the fourth quarter of 2020. On December 30, the DAX closed with an increase of 3.5% in 2020 at 13,719 points compared to the closing value in 2019. A day earlier, on December 29, 2020, the leading index reached a new all-time high of 13,903 points.

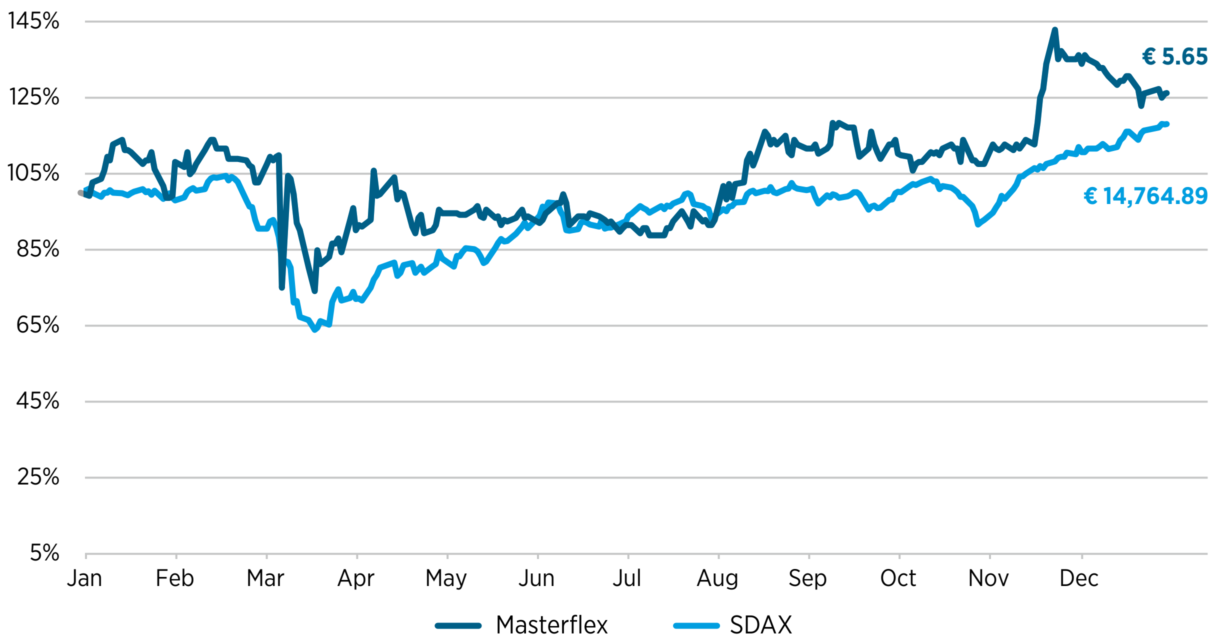
The Masterflex share recorded a price increase of 26.1% in the year under review. The positive share price development was boosted, among other factors, continued solid profitability despite the decline in revenue as a result of the corona pandemic, the reduction in net debt and the first visible results of the optimization program (B2DD) launched in 2019.

The Masterflex share opened the stock market year 2020 with a Xetra price of EUR 4.62. The share certificates recorded their annual low on March 7 at EUR 3.12. With solid business development in the first nine months of 2020 and the confirmation of the annual forecast for 2020, the listing of the Masterflex share rose in the course of the fourth quarter of 2020 to an annual high of EUR 6.40 on November 23. The shares of Masterflex SE went out of trading on December 30, 2020, at a Xetra closing price of EUR 5.65. The Masterflex SE share thus outperformed the SDAX, which achieved an increase of 18% in 2020.

The average daily trading volume on all German trading venues totaled 4,723 shares in the reporting year (2019: 5,237 shares).

As of December 30, 2020, the market value of Masterflex SE was EUR 55.1 million with 9,752,460 shares outstanding and a closing price of EUR 5.65. As of the 2019 reporting date, the market capitalization with the same number of shares and a closing price of EUR 4.48 was EUR 43.7 million (all information based on Xetra prices).

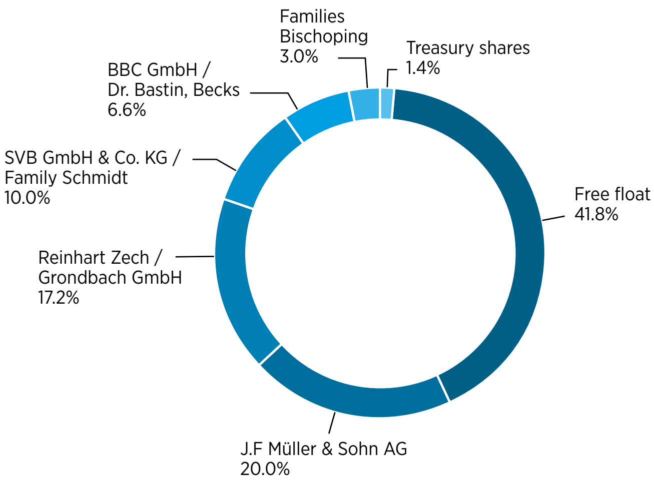
## Masterflex share price performance in 2020 compared to the SDAX



## Shareholder structure

The share capital of Masterflex SE amounts to EUR 9,752,460.00 and is divided into 9,752,460 no-par value bearer shares. Each share grants one vote at the Annual General Meeting.

The largest shareholder in Masterflex SE is JF Müller & Sohn AG, who increased its shareholding from 15.0% to 20.0% in the year under review. The characteristics of a shareholder base characterized by family offices are still decisive. The management increased its stake from 5.6% to 6.6% in fiscal year 2020, thereby reaffirming its confidence in Masterflex SE's growth strategy. The free float currently stands at 41.8% (December 31, 2019: 32.6%).




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

## Analyst research

The shares of Masterflex SE are listed in the Prime Standard of the Frankfurt Stock Exchange and are regularly analyzed and rated by renowned research houses. In the year under review, Metzler Research started coverage of the Masterflex share. In the initial study by Metzler Research on October 28, 2020, analyst Alexander Neuberger issued a buy recommendation with a price target of EUR 7.50 per share. He sees a return to historical multipliers realistically, assuming that Masterflex grows as expected and that the business model becomes less cyclical and much more profitable in the future. In addition, the experts at SMC Research, which specializes in small-cap stocks, recommended the Masterflex share for purchase again on November 12, 2020, with a target price of EUR 7.50.

Based on the closing price of EUR 5.65 on December 30, 2020, this results in further price potential of around 32.7% for the Masterflex share.

Interested investors can find detailed information on the reports on Masterflexgroup.com in the Investor Relations / Analyst Recommendations section.

## 2020 Annual General Meeting

The ordinary Annual General Meeting took place for the first time in virtual form on June 23, 2020, due to the corona pandemic. The shareholders expressed their confidence in the Management Board and Supervisory Board for fiscal year 2019 by a large majority and approved all items on the agenda by at least 98%. The attendance rate was 53.3% of the share capital (2019: 67.5%).

## Dividend

Masterflex SE pursues a dividend policy geared towards continuity and continued to do so in 2020. From the balance sheet profit of EUR 10.6 million as of December 31, 2019, a dividend at the previous year's level of EUR 0.07 per share was distributed to shareholders on June 24, 2020. The remaining balance sheet profit of EUR 9.9 million was carried forward to new account.

## Capital market communication

The Masterflex Group maintains an open information policy towards all capital market participants and ensures the same timing and content. As far as the competitive position of the Masterflex Group as one of the few listed hose manufacturers allows, data that is as detailed as possible is also made available. The aim of its capital market communications is to contribute to a fair valuation of the share by ensuring a high degree of transparency and regular awareness on the capital market. In the 2020 reporting year, the Management Board intensified its contact with capital market participants at numerous virtual roadshows and virtual investor conferences. In addition, the management of Masterflex SE was in constant contact with the press, investors and financial analysts.

Masterflex Group's goal is to achieve market leadership in all markets it addresses. Sustained growth is also to be reflected in the valuation of the share, particularly when the profitability-enhancing measures from the B2DD programs take full effect.

# 2021 Financial calendar

The financial calendar is available on the company's website (Masterflexgroup.com).

| | |
|---|---|
| **March 31** | Publication of the 2020 Annual Report |
| **April 12** | Virtual Roadshow Paris, Metzler |
| **May 12** | Statement on Q1 / 2021 |
| **May 19** | Annual General Meeting |
| **August 11** | 2021 Half-year Report |
| **August 25–26** | HIT 6th Hamburg Investors' Day |
| **September 6–7** | Analyst conference as part of the fall conference, Frankfurt/Main |
| **November 10** | Statement on Q3 / 2021 |

# Share information

| | |
|---|---|
| ISIN code | DE0005492938 |
| Securities identification number | 549293 |
| Class of shares | No-par value bearer shares |
| Stock exchange symbol | MZX |
| Bloomberg symbol | MZX GR |
| Reuters symbol | MZXG.DE |
| Market segment | Prime Standard |
| Member of the following indices | CDAX<br>Prime All Share Index<br>Classic All Share Index<br>Prime Industrial Index |
| Designated sponsor | ICF Bank AG |
| Number of shares (December 31) | 9,752,460 |

# Combined Management Report

# Combined management report of the Masterflex Group and Masterflex SE for fiscal year 2020

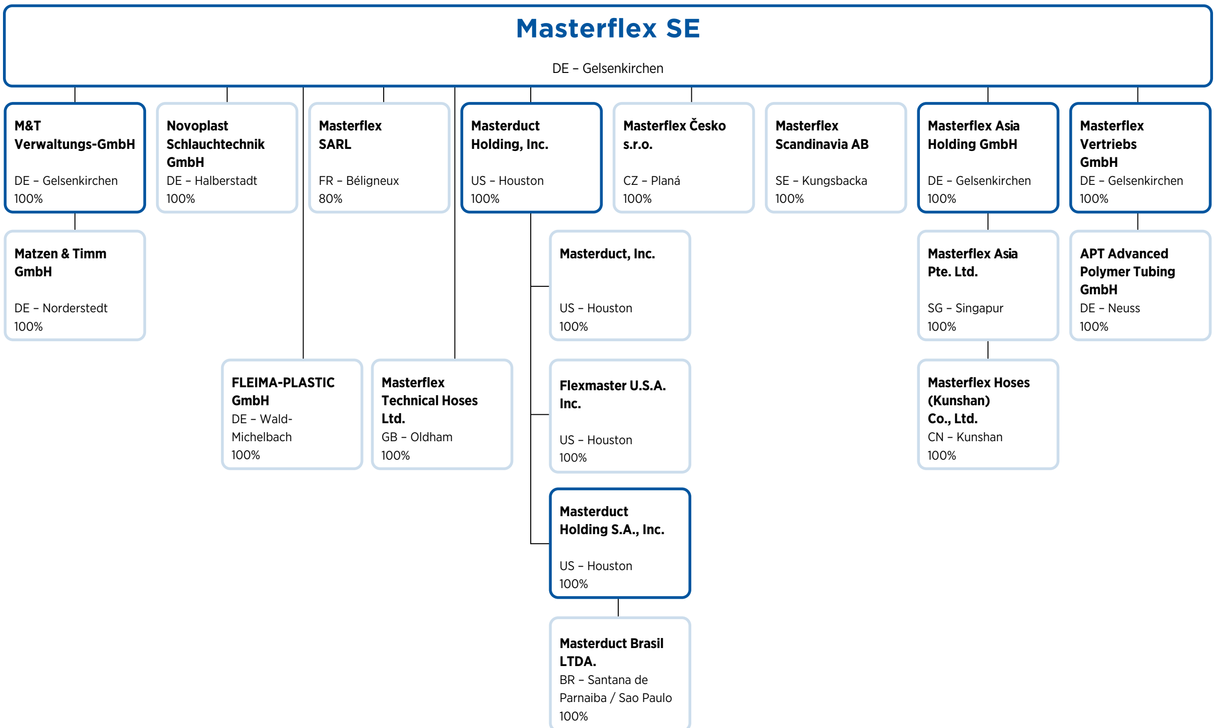
## A. Principles of the Group

### Organizational and management structure

Masterflex SE, Gelsenkirchen, is the parent company of the Masterflex Group (referred to here as the Masterflex Group). Masterflex SE shares (International Securities Identification Number ISIN: DE0005492938) have been traded on the Frankfurt Stock Exchange in the segment with the highest transparency requirements, the Prime Standard, since 2000.

The main production sites of the internationally active Masterflex Group with 14 operating subsidiaries are Gelsenkirchen, Neuss, Halberstadt, Norderstedt and Houston (USA). In addition, the Masterflex Group has various sites in Europe, America and Asia, some of which have small production lines and sales partnerships.

#### The Group structure:



## Value proposition

We are a supplier of products, systems and consulting know-how for solving connection tasks. Our special competence lies in the use of high-quality and particularly high-performance plastics.

The development, production and engineering-oriented marketing of high-tech hoses and connection systems as well as the associated consulting approach offer the Masterflex Group long-term growth potential. The wide range of applications for the Masterflex hose systems in a large number of different industries represents an advantage.

As a quality leader with a clear focus on values, we aim to differentiate ourselves from other hose manufacturers.

## The market for high-tech hoses

The Masterflex Group concentrates exclusively on the market for high-tech hoses and connection systems and thus occupies the niche market of special hoses. These hoses are used in a wide variety of different industries.

### Market analysis special hoses

The customers in the special hose segment come primarily from the manufacturing sector, including industrial applications (B2B market). They range from globally active corporations, wholesalers and medium-sized industrial companies to regionally positioned small businesses. Due to the fact that material, processing and application expertise is not easy to acquire, as well as the wide range of possible applications for sophisticated plastics, this is a market with corresponding barriers to market entry, good margins and intact growth prospects. This market is characterized by small batch sizes both in production and sales, as well as by consulting intensity and development competence for customer-specific solutions. In contrast, the market for hoses, which is better known to the general public as a mass product, is aimed more at large batch sizes.

### Dynamic growth in line with the relevant industry development

Special hoses are used in a variety of applications and industries. The area of application of Masterflex's special hoses focuses on critical and particularly demanding production and application areas that require a high level of technological knowledge, material expertise and precision.

The demand situation is therefore largely determined by the economic development of the markets relevant for Masterflex.

### Medical technology:

Masterflex hose systems – monolayer, multilayer, co- and micro-extruded hoses as well as various connectors (including pressure-resistant), clamps, distributors, drip chambers and separating membranes – are also used in intensive medical areas where the highest demands for durability, clean room hygiene and manufacturing expertise apply. Masterflex solutions are also used to ventilate COVID-19 patients, among other uses. Pulmonology, nephrology and urology are yet other typical fields of application for Masterflex hose systems in medical technology.

### Lifescience:

Lifescience encompasses the food and pharmaceutical industries as well as the trend markets of the laboratory and biotechnology industries. These branches of industry – like the medical technology sector – require a high level of manufacturing expertise, some of which require clean room technology in order to manufacture them. Suction, transport, reactor and conveying hoses from the Masterflex Group meet these requirements and are used in production plants in the food industry, for example. Typical areas of application include large bakeries, confectionery manufacturers and dairies.

The areas of application of Masterflex hose systems in the pharmaceutical, laboratory and biotechnology industries are diverse. Special expertise lies in the use of micropelleting in the high-precision area and in the cultivation of microbes.

### Renewable energy sources:

Hoses that are used in the field of renewable energies, especially in the off-shore area of wind turbines, must be particularly hard-wearing and have a good temperature range as well as good UV and ozone resistance. In order to meet these requirements, a high level of technological knowledge is required on the properties of the materials used and the service life of the hoses used.

### Aviation:

Hose systems in the aviation industry make a significant contribution to aircraft safety. In addition to the aspect of reliability and material durability, the question of weight plays a special role here. Due to these specific requirements, special hoses are a system-relevant supplier part in the aviation industry that may only be purchased from certified and specified partners.

Masterflex hoses are used in the exhaust gas control of ECU systems, for air distribution inside the cabin, in vacuum toilets, bleed air systems in nearly all types of aircraft. All Masterflex components used are made of lightweight construction.

Ground support equipment hoses for the disposal of feces on aircraft in parking position, so-called toilet service unit hoses (TSU), for example, are yet another product.

### Automotive and e-mobility:

Special hoses in the automotive industry are used to ensure the functionality of partial products in the car. Seating technology and adaptive aerodynamics are examples of applications of Masterflex hoses.

Because of these areas of application in the automotive industry, Masterflex is independent of the question of the drive train (combustion or electric). Due to increasing e-mobility, we expect to see increased use of innovative lightweight components, which suits our competence profile.

As a special area, Masterflex also offers a product range for motorsports. These include engine ventilation technology for rally cars, protective hoses, ventilation, liquid supply and tank hose protective hoses.

### Process industry and robotics:

The optimal definition of a manufacturing process increases production efficiency, optimizes material flow and, as a result, leads to an improved ecological footprint. A steadily increasing degree of automation and flexibility inevitably leads to greater demand for special hoses, which are absolutely necessary as connection solutions in the process industry and in the field of robotics.

For example, Masterflex hose systems are used in critical production areas in automotive production. This includes the paintwork as well as the test areas and test benches.

### Predictive maintenance:

The downtime of a production line or poor quality in the production process are among the greatest risk factors in system-critical manufacturing processes. Industry 4.0 provides new answers to these problems.

Under the name AMPIUS®, Masterflex offers hose systems with integrated life cycle tracking functions and a matching app. The product signature of the hose system, which is equipped with a digital interface as standard in the basic version, can be read out automatically via the AMPIUS® app. Technical data or "life cycle data" such as the day of production or dispatch can be queried or requests for requirements can be made at the push of a button. Other data from production or transport, installation, dismantling and additional technical information, e.g. in the context of certificates and approval issues, is available at anytime and anywhere over the entire life cycle of the hoses equipped with AMPIUS® technology. The digitalization of hose and connection solutions using our smart AMPIUS® solutions opens up completely new possibilities. With appropriately equipped systems, it is also possible to generate and provide information on wear, abrasion, temperature, flow rate and many other parameters, for example.

## Megatrends as sustainable growth drivers

The industries relevant to Masterflex benefit not only from their own sector dynamics but also from long-term and sustainable trends in social change.

### Globalization and demographic change

The population is growing steadily and getting older. With the change in global population density accompanied by dynamic urbanization, social patterns and demand structures inevitably change, which also affect the growth prospects in the industries relevant to Masterflex.

While the demand structure in the emerging countries is shaped by the desire for greater prosperity, the industrialized nations focus on maintaining health and on aspects of medical care. Demographic change thus remains a sustainable growth trend with different regional characteristics. Globalization also stands for a multipolar world order. In the past, the value systems and structures were clearly defined in an international context and are currently subject to change that creates another dimension of uncertainty for business decisions. As a result, security is playing an increasingly important role in this environment. In a very pragmatic way, in terms of safeguarding production capacities, one sees a clear trend from off-shoring to nearshoring. The current corona pandemic has proven that this is not just a trend, but already reality.

The Masterflex Group will benefit from globalization and demographic change because we are already well represented in the relevant fields of application (e.g. medicine and lifescience) with our market access and solutions as well as our innovation potential. With the procurement and production structures of the Masterflex Group, we are a building block for our customers for a flexible supply chain that is as independent as possible.

## Digital Transformation

The digital transformation of processes and entire business models, which has been going on for years, will continue to accelerate. The effects on market structures and relationships in virtually all areas of the economy and social life will continue to accelerate.

However, the effects of digital developments are not only evident in the digital markets or in the digitizable processes themselves, but also in the increasing acceleration of technological developments. In this way, the most recent as well as the future technology developments, in the areas of “autonomous industry and mobility,” robotics and self-learning machines and systems, or “immune engineering,” for example, can produce applications or solutions and thus parameters that need to be changed much faster.

On the one hand, we have been driving digitalization and automation as well as improving our process efficiency and quality within our Group for years, thus providing our customers with the best possible benefit / performance ratio. On the other hand, we became one of the pioneers in the digitalization of hose and connection solutions with the product launch of our digital hose system AMPIUS®. On the basis of our AMPIUS® projects, we learn, grow and work together with our customers from different markets on future processes and business models. The closest possible integration into the digital transformation of our customer markets is thus ensured.

The new application markets driven by the digital transformation are already among the areas we are targeting with our competence profile and our range of products and services.

## Sustainability

The increasingly clear scarcity of resources promotes sustainable use and consumption solutions at nearly all levels and areas of material use.

The increasing consequences of climate change and the resulting need for action have far-reaching effects on the protection and regeneration of the environment in virtually all areas. In addition, current and even more so future energy supplies will be assessed and / or converted to a large extent according to regenerative approaches.

The use of plastics will most likely have to meet higher requirements for recycling and environmental compatibility in the future.

The products manufactured within the Masterflex Group meet customer requirements in terms of performance and service life and are therefore preferred to conventional hose and connection solutions made of mass-produced plastics, such as PVC or rubber, especially from a sustainability point of view. In addition, we already ensure a high degree of reusability and environmental compatibility of the products we manufacture. On the one hand, this has to do with the high-quality raw materials used, which are often approved for food and medical applications, and on the other hand, high standards for waste prevention, recycling and disposal have been in force with our production processes for years.

# Strategy

## Profitable growth

The Masterflex Group's strategic focus is on above-average and profitable growth. The Masterflex Group will benefit from sustainable growth drivers, including the megatrends globalization & demographic change, sustainability and the digital revolution.

The additional broad branch diversification stabilizes the business model and makes the Masterflex Group less vulnerable in times of economic crisis.

The "Back to Double Digit" (B2DD) optimization program was developed in fiscal year 2019 in order to permanently raise the profitability of the Masterflex Group to a double-digit EBIT margin again by 2022. The definition of planned cost-saving packages as early as fiscal year 2019 was an important building block for the Masterflex Group's quick and needs-based action in times of the COVID-19 pandemic. The main measures of the optimization programs relate to personnel cost savings and the associated increase in personnel productivity, cost optimization in the use of materials and in other operating expenses as well as in the area of innovation.

Further goals in the B2DD program were defined as revenue of EUR 100 million in 2023/2024 through purely organic growth and additional growth through acquisitions to revenue of EUR 200 million by 2030. This growth strategy is based on four strategic pillars: internationalization, innovation, digital transformation and operational excellence.

## Internationalization

We strive for value-oriented, long-term growth in all the markets and sectors we address. We pursue a dynamic market expansion strategy by growing globally in line with the demand situation in our industries. We benefit from the trend of ongoing globalization combined with the increasing demand for closer proximity and security to production-relevant suppliers (nearshoring).

Thanks to the broad focus of our product portfolio, we can also serve the different demand focuses of emerging and industrialized nations to the same extent (demographic change).

We are already represented with our own companies in Europe, North and South America and Asia. Our goal is to further expand our market presence, particularly in North America and Asia. In this context, M&A opportunities are also looked into on a regular basis.

Furthermore, we are developing a number of markets that border on or are closely related to our core regions through partnerships.

## Innovation

It is our declared goal to differentiate ourselves through technology and quality leadership in the market. The basis for this is our innovation strategy, which includes aspects of the sustainable use of resources, the optimization of traditional products and completely new, innovative connection solutions. A prerequisite for innovations is, among other things, knowledge of the diversity, properties and behavior of high-performance plastics and specific knowledge of the requirements and challenges on the application side. Our experienced engineers are continuously designing, testing and manufacturing new products that can replace traditional connection solutions or their materials to the benefit of our customers. This consulting competence is often an approach to creating ideas and development directions for new products together with our customers.

Another pillar of our innovation strategy is based on knowledge of process and production sequences for the manufacture of hoses and connection solutions from sophisticated plastics. The constant efficiency and quality improvement of our own production processes as well as sustainability improvements play a decisive role. The further avoidance of waste and the maximization of recycling options, but also the possible future use of bio-plastics are the focus here.

## Digital Transformation

We strive to be the innovation leader in our relevant markets and industries. That is why digital transformation is another thrust of our growth strategy. We are convinced that in the medium term intelligent and thus digital connection solutions will be an important component for our customers. Masterflex is working on services that make use of knowledge and up-to-date information on the status of products or systems and offer customers direct added value through transparency and analysis. With the AMPIUS® line of hose systems, the Masterflex Group has already laid the foundation for its own digital product line and is also supported by AMPIUS® projects directly integrated into customer transformation projects. In addition, we drive our own digital transformation at our sites. Our larger and long-term supported IT systems (ERP, PIM, MDE, CRM, ...) are already cloud-based and are being networked and integrated step by step along our internal digital roadmap. These measures form, among other things, an important backbone in the context of the success of our B2DD efficiency program.

In addition, we constantly invest in the further networking and automation of our production facilities. In Gelsenkirchen, we have in the meanwhile reached the point where we can achieve significant improvements in material use, product quality and production process efficiency with the support of AI algorithms in the ongoing production process. These developments will continue to be strongly promoted because they are an important building block to underpin the Masterflex Group´s own claim to technology and quality leadership.

## Operational excellence

With the strategic focus on operational excellence, we are meeting the challenge of combining maximum flexibility with the best possible efficiency. We focus on processes in our overall corporate activities with the aim of making them simple, fast and flexible and standardizing. We consider the reduction of complexity and its efficient management with a high level of customer orientation through flexibility and individuality to be a clear competitive advantage. It is the basis for stable profitability.

The digital transformation approach is also an important aspect for the processes in the Masterflex Group itself. Our goal is to become faster and more flexible – simply more agile – based on better data and thus a better basis for decision-making. Networked production with Industry 4.0-capable machines goes hand in hand with a significant expansion of internal and external networking with our customers, suppliers and partners. This means reduced throughput times for customers, significantly simpler and faster processes in all areas of the company, higher sales per employee and sensible automation steps.

# Control system

## Internal corporate control system

The starting point of strategic corporate planning is an annually updated five-year plan that comprises the income statement, balance sheet, investments and liquidity. Budget planning for the following fiscal year is derived from this strategic planning and divided into individual months. The Group is managed within the framework of monthly plan / actual deviation analyses. Forecasts are prepared on a quarterly basis and thus allow a rolling earnings forecast into the future. On a weekly basis, the management is informed about revenue and incoming orders for the past week. As part of monthly reporting, the operating result (earnings before interest and taxes – EBIT) for the entire Group is reported to the full Management Board.

The most important performance indicators for us in the Masterflex Group, i.e. the core control parameters in the sense of DRS 20, are based on liquidity and company value. These are in particular:

- revenue in comparison to actual, target (budget) and the previous year and
- the development of EBIT at Group level.

# Research and development

As an excellent TOP 100 innovator, Research and Development (R&D) is a key element in the success of the Masterflex Group. By developing innovative products and processes, we are able to offer hoses and individual connection solutions that meet the most demanding requirements. Due to the high level of innovation expertise, Masterflex products cannot be easily substituted by other products.

The subsidiaries of Masterflex SE have independent R&D units. Cooperation between the companies and company brands is promoted in a targeted manner and forms the basis of an efficient and customer-oriented development process. Our innovation process (stage-gate process) for shortening lead times for new products has particularly proven its value.

At regular project and milestone meetings, developments are discussed and reviewed in terms of market, technology and customer requirements as well as their economic relevance. For this purpose, external partners from research institutes or selected suppliers are consulted. This ensures that possible innovations are analyzed both from the market side, with regard to new technologies and with regard to the required use of raw materials.

We do not use contract manufacturing. Nearly all products and services are developed by our engineers and skilled workers and largely produced in-house. This also applies to certain components of our production technology or our production systems to safeguard the production and process know-how that has been built up.

With regard to our product innovations, we examine on a case-by-case basis whether it is necessary and legally possible to protect our intellectual property, or whether it makes sense in the context of our corporate strategy to apply for patents or other property rights. The Masterflex Group currently holds a number of intellectual and industrial property rights in a growing number of countries.

The core of our research and development activities is our innovation strategy, which is based on the aspects of “enhancing customer benefit,” “digital transformation,” “sustainability” and “engineering services.” Under the aspect of “digital transformation,” we summarize our activities in the course of increasing networking of processes and systems through intelligent connection solutions as well as the advancement of networking and automation within our own production and value stream chains. The high-tech plastics processed by Masterflex offer considerable potential for substituting conventional materials, especially steel and rubber, and therefore already make an active contribution to sustainability. In addition, the R&D unit is the basis for marketing connection solutions created by engineers, which are also marketed as an independent service – “Engineering Services.” The Masterflex Group does not conduct traditional basic research.

## Digital transformation: important projects in 2020

### Expansion of the intelligent hose system series AMPIUS®

The digital hose system series AMPIUS® was further expanded in 2020. For our customers, the recording of important operating and influencing parameters in production is an important quality and control aspect. For example, we have advanced data collection across locations in production and storage facilities in order to make influences on product quality transparent. Our customers can use this database to define targeted optimization measures. With the equipment of production lines by specially developed AMPIUS® wear monitoring, an important milestone was also achieved in the direction of predictive maintenance.

Another focus in the further development of the AMPIUS® hose series lies in the identification of real added value for customers through industrial Internet of Things (IIoT) solutions in the markets and applications we address.

### Automation of production

One of the major technological challenges of the past fiscal year was to establish connectivity between production machines, MES, ERP and digital assistance systems. Such a process step is of great benefit to our users, because quality and process data are stored on an order-related basis and enable seamless traceability for a wide variety of requirements, such as automated inventory monitoring and the reduction of downtimes.

In addition, with the help of high-resolution cameras, laser and ultrasound technology and intelligent evaluation, the product quality is increasingly monitored online in our production. We are also increasingly using assistance systems. By combining machine vision (MV) and machine learning (ML), the quality inspection process is accelerated and continuously improved. Plant operators are supported in identifying errors, making the right decisions and thus ensuring, among other things, a lower reject rate. In addition, the assistance systems, some of which are AI-based, are designed to enable entry into a new level of automation in our manufacturing processes in the long term.

## Sustainability: important projects in 2020

### Biocompatibility requirements are being met

The product development of PE-X hoses (cross-linked polyethylene) started in the previous year was continued and completed in 2020. As a result, requirements for biocompatibility and TOC (total organic carbon) are met.

### Sustainable use of special materials

Masterflex developed manufacturing and application processes for hoses made of UHMWPE (ultra-high molecular weight polyethylene) in fiscal year 2020. This group of materials is characterized by a particularly high level of abrasion resistance and a very low coefficient of sliding friction (CoF). The process development of the endless production of hoses from this special material was made possible in 2020 by the pronounced material and processing competence and now completes the range of materials in the field of polyolefins.

### Process reliability leads to fewer rejects in the semiconductor industry

There are more than 1,000 production steps between a silicon wafer and a finished chip. Complex chemical and physical methods are used in a highly automated production environment. With many of the products, the conductor tracks are microscopic – even a single speck of dust could render the chip unusable. In fiscal year 2020, Masterflex systematically developed the solutions already available for such applications in order to further improve the customers' underlying production processes. Since the complexity is also increasing due to the constant minimization of chip production and assembly, this is of particular importance for customers in this market segment.

## Engineering Services: important projects in 2020

### Requirement and function checks at our customers

In fiscal year 2020, we further expanded our advisory approach by carrying out specific needs and function checks with our customers using checklists. On this basis, we were able to further increase the benefits of our products and services for our customers in some cases and define approaches for future innovations.

### Expansion of design and development partnerships

The Masterflex Group continued to expand its position as a design and development partner for customers in 2020. In our role as development partner, we were able to implement several future-oriented and high-tech applications with our customers.

### Service portfolio expanded

The current service portfolio was expanded in 2020 by developing laser marking technology, especially for our fluoropolymer products. With this technology, it is possible to give extruded hoses and injection-molded components an additional benefit. Repeatable and reliable markings such as lettering and graduations can be implemented with high contrast to a few hundredths of a millimeter. This technology also enables machine-readable data matrix codes to be used for identification – of medical product components or system hoses, for example.

### Processes in emission test systems optimized

By continuously optimizing our current designs, we have developed a new hose with a modified outer wall for emission test systems. This significantly improves the temperature resistance, which leads to significantly improved measurement results for users and also increases the service life of the hoses.

## External evaluations

We are listed again (after 2016, 2017, 2018 and 2019) in the world market leader index of the University of St. Gallen and are therefore one of the current world market leader champions. Once again and (after 2016 and 2019) for the third time, we are currently (2021) recognized as a TOP 100 Innovator. TOP 100 is the only innovation competition in Germany to honor medium-sized companies for their innovation management and innovation success. The Masterflex Group performed particularly well in the category "Innovative Processes and Organization."

# B. Business report

## Macroeconomic framework conditions

The COVID-19 pandemic was decisive for how the global economy has been developing. In the course of fiscal year 2020, however, the global economy was largely able to make up for the declines caused by the outbreak of the COVID-19 pandemic at the beginning of the reporting period. A strongly expansionary monetary policy had a supportive effect. The central banks in the advanced economies further expanded the expansionary measures introduced in the spring as a reaction to the corona crisis or postponed the expected time for a tightening. Interest rates also tended to fall further in the emerging markets.

Overall, the economy was very heterogeneous both in the course of the year and by country. While industrial production rapidly returned to relatively normal conditions, the level of social contact determined the recovery in the service sector. Industrial production in the emerging countries specializing in consumer goods and medical protective equipment was even able to significantly exceed the pre-crisis level, especially in China. In the People's Republic of China, industrial production achieved growth rates of 7% above the pre-crisis level from September 2020. According to the IfW, the growth rate of the gross domestic product (GDP) weakened from 6.1% the previous year to 1.8% in 2020.[1] This makes China the only G20 country that was able to achieve GDP growth in the corona year.

Countries with a strong service focus, on the other hand, were particularly affected by the economic consequences, which was also reflected, among other things, in the change in GDP in the UK of -11.3%. Overall, the advanced economies developed economic activity with only a comparatively small gap to the pre-crisis level. Overall, world production shrank by 3.6% in 2020 after growth of 2.2% the previous year.[2]

After the euro zone had passed through the first corona wave with a sense of proportion, another wave of infections and measures to contain them in the advanced economies and especially in Europe slowed the recovery again at the end of the year. As the number of infections increased in the fall, many European countries reintroduced restrictions on social and economic activity to contain the pandemic. Even if this did not lead to another standstill in economic life in Europe in the fall of 2020, this development resulted in a reduction in growth forecasts for 2021 in the euro zone. After growth of 1.3% in 2019, the gross domestic product shrank by 7.2% in the past fiscal year.[3] The effects of the corona pandemic also became evident in the unemployment rate, which rose from 7.5% to 7.9%. At 0.3%, the inflation rate in the euro zone was well below the previous year's level of 1.2%.[4] In Germany, the outbreak of the coronavirus pandemic in 2020 interrupted a ten-year economic growth phase with a decline of 5.0%. At 5.7%, the economic slump was less severe than in the financial and economic crisis of 2008/2009, but it left clear marks in all areas of the economy. Production was massively restricted both in the service sectors and in

1 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf
2 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf
3 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf
4 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf

the manufacturing sector. In the first half of 2020, in particular, industry was affected by the temporary disruption of global supply chains. In contrast to the financial and economic crisis, the corona pandemic was accompanied by a massive decline in both domestic and foreign demand. Private consumer spending, previously a pillar of the economy, decreased by 6.0% in 2020, more than ever since the start of the statistical surveys. The government's consumer spending also had a stabilizing effect with an increase of 3.4% in the corona crisis. At 3.5%, gross fixed capital formation recorded the most significant decline since the financial and economic crisis of 2008/2009. Foreign trade in goods and services also fell for the first time since 2009. Exports fell by 9.9% and imports by 8.6%. The COVID-19 pandemic also ended a 14-year upward trend in the labor market with a decline in the number of employees by 1.1%.[5]

The effects on the job market were mitigated in many countries in 2020 through short-time working programs. In countries without social security, including the United States, the development of the unemployment rate is directly related to the economic situation. In the US, for example, the gap in production in the third quarter was around 3% to 5% below the same period in the previous year, which manifested itself in a 3.6% decline in the gross domestic product in the US at the end of the year.[6]

Inflation in the advanced economies has stabilized at a low level.

## Economic growth in selected countries in which the Masterflex Group has a presence of its own

Change in the GDP compared to the previous year in %

| Country | 2020 (figure from the 2019 Annual Report*) | | 2019 |
|---|---|---|---|
| Euro zone | -7.2 | (1.2) | 1.9 |
| Germany | -5.2 | (0.5) | 1.5 |
| France | -9.0 | (1.3) | 1.7 |
| UK | -11.3 | (1.3) | 1.3 |
| World | -3.8 | (2.9) | 3.6 |
| Brazil | -4.6 | (1.2) | 1.6 |
| China | 1.8 | (6.1) | 6.1 |
| USA | -3.6 | (2.3) | 2.9 |

Source: IWF

* (in brackets, the expected value for 2020 as indicated in the 2019 Annual Report)

5 https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/01/PD21_020_811.html
6 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf

# Business development

The Masterflex Group was unable to completely decouple itself from the effects of the COVID-19 pandemic in fiscal year 2020. Fiscal year 2020 was associated with a high level of uncertainty regarding the course of the COVID-19 pandemic and the associated financial effects. At the very beginning of the spread of the coronavirus in Europe in February 2020, we expected revenue development for 2020 to be in a range of a possible decline of a maximum of 4% to a continuation of the long-term growth trend with an increase of up to 4%. On the earnings side, we considered it possible in February 2020 to repeat the EBIT margin from 2019 (6.3%) for the year as a whole. In the course of the increasing dynamics of the spread of the coronavirus, the Management Board decided to no longer maintain this forecast in the course of the annual reporting. Depending on the further development of the COVID-19 pandemic, a double-digit drop in sales and a corresponding decrease in EBIT were forecast in the 2019 Annual Report for 2020 as a whole.

In our reporting on the first quarter of 2020, we specified the annual forecast at an early stage. Assuming that a U-shaped recovery of the economy in COVID times is possible in fiscal year 2020, we expected a decline in sales of between 10% and 15% for the full year. We forecast EBIT in a range between EUR 2.5 million and EUR 1.0 million at Group level.

The following deviation analyses relate to our specific forecast for the quarterly report as of March 31, 2020.

The Group closed fiscal year 2020 with a 10.1% decline in revenue and is thus at the upper end of the sales forecast.

Masterflex hose systems are often among the critical components required to secure manufacturing processes and are also used in many different industries. The sectors relevant to Masterflex are affected by the corona effects to varying degrees.

After a freeze on orders in some cases during the first lockdown in 2020, a significant increase in demand at Group level could be observed again in the further course of fiscal year 2020.

In the medical technology sector, the Masterflex Group benefited from increased demand over the course of the year, particularly in the specialist area of intensive care medicine. Sales in the system-relevant lifescience industries also increased in the reporting period compared to the previous year. In our opinion, the increased demand dynamics in these industries is directly related to the COVID-19 pandemic.

However, the positive industry trends in the medical technology and lifescience sectors were only able to partially compensate for the slump in the classic industrial sectors and the aviation industry.

The aviation industry was hit particularly hard by the effects of COVID-19. The level of sales in the aviation industry fell by up to 35% compared to the previous year. With the closure of the production site in the Czech Republic, we adjusted our production capacities in the aviation sector to the sales level in 2020 and thus laid the basis for sustainable profitability for the future.

The traditional industrial sector recorded a drop in sales of around 13% compared to the previous year and is thus slightly below the range of the VDMA, which recorded a production decrease of 14% in fiscal year 2020.

Due to our broad industry positioning and active cost management, we were able to exceed our forecast on the earnings side, which provided for an EBIT of EUR 1.0 million to EUR 2.5 million.

# Situation

## Results of operations of the Group

| | 2020 | | 2019 | | Change | |
|---|---|---|---|---|---|---|
| | in EUR thousand | in % | in EUR thousand | in % | in EUR thousand | in % |
| Revenue | 71.881 | 100.8 | 79,969 | 99.5 | -8,088 | -10.1 |
| Change in inventories | -683 | -1.0 | 103 | 0.1 | -786 | -763.1 |
| Other own work capitalized | 138 | 0.2 | 339 | 0.4 | -201 | -59.3 |
| **Total output** | **71,336** | **100.0** | **80,411** | **100.0** | **-9,075** | **-11.3** |
| Other operating income | 883 | 1.2 | 1,156 | 1.4 | -273 | -23.6 |
| **Operating performance** | **72,219** | **101.2** | **81,567** | **101.4** | **-9,348** | **-11.5** |
| Cost of materials | -22,571 | -31.6 | -25,968 | -32.3 | 3,397 | -13.1 |
| Personnel expenses | -28,796 | -40.4 | -32,683 | -40.6 | 3,887 | -11.9 |
| Depreciation and amortization | -4,725 | -6.6 | -4,598 | -5.7 | -127 | 2.8 |
| Other operating expenses | -12,671 | -17.8 | -12,984 | -16.1 | 313 | -2.4 |
| Other taxes | -289 | -0.4 | -276 | -0.3 | -13 | 4.7 |
| **Operating expenses** | **-69,052** | **-96.8** | **-76,509** | **-95.0** | **7,457** | **-9.7** |
| **EBIT (operational)** | **3,167** | **4.4** | **5,058** | **6.3** | **-1,891** | **-37.4** |
| Non-operating effects | -832 | | -516 | | -316 | |
| **EBIT** | **2,335** | | **4,542** | | **-2,207** | |
| Financial result | -910 | | -1,291 | | 381 | |
| **Earnings before income taxes** | **1,425** | | **3,251** | | **-1,826** | |
| Income taxes | -624 | | -810 | | 186 | |
| **Consolidated annual result** | **801** | | **2,441** | | **-1,640** | |
| Thereof: | | | | | | |
| Non-controlling interests | 8 | | -91 | | 99 | |
| Share of shareholders of Masterflex SE | 793 | | 2,532 | | -1,739 | |

## 1.1 Revenue development and incoming orders

Fiscal year 2020 ended with a 10.1% decline in revenue. In fiscal year 2020, Group revenue amounted to EUR 71,881 thousand after EUR 79,969 thousand the previous year. Economic fluctuations in the individual customer industries are partially offset at the Group level of the Masterflex Group.

Due to the corona pandemic, nearly all companies' figures were below the previous year's level. The development in the medical business was encouraging, however. Business in this area recorded increased demand due to the COVID-19 pandemic and contributed 19.6% (previous year: 16.6%) to total sales in the reporting year. Asia was also able to hold its own, despite an early lockdown in China and lengthy containment measures in other Asian countries, due to the rapid recovery in China and was only slightly below the previous year in terms of sales. The two North American companies also developed better than the Group average.

Activities in the area of industrial manufacturing in Europe and the aviation industry are particularly affected by the negative effects of the COVID-19 pandemic. Masterflex SE, whose product portfolio is primarily used in traditional branches of industry, posted a drop in sales of 15.7% compared to external customers. Revenues in Matzen & Timm GmbH, which is dominated by the aviation industry, fell by around 32% in fiscal year 2020.

These developments show how important it is for the Masterflex Group to have a broad base both in the industries and in the regions.

## 1.2 Development of earnings

Operating earnings before interest and taxes (EBIT before non-operating income and expenses) amounted to EUR 3,167 thousand after EUR 5,058 thousand in 2019. This equates to an operating EBIT margin based on total output of 4.4% (previous year: 6.3%).

In response to the COVID-19 pandemic and as a contribution to active liquidity management, stocks of finished products were consistently reduced. The inventory reduction amounted to EUR 683 thousand as of December 31, 2020 (previous year: increase by EUR 103 thousand).

The item of other own work capitalized was marked in previous years by the activation of the ERP project. In fiscal year 2020, own work capitalized consisted mainly of product and process development projects and amounted to EUR 138 thousand after EUR 339 thousand the previous year.

Other operating income decreased in the course of business in 2020 from EUR 1,156 thousand to EUR 883 thousand. As in previous years, this includes grants and allowances as well as repayments from the employers' liability insurance association and social security in the course of short-time work. The previous year's figure includes the one-time release of a warranty provision and effects from the discontinuation of the heated hose business.

The cost of materials decreased in both nominal and relative terms in the course of business in 2020. In fiscal year 2020, the cost of materials was EUR 22,571 thousand, which corresponds to a material usage rate (cost of materials in relation to total output) of 31.6%. In the previous year, the cost of materials was EUR 25,968 thousand or 32.3%. The productivity measures introduced and the long-term hedging of raw material prices had a positive effect here.

The closure of the production facilities in the Czech Republic and France as well as the planned downsizing as part of the B2DD program, which was started in 2019, are reflected in the decrease in personnel expenses from EUR 32,683 thousand to EUR 28,796 thousand in fiscal year 2020. As a result of these measures and recognition of reimbursements in the course of short-time working (EUR 1,125 thousand), the personnel utilization rate was maintained at 40.4% in fiscal year 2020 compared to the previous year (40.6%), even in COVID times.

Due to the investments in 2018 and 2019, depreciation remained at a comparable level in fiscal year 2020 and amounted to EUR 4,725 thousand (previous year: EUR 4,598 thousand).

Other operating expenses decreased in the course of business in 2020 from EUR 12,984 thousand to EUR 12,671 thousand. Lower travel and freight cost reductions as a result of the COVID-19 pandemic had an impact here.

The 10.1% decline in revenue was partially offset by cost savings, so that the consolidated operating profit margin (EBIT margin) only decreased by 1.9 percentage points to 4.4%. The nominal Group operating result (EBIT) was EUR 3,167 thousand in fiscal year 2020 (previous year: EUR 5,058 thousand / 6.3%).

As a result of the production facilities closings in France and the Czech Republic, the non-operational effects increased from EUR 516 thousand in the previous year to EUR 832 thousand in fiscal year 2020. This mainly includes severance payments, costs in the course of the personnel measures and consulting / lawyer costs in connection with the cost reduction measures.

Taking into account the non-operational effects, this results in EBIT of EUR 2,335 thousand after EUR 4,542 thousand the previous year.

The rescheduling of the syndicated loan in fiscal year 2019 led to a total reduction in interest charges and thus to an improvement in the financial result in fiscal year 2020. The negative financial result as of December 31, 2020, was EUR 910 thousand after EUR 1,291 thousand the previous year.

Income tax expense fell from EUR 810 thousand to EUR 624 thousand, primarily due to the lower pre-tax result.

The Group result amounts to EUR 801 thousand after the previous year's figure of EUR 2,441 thousand. Taking into account the non-controlling interests in a Group company, the shareholders of Masterflex SE account for EUR 793 thousand (previous year: EUR 2,532 thousand). The ownership structure of the subsidiary in France (Masterflex SE: 80%) is reported in non-controlling interests.

Earnings per share declined from EUR 0.26 to EUR 0.08.

## 1.3 Comparison of the actual with the forecast business development and effects of the COVID-19 pandemic

The company's growth trend was interrupted by the COVID-19 pandemic, which assumed a slight increase in revenue under normal conditions. However, due to the effects of the corona pandemic, the company had forecast a 10% to 15% decline in consolidated revenue. The target range for operating EBIT was between EUR 1.0 million and EUR 2.5 million.

Fiscal year 2020 closed with a decline in revenue of 10.1% due to the corona-related freeze in demand at Group level. The Masterflex Group has thus reached the upper end of the forecast range in terms of revenue. With an operating Group result (EBIT) of EUR 3,167 thousand, the Masterflex Group even exceeded its forecast on the earnings side.

The reasons for this were consistent cost-savings programs as well as the quick reaction of the management even before the first lockdown, which was able to limit the decline in revenue to a level of 10.1%. In addition, the B2DD efficiency program launched in fiscal year 2019 had a particularly positive effect. Efficiency and cost-savings measures that had already been defined could be flexibly brought forward in the implementation, including a significant reduction in staff at the Gelsenkirchen site and site closings in the Czech Republic and France. The option of short-time working was also used at German sites.

The regulatory requirements for restricting travel activities resulted in a significant reduction in travel costs. Support for our customers was ensured through digital forms of communication and through our worldwide agencies.

Need-based health and hygiene guidelines were issued at all of our sites, including the use of mobile workplaces from home. Since we have already strongly promoted the compatibility of work and family in previous years and as a result the workplaces were already geared to the requirement profiles of mobile working, there were no significant additional costs for the Masterflex Group in this context.

In the course of the annual impairment tests, all company values were confirmed.

# Net assets of the Group

## 2.1 Asset structure

| | December 31, 2020 | | December 31, 2019 | | Change | |
|---|---|---|---|---|---|---|
| Assets | in EUR thousand | in % | in EUR thousand | in % | in EUR thousand | in % |
| Intangible assets | 13,242 | 17.3 | 13,115 | 16.1 | 127 | 1.0 |
| Property, plant and equipment | 31,434 | 41.2 | 33,776 | 41.4 | -2,342 | -6.9 |
| Financial assets | 64 | 0.1 | 65 | 0.1 | -1 | -1.5 |
| Other assets | 21 | 0.0 | 27 | 0.0 | -6 | -22.2 |
| Deferred taxes | 213 | 0.3 | 398 | 0.5 | -185 | -46.5 |
| **Non-current assets** | **44,974** | **58.9** | **47,381** | **58.1** | **-2,407** | **-5.1** |
| Inventories | 15,518 | 20.3 | 18,623 | 22.8 | -3,105 | -16.7 |
| Receivables and other Intangible assets | 6,645 | 8.7 | 8,647 | 10.6 | -2,002 | -23.2 |
| **Current assets** | **22,163** | **29.0** | **27,270** | **33.4** | **-5,107** | **-18.7** |
| **Cash and cash equivalents** | **9,217** | **12.1** | **6,908** | **8.5** | **2,309** | **33.4** |
| | **76,354** | **100.0** | **81,559** | **100.0** | **-5,205** | **-6.4** |

The balance sheet total decreased from EUR 81,559 thousand as of December 31, 2019, to EUR 76,354 thousand on the reporting date. Both non-current and current assets were affected by this reduction.

Non-current property, plant and equipment decreased by EUR 2,342 thousand to EUR 31,434 thousand as of December 31, 2020, because the depreciation overcompensated for the net investment activity. In contrast, intangible assets increased from EUR 13,115 thousand the previous year to EUR 13,242 thousand as of December 31, 2020. The reason for this increase is the capitalization of development services. Intangible assets also include goodwill in the amount of EUR 9,187 thousand, which was also confirmed in an impairment test in a fiscal year influenced by the COVID-19 pandemic.

Deferred tax assets decreased by EUR 185 thousand to EUR 213 thousand as of the reporting date. Overall, the assets tied up in the long term were reduced by these circumstances from EUR 47,381 thousand to EUR 44,974 thousand.

In the course of consistent inventory management as part of the efficiency program in the COVID-19 pandemic, inventories were reduced by EUR 3,105 thousand to EUR 15,518 thousand as of December 31, 2020.

Receivables and other assets fell from EUR 8,647 thousand the previous year to EUR 6,645 thousand on the reporting date. The reduction in receivables is directly related to the development of sales. Bad debt losses or deteriorated payment behavior were not recorded to any significant extent in the corona year 2020.

In total, short-term tied up assets decreased by EUR 5,107 thousand to EUR 22,163 thousand as of December 31, 2020. The consistent working capital management was also reflected on the reporting date in the increase in operating cash flow and liquid funds.

Liquid funds increased by EUR 2,309 thousand to EUR 9,217 thousand (see the explanations in Section B ”Financial position of the Group” Section 3.3 Liquidity position). This is due to targeted cost management, reduced investment volume and reduced working capital.

## 2.2 Capital structure

| | December 31, 2020 | | December 31, 2019 | | Change | |
|---|---|---|---|---|---|---|
| **Equity and liabilities** | **in EUR thousand** | **in %** | **in EUR thousand** | **in %** | **in EUR thousand** | **in %** |
| Consolidated equity | 40,982 | 53.7 | 42,633 | 52.3 | -1,651 | 3.9 |
| Non-controlling interests | 303 | 0.4 | -618 | -0.8 | 921 | -149.0 |
| **Total equity** | **41,285** | **54.1** | **42,015** | **51.5** | **-730** | **-1.7** |
| Provisions | 165 | 0.2 | 164 | 0.2 | 1 | 0.6 |
| Financial liabilities | 24,922 | 32.7 | 26,304 | 32.3 | -1,382 | -5.3 |
| Other liabilities | 1,172 | 1.5 | 1,006 | 1.2 | 166 | 16.5 |
| Deferred taxes | 696 | 0.9 | 926 | 1.1 | -230 | -24.8 |
| **Non-current liabilities** | **26,955** | **35.3** | **28,400** | **34.8** | **-1,445** | **-5.1** |
| Provisions | 325 | 0.4 | 0 | 0 | 325 | |
| Financial liabilities | 2,447 | 3.2 | 4,545 | 5.6 | -2,098 | -46.2 |
| Other liabilities | 5,342 | 7.0 | 6,599 | 8.1 | -1,257 | -19.0 |
| **Current liabilities** | **8,114** | **10.6** | **11,144** | **13.7** | **-3,030** | **-27.2** |
| | **76,354** | **100.0** | **81,559** | **100.0** | **-5,205** | **-6.4** |

The equity of the Masterflex Group decreased by EUR 730 thousand to EUR 41,285 thousand as of December 31, 2020. The absolute decrease in equity is essentially due to the change in the adjustment item for currency conversion (EUR 673 thousand) as well as the payment of the dividend for fiscal year 2019 in the amount of EUR 686 thousand. The consolidated result for 2020 in the amount of EUR 801 thousand increased equity. If the balance sheet total was reduced at the same time, the equity ratio (equity in relation to the balance sheet total) increased from 51.5% to 54.1% as of the reporting date. For further details, please refer to the development of Group equity in fiscal year 2020 (p. 98 of the 2020 Annual Report).

After the restructuring of the financing in fiscal year 2019 by taking out a syndicated loan, this loan will be repaid in accordance with the contract, which led to a decrease in non-current debt by EUR 1,751 thousand to EUR 26,649 thousand as of December 31, 2020. Current liabilities decreased from EUR 11,144 thousand the previous year to EUR 8,144 thousand on the reporting date. This is mainly due to a reduced utilization of the overdraft lines as of December 31, 2020. Trade payables as part of other current liabilities also decreased as of the reporting date.

# Financial position of the Group

## 3.1 Principles and objectives of financial management

The short- to medium-term financial management objectives were partially achieved in 2020. These were in particular:

- further strengthening of equity
- improvement in the debt ratio

As of December 31, 2020, equity amounted to EUR 41,285 thousand after EUR 42,015 thousand the previous year. With a simultaneous reduction in total assets, the equity ratio increased from 51.5% to 54.1% as of the reporting date.

The level of indebtedness improved due to consistent working capital management to 2.3 as of December 31, 2020, after 2.5 the previous year.

## 3.2 Financing analysis

The liquid funds of the Masterflex Group as of December 31, 2020, amounted to EUR 9,217 thousand (previous year: EUR 6,908 thousand). Net debt as of the reporting date was EUR 18,152 thousand (previous year: EUR 23,941 thousand). The ratio of net debt to EBITDA at the end of the year was therefore 2.3 (previous year: 2.5). This ratio is a measure of the Group's debt ratio and is an indicator of how quickly debt can be repaid.

As of December 31, 2020, non-current and current financial liabilities decreased by EUR 3,480 thousand to EUR 27,369 thousand. In addition to the contractually compliant repayment of the syndicated loan that was rescheduled in 2019, the decrease in financial liabilities is due to a lower utilization of the working capital lines as of the reporting date.

In addition to the non-current and current tranches of the syndicated loan, the financial liabilities also include leasing liabilities of EUR 2,727 thousand (previous year: EUR 2,915 thousand). There were no other bank liabilities at the end of 2020.

The borrowed funds provided are largely collateralized. There is no significant off-balance sheet financing.

## 3.3 Liquidity situation

Cash and cash equivalents and bank balances rose by EUR 2.3 million year-on-year to EUR 9.2 million. The main positive effects on cash and cash equivalents were:

- Positive earnings before interest, taxes, depreciation and amortization (EBITDA) of EUR 7.9 million.
- Decrease in inventories of EUR 3.1 million
- Decrease in trade accounts receivable of EUR 1.8 million

The main negative effects on cash and cash equivalents were:

- Net loan repayments of EUR 4.7 million
- Investments in property, plant and equipment and intangible assets of EUR 2.3 million
- Decrease in trade payables of EUR 0.6 million
- Interest payments amounting to EUR 0.8 million
- Dividend payment of EUR 0.7 million
- Income tax expenses of EUR 0.6 million
- Other payments in the course of currency-related changes in value of EUR 0.8 million

The cash flow statement, which shows the reconciliation of cash and bank balances in the past fiscal year, can be found on page 99 of the 2020 Annual Report.

The Masterflex Group was solvent at all times in 2020. In addition, at the end of 2020, Masterflex SE had access to a free, unutilized credit line – subject to defined covenants – from the syndicated loan agreement in the amount of EUR 8.0 million.

## Overall statement on the economic situation

Overall, Group management assesses the earnings, assets and financial position of the Masterflex Group on the balance sheet date against the backdrop of

- the sales development at the upper end of the forecast,
- stable earnings even in times of the COVID-19 pandemic,
- medium-term secured Group financing,
- the stability of the Group's equity as well as
- an improved ratio of net debt to EBITDA of 2.3 compared to the previous year

as stable and as a good starting point for further times of uncertainty regarding the economic prospects in the COVID-19 pandemic.

## Results of operations, net assets and financial position of Masterflex SE

In addition to the reporting on the Masterflex Group, the following section describes the development of Masterflex SE in fiscal year 2020.

Masterflex SE is the parent company of the Masterflex Group and is headquartered in Gelsenkirchen, Germany. Its business activities primarily comprise the development, production and sale of high-tech hoses and connection systems made of high-performance plastics in Germany as well as the management of the global activities of the Group, the Masterflex Group. Masterflex SE produces its hoses and connection systems at its headquarters in Gelsenkirchen, Germany, and via the Group in domestic and foreign subsidiaries. They are sold via Masterflex SE's distribution system, via domestic and foreign subsidiaries and via selected contractual partners of the Masterflex Group.

The key management functions of the Masterflex Group are the responsibility of the Management Board of Masterflex SE. It defines the Group strategy and manages the allocation of resources and the Group's organization. In addition, the Management Board determines financing and communication with the Masterflex Group's key target audiences and is responsible for global M&A activities. Masterflex SE's economic development is primarily shaped by its production and sales success and its operating subsidiaries. In addition to Masterflex SE's revenue, the income from investments resulting from profit transfers and profit distributions by the subsidiaries is of key importance for Masterflex SE's economic situation. Accordingly, the statements in Section C. Opportunity and Risk Report and the non-financial report published on the homepage of the Masterflex Group also essentially apply to Masterflex SE.

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

## Revenue and earnings of Masterflex SE

### Income statement of Masterflex SE according to HGB (short form)

| | 2020 | | 2019 | | Change | |
|---|---|---|---|---|---|---|
| | in EUR thousands | in % | in EUR thousands | in % | in EUR thousands | in % |
| Revenue | 16,819 | 102.4 | 19,405 | 98.7 | -2,586 | -13.3 |
| Change in inventories | -490 | -3.0 | 43 | 0.2 | -533 | -1,239.5 |
| Other own work capitalized | 98 | 0.6 | 208 | 1.1 | -110 | -52.9 |
| **Total output** | **16,427** | **100.0** | **19,656** | **100.0** | **-3,229** | **-16.4** |
| Other operating income | 159 | 1.0 | 228 | 1.2 | -69 | -30.3 |
| **Operating performance** | **16,586** | **101.00** | **19,884** | **101.2** | **-3,298** | **-16.6** |
| Cost of materials | -5,965 | -36.3 | -7,013 | -35.7 | 1,048 | -14.9 |
| Personnel expenses | -8,528 | -51.9 | -10,152 | -51.6 | 1,624 | -16.0 |
| Depreciation and amortization | -1,079 | -6.6 | -986 | -5.0 | -93 | 9.4 |
| Other operating expenses | -4,081 | -24.8 | -4,325 | -22.0 | 244 | -5.6 |
| Other taxes | -66 | -0.4 | -57 | -0.3 | -9 | 15.8 |
| **Operating expenses** | **-19,719** | **-120.0** | **-22,533** | **-114.6** | **2,814** | **-12.5** |
| **Operating result (EBIT)** | **-3,133** | **-19.0** | **-2,649** | **-13.4** | **-484** | **18.3** |
| Financial result | 3,975 | | 3,763 | | 212 | |
| Non-operating effects | -256 | | -3,561 | | 3,305 | |
| Non-operating result | 31 | | 55 | | -24 | |
| **Earnings before income taxes** | **617** | | **-2,392** | | **3,009** | |
| Income taxes | -286 | | -219 | | -67 | |
| **Annual result** | **331** | | **-2,611** | | **2,942** | |

The results of operations of Masterflex SE are primarily determined by the business with high-tech hoses and connection systems at the Gelsenkirchen site as well as the distribution and profit transfer of the operating subsidiaries that conduct this business at the other domestic and international sites.

Masterflex SE's revenue was at EUR 16,819 thousand, 13.3% below the previous year's figure of EUR 19,405 thousand. This means that the sales forecast, which assumed a sales decline of between 10% and 15% in fiscal year 2020 – in conjunction with our more specific annual forecast for the first quarter of 2020 – was also met at the level of the individual company. The individual companies, including Masterflex SE, are geared towards specific markets with their specific high-tech hose systems. However, the compensatory effect due to the focus on different industries only shows its full effect at the level of the Consolidated Financial Statements.

In response to the COVID-19 pandemic and as a contribution to active liquidity management, stocks of finished products were consistently reduced. The inventory reduction amounted to EUR 490 thousand as of December 31, 2020 (previous year: increase by EUR 43 thousand).

The capitalization of other own work decreased to EUR 98 thousand (previous year: EUR 208 thousand). This includes capitalization of product and process development projects that were implemented to a reduced extent compared to the previous year due to the COVID-19 pandemic. In addition, the previous year was characterized by further capitalizations of the ERP project.

Masterflex SE's total output (i.e. the sum of revenue, changes in inventories and other own work capitalized) thus fell from EUR 19,656 thousand in 2019 to EUR 16,427 thousand in 2020.

Other operating income, at EUR 159 thousand in the fiscal year, was below the previous year's figure of EUR 228 thousand. Other operating income includes reimbursement of social security contributions while receiving short-time work allowances in the amount of EUR 131 thousand and compensation in the amount of EUR 21 thousand.

As a result, the operating performance (as the sum of total output plus other operating income) in fiscal year 2020 fell by EUR 3,298 thousand to EUR 16,586 thousand.

The cost of materials decreased nominally from EUR 7,013 thousand in 2019 to EUR 5,965 thousand as of December 31, 2020. The cost of materials (cost of materials in% of total output) in fiscal year 2020 was 36.3%, only slightly above the previous year's level (35.7%). The uncertainties during the first COVID-19 lockdown also had an impact on the procurement process due to rising raw material prices, especially in the second half of the year.

Personnel expenses in fiscal year 2020 amounted to EUR 8,528 thousand after EUR 10,152 thousand the previous year. This also includes savings from short-time working of EUR 330 thousand at the Gelsenkirchen site. Thanks to the consistent implementation of the measures from the B2DD program, it was possible to keep the personnel deployment rate nearly constant at 51.9% compared to 51.6% the previous year. The one-time expenses incurred in connection with this amounted to EUR 256 thousand in fiscal year 2020 and are shown separately as non-operational effects.

As a result of the B2DD program, among other measures, other operating expenses decreased nominally in fiscal year 2020 from EUR 4,325 thousand to EUR 4,081 thousand. Here, savings in travel costs due to the travel restrictions in place in fiscal year 2020 due to COVID-19 as well as lower freight costs and the fact that the company did not attend trade fairs had a positive effect. Expansion investments in 2019 and 2020 are reflected in a slightly increasing depreciation rate. Depreciation amounted to EUR 1,079 thousand in 2020 after EUR 986 thousand the previous year.

In summary, this results in an operating result (EBIT) of EUR -3,133 thousand in the reporting year (previous year: EUR -2,649 thousand). Compared to our forecast for the previous year, which envisaged EBIT in the event of a strong impact on the global economy from the COVID pandemic below the level of the previous year, EBIT for fiscal year 2020 is in this expectation corridor; especially in connection with our more specific annual forecast for the first quarter of 2020.

The financial result includes the investment income and profit transfers from the subsidiaries. This increased by EUR 212 thousand in 2020 to EUR 3,975 thousand. The development of this key figure underscores the strength of the current business model of aligning the company with high-tech hose systems for different industries and thus partially compensating for economic fluctuations.

In the previous year, value adjustments on receivables from affiliated companies of the Asian subgroup (EUR 3,561 thousand) were posted in non-operating effects. The corporate reorganization in Asia has now been completed following the takeover of the remaining shares in Masterflex Asia Holding GmbH in 2020. In fiscal year 2020, one-off expenses for the downsizing at the Gelsenkirchen site in the amount of EUR 256 thousand are recorded in this item. Overall, earnings before income taxes improved from EUR -2,392 thousand the previous year to EUR 617 thousand in fiscal year 2020.

The annual result achieved by Masterflex SE in fiscal year 2020 amounted to EUR 331 thousand in the reporting year (previous year: EUR -2,611 thousand). Taking into account the profit carried forward of EUR 9,890 thousand remaining after the distribution, the result was a balance sheet profit of EUR 10,222 thousand.

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

| | December 31, 2020 | | December 31, 2019 | | Change | |
|---|---|---|---|---|---|---|
| Asset structure | in EUR thousand | in % | in EUR thousand | in % | in EUR thousand | in % |
| Intangible assets | 3,246 | 3.9 | 3,052 | 3.6 | 194 | 6.4 |
| Property, plant and equipment | 13,717 | 16.6 | 14,174 | 16.7 | -457 | -3.2 |
| Financial assets | 52,772 | 63.7 | 55,285 | 65.0 | -2,513 | -4.5 |
| **Non-current assets** | **69,735** | **84.2** | **72,511** | **85.3** | **-2,776** | **-3.8** |
| Inventories | 2,946 | 3.5 | 3,593 | 4.1 | -647 | -18.0 |
| Receivables and other assets | 8,071 | 9.7 | 7,734 | 9.1 | 337 | 4.4 |
| Prepaid expenses | 300 | 0.4 | 327 | 0.4 | -27 | -8.3 |
| **Current assets** | **11,317** | **13.6** | **11,654** | **13.6** | **-337** | **-2.9** |
| **Cash and cash equivalents** | **1,808** | **2.2** | **906** | **1.1** | **902** | **99.6** |
| **Total assets** | **82,860** | **100.0** | **85,071** | **100.0** | **-2,211** | **-2.6** |

Masterflex SE's total assets decreased by EUR 2,211 thousand to EUR 82,860 thousand as of December 31, 2020. The decrease in total assets is mainly due to changes in non-current assets.

While the intangible assets at EUR 3,246 thousand on the reporting date were above the previous year's level (EUR 3,052 thousand) due to the additions, property, plant and equipment decreased by EUR 457 thousand to EUR 13,717 thousand because the depreciation overcompensated for the net investment activity. Financial assets decreased from EUR 55,285 thousand to EUR 52,772 thousand as of December 31, 2020, due to the repayment of loans to subsidiaries.

The consistent reduction in stocks during the COVID-19 pandemic is also reflected in the decrease in inventories. Inventories decreased by EUR 647 thousand to EUR 2,946 thousand as of the reporting date. As of the reporting date, the receivables and other assets amounted to EUR 8,071 thousand after EUR 7,734 thousand the previous year. Deferred items remained at the previous year's level.

As a result, current tied assets decreased from EUR 11,654 thousand to EUR 11,317 thousand as of the reporting date. As of December 31, 2020, liquid funds nearly doubled to EUR 1,808 thousand (previous year: EUR 906 thousand).

| | December 31, 2020 | | December 31, 2019 | | Change | |
|---|---|---|---|---|---|---|
| **Capital structure** | in EUR thousand | in % | in EUR thousand | in % | in EUR thousand | in % |
| Issued capital | 9,618 | 11.6 | 9,618 | 11.3 | 0 | 0.0 |
| Capital reserve | 26,120 | 31.5 | 26,120 | 30.7 | 0 | 0.0 |
| Retained earnings | 4,115 | 5.0 | 4,115 | 4.8 | 0 | 0.0 |
| Balance sheet profit | 10,222 | 12.3 | 10,564 | 12.4 | -342 | -3.2 |
| **Total equity** | **50,075** | **60.4** | **50,417** | **59.2** | **-342** | **-0.7** |
| Liabilities to banks | 23,000 | 27.8 | 24,537 | 28.8 | -1,537 | -6.3 |
| Other provisions | 165 | 0.2 | 164 | 0.2 | 1 | 0.6 |
| Deferred tax liabilities | 407 | 0.5 | 247 | 0.3 | 160 | 64.8 |
| **Non-current liabilities** | **23,572** | **28.5** | **24,948** | **29.3** | **-1,376** | **-5.5** |
| Tax provisions | 93 | 0.1 | 99 | 0.1 | -6 | -6.1 |
| Other provisions | 879 | 1.1 | 908 | 1.1 | -29 | -3.2 |
| Liabilities to banks | 1,540 | 1.8 | 3,675 | 4.3 | -2,135 | -58.1 |
| Trade payables | 511 | 0.6 | 519 | 0.6 | -8 | -1.5 |
| Liabilities to affiliated companies | 5,801 | 7.0 | 4,272 | 5.1 | 1,529 | 35.8 |
| Other liabilities | 389 | 0.5 | 233 | 0.3 | 156 | 67.0 |
| **Current liabilities** | **9,213** | **11.1** | **9,706** | **11.5** | **-493** | **-5.1** |
| **Total equity and liabilities** | **82,860** | **100.0** | **85,071** | **100.0** | **-2,211** | **-2.6** |

Due to the reduction in total assets, the equity ratio increased from 59.2% the previous year to 60.4% as of the reporting date. In nominal terms, equity decreased due to the decrease in net profit by EUR 342 thousand to EUR 50,075 thousand as of December 31, 2020. The decrease in profit is due on the one hand to the dividend payment in June 2020 of EUR 0.07 per share or EUR 673 thousand. The annual result in fiscal year 2020 in the amount of EUR 331 thousand had the opposite effect.

As of December 31, 2020, there were amounts that are not available for distribution totaling EUR 1,227 thousand, of which EUR 104 thousand is attributable to deferred tax assets and EUR 1,123 thousand to the capitalization of development costs (less related deferred tax liabilities).

The rescheduling of debt in fiscal year 2019 continues to shape the picture on the liabilities side for Masterflex SE. The non-current syndicated loan is being repaid in accordance with the contract. The non-current loan liabilities consequently decreased from EUR 24,537 thousand to EUR 23,000 thousand as of the reporting date. The repayment portion of the syndicated loan due within one year is shown in current liabilities to banks. In total, current liabilities to banks amounted to EUR 1,540 thousand as of December 31, 2020, after EUR 3,675 thousand the previous year.

Due to the Group's liquidity management, liabilities to affiliated companies increased by EUR 1,529 thousand to EUR 5,801 thousand as of December 31, 2020.

## Financial position of Masterflex SE

The liquid funds nearly doubled in the year under review and amounted to EUR 1,808 thousand on the reporting date after EUR 906 thousand the previous year. No liquid funds are currently pledged.

| in EUR thousand | | 2020 | 2019 |
|---|---|---|---|
| | Adjusted net profit for the year | 586 | 950 |
| - | Non-operating expenses | -256 | -3,561 |
| = | Annual profit / annual loss | 331 | -2,611 |
| + | Depreciation of property, plant and equipment | 796 | 854 |
| + | Amortization of intangible assets | 283 | 131 |
| + / - | Write-downs / write-ups on financial assets | 1 | 33 |
| - | Decrease in non-current provisions | 1 | -45 |
| + / - | Other non-cash income | 3 | 110 |
| = | **Cash flow according to DVFA / SG** | **1,414** | **-1,528** |
| + | Loss from the disposal of non-current assets | 0 | 0 |
| + | Decrease in mid- and short-term provisions | -28 | -65 |

| | in EUR thousand | 2020 | 2019 |
|---|---|---|---|
| - | Increase in inventories, trade receivables and other assets | -4,945 | -2,650 |
| + / - | Increase / decrease in trade payables and other liabilities | 1,081 | 217 |
| - | Income from loans from financial assets | -391 | -600 |
| + | Interest expenses | 919 | 1,257 |
| - | Other investment income | -379 | -239 |
| + | Income tax expense | 286 | 219 |
| - | Income tax payments | -66 | -299 |
| = | Subtotal | -3,523 | -2,160 |
| **=** | **Cash flow from operating activities** | **-2,109** | **-3,688** |
| + | Proceeds from the disposal of non-current assets | 0 | 0 |
| - | Payments for investments in intangible assets | -384 | -711 |
| - | Payments for investments in property, plant and equipment | -476 | -743 |
| + | Proceeds from the repayment of financial assets | 7,350 | 3,664 |
| + / - | Proceeds from / payments for investments in financial assets | 276 | 106 |
| + | Dividends received | 379 | 239 |
| **=** | **Cash flow from investing activities** | **7,145** | **2,555** |
| - | Payments to company owners | -673 | -673 |
| + | Proceeds from bond issues and the borrowing of (financial) loans | 500 | 4,090 |
| - | Payments for the repayment of bonds and (financial) loans | -4,174 | -2,558 |
| + | Proceeds from the repayment / issue of loans to affiliated companies (net) | 961 | 751 |
| - | Interest paid | -748 | -794 |
| **=** | **Cash flow from financing activities** | **-4,134** | **816** |
| | Cash-effective changes in cash and cash equivalents | 902 | -317 |
| + | Cash and cash equivalents at the beginning of the fiscal year | 906 | 1,223 |
| **=** | **Cash and cash equivalents at the end of the fiscal year** | **1,808** | **906** |
| | Composition of cash and cash equivalents at the end of the fiscal year | | |
| + | Cash and cash equivalents | 1,808 | 906 |

The improvement in the cash flow from operating activities to EUR -2,109 thousand (previous year: EUR -3,688 thousand) is related in particular to the net profit of EUR 331 thousand achieved in the fiscal year (previous year: net loss of EUR 2,611 thousand), which more than compensated for the increased commitment of funds due to the increase in inventories, trade receivables and other assets, taking into account the increase/decrease in trade payables and other liabilities.

The substantial payments made in fiscal year 2020 from the repayment of financial assets from our subsidiaries had an impact In the cash flow from investing activities in the amount of EUR 7,145 thousand (previous year: EUR 2,555 thousand).

Cash flow from financing activities deteriorated from EUR 816 thousand the previous year to EUR -4,134 thousand. This is due to the significantly higher repayments of bonds and financial loans that took place in fiscal year 2020, as well as a significantly lower level of borrowing from issuing bonds and borrowing from the previous year.

Overall, the amount of cash increased to EUR 1,808 thousand in the year under review (previous year: EUR 906 thousand).

## Composition of cash and cash equivalents

Bank liabilities and cash equivalents are not due in the short term.

## Proposal for the appropriation of profits

The Management Board and Supervisory Board propose to the Annual General Meeting that an amount of EUR 769,466.72 of Masterflex SE's balance sheet profit as of December 31, 2020, of EUR 10,221,516.11 be distributed to shareholders as a dividend on the 9,618,334 shares of share capital as of December 31, 2020, and that the remaining amount of EUR 9,452,049.39 be carried forward to new account.

The distribution is to be made on the basis of the shares entitled to a dividend at the time of the Annual General Meeting. Pursuant to § 58 para. 4 sentence 2 AktG, the shareholders' entitlement to the dividend is due on the third business day following the resolution of the Annual General Meeting, i.e. on 25 May 2021.

## Non-Financial Statement

The combined non-financial report and non-financial Group report in accordance with the CSR Directive Implementation Act are presented in a separate 2020 Sustainability Report, which is published on the company's website at www.MasterflexGroup.com/investor-relations/finanzberichte/2020.

# C. Opportunity and Risk Report

## 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 the forecast or objectives for the company. We define an opportunity as a possible future development or event that can lead to a positive deviation from the forecast or objectives for us.

We are exposed to numerous uncertainties and changes in all business transactions that we enter into as an internationally active company. Exploiting the opportunities arising from changes is the basis for the business success of the Masterflex Group. We must consciously take certain risks in order to take advantage of opportunities on the market and thus to be able to continue to achieve entrepreneurial success in the future. Existing risks that could endanger the success of the Masterflex Group are systematically identified, monitored and managed as part of the risk management system. In doing so, we aim to optimize identified risks to an acceptable, bearable level and not to minimize them, as otherwise opportunities would not be identified. To this end, we use insurance and contractual arrangements, among other tools.

The Masterflex Group operates in a dynamic market environment that is characterized 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 Group-wide communications, management and planning structures and is therefore an important component of corporate management. The opportunities and risks are discussed with the management of the operating units in regular meetings. Tracking of relevant issues is documented via a checklist. The individual risks of all companies involved are specifically addressed in annual planning discussions. The basis for this is our risk manual, which is the guideline for how risks are identified, assessed and monitored.

## Opportunity management

We continuously evaluate market data as part of our opportunity management, analyze our competitors and scrutinize the alignment of our product portfolio, the efficiency of our organization and the use of resources, as well as the changes in customer requirements, from which market opportunities are derived. By means of both the planning process and also regular monthly consultations with management, opportunities on accessibility, necessary investments and potential risks are analyzed and pursued.

## Individual opportunities

### Opportunities arising from positive market development

In our planning assumptions, we assume weak growth of the world economy (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.

## Opportunities arising from research and development

Our strategic planning is based on the four cornerstones of innovation, internationalization, 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 constantly work 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.

## Opportunities arising from increased efficiency

We constantly work on optimizing our procedures and processes at an accelerated rate in order to improve the efficiency of our global organization. In addition to personnel changes, 2019 also saw the disposal of the heating hose business and the concentration on the supply of individual components. For optimization, we use recognized 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 optimization and implementation are identified in regular workshops aimed at improving effectiveness, avoiding inefficiencies and continuously increasing our efficiency.

## Opportunities arising from internationalization

The focus of our revenue distribution remains in the euro zone, where we expect stronger growth than in the global economy as a whole. In the global target markets we address, the focus is primarily on China and the United States. Above all in China, we expect positive effects based on a strong economic foundation. In the US, as well, we expect stabilization and the related growth opportunities.

Should positive impulses from the global economy and the target markets relevant to us fail to materialize, this would pose an economic risk to our internationalization strategy. If, on the other hand, we succeed in implementing the internationalization steps more quickly, in particular by accelerating the market success of our sales activities and thus generating revenue more quickly, Masterflex's growth in these regions would exceed the forecast.

A further focus will be on making all products sold in Germany available worldwide. Here, we continue to see great potential for growth in all regions of the world.

## Opportunities arising from digitalization

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

The key to the success of the digital transformation will be for us to identify the right opportunities (products, processes, business models) for us and our customers in good time on the basis of the ever faster technological change (especially in information technology) and to measurably increase our flexibility and agility.

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

### Opportunities arising from personnel management

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

Moreover, we will focus on the development of our employees and thus increasing the efficiency of our global organization. Should we succeed faster than anticipated, this will have a particularly positive impact on revenue, the EBIT margin and cash flow.

## 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 Management Board that guarantee prompt reporting.

As part of the comprehensive risk management system, Masterflex has an internal control system based on the (Group) accounting system. The goal 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 that aims to identify potential sources of error and 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 that 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 organization 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 Management 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 (in particular the risk early warning system) 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 been carried out and correctly implemented. This is carried out by the auditor, an internal risk manager and the managing directors or heads of department responsible for performing 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 stabilize 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. Besides the risk handbook, strategic corporate planning, internal reporting and the internal control system are key elements of the risk management system.

Our risk management is standardized and applicable throughout the Group. This ensures that all risks are identified, analyzed and assessed systematically, uniformly and on a Group-wide basis. The focus is on 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 appropriate control and countermeasures.

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

For the criterion likelihood of occurrence of a risk, we distinguish between the categories 'unlikely' (less than 30% probability), 'possible' (probability between 30% and 60%) and 'probable' (probability of 60% or more).

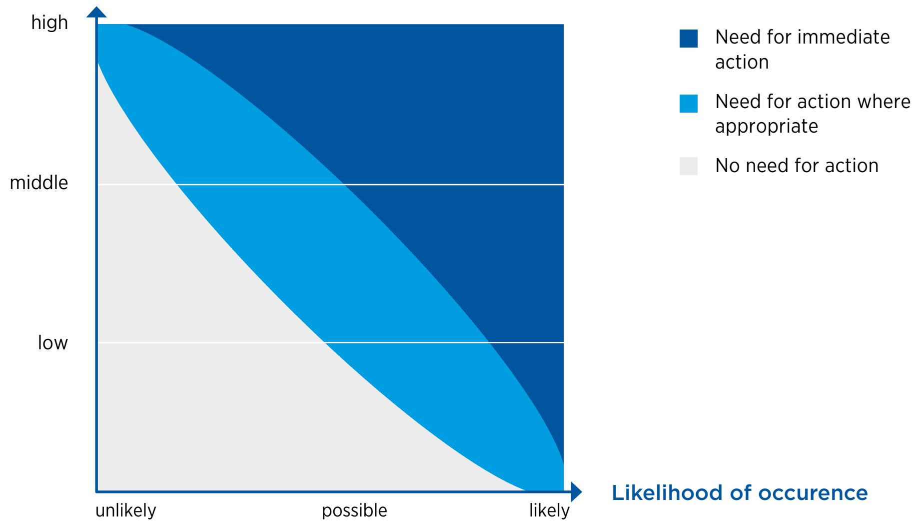
For the criterion extent of damage, we distinguish between 'low,' 'medium' and 'serious' impact on our cash flow as well as net assets, financial position and results of operations.

Using 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.

**Extent of damage (in catogeries)**



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.

# Individual risks

## Economic, political and social risks

The global economy, financial markets and the political environment are still characterized by a high level of uncertainty. Global economic prospects are decisively shaped by the corona pandemic, the progress of which and the macroeconomic and social effects are difficult to assess. To limit the risk, we have drawn up a pandemic plan and convened a crisis team to closely monitor the development of the corona pandemic and come up with important measures, in particular to protect employees and ensure our ability to deliver.

Furthermore, uncertainties arising from the further economic policy course of the United States will persist for Europe even after the US presidential elections, although a higher degree of predictability can be assumed. The US continues to rely on restrictions in trade relations with China, while the planned investment protection agreement between Europe and China is making great strides. With this trade agreement, Europe would have significantly better access to the Chinese market. Here too, however, questions remain unanswered and uncertainties persist.

The impact on the euro zone economy should be limited by the UK's completed exit from the EU single market and customs union. After the EU and the UK reached arrived at a free trade agreement after months of negotiations and thus averted a severe economic break, the effects on the euro zone economy are to be expected to be much milder than in the previous year.

Increased political risks in the euro zone, further debates on independence or a sustained success of protectionist, anti-European and anti-business parties and politics could give a new impetus to the euro crisis or even jeopardize the future of the euro zone entirely. Events such as a global economic crisis, a continuing recession in our target countries, an unsustainable increase in government debt, as well as significant tax increases and natural disasters could have a negative impact on our business activities. Growing nationalism, trend-setting elections and terrorist threats would also mean increasing political and economic risks. Instability in terms of the economic, political and social situation could therefore have a negative impact on our earnings, assets and financial position. The Management Board takes measures to mitigate the potential adverse effects of these risks occurring. These primarily involve concentration on independent economic sectors, increased diversification with regard to sales and procurement markets, flexibility of costs associated with ongoing cost management, simplification of processes and organizational 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.

## Personnel risks

Committed and qualified employees and managers are of the utmost importance for the economic success and future development of the Masterflex Group. 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. Furthermore, there could be temporary staff shortages due to the pandemic, which we counter with extensive behavior and hygiene concepts in the area of occupational health and safety. The loss of experts or qualified technical and management staff is one of the risks for the Group, although no such trend can be seen at the moment.

The Masterflex Group's ability to attract, integrate, develop and retain young specialists and managers in the long-term is becoming increasingly important. The necessary personnel recruitment and development steps have already been introduced. They include offering performance-related pay, conducting annual assessment meetings, providing employees with further qualifications, developing future prospects, cooperating with technical colleges and research institutions as well as early information for interested young people about career opportunities in the Masterflex Group. These efforts will be further intensified in the future due to the demographic development. In order to give these measures further impetus and to expand the potential for new specialists and managers for the Masterflex Group, women as well as people of various nationalities or of a higher age are also being targeted and their qualifications further developed. 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 compared to larger companies on the human resources market.

## IT risks

The continuous availability of IT systems is a vital factor in ensuring operations at the Group's individual sites and offices. Internal and external experts are therefore constantly working on optimizing the central and decentralized information systems, their availability and security. Differentiated backup strategies and redundant data lines are used to avoid availability failures and data loss. In principle, the hardware and software components currently available are used against possible external operational disruptions, such as the penetration of malware into the IT system through hacking or virus attacks. Among others, the protective measures implemented include the use of anti-virus programs and state-of-the-art firewall systems, as well as extensive user access controls. Masterflex SE and a few of its subsidiaries also use external computer centers in order to meet these service requirements. In addition, we sensitize our employees to typical fraud practices.

Nevertheless, IT outages or even cyber-attacks cannot be ruled out. Due to the worldwide increase in threats to information security and an increase in professionalism in computer crime that can be observed, we see the likelihood of this against the backdrop of the general discussion held on issues of data security and espionage or external attacks on our networks as realistic. This could have a serious impact on our net assets, financial position and results of operations, therefore we view this as a high risk.

## Production risks

We counteract possible production downtime caused by disasters or fire damage, for example, by taking preventive maintenance measures, keeping important replacement components in stock, fire protection activities, employee training and building up a network of both external suppliers and within the Masterflex Group. We also have reasonable insurance coverage for any damages that could arise in spite of these measures. Moreover, our production is not limited to one location.

A possible production stop or restrictions in production in individual companies can in principle also result from the current coronavirus pandemic, if several employees or supplier companies would be affected or raw materials can no longer be procured to the necessary extent.

Based on past experience, we consider the probability of a disaster occurring to be low, but against the backdrop of the dynamic spread of the coronavirus, possible. The effects would be severe if it were to occur during a transitional phase, therefore we classify this risk as high.

## 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 company. In addition, the corona pandemic can lead to significant impairments on the procurement side due to the possibility of another wave of infections. We strive to reduce these price and availability risks through international purchasing, the conclusion of long-term supply agreements and the continuous optimization of our supplier portfolio. When selecting suppliers, the Masterflex Group focuses on efficiency and quality. For particularly important purchased parts or quantities, we seek 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 loss of suppliers to be at medium level, with a potential impact on the net assets, financial position and results of operations of medium probability.

In contrast, we believe it is probable that purchase prices will develop unfavorably and that our cost structures will be adversely affected despite the aforementioned countermeasures.

## Acquisitions and divestments

Masterflex's strategy also includes strengthening the hose business through mergers or acquisitions.

Despite careful planning and reviews, company mergers and acquisitions are exposed to risks that can negatively impact our net assets, financial position and results of operations. Moreover, there is the risk that considerable costs could 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 unplanned developments. There are also risks associated with the internal transfer of knowledge. The relevant knowledge of new employees must be transferred within the Masterflex Group and secured in the long-term, so that the ability to innovate is encouraged by newly acquired valuable knowledge.

Acquisitions are always a significant risk. We meet this through a variety of methodical and organizational measures. For instance, we carry out technical, operational, financial and legal due diligence on potential acquisition targets. With regard to managing these processes, we assume that the risk is low. 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 can also be made 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.

## Risks associated with deteriorating efficiency

Through a series of efficiency measures and the consistent implementation of the “Back to Double Digit” (B2DD) optimization program launched last year, savings were achieved in the year under review that significantly support us in coping with the corona pandemic. Significant cost optimizations result in particular in the area of personnel productivity as well as in the use of materials and in other operating expenses. Should we fail to sustainably develop and implement these efficiency measures, the general cost increases will once again negate the effects of the measures already implemented.

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

## Regulatory risks

Masterflex Group’s strategy is based on the four pillars innovation, internationalization, digital transformation and operational excellence. This means that the Group will continue to operate with its own employees and companies in many parts of the world in the future. In each country in which we operate, we must comply with the applicable legal regulations. The large number and increasing complexity of the relevant provisions at both the national and international level increase the risk that we could suffer significant legal and economic disadvantages if they are not complied with, such as fines, profit skimming or claims for damages. Even the mere allegation of a breach of the law could already have a negative impact on our reputation and our share price.

The regulatory environment has tightened significantly at the national and international level in recent years. Together with the attorneys and auditors who accompany us, we keep ourselves informed about new legal requirements, applied case law and changes in compliance topics.

The Masterflex SE Code of Conduct provides the ethical and legal framework for our business activities. Our compliance management system is designed to ensure that our business activities worldwide comply with the law and regulations applicable to us as well as with our internal implementation regulations. We pursue this goal, among other things, through targeted training and communication measures as well as the clear example of the corporate culture by the management (tone from the top). We constantly strive to further develop our compliance management system within the Group and to reduce compliance risks.

Due to the increasing complexity of regulatory framework conditions and despite the comprehensive compliance program and current internal controls, it cannot be ruled out completely that employees will circumvent the control mechanisms, violate laws or internal rules of conduct, or behave fraudulently for their own benefit. Even if we consider the occurrence of this risk to be low, we cannot completely rule it out. A breach could have a material impact on the company's results of operations, net assets, financial position and reputation. Overall, we classify regulatory risks as medium.

## 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 recognized in the balance sheet. At the Masterflex Group, we optimize and monitor the centrally managed Group financing, thereby limiting financial risks.

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 centralized basis by the Management 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 all of the major variables (such as the size of the transaction, term, exchange rate trend) into account 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, is not used to any noteworthy degree. Translation risks arising from the conversion of balance sheet items originally in foreign currency are not hedged in the Group. Similarly, Masterflex SE does not hedge its net asset claims from Group companies outside the euro zone.

The interest rate risk is significantly limited because of the regulations in the syndicated loan agreement and the conclusion of an interest rate hedge (interest rate cap). The interest rate cap hedges a share of the balance due from the various tranches of the syndicated loan over part of the term against an increase in short-term interest rates beyond a specified amount. Thus, the Masterflex Group does not miss the opportunity to benefit from the current low level of interest rates. There was no noteworthy financing with variable rates of interest in the Masterflex Group.

In addition to other obligations, two covenants have also been agreed in the syndicated loan agreement. Here, Masterflex SE agrees to comply at Group level with defined financial key ratios, the debt ratio and the equity ratio.

Given the risk situation described above, it cannot be ruled out that in the event of a negative business performance, we may not be able to meet the aforementioned financial ratios. If Masterflex is not in compliance with these covenants, the lenders are entitled to cancel the entire loan commitment.

Based on the current and planned business development, we anticipate being in compliance with these covenants. The upper limit for the key figure 'debt ratio' (calculated in accordance with the syndicated loan agreement) in 2020 was initially 3.0. However, Masterflex SE achieved a debt ratio of 2.5 at the beginning of 2020, compared to 2.1 on the balance sheet date in 2020.

The leverage ratio was suspended until the third quarter of 2021 under a waiver due to the uncertain economic situation caused by the corona pandemic.

The lower limit of the second key figure 'equity ratio' (calculated based on the specifications from the syndicated loan agreement by adjusting the balance sheet equity by certain assets), reached a value of 37.5% in 2020. In contrast, Masterflex SE initially achieved an equity ratio of 48.7% by the balance sheet date in 2020 of 51.2% 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.

Due to the low level of foreign currency transactions, the relatively small scale of the business and the existing syndicated loan agreement with a remaining term of nearly four years, the financial risks in the Masterflex Group are considered to be medium due to the covenant situation.

## Sales market risks

On the sales market side, long-standing existing customers can be lost. Nevertheless, since the Masterflex Group is active in many sectors and markets and also supplies to many different customers, it is not dependent on a single sector or single customer.

General customer-related risks (e.g. the 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 and pharmaceutical industry. In this way, we are counteracting dependencies on economically weak industries, such as mechanical engineering and the automotive industry, which were already experiencing a downturn before the corona pandemic.

We will counteract the possible increase in competitive pressure in our product groups, among other things, due to increasing market transparency, by continuously improving our products, services and business processes. Our pricing may suffer as a result of the aggressive behavior 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 loss of individual customers would have only a limited impact on our net assets, financial position and results of operations. Due to increasing market transparency, it is possible, however, that this risk will have to be weighted higher in the future.

## Technology and quality risks

As an excellent top innovator who offers internationally competitive products and services, the Masterflex Group is exposed to the risk of losing this position due to declining innovative strength or human errors and a loss of know-how. In order to avoid this, we are accelerating a permanent research and development process in order to meet our customers' demanding requirements. By concluding the appropriate 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 a certain limited group of people. In order to guarantee this also in the future, an innovation management process has been put into place that has been optimized over the last year. A panel of internal experts will decide on further developments according to clear process and assessment requirements (a 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 seeks 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 Research and Development.

The recognized 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 place a great deal of importance on 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 from a product or manufacturing process, as well as the low number of warranty cases in the past, we consider the technology and quality risks in terms of impact on our net assets, financial position and results of operations to be low.

## Tax risks

Tax risks may arise, in particular, from tax audits by which the tax authorities could demand subsequent tax payments, which would affect Masterflex Group's liquidity. We currently assess the probability of occurrence of this as unlikely and regard the risk as low overall.

## Legal risks

We are currently not aware of any other legal disputes that could have a material impact on the Masterflex Group's net assets, financial position and results of operations.

Risks from legal disputes cannot generally be ruled out in the future either. Appropriate provision is made for impending legal disputes. Nevertheless, it cannot be ruled out here either that balance sheet provisions will not be sufficient. In order to avoid new legal risks, contracts that are of economic significance to the Masterflex Group are reviewed by external lawyers before they are concluded. Overall, we see a low probability of these risks occurring.

## Other Individual Risks

At present, there are no known risks that could endanger the continued existence of the Masterflex Group either individually or in their entirety.

## Summary and overall statement on the Group's current risk situation

Besides global risk factors, the expected moderate development of the results of operations, net assets and financial position of the Masterflex Group could be negatively impacted considerably by negative or even recessive business trends in individual sectors or economies, by the increasing dynamics of the coronavirus pandemic, for example.

The possible departure of a large number of specialists and managers within a relatively short period of time would also 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 attempt to minimize IT risks by optimizing the central and decentralized 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 of 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 nature could lead to extraordinary write-downs on internally-created assets and intangible assets.

The spreading of the corona pandemic and its effects on the global economy have changed the overall risk situation for the Masterflex Group compared to the previous year. The sales risk has increased due to global risk factors and possible production disruptions. The Group is countering this by reducing expenses to the minimum necessary for operations and making costs more flexible. However, it is difficult to make a final risk assessment at the present time. In principle, the Management Board remains convinced of the effectiveness of its opportunity and risk management and of the measures taken.

The Management Board currently sees the Masterflex Group as being well positioned to manage the identified risks. Both on the process side and due to the short communication channels, changes in the risk situation are reported to the Management Board at an early stage and dealt with in a targeted manner.

### The organization of the compliance system

Compliance is paramount to the Management Board and Supervisory Board of the Masterflex Group and one of the prerequisites for its lasting success. In simple terms, compliance means first of all adherence to all applicable legal provisions and internal rules. The Masterflex Compliance Management System (CMS) describes the measures, structures and processes that work towards responsible, ethically correct and lawful action by the Management Board and Supervisory Board as well as by the entire management and all employees of the Masterflex Group.

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 a minimum standard for ethical and law-abiding behavior.

With regard to shareholders, employees, business partners, competitors and society in general, the Masterflex Group is committed to complying 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. Every employee of the Masterflex Group receives his or her own personal copy, is trained regarding the Code of Conduct and instructed to make the Code's principles a binding framework for their own actions.

The Management 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 behavior by the company management or employees should be avoided in all of the Masterflex Group's business activities.

The Masterflex Group has established a CMS that takes a preventative compliance approach and strives to create a corporate culture that sensitizes and informs the employees and thus identifies potential rule violations already in advance and rules them out if possible.

The compliance organization is headed by the Chief Compliance Officer (CCO), who reports directly and regularly on all compliance-relevant issues to the Management 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 Management Board reports to the Supervisory Board regularly and, when necessary, on an ad-hoc basis, on 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, data protection and data security as well as other relevant compliance issues took place that were aimed at ensuring lawful and ethically 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 them. Thus, compliance in the Masterflex Group is an integral part of operational processes and a prerequisite for sustainable economic activity.

# D. 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 the information we have available. However, these are subject to significantly greater uncertainties than in previous years as a result of the current economic environment and thus include the unavoidable risk that forecast developments will not actually occur, either in terms of general trends or to the extent predicted.

## Outlook

### Expected macroeconomic development

#### — The economy in 2021

The global economy will also be strongly influenced by the further development of the COVID-19 pandemic in 2021. The prospect of global vaccination campaigns increases confidence that the pandemic will be dealt with quickly. Conversely, delays in health measures and vaccination campaigns will have a dampening effect on economic development. Nevertheless, as the second wave of infections of the COVID-19 pandemic subsides, economic activity should have recovered in the first quarter of 2021, according to the Kiel Institute for the World Economy (IfW), in regions where it had fallen noticeably in the meantime. For 2021, the IfW expects an increase in world production of 6.1% after an adjustment compared to the September forecast by 0.2 percentage points.

The IfW regards the loss of income as a result of the corona crisis and a sustained reduction in the propensity to invest as a result of worsened sales expectations and a reduced equity base for companies as negative factors.[7]

We assume that we will also see highly heterogeneous developments in the various countries in fiscal year 2021. In the past fiscal year, China saw large parts of the economy return to normal and a particularly strong recovery from the pandemic-induced economic slump. The IfW expects a normalization in service sectors that were hit particularly hard by the pandemic, such as transport, in 2021 due to the fact that the infection has largely been brought under control. Overall, total economic production in the People's Republic is expected to expand by 9.1% in the current year, while a slowdown to 5.7% is to be expected in 2022 with the expiry of fiscal stimuli and an expected tightening of monetary and credit policy.[8]

In many other countries, economic output will not have reached the level of 2019 even by the end of 2021. The euro zone is being hit particularly hard here. The uncertainties regarding the economic effects of the various lockdown approaches are putting a significant strain on the economic recovery. For 2021, the IfW expects a short-term revival with a strong recovery of 4.9%. In 2022, however, the economy is expected to grow by only 4.0%.[9]

In summary, it can be said that the economic sentiment is cautiously optimistic. However, the effects of the COVID-19 pandemic will accompany us beyond fiscal year 2021. The answer to

7 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf
8 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf
9 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2020/KKB_73_2020-Q4_Welt_DE.pdf

the question of how quickly global economic activities will regain significant dynamism depends, in addition to the planned vaccination campaigns, on the health management of the individual countries.

## Forecast on economic growth in selected countries in which the Masterflex Group has a presence

(change compared to the previous year in %)

| Country | 2020 | 2021 | 2022 |
|---|---|---|---|
| Euro zone | -7.2 | 4.7 | 3.9 |
| Germany | -5.2 | 3.1 | 4.6 |
| France | -9.0 | 6.3 | 3.6 |
| UK | -11.3 | 6.5 | 4.0 |
| World | -3.8 | 6.1 | 4.5 |
| Brazil | -4.6 | 3.9 | 3.1 |
| China | 1.8 | 9.2 | 5.9 |
| USA | -3.6 | 3.7 | 3.5 |

Source: IfW, as of December 2020

## Anticipated development of the industries of relevance for Masterflex

High-tech hoses and connection systems from the Masterflex Group are used in many different industries. The development of the Masterflex Group can therefore not be seen in isolation from the development of the relevant markets.

### Medical technology:

Masterflex hose systems are used, among other areas, in intensive care medicine. Health management in times of the COVID-19 pandemic will continue to lead to increasing demand in the application segments of medical technology. In addition, we assume that the technological requirements for hose solutions will gradually increase in other areas of medical technology, as well, but with a view to 2021, we expect that business in the application field of elective medical services will only increase after the vaccinations have been successful or the effects of the pandemic have subsided. Overall, we expect business development in this sector to remain good in fiscal year 2021.

### Lifescience:

The food industry, under which we also group products from the pharmaceutical, laboratory and biotech industries, is one of the winners of the economic effects of the COVID-19 pandemic. In our opinion, this trend will continue in fiscal year 2021. Regardless of this, the Masterflex Group benefits from a social change towards greater health awareness. We also expect a positive demand situation in this sector in the fiscal year.

### E-mobility, automotive, aviation:

Regardless of the form of mobility, no mobility concept can do without high-tech connection solutions. However, we expect sustained and lasting consolidation effects in this area. We do not anticipate that aviation industry activity will recover in the short to medium term. The automotive industry is also facing a change of strategy. However, we do not expect any serious, negative effects from this. The sales figures for the automotive industry will presumably remain at a high level. For fiscal year 2021, we expect a stable development starting from the low level in 2020.

### Renewable energies:

Our applications in the renewable energies sector benefit from the regulatory requirements for the energy transition and are thus decoupled from the general economic effects. However, changes in financing structures have a direct effect on the demand situation. Assuming that we will not experience any significant changes in the financial industry, we assume a stable demand situation in this sector.

### Process industry & robotics:

According to its December 2020 forecast, the VDMA expects production to increase by 4% in fiscal year 2021. The Masterflex Group will benefit directly from developments in mechanical engineering. However, the VDMA forecast is also subject to the proviso that vaccination campaigns and current health management will make the pandemic manageable.

### Predictive maintenance:

Predictive maintenance using intelligent hose systems is becoming a sustainable future market. The growth in this product segment is gradually being expanded and underpinned by new product developments. We expect the demand situation to increase further in fiscal year 2021.

## Expected development of the Masterflex Group

On the basis of its diversified growth strategy, as well as the continuing intact market drivers and current market potential, the Masterflex Group remains committed to its general goal of return-oriented growth above economic growth as well as achieving its medium-term target of an EBIT margin of over 10%. The continued high economic uncertainties for 2021 as a result of the ongoing corona pandemic and the resulting difficult forecast for 2021 do not change this. We consider the sustainable achievement of a double-digit EBIT margin to be achievable by 2022, despite the many current challenges.

Due to the wide range of applications for Masterflex hoses in various industries, the Masterflex Group benefits from different trends in the relevant sectors even during the corona pandemic. With this product market strategy, the Masterflex Group can partially balance economic fluctuations.

In addition to securing our sales expectations by focusing on different industries, we continue to work consistently on the implementation of the cost-saving potential under the “Back to Double Digit (B2DD)” program. The structural and efficiency improvements introduced in 2019 and 2020 in the area of personnel productivity as well as to reduce the use of materials will only show their full effectiveness gradually and over time. Sustainable earnings effects from these measures will already be visible in fiscal year 2021, as, among other things, the necessary one-time expenses as part of the B2DD program were almost completely recorded in previous years.

In addition, we will also implement further cost-saving measures in fiscal year 2021 that are geared in particular to the flexible control of the corona-related effects. The Masterflex Group will use the full range of possible measures, such as short-time working in parts of the Group, significant temporary restrictions on trade fair participation and travel activities, strictest cost discipline and possibly further staff cuts.

At the same time, in 2021, despite the continuing economic uncertainties and the planning uncertainty regarding the duration of lockdown measures, the goal is that the Group will unrestrictedly maintain its growth opportunities in the respective, widely diversified target markets, be it regional or according to target and customer industries. In addition, growth through acquisitions will remain an option in the future. The focus here is not on pure volume and revenue growth. Rather, in this way it should be possible to acquire new technologies and expertise beyond the internal know-how and thus further expand our strategic goals as an innovation leader. As part of our internationalization strategy, we are also pursuing the approach of growing through possible acquisitions.

Even if the short-term effects of the corona pandemic cannot be avoided, we are sticking to our long-term growth path and our medium-term forecast. Our strategic goal is to achieve a sales volume of EUR 100 million in 2023/2024 through purely organic growth. We have defined additional growth potential through acquisitions to a total of EUR 200 million in sales by 2030.

Even if the current economic forecasts as well as the ongoing vaccination campaigns in the course of the COVID-19 pandemic suggest a positive outlook for the full year 2021, we are assuming that the quarterly progress will be very different. The first quarter of 2021 is under the influence of the lockdown regulations that apply worldwide, while compared to the previous year, only the Chinese market was initially affected by a strict shutdown. Against this backdrop, we have planned a decline in sales in the first quarter of 2021 compared to the previous year and flexibly aligned our Group to these challenges. We assume that the second quarter of 2021 will show less volatility and that the demand situation will be stable compared to the previous year. In our opinion, sustained vaccination coverage and an overall positive economic sentiment will release the investment brake in the third quarter of 2021. Against this backdrop, we assume an above-average strong and profitable business development in the second half of 2021. In this scenario, which we consider realistic, we expect an increase in sales of 2 to 5% on a year-round basis. As a result, EBIT should be above the previous year in absolute and percentage terms.

Should the pandemic leave the global economy on the brakes for longer than we assume, sales and operating profit will remain at the level of 2020 and, in extreme cases, may even be lower.

## Expected development of Masterflex SE

The potential effects of the coronavirus pandemic also make it difficult to provide a concrete growth and financial forecast for fiscal year 2021 at the Masterflex SE level.

In line with the business development of the Masterflex Group, Masterflex SE expects a weak first half of 2021 and an above-average catch-up in the second half of 2021 by relieving the corona-related reluctance to invest.

In this scenario, which we consider realistic, we expect an increase in sales of 2 to 5% on a year-round basis. As a result, EBIT should be above the previous year in absolute and percentage terms.

Should the pandemic leave the global economy on the brakes for longer than we assumed, sales and operating profit should remain at the level of 2020 and, in extreme cases, may even be lower.

## Summary statement on the anticipated development of the Group

In summary, the Management Board believes that the Masterflex Group is on the right track in its long-term growth strategy. The current economic forecasts assume a certain recovery for the full year 2021, albeit with strong fluctuations in the individual quarters. Due to the structural set-up of the Masterflex Group, the Management Board is able to react to these fluctuations with flexible and thus controllable packages of measures.

The growth opportunities through innovation, internationalization and digitalization will continue to be implemented consistently even in the environment of uncertainty and thus form the basis for the confirmed medium-term plan to increase the sales volume organically to EUR 100 million by 2024 at the latest.

Operational excellence is a sustainable claim that leads to a process of permanent process improvement. With the strategically oriented B2DD program, Masterflex has laid the foundation for a return to the double-digit EBIT margin in fiscal year 2022. This will provide long-term support for the possibility of a steady dividend payment in the set of goals of declining debt, financing further growth and financing possible new company acquisitions.

# E. Remuneration report

## Remuneration report

Masterflex SE complies with the recommendations of the Corporate Governance Code and publishes the individualized remuneration of the Management Board and Supervisory Board. The remuneration of the Management Board members includes fixed and variable components; the members of the Supervisory Board only receive fixed remuneration.

### Management Board remuneration

For the company, giving a transparent and comprehensible presentation of the Management Board remuneration has been a key element of good corporate governance for years. The Supervisory Board plenum is responsible for determining the individual Management Board remuneration 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 remuneration of the Management Board members consists of non-performance-related and performance-related components. The non-performance-related component comprises fixed remuneration 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 remuneration 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 remuneration is held by the company for a further two years and 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 Management Board do not receive any pension commitments. A review of the total amount and the parameters takes place regularly every two years.

The current remuneration 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 Section 120 (4) AktG. There were no changes to the remuneration system for 2020; such were only resolved in December 2020 with effect from fiscal year 2021 and will be submitted to the 2021 Annual General Meeting for approval.

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

The total remuneration of the Management Board in 2020 and its breakdown into fixed and variable remuneration can be found in the following tables recommended by the Corporate Governance Code (version of February 7, 2017).

## Remuneration of the management board (view of appropriations)

| in EUR thousand | Dr. Andreas Bastin CEO since April 1, 2008 2019 | 2020 | 2020 | 2020 | Mark Becks CFO since June 1, 2009 2019 | 2020 | 2020 | 2020 |
|---|---|---|---|---|---|---|---|---|
| | granted | granted | Minimum | Maximum | granted | granted | Minimum | Maximum |
| Fixed remuneration | 378 | 378 | 378 | 378 | 262 | 262 | 262 | 262 |
| Fringe benefits | 42 | 43 | 43 | 43 | 39 | 38 | 38 | 38 |
| **Total** | | **421** | **421** | **421** | **301** | **300** | **300** | **300** |
| One-year variable remu-neration | | | | | | | | |
| Bonus | 100 | 95 | 0 | 158 | 67 | 63 | 0 | 106 |
| Multi-year variable remuneration | | | | | | | | |
| Bonus 2020-2022 | | 49 | 0 | 82 | | 32 | 0 | 54 |
| Bonus 2019-2021 | 51 | | 0 | 82 | 34 | | 0 | 54 |
| **Total remuneration** | **571** | **565** | **421** | **743** | **402** | **395** | **300** | **514** |

## Remuneration of the management board (overview of inflows)

| in EUR thousand | Dr. Andreas Bastin CEO since April 1, 2008 2019 | 2020 | 2020 | 2020 | Mark Becks CFO since June 1, 2009 2019 | 2020 | 2020 | 2020 |
|---|---|---|---|---|---|---|---|---|
| | granted | granted | Minimum | Maximum | granted | granted | Minimum | Maximum |
| Fixed remuneration | 378 | 378 | 378 | 378 | 262 | 262 | 262 | 262 |
| Fringe benefits | 42 | 43 | 43 | 43 | 39 | 38 | 38 | 38 |
| **Total** | | **421** | **421** | **421** | **301** | **300** | **300** | **300** |
| One-year variable remu-neration | | | | | | | | |
| Bonus | 118 | 98 | 0 | 158 | 79 | 65 | 0 | 106 |
| Multi-year variable remu-neration | | | | | | | | |
| Bonus 2020-2022 | | 52 | 0 | 82 | | 35 | 0 | 54 |
| Bonus 2019-2021 | 69 | | 0 | 82 | 37 | | 0 | 54 |
| **Total remuneration** | **607** | **571** | **421** | **743** | **417** | **400** | **300** | **514** |

Fixed and performance-related remuneration was granted to the Management Board in fiscal year 2020. The variable remuneration components were determined by the Supervisory Board on the basis of the bonus regulations agreed with the members of the Management Board at the beginning of the past fiscal year. In the past fiscal year, not all 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 Management Board members also receive fringe benefits in the form of benefits in kind. These primarily consist of insurance premiums for occupational disability insurance, life insurance and private use of a company car.

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

## Supervisory Board remuneration

The Supervisory Board's remuneration 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 remuneration for the Supervisory Board members since that time includes fixed remuneration which is staggered according to function. This structure complies with the recommendations of the Corporate Governance Code.

Each member of the Supervisory Board receives annual fixed remuneration in addition to reimbursement of his or her expenses, payable at the end of a fiscal year. The fixed remuneration of the Chairman amounts to EUR 30,000 per year, that of the Vice Chairman of the Supervisory Board to EUR 25,000 and that of an ordinary member of the Supervisory Board to EUR 20,000 per year. Supervisory Board members who are only members for part of the fiscal year receive remuneration prorated to the duration of their Board activity. Members of the Supervisory Board are also paid attendance fees of EUR 500 per meeting. The total remuneration of the Supervisory Board in 2020 and its breakdown can be found in the following table.

## The members of the Supervisory Board were remunerated as follows:

| | Fixed salary | | Attendance fee | | Total disbursement-relevant remuneration | |
|---|---|---|---|---|---|---|
| in EUR thousand | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 |
| Chairman of the Supervisory Board, Georg van Hall (since 06/14/2016) | 30 | 30 | 3 | 3 | 33 | 33 |
| Deputy Chairman of the Supervisory Board, Dr. Gerson Link (since 06/14/2016) | 25 | 25 | 3 | 3 | 28 | 28 |
| Supervisory Board member, Jan van der Zouw (since 06/14/2016) | 20 | 20 | 3 | 3 | 23 | 23 |
| **Total remuneration** | **75** | **75** | **9** | **9** | **84** | **84** |

# F. Takeover-relevant information

## Other disclosures in accordance with sections 289 and 315 HGB

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

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

The company is aware of two cases of direct or indirect equity investment in the capital exceeding 10% of the voting shares as of December 31, 2020:

- According to the latest information, JF Müller & Sohn AG holds 20.0% of the shares. This investor is a 6th generation family-led investment holding with broadly diversified investments primarily in established medium-sized companies in Europe.

- Grondbach GmbH is a long-term oriented investor from Germany who holds 17.2% of the shares of Masterflex SE according to the company's most recent knowledge.

There are no shares with special rights that grant the authority to control.

In accordance with Section 76 AktG and Section 7 of the Articles of Association of Masterflex SE, the Management Board consists of at least one person. In accordance with Section 84 AktG and Section 7 of the Articles of Association of Masterflex SE, the Supervisory Board is responsible for appointing the members of the Management Board and for determining the number of members. In the event of a change of control, the Management Board is entitled under certain circumstances to a special right of termination combined with severance pay which is limited in terms of the amount.

Any amendment to the Articles of Association requires a resolution by the Annual General Meeting. In accordance with Section 179 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 Section 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 Section 14 (5) of the Articles of Association, the Supervisory Board is authorized to make changes to the Articles of Association that effect only the wording.

### Purchase of treasury shares

By resolution of the Annual General Meeting on June 14, 2016, the Management Board was authorized,

- with the approval of the Supervisory Board, 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 authorization is exercised. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with Sections 71d and 71e AktG, may not exceed 10% of the company's share capital at any time. The authorization came into force on June 15, 2016, and is valid until June 14, 2021. This authorization may not be used for the purpose of trading in treasury shares.

- 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").
    - 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 authorization 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.
    - 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.
- Use of treasury shares
  - The Management Board may sell the acquired treasury shares subject to compliance with the principle of equal treatment (Section 53a 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 Management Board is also authorized 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:
    - 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.

  - 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.
  - To fulfill conversion or option rights which were granted by the company or a direct or indirect majority shareholder upon the issuance of bonds, or to fulfill conversion obligations from the bonds issued by the company or by an indirect or direct majority shareholder.
  - As employee shares in the context of agreed compensation or of special programs 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 Management Board of the company, this authorization also applies to the Supervisory Board of the company.
  - 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.

- The authorization 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 authorization was given, as well as 10% of the share capital as of the date the authorization 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 authorization as a result of other authorizations in direct or analogous application of Section 186 (3) sentence 4 AktG under exemption of subscription rights ("allocation"). If another authorization is renewed during the term of this authorization by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorization permits the issue of shares under exclusion of the subscription right with the direct or analogous application of Section 186 (3) sentence 4 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 authorization 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 Management Board is authorized, 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 Management Board is also authorized, with the approval of the Supervisory Board, to withdraw the treasury shares without a further Annual General Meeting resolution. It is also authorized to withdraw no-par value shares either with or without a capital reduction. If the no-par value shares are withdrawn without a capital reduction, the proportion of other shares in the share capital is increased in accordance with Section 8 (3) AktG. In this case, the Management Board is also authorized to adjust the number of shares of the company in the Articles of Association (Section 237 (3) no. 3 AktG).

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

Neither the Management Board nor the Supervisory Board exercised any of these authorizations in 2020.

The company currently holds 134,126 treasury shares. The notional interest in the share capital of the acquired treasury shares amounting to EUR 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 Section 71 (1) no 8 AktG. The Annual General Meeting resolutions from June 9, 2004, and June 8, 2005, authorized the company to acquire treasury shares with a notional interest in the company's share capital of up to EUR 450,000. At the date of the Annual General Meeting, this was 10% of the company's total share capital of EUR 4,500,000. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with Section 71 a ff. AktG, could not exceed 10% of the company's share capital at any time. This authorization could not be used for the purpose of trading in treasury shares.

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

## Authorized capital

By resolution of the Annual General Meeting on June 14, 2016, the Management Board was authorized, with the approval of the Supervisory Board, to increase the company's share capital by up to EUR 4,432,937 by June 14, 2021, by issuing up to 4,432,937 no-par value bearer shares on one or more occasions in exchange for cash and / or non-cash contributions (Authorized Capital 2016). The Management Board is authorized 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 Section 53 (1) sentence 1 or Section 53 b (1) sentence 1 or (7) of the German Banking Act with the obligation to offer them to shareholders for subscription. However, the Management Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

- for fractional amounts;
- for capital increases in exchange for non-cash contributions, particularly
    - 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,
    - for the acquisition of other assets or entitlements to the purchase of assets as well as

  - 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;

- 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 finalized;

- 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 may not exceed 20% of the share capital at the time the proposed authorization took effect or if this value is less, then at the time that this authorization 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 authorization on the basis of other authorizations 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 authorization during the term of this authorization, under exclusion of the subscription right. If another authorization is renewed during the term of this authorization by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorization 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) may not exceed 10% of the share capital at the time the proposed authorization took effect or if this value is less, then at the time that this authorization of existing share capital is exercised.

Shares are included in this 10% limit that were issued or sold during the term of this authorization 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 authorization under exclusion of subscription rights by the company or an indirect or direct majority shareholding in accordance with Section 186 (3) sentence 4 AktG. However, if another authorization exercised is renewed by the Annual General Meeting during the term of this authorization, the credit shall not apply to the extent that the renewed authorization permits the issue of shares subject to the exclusion of subscription rights in direct or analogous application of Section 186 (3) sentence 4 AktG.

On March 15, 2017, the Management Board was authorized, with the approval of the Supervisory Board, to partially exercise the Authorized Capital 2016 and to increase the company's share capital under exclusion of the subscription right of the shareholders in accordance with Sections

203 (2) , 186 (3) sentence 4 AktG by EUR 886,586 from EUR 8,865,874 to EUR 9,752,460 through the issuance of 886,586 new no-par value bearer shares with a dividend entitlement from January 1, 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 authorization took effect and also at the time the Authorized Capital 2016 was exercised. The capital increase was entered into the company's commercial register on March 21, 2017, with the result that since this date, the company's share capital totals EUR 9,752,460. The Authorized Capital 2016 currently consists of EUR 3,546,351 owing to the partial utilization illustrated. No use was made of this authorization in 2020.

By resolution of the Annual General Meeting on June 27, 2017, the Management Board was authorized, with the approval of the Supervisory Board, to increase the company's share capital by up to EUR 1,329,879 by June 14, 2021, by issuing up to 1,329,879 no-par value bearer shares on one or more occasions in exchange for cash and / or non-cash contributions (2017 Authorized Capital). The Management Board is authorized 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 Section 53 (1) sentence 1 or Section 53 b (1) sentence 1 or (7) of the German Banking Act with the obligation to offer them to shareholders for subscription. However, the Management Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

- for fractional amounts;
- for capital increases in exchange for non-cash contributions, particularly
  - 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,
  - for the acquisition of other assets or entitlements to the purchase of assets as well as
  - 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;
- 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 finalized;
- 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 may not exceed 20% of the share capital at the time the proposed authorization took effect or if this value is less, then at the time that this authorization 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 authorization on the basis of other authorizations 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 authorization during the term of this authorization, under exclusion of the subscription right. If another authorization is renewed during the term of this authorization by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorization 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) may not exceed 10% of the share capital at the time the proposed authorization took effect or if this value is less, then at the time that this authorization of existing share capital is exercised.

Shares that are sold or issued with the exclusion of subscription rights during the term of this authorization on the basis of other authorizations in direct or corresponding application of Section 186 (3) sentence 4 AktG are counted towards the aforementioned 10% limit ("counting"). 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 authorization under exclusion of subscription rights by the company or an indirect or direct majority shareholding in accordance with Section 186 (3) sentence 4 AktG. However, if another authorization exercised is renewed by the Annual General Meeting during the term of this authorization, it shall not be taken into account to the extent that the renewed authorization permits the issue of shares subject to the exclusion of subscription rights in direct or analogous application of Section 186 (3) sentence 4 AktG.

The Management Board is authorized to amend the wording of Section 4 of the Articles of Association following the full or partial implementation of the share capital increase to reflect the extent to which 2017 Authorized Capital has been utilized and, if the 2017 Authorized Capital is not fully utilized by June 14, 2021, after the authorization period expires.

The Management Board has not yet made use of the above authorization.

## Contingent capital

At the company's Annual General Meeting on May 28, 2019, the Management Board was authorized, with the agreement of the Supervisory Board, to once or repeatedly issue convertible or option bonds in bearer or registered form up to May 27, 2024, in the total nominal value of up to EUR 60,000,000.00. The shareholders have a legal right to bonds and debentures. The bonds can also be taken over by one or more credit institutions or members of a consortium of credit institutions or companies equivalent to credit institutions pursuant to Section 186 (5) sentence 1 AktG with the obligation to offer them to the shareholders for subscription. However, the Management Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases:

- for fractional amounts resulting from the subscription right ratio;
  - if the bonds are issued against cash payment and the issue price is not significantly lower than the theoretical market value of the bonds determined in accordance with recognized principles of financial mathematics. However, this authorization to exclude subscription rights shall only apply to bonds with rights to shares representing a proportionate amount of the share capital totaling no more than 10% of the share capital, neither at the time of this authorization coming into effect nor at the time of its exercise. The sale of own shares shall be counted towards this limit if it takes place during the term of this authorization under exclusion of the subscription right in accordance with Section 186 (3) sentence 4 AktG. Furthermore, shares issued during the term of this authorization from authorized capital excluding subscription rights in accordance with Section 186 (3) sentence 4 AktG shall count towards this limit;
  - insofar as the bonds are issued against contributions in kind and the value of the contribution in kind is not unreasonably low compared to the theoretical market value of the bonds determined in accordance with recognized principles of financial mathematics.

The total number of shares issued to holders of bonds issued under this authorization with the exclusion of subscription rights, taking into account the shares issued during the term of this authorization from authorized capital or from a portfolio of treasury shares with the exclusion of subscription rights against cash and / or non-cash contributions, may not exceed a total of 20% of the company's share capital existing at the time of the resolution by the Annual General Meeting or – if this value is lower – at the time this authorization is exercised, excluding subscription rights for fractional amounts. The issue of subscription rights or shares within the framework of stock option programs which do not currently exist at the company does not constitute an exclusion of subscription rights in this sense.

The holders or creditors of bonds with warrants and convertible bonds (hereinafter jointly referred to as "holders") may be granted option or conversion rights for a total of up to 4,876,230 new no-par value bearer shares in the company with a proportionate amount of the share capital of up to a total of EUR 4,876,230.00 in accordance with the more detailed provisions of the terms and conditions of the bonds, or conversion obligations may be created in a corresponding amount. To service these rights or obligations, the company's share capital was conditionally increased by resolution of the Annual General Meeting on May 28, 2019.

The Management Board has thus far not made use of the authorization to issue warrants and convertible bonds which was granted on May 28, 2019.

The company has not set up an employee participation program. To the extent that employees of the company have participated in other ways in the company's share capital, the Management 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 current syndicated loan agreement, as part of good corporate governance, contains a customary right to cancel by the participating credit institutions.

Gelsenkirchen, March 30, 2021

**Dr. Andreas Bastin**
CEO

**Mark Becks**
CFO

# Consolidated financial statements

# Consolidated statement of financial position

| Assets in EUR thousand | Notes | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| **Non-current assets** | | | |
| **Intangible assets** | **3.24** | **13,242** | **13,115** |
| Concessions, industrial property rights | 3 | 2,087 | 2,209 |
| Development services | 3 | 1,635 | 1,381 |
| Goodwill | 3.24 | 9,187 | 9,187 |
| Advance payments | 3 | 333 | 338 |
| **Property, plant and equipment** | **3** | **31,434** | **33,776** |
| Land and buildings | | 17,300 | 18,318 |
| Technical equipment and machinery | | 11,095 | 12,227 |
| Other equipment, operating and office equipment | | 2,742 | 3,029 |
| Advance payments and assets under construction | | 297 | 202 |
| **Financial assets** | **3** | **64** | **65** |
| Investment securities | | 64 | 65 |
| **Other assets** | **5** | **21** | **27** |
| **Deferred taxes** | **26** | **213** | **398** |
| | | **44,974** | **47,381** |
| **Current assets** | | | |
| **Inventories** | **4** | **15,518** | **18,623** |
| Raw materials, consumables and supplies | | 7,723 | 9,757 |
| Unfinished goods and services | | 715 | 630 |
| Finished goods and products | | 7,075 | 8,218 |
| Advance payments | | 5 | 18 |
| **Receivables and other assets** | **5.6** | **6,228** | **8,127** |
| Trade receivables | 6 | 5,558 | 7,359 |
| Other assets | 5 | 670 | 768 |
| Income tax assets | 7 | 417 | 520 |
| **Cash in hand and bank balances** | **8** | **9,217** | **6,908** |
| | | **31,380** | **34,178** |
| **Total assets** | | **76,354** | **81,559** |

| Equity and liabilities in EUR thousand | Notes | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| **Equity** | | | |
| **Group equity** | **9** | **40,982** | **42,633** |
| Issued capital | | 9,618 | 9,618 |
| Capital reserve | | 31,306 | 31,306 |
| Retained earnings | | 2,142 | 3,048 |
| Reserve for the market valuation of financial instruments | | -643 | -642 |
| Hedging instruments | | -224 | -90 |
| Currency differences | | -1,217 | -607 |
| **Non-controlling interests** | **10** | **303** | **-618** |
| **Total equity** | | **41,285** | **42,015** |
| **Non-current liabilities** | | | |
| **Provisions** | **11** | **165** | **164** |
| **Financial liabilities** | **12** | **24,922** | **26,304** |
| **Other liabilities** | **14** | **1,172** | **1,006** |
| **Deferred taxes** | **26** | **696** | **926** |
| | | **26,955** | **28,400** |
| **Current liabilities** | | | |
| **Provisions** | **11** | **325** | **0** |
| **Financial liabilities** | **12** | **2,447** | **4,545** |
| **Income tax liabilities** | **13** | **149** | **185** |
| **Other liabilities** | **14.15** | **5,193** | **6,414** |
| Trade payables | 15 | 1,647 | 2,249 |
| Other liabilities | 14 | 3,546 | 4,165 |
| | | **8,114** | **11,144** |
| **Total equity and liabilities** | | **76,354** | **81,559** |

# Consolidated statement of income

| | | Notes | 2020<br>in EUR thousand | 2019<br>in EUR thousand |
|---|---|---|---|---|
| 1. | Revenue | 18 | 71,881 | 79,969 |
| 2. | Decrease or increase in finished and unfinished goods | | -603 | 103 |
| 3. | Other own work capitalized | | 138 | 339 |
| 4. | Other income | 19 | 883 | 1,156 |
| | **Operating performance** | | **72,219** | **81,567** |
| | | 20 | -22,571 | -25,968 |
| 5. | Cost of materials | 23 | -29,151 | -32,683 |
| 6. | Personnel expenses | | -4,975 | -4,598 |
| 7. | Depreciation and amortization | 21 | -13,187 | -13,776 |
| 8. | Other expenses | 25 | | |
| 9. | Financial result | | -920 | -1,317 |
| | Financial expenses | | 10 | 26 |
| | Other financial result | | 1,425 | 3,251 |
| **10.** | **Earnings before taxes** | 26 | **-624** | **-810** |
| 11. | Income taxes | | 801 | 2,441 |
| **12.** | **Earnings after taxes from continued business units** | | **801** | **2.441** |
| | thereof: Non-controlling interests | | 8 | -91 |
| | **thereof: Share of shareholders of Masterflex SE** | | **793** | **2,532** |
| | **Earnings per share (undiluted and diluted) from continued business units** | **27** | **0.08** | **0.26** |

# Consolidated statement of comprehensive income

| | | Notes | 2020<br>in EUR thousand | 2019<br>in EUR thousand |
|---|---|---|---|---|
| | **Consolidated result** | | **801** | **2,441** |
| | **Other result** | | | |
| | **Items that are subsequently reclassified into profit or loss if certain conditions are fulfilled** | | | |
| 1. | Foreign exchange gains / losses from the translation of foreign financial statements | 9 | -673 | 128 |
| 2. | Changes in the fair value of financial instruments | | -1 | -33 |
| 3. | Hedging transactions | | -134 | -59 |
| 4. | Income taxes | | 63 | 18 |
| **5.** | **Other income after taxes** | | **-745** | **54** |
| **6.** | **Comprehensive income** | | **56** | **2,495** |
| | **Comprehensive income:** | | **56** | **2,495** |
| | thereof: Non-controlling interests | | 8 | -91 |
| | **thereof: Share of shareholders of Masterflex SE** | | **48** | **2,586** |

# Consolidated statement of changes in equity

| in EUR thousands | Subscribed capital | Capital reserve | Retained earnings | Reserve for the market valuation of financial instruments | Reserve for hedging transactions | Exchange rate differences | Shares of Masterflex SE shareholders | Non-controlling interests | Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Notes** | **9** | **9** | **9** | **9** | **9** | **9** | | **10** | |
| **Equity as of January 1, 2019** | **9,618** | **31,306** | **1,189** | **-609** | **-31** | **-753** | **37,736** | **-497** | **37,396** |
| Distributions | 0 | 0 | -673 | 0 | 0 | 0 | -673 | -30 | -703 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Comprehensive income** | **0** | **0** | **2,532** | **-33** | **-59** | **146** | **2,586** | **-91** | **2,495** |
| Consolidated result | 0 | 0 | 2,532 | 0 | 0 | 0 | 2,532 | -91 | 2,441 |
| Other income after income taxes | 0 | 0 | 0 | -33 | -59 | 146 | 54 | 0 | 54 |
| Changes in the fair value of financial instruments | 0 | 0 | 0 | -33 | -59 | 0 | -92 | 0 | -92 |
| Currency gains / losses from the translation of foreign financial statements | 0 | 0 | 0 | 0 | 0 | 128 | 128 | 0 | 128 |
| Income taxes attributable to other comprehensive income | 0 | 0 | 0 | 0 | 0 | 18 | 18 | 0 | 18 |
| **Equity as of December 31, 2019** | **9,618** | **31,306** | **3,048** | **-642** | **-90** | **-607** | **42,633** | **-618** | **42,015** |
| Distributions | 0 | 0 | -673 | 0 | 0 | 0 | -673 | -13 | -686 |
| Other changes | 0 | 0 | -1,026 | 0 | 0 | 0 | -1,026 | 926 | -100 |
| **Comprehensive income** | **0** | **0** | **793** | **-1** | **-134** | **-610** | **48** | **8** | **56** |
| Consolidated result | 0 | 0 | 793 | 0 | 0 | 0 | 793 | 8 | 801 |
| Other income after income taxes | 0 | 0 | 0 | -1 | -134 | -610 | -745 | 0 | -745 |
| Changes in the fair value of financial instruments | 0 | 0 | 0 | -1 | -134 | 0 | -135 | 0 | -135 |
| Currency gains / losses from the translation of foreign financial statements | 0 | 0 | 0 | 0 | 0 | -673 | -673 | 0 | -673 |
| Income taxes attributable to other comprehensive income | 0 | 0 | 0 | 0 | 0 | 63 | 63 | 0 | 63 |
| **Equity as of December 31, 2020** | **9,618** | **31,306** | **2,142** | **-643** | **-224** | **-1,217** | **40,982** | **303** | **41,285** |

# Consolidated cash flow statement

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Result for the period before taxes, interest expenses and financial | 2,327 | 4,633 |
| Income tax expenses | -630 | -765 |
| Amortization of intangible assets | 478 | 280 |
| Depreciation on property, plant and equipment | 4,497 | 4,320 |
| Decrease / Increase of provisions | 326 | -677 |
| Other non-cash expenses / income and profit / loss from the disposal of non-current assets | 449 | -417 |
| Decrease / Increase of inventories | 3,105 | -1,961 |
| Decrease in trade receivables and other assets not attributable to investment or financing activities | 2,097 | 424 |
| Decrease / Increase in trade payables and other liabilities not attributable to investing or financing activities | -1,103 | 823 |
| **Cash flow from operating activities** | **11,546** | **6,660** |
| Payments for investments in intangible assets | -573 | -979 |
| Payments for investments in property, plant and equipment | -1,747 | -2,206 |
| **Cash flow from investing activities** | **-2,320** | **-3,185** |
| Payments to company owners and minority shareholders (dividends, purchase of treasury shares) | -686 | -703 |
| Interest and dividend income | 7 | 23 |
| Interest payments | -815 | -867 |
| Proceeds from borrowings | 500 | 4,090 |
| Payments for the repayment of loans | -5,180 | -3,567 |
| **Cash flow from financing activities** | **-6,174** | **-1,024** |
| **Cash-effective changes in cash and cash equivalents** | **3,052** | **2,451** |
| Changes in cash and cash equivalents due to exchange rates | -743 | 87 |
| **Cash and cash equivalents at the beginning of the period** | **6,908** | **4,370** |
| **Cash and cash equivalents at the end of the period** | **9,217** | **6,908** |

# Notes to the consolidated financial statements

## 1. Principles of financial reporting

### Principles of presentation

Masterflex SE as the parent company of the Group is registered in the commercial register at Gelsenkirchen District Court under no. 11744. The company's head office is in Gelsenkirchen, Germany. The address is Masterflex SE, Willy-Brandt-Allee 300, 45891 Gelsenkirchen.

These Consolidated Financial Statements have been prepared in accordance with Section 315e HGB ("Consolidated Financial Statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB), as applicable within the EU as of December 31, 2020, in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

The Consolidated Statement of Financial Position, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows are shown here. The segment reporting is also included in the notes. Furthermore, the schedule of fixed assets attached as an annex is also an integral part of the notes.

Various items in the Consolidated Statement of Financial Position, the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income are summarized for the sake of clarity and explained accordingly in the Notes to the Consolidated Financial Statements. Assets and liabilities are classified as current and non-current. The Consolidated Statement of Profit or Loss is prepared using the nature of expense method.

The Consolidated Financial Statements are prepared in euros (EUR). All amounts, including prior period amounts, are stated in thousands of euro (EUR thousand). 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 annual financial statements of the companies included in consolidation are prepared as of the same reporting date as the Consolidated Financial Statements.

The Management Board of Masterflex SE released these financial statements for publication on March 30, 2021. They were approved on March 30, 2021.

## 2. Accounting principles

### Scope 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 of December 31, 2020, 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 of December 31, 2020:

| Company | Seat of the company | | Masterflex share in % |
|---|---|---|---|
| Masterflex SARL | France | Béligneux | 80 |
| Masterflex Technical Hoses Ltd. | UK | Oldham | 100 |
| Masterduct Holding, Inc.* | USA | Houston | 100 |
| · Flexmaster USA, Inc. | USA | Houston | 100* |
| · Masterduct, Inc. | USA | Houston | 100* |
| · Masterduct Holding S.A., Inc. | USA | 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 | 100 |
| · Masterflex Asia Pte. Ltd. | Singapore | Singapore | 100* |
| · Masterflex Hoses (Kunshan) Co., Ltd. | People's Republic of China | Kunshan | 100* |

* = Subgroup

On June 26, 2020, the Group acquired the remaining shares amounting to 20% in Masterflex Asia Holding GmbH, Gelsenkirchen, at a purchase price of EUR 48 thousand.

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. Adjustments to acquisition costs due to the occurrence of future events are already taken into account at the time of acquisition, depending on the probability of occurrence and the sufficiently reliable estimate. Assets, liabilities and contingent liabilities identifiable in a business combination are measured initially at their fair values at the acquisition date, irrespective of any minority interest.

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 recognized 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 recognized in the Consolidated Statement of Income.

Some of the subsidiaries included in the Consolidated Financial Statements make partial use of the exemption clause of Section 264 (3) HGB. A list of the exemption clauses made use of by these companies can be found in Note 37.

### 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 equity. The 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 on the transaction date. Monetary assets are adjusted to reflect the exchange rate on 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 on 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 on each balance sheet date. On December 31, 2020, these differences amounted to EUR -1,216 thousand (previous year: EUR -607 thousand).

Goodwill from the acquisition of foreign subsidiaries whose functional currency is different than 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 on the balance sheet date.

For currency conversion purposes, the following exchange rates were applied as of the balance sheet date. The income and expense items, including the net income for the year, were translated at the following average exchange rate for the year:

| in € | Balance sheet date Dec. 31, 2020 | Average exchange rate for 2020 |
|---|---|---|
| 1 English pound (GBP) | 1.1123 | 1.1246 |
| 1 US dollar (USD) | 0.8149 | 0.8762 |
| 1 Brazilian real (BRL) | 0.1569 | 0.1698 |
| 1 Czech koruna (CZK) | 0.0381 | 0.0378 |
| 1 Swedish krona (SEK) | 0.0997 | 0.0953 |
| 1 Singapore dollar (SGD) | 0.6166 | 0.6355 |
| 1 Renminbi (CNY) | 0.1246 | 0.1271 |

## Intangible assets

Intangible assets include both internally generated and acquired assets. Internally generated intangible assets relate to work performed by the company and capitalized 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, licenses, 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 amortized 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. Impairment is assessed by comparing the carrying amount of an asset with its recoverable amount (impairment testing). 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 amortized cost of the respective asset.

## Goodwill

Goodwill arising from a business combination is recognized as an intangible asset.

Goodwill is tested for impairment at the level of the respective cash-generating units ("cash-generating unit") at least once a year at the end of the fiscal year and whenever there is evidence of impairment. Here, the recoverable amount of the individual cash-generating units is compared 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 recognized 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 fiscal year in accordance with the discounted cash flow method.

### Property, plant and equipment

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 administrative purposes and that are expected to be used for 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 reason for an impairment loss subsequently ceases to apply, a reversal of the impairment loss is made up to a maximum of the amortized historical costs of acquisition or production.

### Useful lives

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

| | Useful life | Depreciation method |
|---|---|---|
| Software | 3 years | Straight-line |
| Licenses and similar rights | Over the term of the lease | Straight-line |
| Development costs | 10 years | Straight-line |
| Buildings/parts of buildings | 10 - 50 years | Straight-line |
| Technical equipment and machinery | 2 - 18 years | Straight-line |
| Other equipment, operating and office equipment | 2 - 10 years | Straight-line |

### Financial assets

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

Securitized debt instruments for which the business model is to hold the securities in order to realize interest and redemption payments are measured at amortized cost using the effective interest method. All other securities whose business model consists of holding and selling are measured at fair value, with fluctuations in value recognized directly in equity.

Financial receivables are held in accordance with the business model to generate cash flows over the term of these receivables and are measured at amortized cost using the effective interest method.

The settlement date is relevant for both the initial recognition and derecognition of financial assets. Where financial derivatives exist, initial measurement is recognized as of the contract date. Similarly, normal market purchases or sales of securities are recognized in the balance sheet as of the trade date. Derecognition takes place as soon as the right to receive cash or another financial asset expires as a result of payment, remission, expiry, offsetting or otherwise, or the right is transferred to another person, with the risks having passed to the acquirer.

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

### Leasing

As a lessee, the Masterflex Group leases assets, including real estate. Rights of use and lease liabilities are recognized for all contracts that qualify as leases under IFRS 16.

A lease as defined by IFRS 16 exists if the contract entitles the lessee to control the use of an identified asset for a specified period of time in return for payment of a fee.

At the date of commitment, the right-of-use asset is initially measured at cost, being the initial measurement of the lease liability adjusted for payments made on or before the date of commitment, plus any initial direct costs and the estimated costs of dismantling or removing the underlying asset or restoring the underlying asset or the site on which it is located, less any lease incentives received.

Subsequently, the right-of-use asset is depreciated on a straight-line basis from the date of provision to the end of the lease term. In addition, the right-of-use asset is continuously adjusted for impairment losses, if necessary, and adjusted for certain revaluations of the lease liability.

For the first time, the lease liability is recognized at the present value of the lease payments not yet made at the provision date. The Masterflex Group generally applies the incremental borrowing rate when discounting the future lease payments, as the interest rate underlying the lease cannot be readily determined.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured if there is a change in the future lease payments due to a change in an index or (interest) rate, if the Masterflex Group adjusts its estimate of the expected payments under a residual value guarantee, if the Masterflex Group changes its estimate of the exercise of a purchase, extension or termination option, or if there is a change in a de facto fixed lease payment.

If the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right of use.

Rights-of-use assets and liabilities are not presented separately on the balance sheet. Rights of use are included in the same balance sheet item in which the underlying assets are presented. Please refer to the statement of changes in property, plant and equipment. Lease liabilities are reported under financial liabilities.

For leases of low value and for short-term agreements with a term of less than twelve months, the application relief of IFRS 16 is utilized and the expense is recognized on a systematic basis over the term.

If an agreement provides for payments for lease components and non-lease components, separation is waived in application of the option under IFRS 16.15, with the exception of real estate leases.

### Deferred taxes

Deferred tax assets and liabilities are recognized 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 recognized for tax loss carryforwards. Deferred tax assets are only recognized 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 recognized in the Consolidated Financial Statements.

### Inventories

Inventories are carried at the lower of cost and their net realizable 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 labor costs relating to production and depreciation, as well as production-related administrative expenses, but not borrowing costs. Net realizable value is determined as the estimated selling price less costs to complete and costs to sell. Previously recognized impairment losses must be reversed if the reasons for impairment no longer apply. Impairment losses are reversed up to a maximum of the amortized historical cost.

### Receivables and other assets

Receivables and other assets are accounted for on the basis of the amortized 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, 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 checks, 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 of the balance sheet date.

### Subscribed capital/issued capital

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

### Provisions

Provisions are recognized 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 recognized 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 recognized as an asset if reimbursement is virtually certain and the amount to be reimbursed can be reliably estimated.

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 recognized when the company is aware of a warranty claim and a loss is considered likely. Recourse claims against suppliers are capitalized 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 recognized at amortized cost. The determination of these amortized 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 installment if this value is lower. Liabilities are comprised of financial liabilities, trade liabilities and other liabilities.

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. On the balance sheet date, the excess of the total expense over the payments already made is recognized as a deferred liability.

### Financial instruments

Financial instruments are contracts that result in a financial asset for one party and a financial liability or equity instrument for the other party. In the Masterflex Group, primary financial instruments include in particular trade receivables, loans, cash and cash equivalents as well as financial liabilities and trade payables.

Primary financial instruments are accounted for on the settlement date in the case of purchases or sales at arm's length. Receivables and liabilities denominated in foreign currencies are measured at the respective closing rates. Financial derivatives are recognized on the basis of actuarial models, in particular according to Black Scholes, with appropriately derived valuation factors (Level 2) for initial measurement and, using the same valuation method, also for subsequent measurement.

Financial assets and financial liabilities are reported gross in the Masterflex Group. They are only netted if there is an enforceable right to set off the amounts at the present time and if it is intended to settle them on a net basis.

Financial assets are grouped into the following categories for accounting and measurement purposes:

- measured at amortized cost (acquisition cost – AC),
- measured at fair value through profit or loss (fair value through profit or loss – FVTPL),
- measured at fair value through other comprehensive income (fair value through other comprehensive income – FVOCI).

The following categories were formed for the recognition and measurement of financial liabilities:

- measured at amortized cost (AC),
- measured at fair value through profit or loss (fair value through profit or loss – FVTPL).

The Masterflex Group classifies financial assets and financial liabilities in these categories at the time of acquisition and regularly reviews whether the criteria for classification are met.

The Masterflex Group derecognizes a financial asset if the contractual rights relating to the cash flows from an asset expire or if it transfers the rights to receive the cash flows in a transaction in which all material risks and rewards of ownership of the financial asset are transferred. Derecognition also takes place if the Masterflex Group neither transfers nor retains all material risks and rewards of ownership and does not retain control of the transferred asset. Any interest in such transferred financial assets that arise or remain in the Masterflex Group is recognized as a separate asset or liability.

Financial liabilities are derecognized if the contractual obligations are settled, cancelled or expire.

Impairment losses on financial assets measured at amortized cost are also recognized using a forward-looking model, taking into account expected credit defaults.

Value adjustments on trade receivables, contractual assets and leasing receivables are determined using the simplified approach with the expected lifetime credit loss.

Financial assets, with the exception of financial assets measured at fair value through profit or loss, are examined for possible impairment indicators on each balance sheet date. Financial assets are considered impaired if there is objective evidence that the expected future cash flows from the financial asset have changed negatively as a result of one or more events that occurred after the initial recognition of the asset. Objective evidence of an impairment loss could be various facts such as late payment over a specified period, the initiation of coercive measures, impending insolvency or overindebtedness, the filing or commencement of insolvency proceedings or the failure of restructuring measures.

Financial assets are measured at amortized cost if the business model requires the financial asset to be held for the purpose of collecting the contractual cash flows and the contractual terms of the instrument result exclusively in cash flows representing interest payments and principal repayments.

On initial recognition, financial instruments in the AC category are measured at fair value plus directly attributable transaction costs.

In subsequent measurement, financial assets measured at amortized cost are measured using the effective interest method. If the effective interest method is applied, all directly attributable fees, charges paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate are amortized over the expected term of the financial instrument.

Interest income and expenses from the application of the effective interest method are recognized in profit or loss under interest income or interest expense from financial instruments.

Non-interest bearing and low-interest bearing receivables with a term of more than twelve months are discounted at the term-appropriate interest rate.

Cash and cash equivalents comprise cash on hand and current account balances with banks. These are only shown under cash and cash equivalents if they can be converted at any time into cash amounts that can be determined in advance, are only subject to insignificant value fluctuation risks and have a remaining term of no more than three months from the date of acquisition.

If the business model requires the financial asset to be held and sold and the contractual terms of the instrument result exclusively in cash flows representing interest payments and principal repayments, the financial asset is carried at fair value with changes in fair value recognized in other comprehensive income (FVOCI). Financial assets held exclusively for trading purposes are carried at fair value through profit or loss with changes in fair value recognized in profit or loss (FVTPL). Derivatives belong to this category. It is also possible to use the fair value option to measure financial instruments carried at amortized cost at fair value through profit or loss if this significantly reduces or prevents a valuation or recognition inconsistency. The Masterflex Group does not exercise the fair value option.

Without exception, equity instruments are measured at fair value. At initial recognition, there is an irrevocable option to present realized and unrealized changes in value not in the income statement but in the Statement of Comprehensive Income, provided the equity instrument is not held for trading purposes. Amounts recognized in other comprehensive income may not be reclassified to the income statement at a later date.

With the exception of derivative financial instruments, non-current and current financial liabilities to banks, trade payables and other liabilities are measured as financial liabilities at amortized cost. Non-current liabilities are measured using the effective interest method less directly attributable transaction costs.

Initial recognition is at fair value less directly attributable transaction costs.

Interest income and expenses from the application of the effective interest method are recognized in profit or loss under interest income or interest expense from financial instruments.

A financial liability is measured at fair value through profit or loss if it is held for trading or determined accordingly upon initial recognition. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near future. Directly attributable transaction costs are recognized in profit or loss as soon as they are incurred.

### Derivative financial instruments

The Group holds derivative financial instruments to hedge currency and interest rate risks. Under certain circumstances, embedded derivatives are separated from the host contract and accounted for separately.

Derivatives are initially measured at fair value. During subsequent measurement, they are measured at fair value. Any resulting changes are generally recognized in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge fluctuations in cash flows associated with highly probable forecast transactions resulting from changes in foreign exchange rates and interest rates. Certain derivatives and non-derivative financial liabilities are designated as hedges of the foreign currency risk of a net investment in a foreign operation.

At the inception of the designated hedging relationship, the Group documents the risk management objectives and strategies it pursues with respect to the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument and whether changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

### Cash flow hedging

If a derivative is designated as a cash flow hedge, the effective portion of the change in fair value is recognized in other comprehensive income and transferred cumulatively to the hedge reserve. The effective portion of the changes in fair value recognized in other comprehensive income is limited to the cumulative change in the fair value of the hedged item (calculated based on the present value) since hedge inception. An ineffective portion of the changes in the fair value of the derivative is recognized directly in profit or loss.

The Group only recognizes the change in the fair value of the spot component of forward exchange contracts as a hedging instrument in cash flow hedges. The change in the fair value of the forward element of forward exchange contracts is recognized separately as the cost of the hedging relationship and transferred to a reserve for the cost of the hedging relationship in equity.

If a hedged forecast transaction subsequently results in the recognition of a non-financial item, such as inventories, the cumulative amount from the hedge reserve and the hedging cost reserve is included directly in the cost of the non-financial item when it is accounted for.

For all other hedged forecast transactions, the cumulative amount transferred to the hedge reserve and the hedging cost reserve is reclassified to profit or loss in the period or periods in which the hedged forecast future cash flows affect profit or loss.

When the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, hedge accounting is discontinued prospectively.

When hedge accounting for cash flow hedges is discontinued, the amount transferred to the hedge reserve remains in equity until – for a hedging transaction that results in the recognition of a non-financial item - that amount is included in the cost of the non-financial item at initial recognition or – for other cash flow hedges – that amount is reclassified to profit or loss in the period or periods in which the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, the amounts transferred to the hedge reserve and the hedging cost reserve are immediately reclassified to profit or loss.

### Revenue recognition

Revenue is recognized when the Group meets its obligations to customers by transferring an agreed good or service. Revenue is recognized on the basis of contracts with customers and is based on agreed transaction prices as consideration, taking sales deductions into account. It is realized when the promised goods have been delivered to the customer in accordance with the delivery terms, as most of the indicators from IFRS 15.38 are met at the point in time when the customer gains control of the transferred goods.

The transaction price is the consideration expected to be received for the transfer of the goods and services to a customer. Variable transaction price components, such as rebates, discounts or customer bonuses, reduce the revenue recognized.

Interest income is recognized in financing income on a time proportion basis over the remaining term, taking into account the effective interest rate and the amount of the residual 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 further development of a product or process are capitalized when the product or process is technically and economically realizable, 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. Capitalized development costs for completed projects are carried at cost less any accumulated amortization.

### Government grants

Government grants are carried at fair value if the Group meets the necessary conditions for receiving the grant. Cost subsidies are recognized over the period in which the costs they are intended to subsidize 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. Performance-related government grants are presented separately as 'other income.'

### 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 ruled out.

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 capitalized, 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 on the balance sheet date (see Note 2).

#### b. Goodwill

The Group checks annually whether a write-down of goodwill is necessary. 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 Management Board (see Note 24).

#### c. Deferred taxes

When estimating the realizability of deferred tax assets, the Group's management assesses the extent to which the factors in favor of realization outweigh those against it. The actual realizability 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 reversal 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 recognized will be realizable (see Note 26).

#### 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 recognized as provisions (see Note 11).

In addition, assumptions and estimates are necessary 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 realizable value of inventories.

In some cases, actual values may deviate from the assumptions and estimates made, meaning that it is necessary to significantly adjust the carrying amount of the respective assets or liabilities. Changes to estimates are recognized 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 December 31, 2020, and adopted by the European Union by the time the Consolidated Financial Statements were approved, was not exercised.

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

| | |
|---|---|
| • Framework | |
| • IFRS 3 | Amendments to clarify the definition of a business |
| • IAS 1/IAS 8 | Changes in the definition of material |
| • IFRS 9/IAS 39/IFRS 7 | Changes in the framework with the IBOR reform (phase 1) |
| • IFRS 16 | Change to provide lessees with an exemption from assessing whether a lease concession related to the coronavirus pandemic is a lease modification. |

In the new framework, revised definitions of assets and liabilities and new guidance on measurement and derecognition, recognition and disclosures, as well as changes to the references to the framework in some standards, have been issued.

The narrowly defined amendments to IFRS 3 aim to address the issues that arise when an entity determines whether it has acquired a business or a group of assets.

The International Accounting Standards Board (IASB) has published “Definition of Material (Amendments to IAS 1 and IAS 8)” to sharpen the definition of “material” and to harmonize the various definitions in the framework and in the standards themselves.

In order to consider the possible effects of the reform of reference interest rates (so-called IBOR reform) on financial reporting, the IASB had included the IBOR project in its standard-setting program in December 2018 and divided it into the following two phases. The amendments to the standard represent the result of the first phase and deal with the effects on certain hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement and related disclosures in the Notes to IFRS 7 Financial Instruments: disclosures arising from the uncertainties surrounding alternative interest rates per se and their introduction.

The amendments to IFRS 16 grant lessees an exemption from assessing whether lease concessions granted due to the coronavirus pandemic (e.g., rent-free periods or temporary rent reductions) constitute a lease modification. If the exemption is used, the lease concessions must be accounted for as if they were not a lease modification. The amendments apply to lease concessions that reduce lease payments due on or before June 30, 2021.

The first-time application of the regulations has no material impact on the financial statements of Masterflex SE.

For the preparation of the IFRS Consolidated Financial Statements as of December 31, 2020, the following accounting standards and interpretations as well as amendments to existing standards had already been published, but their application was not yet mandatory:

| Standard/ Interpretation | | Obligation to apply from |
|---|---|---|
| • IFRS 9/IAS 39/ IFRS 7/IFRS 4/ IFRS 16 | Amendments in connection with the IBOR reform (phase 2) | Jan. 1, 2021 |
| • IFRS 4 | Amendment relating to the fixed date of expiry of the deferral approach | Jan. 1, 2021 |

The standard amendments IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 represent the result of the second phase of the IASB's IBOR project and address issues that could affect financial reporting following the reform of a reference interest rate, including its replacement by alternative reference interest rates

The amendments to IFRS 4 postpone the specified expiry of the temporary exemption from the application of IFRS 9 in IFRS 4 to fiscal years beginning on or after January 1, 2023.

The following accounting standards published by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as amendments to standards and interpretations, still require adoption into European law by the EU and are not currently applied:

| Standard/ interpretation | | Obligation to apply from |
|---|---|---|
| • IFRS 3 | Amendments to update a reference to the Framework. | Jan. 1, 2022 |
| • IAS 16 | Amendments prohibiting the deduction from the cost of an item of property, plant and equipment of revenue arising from the disposal of items that are produced while being brought to the location and condition necessary for it to be capable of operating in the manner intended by the entity's management | Jan. 1, 2022 |
| • IAS 37 | Changes relating to costs to be included in determining whether a contract is onerous | Jan. 1, 2022 |
| • IFRS 17 | Accounting for insurance contracts | Jan. 1, 2023 |
| • IAS 1 | Amendments regarding the classification of liabilities | Jan. 1, 2023 |
| • IAS 1 | Amendments relating to the disclosure of accounting policies | Jan. 1, 2023 |
| • IAS 8 | Changes relating to accounting estimates | Jan. 1, 2023 |

as well as the change in the context of the annual "Improvement" project cycle 2018-2020 from Jan. 1, 2022.

# Notes to the Consolidated Statement of Financial Position: Assets

## 3. 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 EUR 14,476 thousand (previous year: EUR 14,943 thousand) and transfers of title to production facilities totaling EUR 9,766 thousand (previous year: EUR 10,239 thousand).

As of December 31 of each fiscal year, the assets held by foreign companies with a different functional currency are converted to the euro using the prevailing exchange rates on the balance sheet date, while all changes during the fiscal 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 have been purchased, with the exception of individual industrial rights and developments used 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 capitalizable expenses incurred in the development of marketable products.

The cumulative acquisition costs and the additions, disposals and reclassifications are comprised as follows:

| in EUR thousand | Internally generated intangible assets | Intangible assets acquired | Goodwill | Total |
|---|---|---|---|---|
| **As of Jan. 1, 2019** | **1,427** | **4,284** | **15,090** | **20,801** |
| Additions | 419 | 560 | 0 | 979 |
| Disposals | 69 | 309 | 0 | 378 |
| Reclassifications | 132 | -132 | 0 | 0 |
| **As of Dec. 31, 2019** | **1,909** | **4,403** | **15,090** | **21,402** |
| Additions | 341 | 232 | 0 | 573 |
| Disposals | 98 | 308 | 0 | 406 |
| Reclassifications | 72 | 57 | 0 | 129 |
| Exchange rate differences | 0 | -3 | 0 | -3 |
| **As of Dec. 31, 2020** | **2,224** | **4,381** | **15,090** | **21,695** |

Current and accumulated amortization is broken down as follows:

| in EUR thousand | Internally generated intangible assets | Intangible assets acquired | Goodwill | Total |
|---|---|---|---|---|
| **As of Jan. 1, 2019** | **408** | **1,961** | **5,903** | **8,272** |
| Amortization in fiscal year | 67 | 211 | 0 | 278 |
| Disposals | 11 | 253 | 0 | 264 |
| **Exchange rate differences** | **0** | **1** | **0** | **1** |
| **As of Dec. 31, 2019** | **464** | **1,920** | **5,903** | **8,287** |
| Amortization in fiscal year | 136 | 342 | 0 | 478 |
| Disposals | 5 | 307 | 0 | 312 |
| **As of Dec. 31, 2020** | **595** | **1,955** | **5,903** | **8,453** |

The carrying amounts break down as follows:

| in EUR thousand | Internally generated intangible assets | Intangible assets acquired | Goodwill | Total |
|---|---|---|---|---|
| As of Dec. 31, 2019 | 1,445 | 2,483 | 9,187 | 13,115 |
| As of Dec. 31, 2020 | 1,629 | 2,426 | 9,187 | 13,242 |

## b) Financial assets

Financial assets are comprised as follows:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Investment securities | 64 | 65 |

Investment securities relate to income-yielding stocks from a European share index that are classified as of fair value through other comprehensive income (FVOCI) in accordance with IFRS 9. The financial instruments are categorized at level 1 as input factors with quotes prices in active markets for identical assets or liabilities.

In fiscal year 2020, impairments amounting to EUR 1 thousand were recognized directly in equity (see Note 9).

Acquisition costs, unrealized gains, unrealized losses and market values of securities available for sale as of December 31, 2020, are as follows:

| in EUR thousand | Cost of purchase | Unrealized losses | Market value |
|---|---|---|---|
| | 707 | 643 | 64 |

Income from securities totaled EUR 0 thousand (previous year: EUR 2 thousand).

## 4. Inventories

Inventories are comprised of the following items:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Raw materials, consumables and supplies | 7,723 | 9,757 |
| Unfinished goods | 715 | 630 |
| Finished goods and products | 7,075 | 8,218 |
| Advance payments | 5 | 18 |
| **Total inventories** | **15,518** | **18,623** |

Inventories in the amount of EUR 22,309 thousand (previous year: EUR 25,595 thousand) were recorded under cost of materials (see Note 20).

Raw materials, consumables and supplies decreased by EUR 2,034 thousand to EUR 7,723 thousand. Unfinished goods increased by EUR 85 thousand to EUR 715 thousand. Finished goods and products increased by EUR 1,143 thousand to EUR 7,075 thousand and advance payments made increased by EUR 13 thousand to EUR 5 thousand.

Depreciation of inventories to the net realizable value amounted to EUR 52 thousand (previous year: EUR 136 thousand).

## 5. Receivables and other assets

Receivables and other assets break down as follows:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Trade receivables | 5,558 | 7,359 |
| Other assets | 691 | 795 |
| **Total receivables and other assets** | **6,249** | **8,154** |

Other assets of EUR 21 thousand (previous year: EUR 27 thousand) have a residual maturity of more than 1 year.

Other assets break down as follows:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Deferred income | 338 | 345 |
| Receivables from health insurance companies | 79 | 78 |
| Creditors with debit balances | 72 | 55 |
| Security deposits | 52 | 60 |
| Receivables from personnel | 23 | 24 |
| Receivables from tax authorities | 16 | 25 |
| Bonus receivables | 5 | 0 |
| Miscellaneous | 106 | 208 |
| **Total other assets** | **691** | **795** |

The carrying amounts of other assets correspond to their amortized cost.

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

Receivables from tax authorities primarily relate to VAT receivables.

## 6. Trade receivables

Trade receivables are valued as follows:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Nominal amount of trade receivables | 5,683 | 7,409 |
| Impairments | -125 | -50 |
| **Trade receivables** | **5,558** | **7,359** |

Trade receivables are allocated to the AC measurement category in accordance with IFRS 9.

The total write-downs from trade receivables for individual risks amounted to EUR 125 thousand (previous year: EUR 50 thousand).

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

The age structure of unimpaired trade receivables as of the balance sheet date is as follows:

| 2020 in EUR thousands | | |
|---|---|---|
| **Carrying amount** | | **5,558** |
| **1. thereof: neither impaired nor overdue on the balance sheet date** | | **4,113** |
| **2. thereof: not impaired, but overdue on the balance sheet date** | | **1,445** |
| Less than 30 days | 777 | |
| 30 to 59 days | 238 | |
| 60 to 89 days | 121 | |
| 90 to 119 days | 79 | |
| 120 days or more | 230 | |

| 2019 in EUR thousands | | |
|---|---|---|
| **Carrying amount** | | **7,359** |
| **1. thereof: neither impaired nor overdue on the balance sheet date** | | **4,788** |
| **2. thereof: not impaired, but overdue on the balance sheet date** | | **2,571** |
| Less than 30 days | 1,533 | |
| 30 to 59 days | 539 | |
| 60 to 89 days | 133 | |
| 90 to 119 days | 136 | |
| 120 days or more | 230 | |

## 7. Income tax assets

Income tax assets amounted to EUR 417 thousand on the balance sheet date (previous year: EUR 520 thousand). All income tax assets are due within one year.

## 8. Cash in hand and bank balances

Cash and bank balances comprise bank balances and cash on hand:

| in EUR thousands | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Cash in hand and bank balances | 9,217 | 6,908 |

The effective interest rate for short-term bank deposits was between 0.00% and 0.30%.

# Notes to the Consolidated Statement of Financial Position: Equity and liabilities

## 9. Total equity

### Capital management

The Masterflex Group's strategic orientation sets the framework for the optimization of capital management. The Group intends to generate a sustainable increase in company 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 do not impose any external capital requirements on Masterflex SE.

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

### Subscribed capital/issued capital

The subscribed capital of Masterflex SE increased by EUR 886,586.00 from EUR 8,865,874.00 to EUR 9,752,460.00 through a capital increase on March 21, 2017, and is fully paid in.

No treasury shares were sold or newly acquired in fiscal year 2020. On 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 value of EUR 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 authorized the company to acquire treasury shares with a notional interest in the company's share capital of up to EUR 450,000.00. On the date of the Annual General Meeting, this was 10% of the company's share capital of EUR 4,500,000.00. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with Section 71a et seq AktG, were not allowed to exceed 10% of the company's share capital at any time. This authorization could not be used for the purpose of trading in treasury shares.

Accordingly, Masterflex SE reports subscribed capital of EUR 9,752,460.00 and issued capital of EUR 9,618,334.00.

### Authorization to acquire treasury shares

The Annual General Meeting on June 14, 2016, authorized the Management Board with the approval of the Supervisory Board from June 15, 2016, to June 14, 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 authorization is exercised.

In this connection, we refer to our comments in Section F "Other disclosures in accordance with Sections 289 and 315 HGB" in the Combined Management Report.

Neither the Management Board nor the Supervisory Board exercised any of these authorizations.

### Authorized capital

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

By resolution of the Annual General Meeting on June 27, 2017, the Management Board was authorized, with the approval of the Supervisory Board, to increase the company's share capital by up to EUR 1,329,879 by June 14, 2021, by issuing up to 1,329,879 no-par value bearer shares on one or more occasions in exchange for cash and/or non-cash contributions (Authorized Capital 2017).

The Management Board is authorized to amend the wording of Section 4 of the Articles of Association following the full or partial implementation of the share capital increase to reflect the extent to which Authorized Capital 2017 has been utilized and, if the Authorized Capital 2017 is not or not fully utilized by June 14, 2021, after the authorization period expires.

We also refer to our comments on Authorized Capital in Section F "Other disclosures in accordance with Sections 289 and 315 HGB" in the Combined Management Report.

The Management Board has not yet made use of the above authorization.

### Contingent capital

On May 28, 2019, the Annual General Meeting of the Company authorized the Management Board, with the approval of the Supervisory Board, to issue bearer or registered bonds with warrants and/or convertible bonds with a total nominal value of up to EUR 60,000,000.00 on one or more occasions by May 27, 2024.

We also refer to our comments on contingent capital in Section F "Other disclosures in accordance with Sections 289 and 315 HGB" in the Combined Management Report.

The Management Board has thus far not made use of the authorization to issue warrants and/or convertible bonds that was granted on May 28, 2019.

### Capital reserve

The capital reserve amounted to EUR 31,306 thousand on the balance sheet date (previous year: EUR 31,306 thousand).

As a result of the capital increase recorded on March 21, 2017, the capital reserve increased by EUR 5,053,540.20 compared to fiscal year 2016. The shares were issued at a price of EUR 6.70. The increase resulted from the premium from the shares issued.

### Retained earnings

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

### Reserve for the market valuation of financial instruments

In accordance with IFRS 9, existing investment securities were classified as FVOCI (measured at fair value through other comprehensive income). These securities were measured at fair value on the balance sheet date. This resulted in unrealized gains for one security which, after taking income tax effects into account, were transferred to the item "Reserve for fair value measurement of financial instruments" with no effect on profit or loss.

### Reserve for hedging transactions

Currency forwards designated for hedging purposes are measured at fair value with no effect on profit or loss and are included in "hedging reserves" with no effect on profit or loss.

### Exchange differences

The currency differences recognized in equity are as follows:

| in EUR thousand | Currency differences from translation of foreign financial statements | Currency differences in accordance with IAS 21.17 | Currency differences in accordance with IAS 21.19 | Total |
|---|---|---|---|---|
| As of Dec. 31, 2018 | -409 | -439 | 95 | -753 |
| Change 2019 | 112 | 34 | 0 | 146 |
| As of Dec. 31, 2019 | -297 | -405 | 95 | -607 |
| Change 2020 | -634 | 24 | 0 | -610 |
| As of Dec. 31, 2020 | -931 | -381 | 95 | -1,217 |

Taxes relating to items recognized directly in equity were also recognized directly in equity in accordance with IAS 12.61 and taken into account in the changes in currency differences shown above.

The changes in fair value recognized directly in equity in the amount of EUR 24 thousand (previous year: EUR -35 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 currency differences recognized directly in equity are not reversed in income until the time of disposal of the economically independent unit.

## 10. Non-controlling interests

There were non-controlling interests in Masterflex Group companies totaling EUR 303 thousand (previous year: EUR -618 thousand). These relate to Masterflex S.A.R.L. based in Béligneux, France, which has been part of the Masterflex Group since 1992 and is the sales subsidiary for France. In the previous year, the non-controlled interests in Masterflex Asia Pte. Ltd. were also reported, which were acquired in full in the reporting year. As a result of this transaction recognized in equity, the non-controlling interests increased by EUR 926 thousand due to the reclassification of the accumulated negative OCI amounts.

Total comprehensive income of EUR 8 thousand is attributable to non-controlling interests in the reporting year.

## 11. Provisions

The provisions can be broken down as follows:

| In EUR thousand | As of Jan. 1, 2020 | Utilization | Resolution | Additions | As of Dec. 31, 2020 |
|---|---|---|---|---|---|
| Additions | 164 | 79 | 2 | 82 | 165 |
| Warranties | 0 | 0 | 0 | 325 | 325 |
| **Total** | **164** | **79** | **2** | **407** | **490** |

### a) Non-current provisions

Non-current provisions relate to the performance-related components of Management Board compensation amounting to EUR 165 thousand (previous year: EUR 164 thousand) which are only to be paid out in the third year after the reference year.

### b) Current provisions

Warranty accruals were set up in the amount of the expected expenses for warranty claims that had become known by the balance sheet date.

## 12. Financial liabilities

Financial liabilities as of December 31, 2020, consisted of:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Liabilities to banks | 22,844 | 24,325 |
| Leasing liabilities | 1,772 | 1,979 |
| Other financial liabilities* | 306 | 0 |
| **Non-current financial liabilities** | **24,922** | **26,304** |
| Liabilities to banks | 1,479 | 3,609 |
| Leasing liabilities | 955 | 936 |
| Other financial liabilities* | 13 | 0 |
| **Current financial liabilities** | **2,447** | **4,545** |
| **Total financial liabilities** | **27,369** | **30,849** |

*Statement for the previous year has changed

### Liabilities to banks

The breakdown of liabilities to banks by maturity is as follows:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Liabilities with a residual term of up to 1 year | 1,479 | 3,609 |
| Liabilities with a residual term of between 1 and 5 years | 22,844 | 24,325 |
| **Total liabilities to banks** | **24,323** | **27,934** |

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

The syndicated loan agreement concluded in August 2019 has a volume of EUR 34.9 million and an expiry date of September 2024. The exercise price was EUR 28.2 million on the balance sheet date. Owing to the use of effective interest methods, a difference arose between the credit amount used of EUR 24,537 thousand and the liabilities to banks reported at amortized cost of EUR 24,323 thousand as of December 31, 2020, amounting to EUR 214 thousand.

The syndicated loan agreement was reduced in the balance sheet by the directly attributable transaction costs of EUR 292 thousand at initial recognition. The subsequent measurement is carried out at amortized 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 carrying amount of EUR 35,960 thousand (previous year: EUR 40,106 thousand).

Of this, EUR 14,477 thousand is attributable to land charges, EUR 9,766 thousand to other non-current assets, EUR 9,007 thousand to inventories and EUR 2,710 thousand to current receivables.

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 1.40% and 2.5% depending on the maturity and purpose of the respective liabilities (previous year: 1.40% and 2.0%). With regard to the credit terms associated with the loan agreement, reference is made to Section C of the Management Report.

As of December 31, 2020, the company had bank credit lines (cash credit lines) of EUR 8,530 thousand. Of this, credit lines totaling EUR 6,530 thousand were not utilized.

### Leasing liabilities

The outstanding lease payments have the following maturities:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Liabilities with a residual term of up to 1 year | 1,772 | 1,979 |
| Liabilities with a residual term of between 1 and 5 years | 955 | 936 |
| **Total leasing liabilities** | **2,727** | **2,915** |

More detailed information on lease liabilities is provided in Note 17.

## 13. Income tax liabilities

Income tax liabilities relate to current taxes and totaled EUR 149 thousand on the balance sheet date (previous year: EUR 185 thousand).

## 14. Other liabilities

Detailed information on other liabilities is shown in the following table:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Trade payables | 1,647 | 2,249 |
| Advance payments on orders received | 303 | 476 |
| Miscellaneous liabilities | 4,415 | 4,695 |
| **Total other liabilities** | **6,365** | **7,420** |

Miscellaneous liabilities include the following items:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Premiums, severance payments, commissions | 1,159 | 1,388 |
| Tax liabilities | 882 | 662 |
| Deferred income | 790 | 847 |
| Outstanding invoices | 614 | 270 |
| Acquisition costs | 262 | 231 |
| Liabilities to employees | 226 | 167 |
| Debtors with credit balances | 125 | 31 |
| Bonuses to customers | 118 | 356 |
| Vacation | 107 | 207 |
| Social security | 79 | 169 |
| Employer’s Liability Insurance Association | 53 | 95 |
| Miscellaneous | 0 | 272 |
| **Total** | **4,415** | **4,695** |

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

The following amounts were carried as liabilities as of December 31:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Grants | 512 | 544 |
| Subsidies | 278 | 303 |
| **Total** | **790** | **847** |

The following amounts were released to income in the individual years as follows:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Release of grants | 32 | 34 |
| Release of subsidies | 25 | 29 |
| **Total** | **56** | **63** |

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 utilization of investment grants and subsidies has been provided in full.

The "other liabilities" item includes liabilities totaling EUR 1,172 thousand (previous year: EUR 1,006 thousand), which do not fall due until one year after the balance sheet date.

## 15. Trade payables

The following trade payables existed on the balance sheet date of December 31:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| Trade payables | 1,647 | 2,249 |

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to EUR 1,647 thousand (previous year: EUR 2,249 thousand) are due within one year.

## 16. Financial instruments

This section provides a summary of the financial instruments of the Masterflex Group.

The following overview summarizes the carrying amounts of the financial instruments included in the Consolidated Financial Statements according to the /IFRS measurement categories:

| in EUR thousand | Dec. 31, 2020 | Dec. 31, 2019 |
|---|---|---|
| **Financial assets** | | |
| Measured at amor-tized cost | 15,128 | 15,062 |
| Measured at fair value through profit or loss | 64 | 65 |
| **Financial liabilities** | | |
| Measured at amor-tized cost | 33,045 | 37,332 |
| Measured at fair value through profit or loss (hedging relationship) | 319 | 90 |

The carrying amounts and fair values of current and non-current financial assets are as follows as of the reporting date:

| | Dec. 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | AC | | FVPL | | FVOCI | |
| in EUR thousand | CA* | CA* | FV* | CA* | FV* | CA* | FV* |
| **Assets** | | | | | | | |
| Financial assets | 64 | | | 0 | 0 | 64 | 64 |
| Cash and cash equivalents | 9,217 | 9,217 | 9,217 | 0 | 0 | 0 | 0 |
| Trade receivables | 5,558 | 5,558 | 5,558 | 0 | 0 | 0 | 0 |
| Other assets | 353 | 353 | 353 | 0 | 0 | 0 | 0 |
| **Total assets** | **15,192** | **15,128** | **15,128** | **0** | **0** | **64** | **64** |
| **Equity and liabilities** | | | | | | | |
| Liabilities to banks | 24,323 | 24,323 | 24,323 | 0 | 0 | | |
| Leasing liabilities | 2,727 | 2,727 | 2,727 | 0 | 0 | | |
| Other financial liabilities | 319 | 0 | 0 | 0 | 0 | 319 | 319 |
| Trade payables | 1,647 | 1,647 | 1,647 | 0 | 0 | | |
| Other liabilities | 3,928 | 3,928 | 3,928 | 0 | 0 | | |
| **Total liabilities and equity** | **33,269** | **33,045** | **33,045** | **0** | **0** | **319** | **319** |

* CA = Carrying amount, FV = Fair value

| | Dec. 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | AC | | FVPL | | FVOCI | |
| in EUR thousand | CA | CA | FV | CA | FV | CA | FV |
| **Assets** | | | | | | | |
| Financial assets | 65 | | | 0 | 0 | 65 | 65 |
| Cash and cash equivalents | 6,908 | 6,908 | 6,908 | 0 | 0 | 0 | 0 |
| Trade receivables | 7,359 | 7,359 | 7,359 | 0 | 0 | 0 | 0 |
| Other assets | 450 | 450 | 450 | 0 | 0 | 0 | 0 |
| **Total assets** | **14,782** | **14,717** | **14,717** | **0** | **0** | **65** | **65** |
| **Equity and liabilities** | | | | | | | |
| Liabilities to banks | 27,934 | 27,934 | 27,934 | 0 | 0 | | |
| Leasing liabilities | 2,915 | 2,915 | 2,915 | 0 | 0 | | |
| Other financial liabilities | 2,249 | 2,249 | 2,249 | 0 | 0 | | |
| Other liabilities | 4,324 | 4,234 | 4,234 | 0 | 0 | 90 | 90 |
| **Total liabilities and equity** | **37,422** | **37,332** | **37,332** | **0** | **0** | **90** | **90** |

The Masterflex Group does not hold any cash collateral and does not balance any items on the balance sheet. Derivative financial instruments, credit balances and liabilities to banks are reported gross in the consolidated balance sheet.

The Masterflex Group has pledged financial assets in the amount of EUR 2,710 thousand (current receivables) as collateral for financial liabilities. The Masterflex Group has no collateral with respect to financial assets.

The Masterflex Group distinguishes between recoverable financial assets and non-performing and unrecoverable financial assets. For recoverable financial assets, the impairment loss is recognized after the expected 12-month credit loss. Non-performing financial assets are written down by the amount of the expected credit loss to maturity. Unrecoverable receivables are recorded as disposals. A receivable is classified as non-performing (definition of default) if there are significant reasons to believe that a debtor will not meet his payment obligations to the Masterflex Group.

The following overview summarizes the credit quality and maximum default risk of financial assets measured at amortized cost according to the aforementioned categories:

| Dec. 31, 2020 in EUR thousand | Credit quality | Treatment | Gross carrying amount | Value adjustment | Net carrying amount |
|---|---|---|---|---|---|
| Other assets | recoverable | 12-month ECL* | 691 | 0 | 0 |
| | non-performing | lifetime ECL* | 0 | 0 | 0 |
| | | | **691** | **0** | **0** |
| Trade receivables | recoverable | lifetime ECL* simplified approach | 5,015 | 0 | 5,015 |
| | non-performing | lifetime ECL* | 668 | 125 | 543 |
| | | | **5,683** | **125** | **5,558** |
| Cash and cash equivalents | recoverable | 12-month ECL* | 9,217 | 0 | 9,217 |
| | non-performing | lifetime ECL* | 0 | 0 | 0 |
| | | | **9,217** | **0** | **9,217** |

* ECL = Expected Credit Loss

| Dec. 31, 2019 in EUR thousand | Credit quality | Treatment | Gross carrying amount | Value adjustment | Net carrying amount |
|---|---|---|---|---|---|
| Other assets | recoverable | 12-month ECL* | 795 | 0 | 0 |
| | non-performing | lifetime ECL* | 0 | 0 | 0 |
| | | | **795** | **0** | **0** |
| Trade receivables | recoverable | lifetime ECL* simplified approach | 7,359 | 0 | 7,359 |
| | non-performing | lifetime ECL* | 50 | 50 | 0 |
| | | | **7,409** | **50** | **7,359** |
| Cash and cash equivalents | recoverable | 12-month ECL* | 6,908 | 0 | 6,908 |
| | non-performing | lifetime ECL* | 0 | 0 | 0 |
| | | | **6,908** | **0** | **6,908** |

The Masterflex Group records value adjustments for loans and other receivables taking into account past events and expectations regarding the future development of credit risk. The methods used to measure the value adjustment have not changed compared to the previous year.

Due to the slight deterioration in the credit rating of customers, the allowance for doubtful accounts increased from EUR 50 thousand to EUR 125 thousand.

Cash and cash equivalents comprise cash on hand and bank balances. The Masterflex Group invests cash and cash equivalents exclusively with banks with the highest creditworthiness and default probabilities close to zero. For reasons of materiality, the value adjustment was not recorded. In the event of a significant increase in the probability of default, the Group companies are instructed to immediately deduct cash and cash equivalents. For this reason, cash and cash equivalents are classified as recoverable (12-month ECL).

Value adjustments on trade receivables are – in accordance with the simplified approach in accordance with IFRS 9.5.5.15 – consistently measured at the expected credit loss to maturity.

In determining the value adjustment, the receivables are divided into risk categories and assigned different impairment rates. Receivables are written off if a debtor is in serious financial difficulties and there is no prospect of recovery.

Companies in the Masterflex Group use individual approaches to determine the default risk, taking country- and division-specific risks into account. The companies use, among other things, Schufa data, historical default rates and customer-specific, future-related credit risk analyses. The Masterflex Group has no significant holdings of overdue assets.

In the case of trade receivables, the expected credit loss model was reviewed with regard to the assessment of future economic conditions in the course of COVID-19. The focus here was in particular on the past and expected payment behavior of our customers. Our trade accounts receivable mainly comprise outstanding invoices for products supplied. In the course of the review, we did not become aware of any matters in connection with our receivables portfolio that showed signs of impairment to a significant extent. We continuously monitor our trade accounts receivable for potential deterioration due to the COVID-19 pandemic.

## Net income from financial instruments

Net results for 2020 broken down by valuation category:

| In EUR thousand | Interest result | Operating result | Other result | Net results for 2020 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Measured at amortized cost | 0 | -75 | 0 | -75 |
| Measured at fair value through profit or loss | 0 | 0 | 0 | 0 |
| Measured at fair value through other compre-hensive income | 0 | 0 | -1 | -1 |
| **Financial liabilities** | | | | |
| Measured at amortized cost | -920 | 0 | 0 | -920 |
| Measured at fair value through profit or loss (hedging relationship) | 0 | 0 | 224 | 224 |
| **Total** | **-920** | **-75** | **223** | **-772** |

Net results for 2019 broken down by valuation category:

| In EUR thousand | Interest result | Operating result | Other result | Net results 2019 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Measured at amortized cost | 0 | 1 | 0 | 1 |
| Measured at fair value through profit or loss | -2 | 0 | 0 | -2 |
| Measured at fair value through profit or loss | 0 | 0 | -33 | -33 |
| **Financial liabilities** | | | | |
| Measured at amortized cost | -1,317 | 0 | 0 | -1,317 |
| Measured at fair value through profit or loss (hedging relationship) | 0 | 0 | 59 | 59 |
| **Total** | **-1,319** | **1** | **26** | **-1,292** |

## Derivative financial instruments

The Group has entered into a contract for fixed forward exchange transactions to hedge highly probable transactions (sales of products) that is accounted for as a hedging relationship. The agreement has a term until March 15, 2022. The market value of the derivative concluded for a total of USD 1,500 thousand amounted to EUR -16 thousand on the balance sheet date and was recorded under other liabilities. As the hedging relationship was essentially classified as fully effective, EUR 16 thousand was recognized in other comprehensive income as changes in the value of the hedging instrument.

The Group has entered into a contract for fixed forward exchange transactions to hedge highly probable transactions (sales of products) that is accounted for as a hedging relationship. The agreement has a term until March 11, 2027. The market value of the derivative concluded for a total of USD 4,062 thousand amounted to EUR -303 thousand on the balance sheet date and was recorded under other liabilities. As the hedging relationship was essentially classified as fully effective, EUR 303 thousand was recognized in other comprehensive income as changes in the value of the hedging instrument.

As of December 31, 2020, the amount recorded in the reserve for hedging instruments was EUR 319 thousand less any deferred taxes of EUR 96 thousand.

The fair value of the forward exchange transactions was determined on the basis of a Black-Scholes valuation. The currency forwards were assigned to Level 2 and assigned to the valuation category “Financial assets measured at fair value directly in equity (debt instruments).”

The recognition of forward exchange transactions and options includes the fair value of EUR 0 thousand (previous year: EUR 0 thousand). The derivative financial instrument was concluded to hedge against varying interest payments from variable-interest loans (interest cap) in the amount of EUR 32 thousand. Recognition was made under other financial assets on the basis of current market conditions on the balance sheet date. The financial instrument is assigned to Level 2 as input factors that are either directly or indirectly observable for assets or liabilities.

Level 2 was measured using the Black-Scholes method and was performed by the financial institutions with which it was concluded.

The interest cap is not accounted for as a hedging relationship. The change in the fair value of EUR 0 thousand (previous year: EUR 2 thousand) is recognized through profit or loss in interest income.

| | | Fair value | |
|---|---|---|---|
| Derivative financial instruments | Historical acquisition costs in EUR thousand | Dec. 31, 2020 in EUR thousand | Dec. 31, 2019 in EUR thousands |
| Derivatives without a hedging relationship | 32 | 0 | 0 |

## 17. Leases

As lessees, mainly contracts for real estate and vehicles were concluded. Leasing agreements are negotiated individually and each has different agreements, extension, termination or purchase options, for example.

Contracts for the rental of land and buildings have average terms of 6 years. In many cases the payments agreed for these contracts are adjusted annually. Lease agreements for objects other than land and buildings generally have average terms of 3 years.

As a rule, contracts for the rental of vehicles include a right of early return and an option to extend.

Please refer to sections 12 and 29 for details on leasing liabilities. Rights of use are recorded in property, plant and equipment.

In connection with leases, the following amounts were also recognized in the profit and loss account in financial year 2020:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Interest expenses from the compounding of leasing liabilities | 67 | 72 |
| Expenses for short-term leases with a term of more than one and a maximum of 12 months | 54 | 25 |
| Expenses for leases with underlying assets of low value (excluding short-term leas-es) | 301 | 383 |
| **Total** | **422** | **480** |

The cash outflows in connection with activities as lessee amounted to EUR 1,428 thousand in 2020 (previous year: EUR 1,489 thousand).

# Notes to the consolidated statement of income

## 18. Revenue

Revenue is recognized in accordance with IFRS 15. Contracts with customers are not aggregated because there is either a framework agreement that governs relationships with customers that is generally renegotiated annually, or customers order on a case-by-case basis and on request.

In the customer purchase orders, the contractual performance obligation is defined for each product with the corresponding consideration/transaction price, and the consideration is thus distributed among the individual performance obligations. Customer bonuses are calculated on the basis of the expected sales volume with the customer by the end of the fiscal year and deferred until payment to the customer to reduce sales.

Revenues from the supply of high-tech hoses and connecting systems are recognized on a time-related basis, as the criteria for recognition of revenues on a period-related basis set out in IFRS 15.35 are not fulfilled. The transfer of control of high-tech hoses and connection systems delivered to customers is recognized at the time these goods are delivered to the customer in accordance with the delivery terms, as most of the indicators listed in IFRS 15.38 are met at that time. Standard industry terms of payment without significant financing components are used. As a rule, no variable consideration is available. Contracts with customers contain only functional guarantees relating to the intended use.

There were no revenues from development services for customers, which are recognized either for a specific period or point in time, in fiscal years 2019 and 2020.

Revenues include sales of high-tech hoses and connecting systems less sales deductions and were all recognized in fiscal year 2020 on a time basis.

As of Dec. 31, 2020, trade receivables amounted to EUR 5,558 thousand (previous year: EUR 7,359 thousand). Assets from customer contracts did not exist either as of December 31, 2019, or as of December 31, 2020.

Impairment losses of EUR 125 thousand were recognized on receivables from contracts with customers in fiscal year 2020.

## 19. Other income

Other income breaks down as follows:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Income from non-typical ancillary sales | 361 | 381 |
| Public expenditure subsidy | 181 | 0 |
| Exchange rate gains from cur-rency conversions | 120 | 149 |
| Subsidies | 56 | 63 |
| Insurance compensation | 54 | 30 |
| Other income relating to other periods | 36 | 176 |
| Income from the reversal of value adjustments on receivables | 19 | 8 |
| Income from the release of pro-visions | 2 | 230 |
| Rental income | 0 | 36 |
| Miscellaneous | 54 | 83 |
| **Total** | **883** | **1,156** |

The non-typical incidental revenues relate to a large number of individual cases from the operating business, such as sales to employees, merchandising and scrap revenue.

## 20. Cost of materials

The cost of materials can be broken down as follows:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Cost of raw materials, consumables and supplies | 22,309 | 25,595 |
| Cost of purchased services | 262 | 372 |
| **Total** | **22,571** | **25,967** |

## 21. Other expenses

Other expenses can be broken down as follows:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Selling expenses | 4,431 | 6,121 |
| Operating costs | 2,518 | 2,449 |
| Administrative expenses | 2,485 | 2,083 |
| Room operating costs | 1,767 | 2,006 |
| Insurance | 419 | 433 |
| Expenses from exchange rate differences | 742 | 254 |
| Warranties | 213 | 15 |
| Expenses for value adjustments | 202 | 41 |
| Other | 121 | 98 |
| Other taxes | 289 | 276 |
| **Total** | **13,187** | **13,776** |

## 22. Research and development costs

Capitalizable development costs are reported under “Intangible assets.” Research costs and non-capitalizable development costs are expensed as incurred. In fiscal year 2020, research and development costs totaled EUR 425 thousand (previous year: EUR 447 thousand).

## 23. Personnel expenses

In 2020, personnel expenses decreased by EUR 3,532 thousand to EUR 29,151 thousand (previous year: EUR 32,683 thousand). Personnel expenses include wages and salaries in the amount of EUR 24,031 thousand (previous year: EUR 27,007 thousand) and social security, post-employment and other employee benefit costs totaling EUR 5,120 thousand (previous year: EUR 5,677 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. Expenses are posted in current personnel expenses; no provision is recognized. Expenses amounted to EUR 355 thousand (previous year: EUR 393 thousand). Employer contributions to the pension insurance scheme are not included in these expenses.

## 24. Impairment of assets

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

Goodwill and internally generated intangible assets that 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 recognized 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 plans, in particular the sales and earnings development, are based on past experience as well as expectations of future market development, taking into account strategic and operational measures for business area management that have already been initiated on the basis of the best possible assessment by management of future developments

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 5.38% and 7.01% (previous year: 4.48% and 6.19%). Please refer to the table below for a presentation of each CGU. When extrapolating future cash flows beyond the detailed planning period of five years, a growth rate of 1.0 percent was assumed for the CGUs, as in the previous year.

As in the previous year, the following goodwill resulted from the acquisitions of subsidiaries made in previous years or through the successive acquisition of shares and company sales, which were allocated to the following CGUs. In addition to the amortized cost of the goodwill for each CGU, the following table also contains the individual cost of capital rates:

| | in EUR thousand | WACC 2020 | WACC 2019 |
|---|---|---|---|
| APT Advanced Polymer Tubing GmbH | 5,929 | 6.61% | 6.19% |
| Flexmaster USA, Inc. | 1,488 | 7.01% | 5.85% |
| FLEIMA-PLASTIC GmbH | 1,075 | 5.38% | 5.32% |
| Novoplast Schlauchtechnik GmbH | 462 | 6.18% | 4.48% |
| Matzen & Timm GmbH | 233 | 6.00% | 5.29% |
| **Total** | **9,187** | | |

No impairment requirement arose in the impairment test of the business or goodwill in fiscal years 2019 and 2020. 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 financial result can be broken down as follows:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Other interest and similar income | 10 | 26 |
| Interest and similar expenses | -920 | -1,317 |
| **Total** | **-910** | **-1,291** |

Interest income relates to current items.

## 26. Income tax expense

The income tax expense in the profit or loss account can be broken down as follows:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Income tax expense | -593 | -612 |
| Deferred taxes | | |
| from temporal differences | +307 | -108 |
| from loss carryforwards | -338 | -90 |
| Total deferred taxes | -31 | -198 |
| **Total income tax expense** | **-624** | **-810** |

The following reconciliation of income taxes for fiscal year 2020 is based on the total tax rate of 30.0% (previous year: 30.0%) and reconciles to the effective tax rate of 43.8% (previous year: 24.9%):

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Earnings before income taxes | 1,425 | 3,251 |
| Anticipated tax expense 30.0% | -428 | -975 |
| Change in deferred tax assets on losses carried forward or use of losses carried forward in the fiscal year/unused losses | -279 | -74 |
| Tax refunds/payments of arrears from previous years | -88 | 40 |
| Effects of non-deductible expenses and tax-free income | 20 | 17 |
| Tax effect on tax rate differences | 172 | 163 |
| Other | -21 | 19 |
| **Total tax expense** | **-624** | **-810** |

The initial figure (earnings before income taxes) corresponds to the consolidated profit for the year plus taxes on income and earnings or deferred taxes according to the profit or loss account.

Deferred taxes result from loss carryforwards and the individual balance sheet items as follows:

| | Dec. 31, 2020 | | Dec. 31, 2019 | |
|---|---|---|---|---|
| in EUR thousands | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Loss carryforwards | 186 | 0 | 524 | 0 |
| Non-current assets | 334 | 1,411 | 326 | 1,546 |
| Inventories | 39 | 0 | 7 | 0 |
| Receivables | 39 | 21 | 19 | 68 |
| Other assets | 74 | 17 | 74 | 26 |
| Provisions | 72 | 0 | 21 | 0 |
| Liabilities | 302 | 83 | 224 | 83 |
| **Before netting** | **1,049** | **1,532** | **1,195** | **1,723** |
| thereof non-current | 607 | 1,362 | 516 | 1,492 |
| Netting | -836 | -836 | -797 | -797 |
| **Consolidated balance sheet** | **213** | **696** | **398** | **926** |

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 five-year planning, taking the minimum taxation into account. Recoverability is ensured by the positive earnings expectations derived on the basis of medium-term planning. In addition, parts of the loss carryforwards have arisen as a result of expenses in connection with the refinancing and the capital increase. There is sufficient certainty that these loss carryforwards will be realized.

As of December 31, 2020, Masterflex recognized deferred tax assets for tax loss carryforwards in the amount of EUR 186 thousand (previous year: EUR 524 thousand).

For foreign companies, the applicable tax rates vary between 17% and 28%.

No deferred tax assets were recognized for tax loss carryforwards in the amount of EUR 10,763 thousand (previous year: EUR 8,971 thousand), as their utilization 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 EUR 63 thousand (previous year: EUR 0 thousand) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognized directly in equity.

## 27. Earnings per share

Earnings per share are calculated as follows:

| | 2020 | 2019 |
|---|---|---|
| Net profit or loss (in EUR thousands) | 793 | 2,532 |
| Weighted average of outstanding shares | 9,618,334 | 9,618,334 |
| **Earnings per share (€)** | **0.08** | **0.26** |

There were no dilutive effects in fiscal year 2020 or the previous year.

## 28. Appropriation of results

The annual financial statements of Masterflex SE prepared in accordance with the German Commercial Code show a balance sheet profit of EUR 10,222 thousand as of December 31, 2020.

The Management Board and Supervisory Board propose to the Annual General Meeting that an amount of EUR 769,466.72 of Masterflex SE's balance sheet profit as of December 31, 2020, of EUR 10,221,516.11 be distributed to shareholders as a dividend on the 9,618,334 shares of share capital as of December 31, 2020, and that the remaining amount of EUR 9,452,049.39 be carried forward to new account. This corresponds to a dividend of EUR 0.08 per share.

As of December 31, 2020, Masterflex SE has amounts of EUR 1,227 thousand in total that are not available for distribution, of which EUR 104 thousand relates to deferred tax assets and EUR 1,123 thousand to the capitalization of development costs.

## 29. 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 Management 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 primary financial instruments, the Group may apply various derivative financial instruments, including forward exchange transactions, currency options and interest rate swaps. Derivative financial instruments are used exclusively to hedge existing or planned underlying transactions, serve to reduce foreign currency, interest rate and commodity price risks, and are used in individual cases in consultation with the Management Board of Masterflex SE.

### 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 euros.

The sensitivity analysis based on the outstanding monetary items denominated in US dollars assuming a ten percent change in the US dollar against the euro results in an impact of around EUR 500 thousand on shareholders' equity.

As of December 31, 2020, the Group held the following instruments to hedge against changes in exchange rates and interest rates:

| | Maturity | | |
|---|---|---|---|
| | 1-6 months | 7-12 months | More than one year |
| **Exchange rate risk** | | | |
| **Forward exchange transactions** | | | |
| Net risk in USD thousand | 600 | 600 | 300 |
| Average EUR:USD forward rate | 1.2165 | 1.2165 | 1.2165 |
| Net risk in USD thousand | 0 | 0 | 4,062 |
| Average EUR:USD forward rate | | | 1.1817 |

### 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 minimizing the interest rate volatility and financing costs of the respective underlying transactions 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 on the balance sheet date. For variable-rate liabilities, the analysis is carried out under the assumption that the amount of the outstanding liability on the balance sheet date 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 EUR 260 thousand.

### Default risk management

At Masterflex, risks relating to receivables from customers are monitored and assessed on a decentralized basis, with potential defaults limited through the conclusion of trade credit insurance in certain cases.

On 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 results from the carrying amounts of the financial receivables recognized in 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 shows the contractually agreed repayments of financial liabilities:

| 2020<br>in EUR thousand | Carrying amount | 2021 | 2022 | 2023 | 2024 | 2025 | ≥ 2026 |
|---|---|---|---|---|---|---|---|
| Trade payables | 1,647 | 1,647 | 0 | 0 | 0 | 0 | 0 |
| Liabilities to banks | 24,323 | 1,537 | 1,500 | 1,500 | 19,786 | 0 | 0 |
| Leasing liabilities | 2,727 | 955 | 698 | 489 | 206 | 185 | 194 |
| Other liabilities | 4,269 | 4,269 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **32,966** | **8,408** | **2,198** | **1,989** | **19,992** | **185** | **194** |

| 2019<br>in EUR thousand | Carrying amount | 2020 | 2021 | 2022 | 2023 | 2024 | ≥ 2025 |
|---|---|---|---|---|---|---|---|
| Trade payables | 2,249 | 2,249 | 0 | 0 | 0 | 0 | 0 |
| Liabilities to banks | 27,934 | 3,609 | 1,602 | 1,500 | 1,500 | 19,723 | 0 |
| Leasing liabilities | 2,915 | 936 | 694 | 442 | 287 | 177 | 379 |
| Other liabilities | 3,848 | 3,848 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **36,946** | **10,642** | **2,296** | **1,942** | **1,787** | **19,900** | **379** |

This table only includes contractually agreed payments for financial liabilities on 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” totaling EUR 790 thousand (previous year: EUR 847 thousand) does not have a cash impact. Its reversal is therefore not presented in this table.

## 30. Other financial obligations

With the exception of the collateral referred to in sections 3, 12 and 16, there were no contingent liabilities from warranty agreements, guarantees and other contingent liabilities as of the balance sheet date.

## 31. Segment reporting

The Masterflex Group operates as a single-segment company. Control is based on the information that management receives and to which it refers when measuring the performance of operating segments and allocating resources (the so-called “management approach”).

After the sale of business areas in previous years, Masterflex SE only shows one operating segment, the core business area (HTS).

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, molded parts and injection molding 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 segment is managed in terms of both sales and earnings (earnings before interest and taxes (EBIT)).

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 (IFRS 8).

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, which means it does not need to be reported.

## Segment information:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Revenue from non-Group third parties | **71,881** | 79,969 |
| EBIT | **2,335** | 4,542 |
| Investments in property, plant and equipment and intangible assets | **3,203** | 3,190 |
| Scheduled depreciation and amortization | **4,975** | 4,598 |
| Assets | **76,354** | 81,559 |

The geographical distribution of revenue is reported at Group level. The basis of calculation is the location of the customer. This results in a geographical distribution of revenue as follows:

| in EUR thousand | 2020 | 2019 |
|---|---|---|
| Germany | 32,108 | 36,560 |
| Rest of Europe | 18,058 | 20,143 |
| Third countries | 21,715 | 23,266 |
| **Total** | **71,881** | **79,969** |

No sales > 10% of Group sales were achieved with any customer in fiscal year 2020.

The reconciliation of EBIT to earnings after taxes is as follows:

| Reconciliation to consolidated earnings after taxes | 2020 | 2019 |
|---|---|---|
| **EBIT** | **2,335** | **4,542** |
| Interest income/income from investments | 10 | 26 |
| Interest expense and the like | -920 | -1,317 |
| **EBT** | **1,425** | **3,251** |
| Taxes on income and earnings | -593 | -612 |
| Deferred taxes | -31 | -198 |
| **Profit after tax** | **801** | **2,441** |

Rounding differences possible

IFRS 8 requires disclosure of the geographical breakdown of non-current assets. Non-current assets include property, plant and equipment and intangible assets. In accordance with IFRS 8, deferred taxes and financial assets are not part of the non-current assets to be presented.

| Non-current assets in EUR thousands | 2020 | 2019 |
|---|---|---|
| Germany | 39,114 | 40,457 |
| Rest of Europe | 685 | 1,168 |
| Third countries | 4,898 | 5,293 |
| **Total** | **44,697** | **46,918** |

The segment assets are transferred to Group assets as follows:

| Non-current assets in EUR thousands | 2020 | 2019 |
|---|---|---|
| Segment assets | 75,660 | 80,576 |
| Deferred tax assets | 213 | 398 |
| Tax receivables | 417 | 520 |
| Financial assets | 64 | 65 |
| **Group assets** | **76,354** | **81,559** |

## 32. Cash flow statement

The consolidated cash flow statement has been prepared in accordance with IAS 7. A distinction is made between cash flows from operating, investing and financing activities. The liquidity shown in the statement of cash flows corresponds to the balance sheet item "Cash and cash equivalents."

The consolidated statement of cash flows is prepared using the indirect method in respect of cash flows from operating activities and the direct method in respect of cash flows from investing and financing activities.

From January 1 to December 31, 2020, liabilities from financing activities developed as follows:

| Figures in EUR thousand | As of Dec. 31, 2019 | Cash-effective | Ineffective for payment (deferred interest) | Ineffective for payment (leasing liability) | Ineffective for payment (foreign exchange transactions) | As of Dec. 31, 2020 |
|---|---|---|---|---|---|---|
| Current financial liabilities | 4,545 | -2,131 | 1 | 19 | 13 | 2,447 |
| Non-current financial liabilities | 26,304 | -1,481 | 0 | -207 | 306 | 24,922 |
| **Total liabilities from financing activities** | **30,849** | **-3,612** | **1** | **-188** | **319** | **27,369** |

## 33. Related party disclosures

Business transactions between Masterflex SE and its consolidated subsidiaries are carried out at customary market conditions and have been eliminated as part of the consolidation.

The reportable remuneration of the key management positions in the Group in accordance with IAS 24 comprises the remuneration of the Management Board and the Supervisory Board.

The remuneration of the Management Board is performance-related in its entirety and consisted of three components in the fiscal year: non-performance-related remuneration, performance-related compensation and components with a long-term incentive effect.

Disclosure of the remuneration for the Chairman takes place in individualized form as is recommended in the German Corporate Governance Code and the standardized 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 remuneration of the Management Board for its services is presented below:

### Table 1: Remuneration of the Management Board (grant consideration)

| | Dr. Andreas Bastin<br>Chairman of the Management Board<br>since April 1, 2008 | | | | Mark Becks<br>CFO<br>since June 1, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| in EUR thousand | 2019 | 2020 | 2020 | 2020 | 2019 | 2020 | 2020 | 2020 |
| | granted | granted | Minimum | Maximum | granted | granted | Minimum | Maximum |
| Fixed remuneration | 378 | 378 | 378 | 378 | 262 | 262 | 262 | 262 |
| Fringe benefits | 42 | 43 | 43 | 43 | 39 | 38 | 38 | 38 |
| **Summe** | **420** | **421** | **421** | **421** | **301** | **300** | **300** | **300** |
| One-year variable remuneration | | | | | | | | |
| Bonus | 100 | 95 | 0 | 158 | 67 | 63 | 0 | 106 |
| Multi-year variable remuneration | | | | | | | | |
| Bonus 2020 - 2022 | | 49 | 0 | 82 | | 32 | 0 | 54 |
| Bonus 2019 - 2021 | 51 | | 0 | 82 | 34 | | 0 | 54 |
| **Total remuneration** | **571** | **565** | **421** | **743** | **402** | **395** | **300** | **514** |

### Table 2: Remuneration of the Board of Management)

| in EUR thousand | Dr. Andreas Bastin Chairman of the Management Board since April 1, 2008 | | | | Mark Becks CFO since June 1, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2020 | 2020 | 2019 | 2020 | 2020 | 2020 |
| | granted | granted | Minimum | Maximum | granted | granted | Minimum | Maximum |
| Fixed compensation | 378 | 378 | 378 | 378 | 262 | 262 | 262 | 262 |
| Fringe benefits | 42 | 43 | 43 | 43 | 39 | 38 | 38 | 38 |
| **Summe** | **420** | **421** | **421** | **421** | **301** | **300** | **300** | **300** |
| One-year variable remuneration | | | | | | | | |
| Bonus | 118 | 98 | 0 | 158 | 79 | 65 | 0 | 106 |
| Multi-year variable remuneration | | | | | | | | |
| Bonus 2020 - 2022 | | 52 | 0 | 82 | | 35 | 0 | 54 |
| Bonus 2019 - 2021 | 69 | | 0 | 82 | 37 | | 0 | 54 |
| **Total remuneration** | **607** | **571** | **421** | **743** | **417** | **400** | **300** | **514** |

The members of the Supervisory Board were remunerated as follows:

| in EUR thousand | Fixed component | | Attendance fee | | Total disbursement-relevant remuneration | |
|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 |
| Chairman of the Supervisory Board, Georg van Hall (since June 14, 2016) | 30 | 30 | 3 | 3 | 33 | 33 |
| Deputy Chairman of the Supervisory Board, Dr. Gerson Link (since June 14, 2016) | 25 | 25 | 3 | 3 | 28 | 28 |
| Supervisory Board member, Jan van der Zouw (since June 14, 2016) | 20 | 20 | 3 | 3 | 23 | 23 |
| **Total remuneration** | **75** | **75** | **9** | **9** | **84** | **84** |

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 favor entered into.

## 34. Declaration of conformity with the German Corporate Governance Code

In December 2020, the Declaration of Conformity in accordance with Section 161 AktG was again submitted by the Management Board and Supervisory Board of Masterflex SE and made permanently available to shareholders via the company's website, www.MasterflexGroup.com/de/Investor-Relations/Corporate_Governance/.

## 35. Number of employees

The number of employees in the period under review can be broken down by operational functional areas as follows:

| | 2020 | 2019 |
|---|---|---|
| Production | 405 | 447 |
| Sales | 92 | 102 |
| Administration | 81 | 90 |
| Technology | 35 | 37 |
| **Group employees** | **613** | **676** |
| thereof trainees | 16 | 18 |

## 36. Audit and advisory fees

The fees expensed (provision) in fiscal year 2020 for the auditor of the Consolidated Financial Statements, BDO AG, Wirtschaftsprüfungsgesellschaft, amounted to EUR 130 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.

## 37. Exemption for subsidiaries in accordance with Section 264 (3) of the German Commercial Code

NaIn accordance with Section 264 (3) HGB, the following companies included in the Consolidated Financial Statements are exempt from the requirement to publish their annual financial statements:

- Novoplast Schlauchtechnik GmbH
- Matzen & Timm GmbH
- M&T Verwaltungs GmbH
- FLEIMA-PLASTIC GmbH

## 38. Events after the balance sheet date

### Economic effects of the spread of the coronavirus SARS-CoV-2

The current spread of coronavirus mutants has increased in the first months of 2021. There is considerable uncertainty as to what the economic impact will be over the course of the year. The Executive Board assumes that the course of the year will show less volatility and, depending on the vaccination campaigns, will lead to a positive development of sales. In addition, we refer to the relevant presentations in the risk and forecast report of the combined management report.

Apart from the uncertainties related to SARS-CoV-2, there are no events and developments of particular significance for the results of operations, net assets and the financial position of the Masterflex Group since the reporting date of 31 December 2020.

## 39. Publication of the Consolidated Financial Statements

The Consolidated Financial Statements were approved for publication by the Management Board on March 30, 2021, and published on March 31, 2021.

## 40. Equity investments

The complete list of equity investments of Masterflex AG is published in the Federal Gazette.

Gelsenkirchen, March 30, 2021
The Management Board

**Dr. Andreas Bastin**
(Chairman of the Management Board)

**Mark Becks**
(CFO)

# Consolidated statement of changes in non-current assets 2020

| in EUR thousand | Acquisition cost/ production cost Jan. 1, 2020 | Additions | Disposals | Repostings | Exchange rate differences | Acquisition cost/ production cost Dec. 31, 2020 |
|---|---|---|---|---|---|---|
| Intangible assets | | | | | | |
| Licenses, industrial property rights and similar rights and assets, as well as licenses to such rights and assets | 4,405 | 85 | 313 | 206 | -3 | 4,380 |
| Development work | 1,569 | 337 | 86 | 72 | 0 | 1,892 |
| Goodwill | 15,090 | 0 | 0 | 0 | 0 | 15,090 |
| Prepayments made | 338 | 151 | 7 | -149 | 0 | 333 |
| **Total** | 21,402 | 573 | 406 | 129 | -3 | 21,695 |
| Property, plant and equipment | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 29,607 | 737 | 64 | 55 | -270 | 30,065 |
| *– thereof rights of use from IFRS 16* | 3,248 | 726 | 0 | 0 | -113 | 3,861 |
| Technical equipment and machinery | 34,888 | 521 | 1,348 | 312 | -517 | 33,856 |
| Other equipment, operating and office equipment | 11,380 | 700 | 423 | 55 | -133 | 11,579 |
| *– thereof rights of use from IFRS 16* | 674 | 157 | 46 | 0 | -4 | 781 |
| Advance payments and assets under construction | 202 | 672 | 25 | -551 | -1 | 297 |
| **Total** | 76,077 | 2,630 | 1,860 | -129 | -921 | 75,797 |
| Financial assets | | | | | | |
| Securities held as fixed assets | 733 | 0 | 0 | 0 | 0 | 733 |
| Other loans | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 733 | 0 | 0 | 0 | 0 | 733 |
| | **98,212** | **3,203** | **2,266** | **0** | **-924** | **98,225** |

# Consolidated statement of changes in non-current assets 2020

| in EUR thousand | Accumulated depreciation Jan. 1, 2020 | Depreciation in the fiscal year | Disposals | Changes in fair value recognized directly in equity | Exchange rate differences | Accumulated depreciation Dec. 31, 2020 | Balance Dec. 31, 2020 | Balance Dec. 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| Intangible assets | | | | | | | | |
| Licenses, industrial property rights and similar rights and assets, as well as licenses to such rights and assets | 2,196 | 409 | 312 | 0 | 0 | 2,293 | 2,087 | 2,209 |
| Development work | 188 | 69 | 0 | 0 | 0 | 257 | 1,635 | 1,381 |
| Goodwill | 5,903 | 0 | 0 | 0 | 0 | 5,903 | 9,187 | 9,187 |
| Prepayments made | 0 | 0 | 0 | 0 | 0 | 0 | 333 | 338 |
| **Total** | 8,287 | 478 | 312 | 0 | 0 | 8,453 | 13,242 | 13,115 |
| Property, plant and equipment | | | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 11,289 | 1,695 | 60 | 0 | -159 | 12,765 | 17,300 | 18,318 |
| *– thereof rights of use from IFRS 16* | 805 | 787 | 0 | 0 | -69 | 1,523 | 2,338 | 2,443 |
| Technical equipment and machinery | 22,661 | 1,787 | 1,305 | 0 | -382 | 22,761 | 11,095 | 12,227 |
| Other equipment, operating and office equipment | 8,351 | 1,015 | 413 | 0 | -116 | 8,837 | 2,742 | 3,029 |
| *– thereof rights of use from IFRS 16* | 262 | 271 | 46 | 0 | 0 | 487 | 294 | 412 |
| Advance payments and assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 297 | 202 |
| **Total** | 42,301 | 4,497 | 1,778 | 0 | -657 | 44,363 | 31,434 | 33,776 |
| Financial assets | | | | | | | | |
| Securities held as fixed assets | 668 | 0 | 0 | 1 | 0 | 669 | 64 | 65 |
| Other loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 668 | 0 | 0 | 1 | 0 | 669 | 64 | 65 |
| | **51,256** | **4,975** | **2,090** | **1** | **-657** | **53,485** | **44,740** | **46,956** |

# Consolidated statement of changes in non-current assets 2019

| in EUR thousand | Acquisition cost/ production cost Jan. 1, 2019 | Recognition of rights of use from first-time application of IFRS 16 | Additions | Disposals | Repostings | Exchange rate differences | Acquisition cost/ production cost Dec. 31, 2019 |
|---|---|---|---|---|---|---|---|
| Intangible assets | | | | | | | |
| Licenses, industrial property rights and similar rights and assets, as well as licenses to such rights and assets | 3,116 | 0 | 369 | 305 | 1,225 | 0 | 4,405 |
| Development work | 1,087 | 0 | 419 | 69 | 132 | 0 | 1,569 |
| Goodwill | 15,090 | 0 | 0 | 0 | 0 | 0 | 15,090 |
| Prepayments made | 1,508 | 0 | 191 | 4 | -1,357 | 0 | 338 |
| **Total** | 20,801 | 0 | 979 | 378 | 0 | 0 | 21,402 |
| Property, plant and equipment | | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 26,237 | 3,252 | 78 | 0 | 0 | 40 | 29,607 |
| *– thereof rights of use from IFRS 16* | 0 | 3,252 | 0 | 0 | 0 | -4 | 3,248 |
| Technical equipment and machinery | 32,632 | 0 | 491 | 17 | 1,662 | 120 | 34,888 |
| Other equipment, operating and office equipment | 10,458 | 673 | 523 | 351 | 39 | 38 | 11,380 |
| *– thereof rights of use from IFRS 16* | 0 | 673 | 0 | 0 | 0 | 1 | 674 |
| Advance payments and assets under construction | 781 | 0 | 1,119 | 1 | -1,701 | 4 | 202 |
| **Total** | 70,108 | 3,925 | 2,211 | 369 | 0 | 202 | 76,077 |
| Financial assets | | | | | | | |
| Securities held as fixed assets | 733 | 0 | 0 | 0 | 0 | 0 | 733 |
| Other loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 733 | 0 | 0 | 0 | 0 | 0 | 733 |
| | **91,642** | **3,925** | **3,190** | **747** | **0** | **202** | **98,212** |

# Consolidated statement of changes in non-current assets 2019

| in EUR thousand | Accumulated depreciation Jan. 1, 2019 | Depreciation in the fiscal year | Disposals | Changes in fair value recognized directly in equity | Exchange rate differences | Accumulated depreciation Dec. 31, 2019 | Balance Dec. 31, 2019 | Balance Dec. 31, 2018 |
|---|---|---|---|---|---|---|---|---|
| Intangible assets | | | | | | | | |
| Licenses, industrial property rights and similar rights and assets, as well as licenses to such rights and assets | 2,229 | 219 | 253 | 0 | 1 | 2,196 | 2,209 | 887 |
| Development work | 140 | 59 | 11 | 0 | 0 | 188 | 1,381 | 947 |
| Goodwill | 5,903 | 0 | 0 | 0 | 0 | 5,903 | 9,187 | 9,187 |
| Prepayments made | 0 | 0 | 0 | 0 | 0 | 0 | 338 | 1,508 |
| **Total** | 8,272 | 278 | 264 | 0 | 1 | 8,287 | 13,115 | 12,529 |
| Property, plant and equipment | | | | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 9,695 | 1,568 | 0 | 0 | 26 | 11,289 | 18,318 | 16,542 |
| *– thereof rights of use from IFRS 16* | 0 | 805 | 0 | 0 | 0 | 805 | 2,443 | 0 |
| Technical equipment and machinery | 20,850 | 1,748 | 23 | 0 | 86 | 22,661 | 12,227 | 11,782 |
| Other equipment, operating and office equipment | 7,671 | 1,004 | 358 | 0 | 34 | 8,351 | 3,029 | 2,787 |
| *– thereof rights of use from IFRS 16* | 0 | 262 | 0 | 0 | 0 | 262 | 412 | 0 |
| Advance payments and assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 202 | 781 |
| **Total** | 38,216 | 4,320 | 381 | 0 | 146 | 42,301 | 33,776 | 31,892 |
| Financial assets | | | | | | | | |
| Securities held as fixed assets | 635 | 0 | 0 | 33 | 0 | 668 | 65 | 98 |
| Other loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 635 | 0 | 0 | 33 | 0 | 668 | 65 | 98 |
| | **47,123** | **4,598** | **645** | **33** | **147** | **51,256** | **46,956** | **44,519** |

# Other information

# Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable reporting principles, the Annual Financial Statements and the Consolidated Financial Statements give a true and fair view of the results of operations, net assets and financial position of the company and the Group, and the Combined Management Report provides a fair review of the development and performance of the business and the position of the company and the Group, together with a description of the principal opportunities and risks associated with the expected development of the company and the Group.”

Gelsenkirchen, March 30, 2021
The Management Board

**Dr. Andreas Bastin**
(Chairman of the Management Board)

**Mark Becks**
(CFO)

# Independent auditor’s report

## To Masterflex SE, Gelsenkirchen

## Report on the audit of the consolidated financial statements and the combined management report

### Audit judgments

We have audited the Consolidated Financial Statements of Masterflex SE, Gelsenkirchen, and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as of December 31, 2020, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the fiscal year from January 1, 2020, to December 31, 2020, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

We have also audited the Combined Management Report of Masterflex SE for the fiscal year from January 1, 2020, to December 31, 2020. In accordance with German legal requirements, we have not audited the content of the sections of the Combined Management Report mentioned under „OTHER INFORMATION.“

In our opinion, based on the findings of our audit,

- the accompanying Consolidated Financial Statements comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and give a true and fair view of the net assets and financial position of the Group as of December 31, 2020, and of its earnings position for the fiscal year from January 1, 2020, to December 31, 2020, in accordance with these requirements; and

- the accompanying Combined Management Report as a whole provides a suitable view of the Group’s position. In all material respects, this Combined Management Report is consistent with the Consolidated Financial Statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Our audit opinion on the Combined Management Report does not cover the content of the sections of the Combined Management Report mentioned under “OTHER INFORMATION.”

In accordance with Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations concerning the propriety of the Consolidated Financial Statements and the Combined Management Report.

### Basis for the audit judgments

We conducted our audit of the Consolidated Financial Statements and the Combined Management Report in accordance with Section 317 HGB and the EU Regulation on Auditing (No. 537/2014; hereinafter referred to as “EU Auditing Regulation”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility under those provisions and standards is further described in the section “AUDITOR’S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT” in our auditor’s report. We are independent of the Group companies in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements.

In addition, we declare pursuant to Article 10 (2) (f) EU Audit Regulation that we have not performed any prohibited non-audit services in accordance with Article 5 (1) EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Consolidated Financial Statements and the Combined Management Report.

## Particularly important audit matters in the audit of the consolidated financial statements

Key audit matters are those issues that in our professional judgment were of greatest significance in our audit of the Consolidated Financial Statements for the fiscal year from January 1, 2020, to December 31, 2020. These issues were considered in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

We have identified the following issue as a key audit issue:

## Recoverability of goodwill

### Issue

In the Consolidated Financial Statements of Masterflex SE, goodwill amounting to EUR 9,187 thousand (previous year: EUR 9,187 thousand) is reported under the balance sheet item “Goodwill,” which accounts for 12.0% of the consolidated balance sheet total. The goodwill was allocated to cash-generating units.

Cash-generating units with goodwill are tested for impairment by the company as of December 31 of each fiscal year and whenever there are indications of impairment. The recoverable amount based on the value in use is determined using a valuation model based on the discounted cash flow method. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized for the difference between the carrying amount and the recoverable amount.

The assessment of the recoverability of goodwill is complex and requires the use of many estimates and judgments by the legal representatives, particularly with regard to the amount of future cash surpluses, the growth rate for forecasting cash flows beyond the detailed planning period and the discount rate to be applied. Due to the significance of the amount of goodwill for the Consolidated Financial Statements of Masterflex SE and the significant uncertainties associated with its measurement, this is a particularly important audit issue.

Masterflex SE’s disclosures on goodwill are included in Note 24 of the Notes to the Consolidated Financial Statements.

### Audit response and findings

As part of our audit, we assessed the appropriateness of the key assumptions and discretionary parameters as well as the calculation method of the impairment tests, taking into account our valuation specifications. We obtained an understanding of the planning system and process, as well as the significant assumptions made by the legal representatives in the planning, in particular with regard to the possible effects of economic developments in connection with the COVID-19 pandemic. We have reconciled the forecast of future cash surpluses in the detailed planning period with the multi-year plan approved by the Supervisory Board. We verified the assumptions underlying the planning and the growth rates assumed in the forecast of cash flows beyond the detailed planning period by comparing them with current industry-specific market expectations. In addition, we critically examined the discount rates applied on the basis of the average cost of capital of a peer group. Our audit also included the sensitivity analyses performed by Masterflex SE.

Overall, we were able to assure ourselves that the assumptions made by the legal representatives in performing the impairment test and the valuation parameters used are comprehensible and lie within a reasonable range.

## Other information

The legal representatives or the Supervisory Board are responsible for the other information. The other information comprises:

- The separately published non-financial statement referred to in section B. of the Combined Management Report,
- the Corporate Governance Report's Declaration on Corporate Governance,
- the other parts of the Annual Report, with the exception of the audited Consolidated Financial Statements and Combined Management Report and our audit opinion.

Our audit opinions on the Consolidated Financial Statements and the Combined Management Report do not cover the other information and, accordingly, we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, to evaluate whether the other information is

- materially inconsistent with the Consolidated Financial Statements, the Combined Management Report or our knowledge obtained in the course of the audit, or
- otherwise appears to be materially misstated.

## Responsibility of the legal representatives and the supervisory board for the consolidated financial statements and the combined management report

The legal representatives are responsible for the preparation of the Consolidated Financial Statements that comply in all material respects with IFRSs as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB), and for assuring themselves that the Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls that they have determined are necessary to enable the preparation of

Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to a going concern. In addition, they are responsible for accounting on a going concern basis unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

In addition, the legal representatives are responsible for the preparation of the Combined Management Report, which as a whole provides a suitable view of the Group's position, is consistent in all material respects with the Consolidated Financial Statements, complies with German legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to enable the preparation of a Combined Management Report in accordance with the applicable German legal requirements and to provide sufficient appropriate evidence for the statements made in the Combined Management Report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the Consolidated Financial Statements and the Combined Management Report.

## Auditor's responsibility for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance on whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Combined Management Report as a whole provides a suitable view of the Group's position and is consistent, in all material respects, with the Consolidated Financial Statements and with our audit findings, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinions on the Consolidated Financial Statements and the Combined Management Report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these Consolidated Financial Statements and the Combined Management Report.

During the audit, we exercise professional judgment and maintain a critical attitude. In addition,

- we identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Combined Management Report, whether caused by fraud or error, plan and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting material misstatements is higher in the case of noncompliance than in the case of inaccuracy, as noncompliance may involve fraud, forgery, intentional omissions, misleading representations, or the overriding of internal controls.

- we obtain an understanding of the internal control system relevant to the audit of the Consolidated Financial Statements and of the arrangements and actions relevant to the audit of the Combined Management Report in order for us to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those systems.

- we evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the legal representatives.

- we conclude on the appropriateness of the going concern basis of accounting used by management and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to the related disclosures in the Consolidated Financial Statements and the Combined Management Report or, if such disclosures are inadequate, to modify our respective audit opinions in our auditor's report. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. However, future events or conditions may result in the Group being unable to continue as a going concern.

- we assess the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that the Consolidated Financial Statements give a true and fair view in accordance with IFRSs as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB give a true and fair view of the net assets, financial position and results of operations of the Group.

- we obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements and on the Combined Management Report. We are responsible for directing, supervising and performing the audit of the Consolidated Financial Statements. We are solely responsible for our audit opinions.

- we assess the consistency of the Combined Management Report with the Consolidated Financial Statements, its compliance with the law, and the understanding of the Group's position presented by it.

- we perform audit procedures on the forward-looking statements made by the legal representatives in the Combined Management Report. Based on sufficient appropriate audit evidence, we in particular verify the significant assumptions underlying the forward-looking statements made by the legal representatives and evaluate the appropriate derivation of the forward-looking statements from these assumptions. We do not express an independent opinion on the forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events may vary materially from the forward-looking statements.

We discuss with those responsible for governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We provide those responsible for governance with a statement that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence, including the safeguards that have been put in place.

From the issues discussed with those responsible for governance, we determine which issues were of the greatest significance in the audit of the Consolidated Financial Statements of the Group for the current reporting period and are therefore the key audit matters. We disclose these issues in the auditor's report unless the law or regulations preclude public disclosure of the matters.

# Other statutory and legal requirements

## Report on the audit of the electronic representations of the consolidated financial statements and the combined management report prepared for disclosure purposes in accordance with sec. 317 (3b) HGB. 3b HGB

### Audit opinion

In accordance with Section 317 (3b) of the German Commercial Code (HGB), we have performed a reasonable assurance audit to determine whether the reproductions of the Consolidated Financial Statements and the Combined Management Report (hereinafter also referred to as the "ESEF Documents") contained in the attached file [MASTERFLEX_KA20_ESEF.zip: 7587f2d92ffa6c3db61d30456f366672ba8a890679b22ef481ccd3bacc997768] and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code regarding the electronic reporting format ("ESEF Format"). In accordance with German legal requirements, this audit extends only to the transfer of the information contained in the Consolidated Financial Statements and the Combined Management Report into the ESEF format and therefore does not extend to the information contained in these reproductions or to any other information contained in the aforementioned file.

In our opinion, the reproductions of the Consolidated Financial Statements and the Combined Management Report contained in the attached file referred to above and prepared for disclosure purposes comply, in all material respects, with the requirements of Section 328 (1) HGB regarding the electronic reporting format. Beyond this audit opinion and our audit opinions on the accompanying Consolidated Financial Statements and the accompanying Combined Management Report for the financial year from January 1, 2020, to December 31, 2020, contained in the preceding "REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT," we do not express any audit opinion on the information contained in these reproductions or on the other information contained in the above-mentioned file.

## Basis for the audit opinion

We conducted our audit of the reproductions of the Consolidated Financial Statements and the Combined Management Report contained in the above-mentioned attached file in accordance with Section 317 (3b) of the German Commercial Code (HGB) and in compliance with the draft IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for the Purposes of Disclosure pursuant to Section 317 (3b) of the German Commercial Code (HGB) (IDW EPS 410). Our responsibility thereunder is further described in the section "Auditor's Responsibility for the Audit of the ESEF Documents." Our auditing practice has complied with the requirements for the Quality Assurance System of the IDW Quality Assurance Standards: Requirements for Quality Assurance in the Auditing Practice (IDW QS 1).

## Responsibility of the legal representatives and the Supervisory Board for the ESEF documents

The legal representatives of the company are responsible for the preparation of the ESEF documents with the electronic reproductions of the Consolidated Financial Statements and the Combined Management Report in accordance with Section 328 (1) Sentence 4 No. 1 of the German Commercial Code (HGB) and for the certification of the Consolidated Financial Statements in accordance with Section 328 (1) Sentence 4 No. 2 of the German Commercial Code (HGB).

Furthermore, the legal representatives of the company are responsible for the internal controls that they deem necessary to enable the preparation of the ESEF documents that are free from material – intentional or unintentional - non-compliance with the requirements of Section 328 (1) HGB regarding the electronic reporting format.

The legal representatives of the company are also responsible for submitting the ESEF documents together with the auditor's report and the accompanying audited Consolidated Financial Statements and audited Combined Management Report as well as other disclosable documents to the operator of the German Federal Gazette (Bundesanzeiger).

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the accounting process.

## Auditor's Responsibility for the Audit of the ESEF Documents

Our objective is to obtain reasonable assurance as to whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. During the audit, we exercise professional judgment and maintain a critical attitude. In addition,

- we identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, plan and conduct audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- we obtain an understanding of internal control relevant to the audit of the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of those controls.

- we evaluate the technical validity of the ESEF documentation, i.e., whether the file containing the ESEF documentation complies with the technical specification requirements for that file as set out in Delegated Regulation (EU) 2019/815, as applicable on the reporting date.

- we assess whether the ESEF documents allow for a content identical XHTML reproduction of the audited Consolidated Financial Statements and the audited Combined Management Report.
- we assess whether the markup of the ESEF documents with inline XBRL technology (iXBRL) enables an adequate and complete machine-readable XBRL copy of the XHTML reproduction.

### Other disclosures pursuant to article 10 EU APRVO

We were elected as auditors by the Annual General Meeting on June 23, 2020. We were appointed by the Supervisory Board on October 28, 2020. We have served as auditors of the Consolidated Financial Statements of Masterflex SE since fiscal year 2020.

We declare that the audit opinions contained in this audit opinion are consistent with the additional report to the Supervisory Board pursuant to Article 11 EU Audit Regulation (audit report).

## Auditor responsible

Dr. Marcus Falk is the auditor responsible for the audit.

Essen, March 30, 2021

BDO AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| **signed Fritz** | **signed Dr. Falk** |
| Certified Public Accountant | Certified Public Accountant |

# Glossary

| | |
|---|---|
| **Bruttoinlandsprodukt (BIP)** | The total value of all goods and services produced by an economy for the market within a reporting period. |
| **Cashflow** | The flow of financial resources generated from the current period, adjusted for non-cash expenses and income. It shows the company's self-financing capability or earning power. |
| **EBITDA** | Earnings before interest, taxes, depreciation and amortization |
| **EBIT** | Earnings before interest and taxes |
| **EBT** | Earnings before taxes |
| **Extrusion** | Procedure for the processing of plastics. The raw materials in granular form are crushed and heated in a so-called extruder until they are plasticised – i.e. moldable – so that they can be processed further. |
| **FEP** | Fluorinated ethylene propylene: fully fluorinated plastics with very high chemical resistance. |
| **IAS** | International Accounting Standards |
| **IFRS** | International Financial Reporting Standards |
| **PFA, PTFE** | Perfluoroalkoxy (PFA) and polytetrafluoroethylene (PTFE): two fluorinated plastics with very high chemical resistance. |
| **Stage-Gate-Prozess** | Model for the optimisation of innovation and development processes. Thus, objectives that were not or insufficiently included in such processes should also be taken into account. These could be about: focusing and prioritising, parallel developments at a faster pace, using cross-divisional teams or market orientation. |
| **Working Capital** | Current assets less current liabilities. |

# Imprint

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## Forward-looking statements

This annual report contains forward-looking statements. These statements are based on the current expectations, presumptions and forecasts of the Management Board and the information currently available to it. The forward-looking statements are not to be understood as guarantees of the future developments and results mentioned therein. Rather, the future developments and results are dependent on a large number of factors; they involve various risks and imponderables and are based on assumptions that may prove to be incorrect. We assume no obligation to update the forward-looking statements made in this report.

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Connecting Values

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