

# MASTERFLEX GROUP

Masterflex SE, Gelsenkirchen ISIN: DE0005492938

## Corporate Governance Report

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

### I. Declaration on corporate Management pursuant to § 289a of the German Commercial Code

#### 1.1 Declaration of Conformity to Corporate Governance pursuant to § 161 of the German Stock Corporation Act

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

In accordance with § 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board are required to submit an annual declaration stating that the company has complied with, and will comply with the recommendations of the Government commission on the German Corporate Governance Code published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette, or stating which recommendations have not or will not be applied and why this declaration of conformity is to be made permanently available to shareholders. The declaration of conformity for the 2012 financial year was submitted in December 2012 and remains available for inspection on the website.

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

#### **The Declaration of Conformity of 10 December 2012 is worded as follows:**

#### ***Declaration of Conformity to Corporate Governance pursuant to § 161 of the German Stock Corporation Act***

*The term "corporate governance" refers to responsible corporate management and control aimed at long-term value creation. Key aspects of good corporate governance are efficient co-operation between the Executive Board and the Supervisory Board, respect for shareholder interests, and openness and transparency in corporate communications. Masterflex SE is a European stock corporation. In line with the SE Ordinance, the law of the stock company according to German law also applies. Accordingly, the Company is managed by the Executive Board and the Supervisory Board. Masterflex SE places high value on corporate governance. The Executive Board and the Supervisory Board have worked closely together from the very start in the best interests of the Company and have maintained intensive and on-going dialogue on the Company's development.*

*The Code sets out the material statutory provisions on the management and supervision of German listed corporations and contains internationally and nationally recognised standards of prudent and responsible company management (in the form of “recommendations and suggestions”). The Code aims to make the German system of corporate governance transparent and understandable. The legal provisions reflected in the Code must be observed and complied with by the Company without exception. The Company is allowed to deviate from the recommendations contained in the Code. The Foreword of the Code specifically allows for such deviations, which are intended to contribute to “flexibility and self-regulation in German corporate constitution”.*

*The Executive Board and Supervisory Board of Masterflex SE declare that the recommendations of the previous version of the Code dated 26 May 2010 have been observed since the last declaration of conformity in March 2012 with the exceptions stated therein and the Code version dated 15 May 2012 has been and will continue to be observed with the exceptions stated below. This declaration has been made permanently accessible to shareholders of Masterflex SE on our website. The website also contains all previously published versions of the Declaration of Conformity.*

**Exceptions:**

**4.2.2 External compensation expert**

*Should an external compensation expert be considered necessary in order to assess the appropriateness of the Executive Board compensation, the independent status of such an expert will also be ensured. Due to the expertise already available in the Supervisory Board, two members of which are financial auditors, as well as the qualified support from the Company’s legal advisors, it has thus far not been considered necessary to seek the additional services of a separate, independent compensation expert.*

**5.3. Supervisory Board - committees**

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

*Supervisory Board member Mr van Hall is an established financial expert. He is supported by Mr Klomb, also a financial auditor. Where necessary, the Supervisory Board calls on qualified external help in order to assess difficult matters.*

**5.4.6 Section 1, sentence 3, Supervisory Board compensation**

*The Supervisory Board compensation resolved by the Annual General Meeting does not provide extra compensation for the activities of the Chairman or Deputy Chairman as differentiation of this kind would be meaningless for the Company and the allocation of tasks within the Supervisory Board due to the small size of the Supervisory Board and the burden of work assigned to all members of the Supervisory Board.*

**7.1.4. Publishing subsidiaries’ financial results**

*The Code mentions publishing individual financial results for subsidiaries from the previous year in the Company’s annual financial statements. In this point, we deviate*

*from the Code in that we do not publish these results. Our subsidiaries are medium-sized companies, and we believe that their competitive position could be adversely affected through publication of their results.*

A Compliance Officer supports the implementation of the Code of Conduct in the Group and reports regularly in the Executive Board and to the Supervisory Board.

### **1.2 Relevant disclosures on corporate management practices**

Structures for the management and supervision of Masterflex are set out in the company's Articles of Association as well as the Rules of Procedure for the Executive Board and Supervisory Board. The Company's Articles of Association can also be examined on the Internet at [www.MasterflexGroup.com](http://www.MasterflexGroup.com).

### **1.3 Description of the working methods of the Executive and Supervisory Boards**

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

The Executive Board of Masterflex SE manages the transactions of the Company and is bound to observe the best interests and business policy principles of the Company in the context of the provisions of the Stock Corporation Act. It consists of at least two members and determines the Company's strategic orientation. The Executive Board currently consists of two members: the Chairman and the Chief Financial Officer. The Supervisory Board of Masterflex SE will be selected for a duration of no longer than three years until the end of the Annual General Meeting where the formal discharge is adopted for the first business year of Masterflex SE. The first financial year of the company is the financial year in which the change of legal form from Masterflex AG to SE is entered into the relevant commercial register. The change of legal form from Masterflex AG to Masterflex SE was entered into the relevant commercial register on 1 October 2012.

The work of the Executive Board is governed by a set of Rules of Procedure, in which matters which are limited to the entire Executive Board and subject to the approval of the Supervisory Board, departmental responsibilities and the required resolution majority are set out. Each Executive Board member manages his area of work independently and on his own authority. In so doing, he undertakes to inform the entire Executive Board on an ongoing basis of any significant business affairs, as the allocation of individual areas of work does not exempt any member of the Executive Board from his joint responsibility for Company management as a whole.

The Executive Board generally attends all meetings of the Supervisory Board, reports on the individual agenda items and resolution proposals in writing and verbally, and answers any questions posed by the individual Supervisory Board members.

The Supervisory Board advises and monitors the Executive Board. With a total of three members, this Masterflex body is deliberately kept small in order to allow resolutions to be passed efficiently, rapidly and flexibly via streamlined structures, as is the case throughout the Group. The Supervisory Board also has its own Rules of Procedure. Here, an age limit for (repeated) appointment by the Annual General Meeting has been set at 70 in § 11 (5) of the Articles of Association.

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

Between meetings, the Executive Board and the Supervisory Board discuss key topics in telephone conference calls and strategy discussions arranged at short notice. The Chairman of the Supervisory Board also receives regular information on Masterflex SE's business development and forthcoming projects.

The appointment of recognised experts to the Supervisory Board is an important factor in Masterflex SE's successful development, as it allows major strategic decisions to be reached on a joint basis and in a spirit of continuous dialogue. Where necessary, the Supervisory Board calls on qualified external help in order to assess difficult matters.

The Supervisory Board regularly discusses business development, planning, strategy and its implementation are regularly discussed with the Executive Board. Significant corporate decisions, such as establishing the annual budget and investment plan, entering into or selling equity investments and larger financial measures are all subject to its approval. The Supervisory Board may designate further transactions as being subject to approval. It is also responsible for approving the separate and consolidated financial statements submitted by the Executive Board, unless this responsibility is passed on to the Annual General Meeting.

### **Diversity**

The Supervisory Board agrees with the objectives of the Code, namely that in addition to achieving a balance in terms of its staff's technical qualifications, an appropriate mix of nationalities and an appropriate number of female members should be ensured in the Supervisory Board by taking account of diversity. In this context, the term diversity must be understood as international origin, education, training or professional activity and not as citizenship or gender and age diversity.

This means that the composition of the Supervisory Board must take appropriate account of the diversity now observable in an open, innovative and now internationally active company such as Masterflex SE and its subsidiaries.

However, it also means that nobody will be excluded as a candidate for the Supervisory Board or proposed for the Supervisory Board simply because he or she has or does not have a specific characteristic. Women must be taken into account appropriately if they have the same qualifications and aptitude, but not as part of a mandatory quota.

The Supervisory Board has therefore defined targets for its composition, which should fulfil the requirement for diversity and take account of both appropriate participation by women and also people with an international background. Based on the 15 May 2012 version of the code, the Supervisory Board has amended its objectives for its composition and in its meeting of 10 December 2012; the objectives were named as follows in line with its composition:

- Take into account the international activity of the company
- Availability and operational readiness: a maximum of three other Supervisory Board positions in listed companies
- Consideration of technical expertise and industry knowledge, particularly with regard to the taking into account the knowledge of the company and its subsidiaries
- Consideration of the special knowledge and experience in the application of accounting and auditing and internal control procedures
- Significant and not just temporary conflicts of interest should be avoided, for example by board functions or advisory tasks for important competitors of the company. If in doubt, the chairman of the Supervisory Board should be reported to, or the deputy chairman as an alternative. There should always be a wide number of independent shareholder representatives who can be part of the Supervisory Board.
- Take into account the age limit of 70 years at the time of election
- Proposal and inclusion of a woman with suitable qualifications to the Supervisory Board at the next regular election of shareholder representatives.

Both the setting of objectives and the extent to which these have been implemented are to be published in the Corporate Governance Report. Since the Supervisory Board only consists of three people, it will be difficult to achieve the total of the formulated targets in the short term. In this connection, it must be noted that the company's activity is focused in areas in which, because of its technical orientation, there is a relatively low proportion of women with the specific qualifications required, meaning that acquiring women for management roles constitutes a challenge. Nevertheless, it is and remains the objective to facilitate and further increase appropriate participation by women at all levels of the company. It should however be noted, that due to the fact that there are only three members of the Supervisory Board, a high degree of continuity is desirable and in addition, for the most part the identification of multiple objectives for one person is required which limits the choice of candidates. This is already the case in administration and cross-departmental functions. Masterflex was one of the first listed companies that had appointed a woman to an Executive Board consisting of two members in the past.

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

Where possible, in future Supervisory Board elections, a woman is to be proposed to the Annual General Meeting as a membership candidate; if this proposal is accepted, this would be a ratio of 33%. In the process, particular account will be taken of people with an international background.

All Supervisory Board members meet the criteria of independence according to the agreed objective definition, as well as the requirements of the Code of Corporate Governance.

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

### **Shareholders and the Annual General Meeting**

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

### **Securities requiring disclosure of the Executive Board and Supervisory Board**

An overview of the acquisition or sale of Masterflex shares on the part of the Executive Board and the Supervisory Board can be found on the Company's website [www.MasterflexGroup.com](http://www.MasterflexGroup.com) under [Investor Relations/Corporate Governance/Directors Dealings](#).

An overview of the equity investments, in particular in accordance with Section 6.6 sentence 1 of the Code, provides information as to how the members of the Executive Board and the Supervisory Board have a stake, whether direct or indirect, in Masterflex SE. Together, the two Executive Board members have a stake in the company through BBC GmbH that is above 4.5%. Furthermore, two Supervisory Board members – Messrs Bischooping and Klomp – are also shareholders in the Company. These disclosures are not necessarily of the kind required by securities trading or corporate legislation but are made solely for the purposes of corporate governance. The table below shows the investment structure, separated into members of the Executive Board and the Supervisory Board:

BBC GmbH (Dr. Andreas Bastin and Mark Becks)	Friedrich Wilhelm Bischooping	Axel Klomp
4.63%	2.5%	0.75%

### **Stock option plans**

In accordance with Item 7.1.3 of the German Corporate Governance Code, the corporate governance report must also contain specific disclosures on stock option plans and similar securities-based incentive schemes run by the Company. There are currently no stock option plans or similar securities-based incentive schemes in place at the Company.

### **Transparency**

Providing standardised, comprehensive and up-to-date information is a high priority at Masterflex. Reports on the development of the Company are issued via the internet, in annual and interim reports, at analysts' conferences, press conferences and general capital market conferences and via ad hoc disclosures and press releases.

All information can be accessed on the Company's website at [www.MasterflexGroup.com](http://www.MasterflexGroup.com), Investor Relations.

Masterflex SE keeps a list of individuals with insider information in accordance with § 15b of the German Securities Trading Act (WpHG). The persons listed here have been informed of legal obligations and sanctions.

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

### **Accounting and auditing**

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

It has been agreed with the auditor that he will inform the Chairman of the Supervisory Board and the Financial Expert immediately of any significant findings or events during the audit.

### **Management variables and control system**

The internal corporate management systems have been improved considerably in recent years, so that undesirable developments can be recognised at an early stage and measures to counteract them can be commenced. Within the framework of the restructuring programme between 2008 and 2010, new methods for business and action planning were developed and the internal reporting system was expanded considerably. During the past financial year, this internal reporting was further refined and thus continuously optimised.

Key income and liquidity indicators are the main focus of corporate management. With regard to the key figures used for corporate management we refer to the comments in the Annual Report 2012 under section A.III in this report.

### **Risk Management**

Masterflex SE has set up a Group-wide risk management system that has been intensively reworked since 2008 and is since being constantly refined in order to establish an efficient group-wide internal control system.

We view risk management as the central responsibility of the Executive Board, the managers and all employees. Risks can thus be identified and limited at an early stage without having to forego corporate opportunities. A detailed presentation of risk management is given in the risk report section of the 2012 Financial Report (section G).

In addition, the chairmen of the Executive Board and Supervisory Boards continuously exchange ideas on the establishment, level of compliance and measures required for this and the Supervisory Board also bring themselves up to date externally about the contents of proper compliance.



## **II. Compensation report**

Masterflex SE complies with the recommendations of the Corporate Governance Code and publishes a breakdown of the individual compensation of the Executive Board and Supervisory Board. Compensation paid to the Executive Board and Supervisory Board includes fixed and variable components.

### **1. Executive Board compensation**

For the company, giving a transparent and intelligible presentation of Executive Board compensation has been a key element of good Corporate Governance for years. The Supervisory Board plenum is responsible for determining the compensation of the individual Executive Board members in accordance with statutory requirements and a regulation in the Rules of Procedure that was established long before the legislation came into force.

The compensation of members of the Executive Board consists of non-performance related and performance-related components. The non-performance related component comprises fixed compensation and fringe benefits. The performance related, variable components comprise a component that is effective immediately and a long term incentive component. The short-term bonus which makes up two thirds of the total variable compensation is paid once the parameters for success and the degree to which they have been achieved are established by the Supervisory Board. The second, longer term part of the bonus, comprising around a third of the entire variable component, remains with the company for a further two years and is only paid if the parameters for success were permanently secured over a period of three years. In contrast, if these parameters are not fulfilled over this period, this component will be forfeited accordingly in whole or part. Contrary to usual practice in comparable companies, members of the Executive Board do not receive any pension. Reviews of the total amount and parameters take place every two years.

The compensation system in force was adopted by the Supervisory Board in its meeting on 15 April 2010 and adopted by resolution of the Annual General Meeting on 28 June 2011 in accordance with § 120 (4) of the German Stock Corporation Act. Criteria for the appropriateness of compensation paid to the Executive Board are the responsibilities of the individual Executive Board member, his personal performance, the economic situation, the success and future prospects of the company and the extent to which the compensation can be seen as normal taking into consideration comparable industry peers and the compensation structure in force at the company. Performance-related components – the bonus – include components with an investment basis spread over several years. These provide long term performance-based incentives and gear the compensation structure towards sustainable company development. There are no further share-based incentive systems, such as a stock option plan in place at the company.



The total compensation paid to the Executive Board in 2012 and its division into fixed and variable components is presented in the following table:

All disclosures in k€	Fixed Compensation	Performance-based compensation based on sustainable targets  Short-term focus	Performance-related remuneration in 2012  long-term focus <sup>1</sup>	Fringe benefits  (Remuneration in kind)	Total compensation relevant to payment <sup>2</sup>  2012
Chief executive officer Dr. Andreas Bastin	285	79	41	32	396
(Previous year)	(260)	(208)	(82)	(27)	(495)
Executive Board member Mark Becks	200	43	22	34	277
(Previous year)	(170)	(136)	(44)	(31)	(337)
Total	485	122	63	66	673
(Previous year)	(430)	(344)	(126)	(58)	(832)

<sup>1</sup> This compensation component is subject to long-term performance criteria to be fulfilled over a period of three years. If these criteria are not met, this part of the compensation can be partially or entirely inapplicable and therefore not initially paid.

<sup>2</sup> The amount of performance-related variable compensation that has been earned for the financial year but not yet paid and that can still be inapplicable up to the full amount if performance targets are not met in the entire period of consideration is not accounted for here.

In the 2012 financial year, fixed and variable compensation was granted to the Executive Board. The variable compensation components were determined on the basis of the bonus regulations agreed with the members of the Executive Board at the beginning of the past financial year.

Executive Board members also receive fringe benefits in the form of remuneration in kind. This primarily consists of insurance premiums for disability insurance, a life insurance policy and private use of a company car.

The Executive Board contracts include provisions for a compensation payment in the event that Executive Board activities are terminated prematurely without good cause. This is limited to less than the maximum permitted annual compensation for two years including fringe benefits (severance payment cap) and provides remuneration for no longer than the remaining term of the employment contract. Commitments to provide benefits of the appropriate manner are also in place in the event of a change of control and subsequent premature termination of Executive Board activities (so-called Change of Control Regulation).

## 2. Supervisory Board compensation

The Supervisory Board's compensation system, which was last revised in 2010, takes account of the present requirements of the German Corporate Governance Code. In accordance with the Articles of Association, compensation paid to the Supervisory Board members since that time includes fixed and variable components.

The variable components of the Supervisory Board's compensation are also geared to sustainability. For sustainability, certain corporate figures must trend positively over a period of two years. These components are limited to a maximum of € 5,000 per Supervisory Board member and financial year. It is also apparent that the in-

creasing demands placed on the Supervisory Board, on the one hand, and its limited size, consisting of only three members; on the other hand, involve all members in the work of the Supervisory Board to a considerable degree. Therefore, no additional remuneration is paid to the chairman or deputy chairman. Rather, the same amount of compensation is paid to all members of the Supervisory Board. Furthermore, there is separate compensation for committee work as their formation would make no sense with a three-member Supervisory Board.

The Supervisory Board's fixed compensation is paid after the end of the respective financial year. Members of the Supervisory Board are also paid attendance fees of € 500 per meeting.

Pursuant to § 113 (2) of the German Stock Corporation Act, the remuneration is determined at the Annual General Meeting for members of the first Supervisory Board of Masterflex SE at its sole discretion. The change of legal form to Masterflex SE came into force on 1 October 2012. Thus, compensation paid to the Supervisory Board of Masterflex SE in accordance with the system adopted at the 2010 Annual General Meeting was only valid up to 30 September 2012; for the last quarter of 2012, the Annual General Meeting in 2013 had decided upon it.

The total compensation paid to the Supervisory Board in 2012 and its distribution is presented in the following table:

All disclosures in k€	Fixed compensation	Performance-related compensation <sup>1</sup>	Total attendance allowance	Total compensation relevant to payment 2012
Chairman of the Supervisory Board, Friedrich W. Bischooping (Previous year)	10.5 <sup>2</sup> (14)	3.75 <sup>2</sup> (5)	1.5 <sup>2</sup> (2)	15.75 <sup>2</sup> (21)
Deputy chairman of the Supervisory Board, Georg van Hall (Previous year)	10.5 <sup>2</sup> (14)	3.75 <sup>2</sup> (5)	1.5 <sup>2</sup> (2)	15.75 <sup>2</sup> (21)
Supervisory Board member, Axel Klomp (Previous year)	10.5 <sup>2</sup> (14)	3.75 <sup>2</sup> (5)	1.5 <sup>2</sup> (2)	15.75 <sup>2</sup> (21)
Total compensation (Previous year)	31.5 <sup>2</sup> (42)	11.25 <sup>2</sup> (15)	4.5 <sup>2</sup> (6)	47.75 <sup>2</sup> (63)

<sup>1</sup> The proportion of variable compensation acquired in 2011 but not yet paid, but which is paid with the financial statements of the 2012 financial year in consequence of the success criteria for fixed compensation in line with article 15 of the Articles of Association.

<sup>2</sup> Pursuant to § 113 (2) of the German Stock Corporation Act, the remuneration is determined at the Annual General Meeting for members of the first Supervisory Board of Masterflex SE by separate decision. Owing to the change of legal form to SE on 01 October 2012, the compensation paid to the Supervisory Board only included nine months in 2012 in accordance with the system previously applicable.