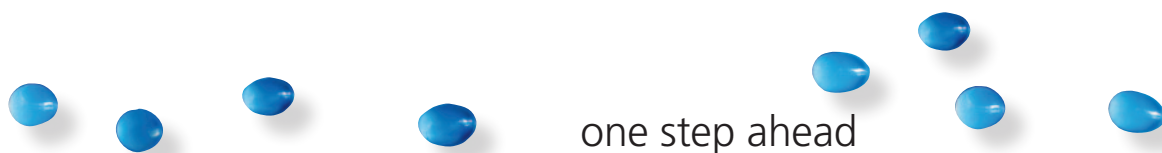


# ANNUAL REPORT 2010



# Masterflex AG



## Core business High-Tech Hose Systems

In our core business unit, using high-performance polymers and woven fabrics, we produce high-tech hoses and connecting-systems for complex industrial and medical applications in various areas.

We have production sites in Germany, France, Great Britain, the Czech Republic and the USA and a sales offices in Sweden, Brazil and Russia. In other countries, our products are sold by local dealers.



## Mobility

The Mobility Group specialises in innovative and environmentally-friendly mobility concepts. In our non-core business unit, we offer fuel cells in a range between 25 and 250 watt for mobile energy supply as well as environmentally friendly light mobility vehicles with electric and fuel cell drive systems.



## OUR VISION

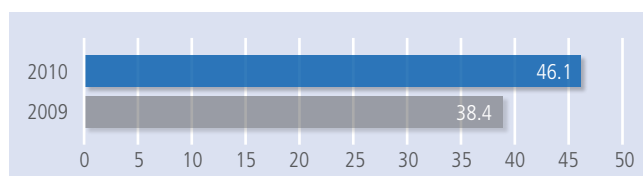
Our vision is to become a global leader in all the specialist markets we have defined and serve. In so doing, we will concentrate on our main core expertise, which lies both in processing demanding high-tech polymers and in the innovative development of solutions for specialist connector systems, hoses and application components.



## CONTINUED BUSINESS UNITS

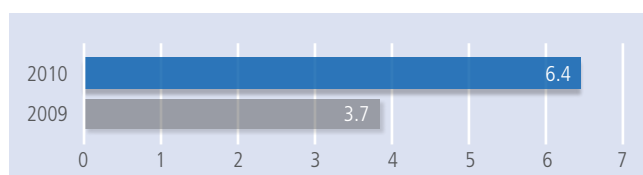
Consolidated revenue

million EUR



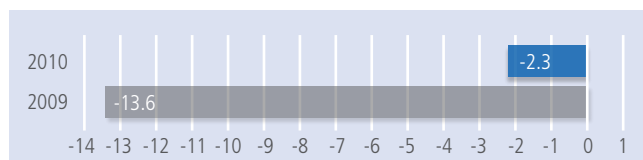
Consolidated EBIT

million EUR



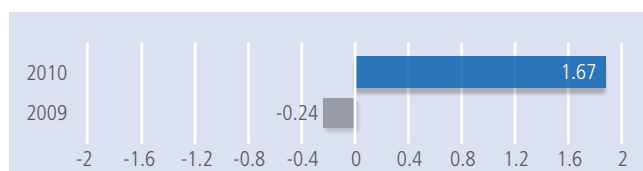
Consolidated net income

million EUR



Consolidated earnings per share  
(from continued business units)

EUR



<b>Masterflex at a glance</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>	<b>Change in %</b>
Consolidated revenue (EUR thousand)	46,057	38,409	19.9 %
EBITDA (EUR thousand)	9,114	6,124	48.8 %
EBIT (EUR thousand)	6,445	3,656	76.3 %
EBT (EUR thousand)	3,104	445	597.5 %
Consolidated earnings from continued business units (EUR thousand)	8,100	-932	
Consolidated earnings from discontinued business units (EUR thousand)	-10,267	-12,509	17.9 %
Consolidated net income/loss (EUR thousand)	-2,333	-13,568	82.8 %
Consolidated equity (EUR thousand)	12,213	995	1,127.4 %
Consolidated total assets (EUR thousand)	65,416	69,298	-5.6 %
Consolidated equity ratio %	18.7 %	1.4 %	
Staff (December 31)	397	384	3.4 %
EBIT-Margin	14.0 %	9.5%	
Return on sales	17.6 %	-2.4%	
Consolidated earnings per share (EUR)			
from continued business units	1.67	-0.24	
from discontinued business units	-2.16	-2.87	24.7 %
from continued and discontinued business units	-0.49	-3.11	84.2 %

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*Dear shareholders,*



Dr. Andreas Bastin, Chief Executive Officer

In the 2010 financial year, we successfully put an end to the crisis of recent years and placed the Company on a new foundation. In the process, we were able to achieve or even exceed all our targets:

1. The 2010 financial year closed with operating EBIT of EUR 6.4 million. As a result, we have again exceeded the earnings forecast in the last quarterly report, which had already been increased. The successful turnaround is evidence that the measures we have implemented were both correct and effective. And the results prove how profitable our Company is in its core business, High-Tech-Hose-Systems (HTS).

2. In December, the agreements with our banks to secure long-term Group financing came into effect. The five-year duration and a sound basis for all investment projects as well as the more than adequate liquidity for planned growth provide a good starting position for our future business performance. We were also able to reduce the previous number of banks significantly.

3. The Group's net debt, which was oppressive in recent years, was reduced by a further € 23.6 million in the past year. As a result, we reported – after very modest figures recently – a sharply increased equity ratio of 18.7 % at the year end. This was made possible, in particular, by the successful, since fully utilised, equity measure last December.

4. The refocusing on our core business, the development and marketing of high-tech-hose and connector-systems, has been completed. The sole measure still outstanding is the equity investment in Mobility. It has been shown as a discontinued operation since the end of the year. It is viewed as immaterial in economic terms within our Group.

5. The measures initiated as early as 2008 as part of the future project MOVE were completed successfully. As a result, costs of some € 2.2 million were again saved last year in the Group.

With the good conclusion to the 2010 financial year, we can draw a line under the repercussions of the strong and not economically successful growth and diversification strategy of the past as well as the financial and economic crisis. The results for the last year show that the measures have taken effect more rapidly and more effectively than we had even expected ourselves.

In addition to concluding all the key reorganisation measures, we also succeeded in achieving significant operating growth. Revenue in the HTS segment increased by 20 %. The focus on our core business unit and the marked success of new sales measures were responsible for this. The economic recovery also provided additional support. Including Mobility, revenue increased from € 44.0 million to € 49.7 million in 2010 and is consequently well up on the most recent forecast of € 48.0 million.

Overall, with our hoses and connector systems from high-tech polymers, we benefit, most notably, from the diversified industrial background of our customers, who come from the mechanical engineering, automotive, aviation and energy segments or the manufacture and processing of foods and pharmaceutical products as well as various areas of the medical industry. The complex areas of application, combined with outstanding expertise in processing demanding polymers, allow us to produce solutions, which cannot be achieved with conventional materials.

We constantly develop our product range in close cooperation with customers and suppliers. As a result, we were able to launch a series of innovative new products, some of which were outstanding, on the market last year as well. We are also expanding our market presence. In 2010, we established new sites in two additional markets in Brazil and in Russia.

These successes are reflected in the income statement. Thanks to the increase in revenue of € 7.6 million and cost savings of € 2.2 million, operating earnings before interest and taxes (EBIT) for 2010 rose by € 2.8 million to € 6.4 million.

Including all non-recurring effects, such as the sale of the former subsidiary SURPRO and the debt waiver as well as the consulting costs resulting from these non-recurring effects, we reported consolidated earnings of € -2.3 million (previous year: € -13.6 million).

We have made a successful start to the 2011 financial year. The recovery in the global economy and our success in implementing our sales measures provide grounds for expecting a further improvement in our results and margins, provided that overall economic development remains as positive as it is at present.

Our forecast for the high-tech-hose and connector-systems business for the 2011 financial year is as follows: we are planning an increase of at least 10 % in revenue to approximately € 51 million. Growth in EBIT will shadow the increase in sales albeit at a somewhat more moderate rate in 2011. Against the background of rising commodity prices and, in particular, the preproduction costs of opening up new markets, we expect an increase in EBIT to at least € 7.0 million in 2011. This would still correspond to a very good EBIT margin of 14 %. We are also expecting a very positive consolidated net profit for the period. Our equity structure will also improve rapidly and move closer to the target ratio we have set ourselves of at least 30 %.

Dear shareholders,

In November and December of the past financial year, we carried out the equity increase resolved by an overwhelming majority at the last Annual General Meeting. The impressive level of interest was expressed in a very gratifying exercise of subscription rights by existing shareholders. To safeguard the measure, we had also held a series of discussions with potential new investors before it was carried out. The trust shown to us in these discussions and the interest by potential new shareholders provided us with even more motivation to press ahead consistently with all measures and to complete them successfully.

I should like to thank you expressly, the old and the new Masterflex AG shareholders, for your faith in our Company, in its management and in its workforce! I should also like to thank all our employees for their high level of commitment, their performance and their loyalty and our customers and business partners for their trust and support. Our Group's team is highly motivated and well prepared for profitable growth over the next few years!

Gelsenkirchen, April 2011

*Yours sincerely,  
Andreas Bastin*

Dr Andreas Bastin  
Chief Executive Officer

The Masterflex Executive Board:  
Mark Becks, CFO since June 2009  
and Dr Andreas Bastin, CEO since  
April 2008



Pushing boundaries  
and discovering new horizons.



We use international connections to best serve the markets of tomorrow.

# A. Business development and business environment



Abrasive dust extraction

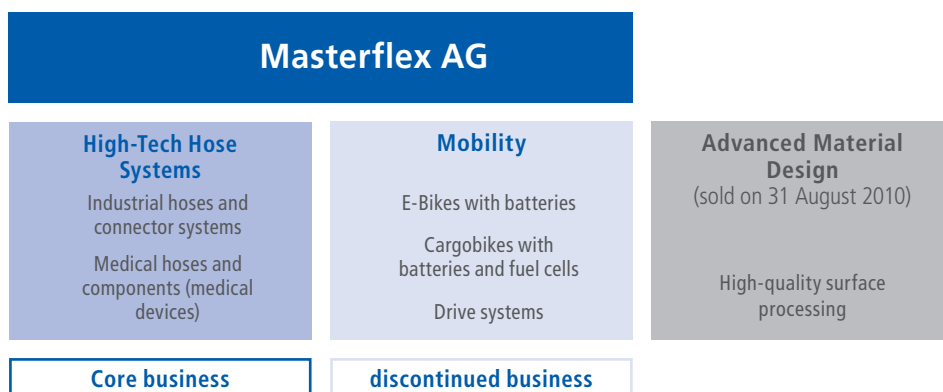
## I. Group structure and business activities

Masterflex AG is a global specialist in the development and production of high-quality hoses and connector systems using high-tech plastics and fibres. The Company processes polyurethane (PUR) and other innovative specialist polymers to make high performance hoses. Essentially, Masterflex AG's products are developed in-house.

The Company was founded as Masterflex Kunststofftechnik GmbH in 1987. The Company grew continuously over the years. A markedly diverse programme of high-tech hose systems for a vast range of industrial and medical applications is now produced and sold at various sites in Europe, the USA and Brazil. The international Company's main production sites are located in Gelsenkirchen, Halberstadt, Norderstedt and Houston (USA).

Shares in Masterflex AG have been traded on the Frankfurt Stock Exchange since 16 June 2000.

In 2010, Masterflex AG successfully completed the far-reaching restructuring process it began in 2008 and is concentrating once more solely on its core business unit, high-tech hose systems. The other business units, Advanced Material Design and Mobility, which were still owned by the Group at the beginning of 2010, have already been sold or preparations for their sale are underway.



The sale of the Advanced Material Design (Surface Technology) segment was completed as of 31 August 2010. This segment, represented by the SURPRO Group, as a specialist niche provider for the production and refining of very fine surfaces, had been part of the Masterflex Group since 2005.

The divestiture of the last remaining non-core business unit, Mobility, is being planned. Various sales options are being examined at present. The business unit is accounted for as a discontinued operation as of 31 December 2010.

## II. Management and control

### 1. The Executive Board

Masterflex AG is run by an Executive Board consisting of two members. Dr. Andreas Bastin has been CEO of Masterflex AG since 1 April 2008, while Mark Becks has been CFO since 1 June 2009.

In 2010, the activities of the Executive Board focused on returning Masterflex AG to its profitable core business and the expansion of the high-tech hose systems segment and on consistently reducing the Company's debt while restructuring the liabilities side of the balance sheet at the same time. The successful capital increase at the end of 2010 was the final milestone in the realignment of Masterflex.

### 2. The Supervisory Board

There were changes to the membership of the Supervisory Board in the 2010 financial year. The Annual General Meeting elected Axel Klomp, auditor and tax advisor, as a new member of the Supervisory Board in August 2010. As a result, he succeeded Professor Dr. Detlef Stolten.

Friedrich Wilhelm Bischooping (Chairman of the Supervisory Board of Masterflex AG since 2000) and Georg van Hall (Deputy Chairman of the Supervisory Board since August 2010) were re-elected to the Board by the Annual General Meeting.

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

The detailed report by the Supervisory Board was published on page 101 of this annual report.



Ground cable-compatible hoses

## III. Objectives, strategies, corporate management

### 1. Objectives and strategies

#### 1.1 Expansion of High-Tech Hose Systems: the Group's core business unit

The High-Tech Hose Systems core business unit, which constitutes the sole focus of the Group's activities once more following the restructuring, also performed well in 2010. We see considerable growth potential in the core business unit and will press ahead with the expansion with determination. The growth strategy is based on two central pillars: internationalisation and innovation.

#### • Accelerated internationalisation

As part of the targeted development of new markets, a subsidiary was founded in Brazil and a joint venture in Russia in 2010. In future, we shall boost our commitment – on the basis of extensive market analyses and our internationalisation strategy – to markets that are not yet addressed or are not addressed in any meaningful way. We have also successfully stepped up marketing activities in existing markets, most notably North America and Eastern Europe. These activities will be continued over the next few years.

#### Objectives

##### Focus on hose systems

Innovations
Internationalisation
Development of materials expertise
Expansion of the range
Best practice approach

##### Strengthening the equity base



Engine air intake

- **Innovation through materials expertise and a larger product portfolio**

Our customers' high standards and the requirements of the different markets are crucial to the development of new products, which are achieved jointly with our customers and our research and development department. We shall also continue to develop high-performance product and material solutions and use our high levels of materials, applications and technological expertise in hoses in a targeted manner. In the 2010 financial year, our Company's innovative strength produced technologically ambitious new products such as the new electrically heated hoses marketed under the templine® brand or new material solutions such as hoses with permanent anti-static agents.

- **Best-practice-approach**

The MOVE programme to improve efficiency and optimise costs, which was launched in 2008, was completed successfully in 2010. Building on this, we are working to improve our business processes continuously. This will make itself felt, initially, in the still more efficient use of existing resources. Additionally, it will take account of the requirements of an expanding Company.

## 1.2 Financing concept, strengthening the equity base

Because of the policy of broadly diversifying the Group pursued until 2008 and the debt associated therewith, it was the aim of the Executive Board in the past two and a half years to return the Company to its profitable and, at the same time, high-growth core activities. The strategy decision was associated with a consistently pursued policy of restructuring its financing. Major goals in this process were achieved in 2010:

- the equity ratio was considerably improved and now stands at 18.7 %,
- liabilities to banks and consequently the future interest charge were reduced significantly,
- the financing structure was reorganised on a long-term and flexible basis,
- the number of banks was reduced.

The measures were concluded with the successful implementation of the fully placed capital increase in December 2010.

The Group also parted company with a loss-making non-core business unit in 2010 through the sale of SURPRO GmbH.

The refocusing on our core business, the development and marketing of high-tech-hose and connector-systems, has been concluded. The sole measure still outstanding is the remaining equity investment in Mobility. It has been shown as a discontinued operation since the end of the year. It is viewed as immaterial in economic terms within our Group. We plan to sell it in the next few months.

## 2. Internal corporate management system

The figures used in Masterflex AG allow good conclusions to be drawn as to the success of measures implemented and make a contribution to short, medium and long-term corporate management. The development of subsidiaries can, for instance, be coordinated and encouraged in a targeted manner.

We use the following figures, among others, in corporate management:

- Development of net debt
- Development of net working capital (reduction in the capital tied up in the company proportional to the sales)
- Amortisation period for the valuation of investments
- Productivity (development of costs in relation to development of revenue)
- Revenue growth compared with budget and previous year
- EBIT margin to increase profitability
- Development of net debt to EBITDA

## IV. Market and competition

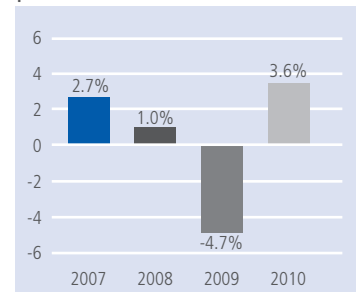
### 1. General economic situation in 2010, plastics industry in 2010

The global economy recovered significantly across a broad front in 2010. Growth has been far more rapid and, so far, more sustained than economic experts expected. Only a few economies are still mired in the doldrums resulting from the crisis, such as Spain, Greece and Ireland. Developments in the economic environment were also correspondingly positive in virtually all the countries and regions of significance to Masterflex AG.

Global economic growth of around 4.7 % in 2010 was driven, in particular, by the BRIC countries, which reported growth rates of between 4.0 % in Russia and up to 10.0 % in China. With the exception of Russia, these countries were also able to build on a stable or expanding basis achieved in 2009.

In 2010, the industrialised countries grew by 2.5 % and consequently compensated for part of the fall of 3.6 % recorded in 2009. The fact that this recovery touched virtually all the industrialised countries was particularly pleasing for companies like Masterflex, which have a broad international base. In Europe, growth in Germany, in particular, was exemplary. The increase of 3.6 % had not been expected at the beginning of the year. Even during 2010, forecasts made by the federal government and various economic research institutes during the year had to be revised upwards on several occasions. This upturn is no longer solely being carried by exports but is also supported by domestic capital investment and an increase in consumer expenditure.

Development of global gross domestic product



Source: Statistisches Bundesamt



Abrasive dust extraction in rail vehicles

#### Economic development in 2010 in countries in which Masterflex is represented (% change in GDP)

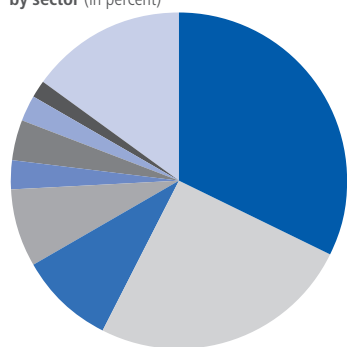
Germany	3.7
USA	2.8
France	1.5
United Kingdom	1.8
Czech Republic	2.4
Sweden	5.2
Russia	4.0
Brazil	7.5

Source: Deutsche Bank

Forecasts state that industry will continue to drive the German upturn in 2011 as well. This emerges from the industry report 2010/2011 published by the German Chambers of Commerce and Industry (DIHK) in Berlin. Overall, it expects a 5 % increase in industrial production. This is twice as much as the growth in the economy as a whole.

The plastics processing industry, with annual revenue of some EUR 46 billion and 285,000 employees in over 2,900 businesses, the majority of which are SMEs, remains one of the most significant industries in Germany. Innovative strength and a multifaceted product range are characteristic of the industry. Packaging, semi-manufactured products and consumer goods only constitute a sub-segment here.

Shares of the plastics processed in Germany by sector (in percent)



Packaging	32.4
Construction	25.5
Vehicles	9.2
Electrical items	7.4
Household goods	2.9
Furniture	3.8
Agriculture	2.5
Medicine	1.7
Sport, leisure, other	14.9

Source: Consultic Study 2008

Overall, a sharp increase in demand in all segments of plastics processing is apparent. According to the National Association of Plastics Processors (GKV), a year-on-year increase in revenue of 15% was recorded in the first half of 2010 alone.

The plastics industry experienced a further upturn in October 2010. The positive trend significantly exceeded expectations, meaning that a majority of the 255 companies questioned by the sector service "KI – Kunststoff Information" expect a return to pre-crisis levels for 2011.

## 2. High-Tech Hose Systems: The Group's core business unit in 2010

Masterflex AG's hose business has been by far the biggest earnings driver and the mainstay of the Group since the company was founded. The core business unit continuously generated stable cash flows and attractive margins. For almost 25 years now, the Masterflex name has stood for outstanding expertise in the global high-tech-hose systems market.

Our success is based on an experienced research and development team and control of the entire value added team from materials to process technology. The Company's own sales team with its high levels of technical expertise and close contact with the problems facing customers and market applications also functions as a continual supplier of innovative product and project solutions, which bring considerable customer benefits.

Whether in mechanical engineering, in aviation and the automotive industry or with energy companies or in the manufacture and processing of food and pharmaceutical products as well as in various areas of the medical industry: our products can be used everywhere. These complex areas of application, combined with outstanding expertise in processing highly demanding polymers, allow us to produce solutions, which cannot be achieved with conventional materials.

The Masterflex Group is positioned for success once more by concentrating solely on its core business.

Revenue in the HTS segment rose by 20 % to EUR 46.1 million. This positive trend was apparent at all HTS companies.

Overall, growth was achieved in all the sectors supplied. This underlines the stability and sustainability of the growth path. New sectors, such as the renewable energies industry, were also developed. The export ratio also increased to countries in which we do not have our own production site or our own sales company.

We have taken more steps to implement our internationalisation strategy. With the foundation of a new sales company in Brazil and a joint venture with the Russian partner ZAO SovPlym, Masterflex AG expanded its international operations in its core business unit, high-tech hose systems, further in the 2010 financial year.

The Russian market for our high-tech-hoses and connector-systems is to be successfully tapped from the Russian partner's head office in St. Petersburg and its seven sales offices throughout Russia at present. SovPlym has been active on the Russian market for more than 20 years and is a joint venture with the Swedish company PlymoVent AB, one of the leading manufacturers of suction, ventilation and filter systems.

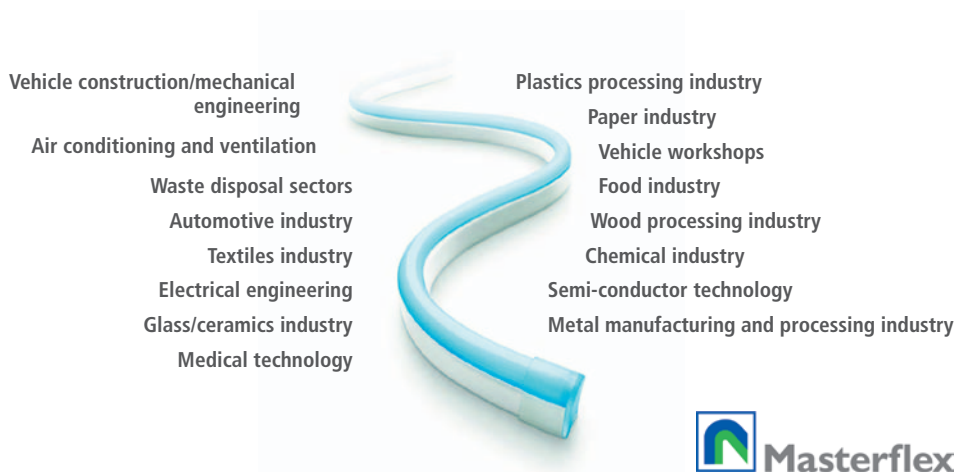
Optimal preconditions for serving the South American market directly were created with the new site nearby São Paulo, Brazil. Our American subsidiary Masterduct Inc. (Houston, Texas) has served these countries to date.

As a result, Masterflex is represented in many European countries, as well as in North and South America. Further activities and projects aimed at developing and exploiting the potential of new country markets are planned for the coming financial year.

#### • Masterflex AG

The opportunities for using Masterflex AG's high-tech hose systems are as diverse as the materials they carry. The extensive range offers products that satisfy individual requirements and demanding tasks. Irrespective of whether extremely abrasive solid matter, aggressive chemicals, gaseous media up to +1,100 °C or even foodstuffs have to be transported: the hoses constructed from high-tech plastics and fibres always constitute an application and customer-oriented, flexible solution.

#### Areas of application



Adaptor for Pellet delivery through silo vehicles

#### Strengths High-Tech Hose Systems

##### Attractive, profitable specialty markets with growth potential

Considerable potential for substituting Masterflex products for standard materials

Masterflex products cannot easily be replaced with other materials

##### Core competency: developing and processing special plastics, as well as special machines and tools for processing high-tech plastics

##### High level of customer focus, excellent quality of products offered and of price-performance ratio

##### High degree of innovation

##### No contract production

##### Significant barriers to market entry – long-term process expertise and experience create distinct learning curve

##### Long-standing customer relations



Pneumatic spirals

Over the years, our innovations have repeatedly set industry-wide standards. For instance, flame retardant polyurethane hoses have been compulsory in wood extraction for years.

We have continued to underpin our strength and expertise in our core business with numerous new developments and enhancements in the 2010 financial year. In addition to other products, the electrically heated templine® hoses, which are distinguished by an innovative heating concept and can consequently be used in a variety of applications in protecting against frost, maintaining and increasing temperature, offer a substantial degree of technological innovation.

Electrically heated hoses offer a flexible solution compared with rigid pipes in cases where media have to be transported through a feed pipe without any loss of heat. The number of individual areas of application in processing technology is immense. For example, heated hose systems can be found, among other places, in the food and luxury food industry, for transporting fats, liquid sugar and cocoa butter or in adhesive technology for labelling machines or machines for laminating wood and plastic.

The templine® heated hose systems offers crucial advantages compared with conventional heated hose systems thanks to its structure. The benefits of the templine hose are, among others, a consistent "thermal shell" around the hose transporting the medium and consistent heat distribution on the surface of the hose transporting the system, which results in increased energy efficiency (energy savings of up to 30 % compared with conventional systems). Other outstanding characteristics include the substantial bending and torsional strength and the considerable extension in service life resulting from its structure. The characteristics of the system prevent products overheating as a result of local hotspots.

New material requirements for industrial hoses resulting from changes to the technical guidelines for operational safety (TRBS) led to the development of a new antistatic hose series with a permanent antistatic agent for use in the food industry.

#### • Novoplast Schlauchtechnik GmbH

Novoplast Schlauchtechnik GmbH, which celebrated its 20th birthday in 2010, specialises in hose and profile extrusion and has a diversified industry and customer base.

Novoplast Schlauchtechnik also owes the Bronze Supplier of the Year award, which it received from Somatex Medical Technologie GmbH in Teltow, for the implementation of individual product solutions and excellent product processing. In recent years, Novoplast Schlauchtechnik GmbH developed a large number of catheters and hose systems in close collaboration with Somatex, which are used in, among other things, drainage and insemination.

Colour change hoses, where the colour changes if the temperature exceeds or falls short of a specific value, only ranked as one of the company's many new products in 2010.

Using special thermofixing processes, Novoplast Schlauchtechnik can manufacture moulded hoses in 2D or 3D and with complex geometry and bending radii, which are only feasible with this process. Many industries use curved steel or stainless steel pipes as connector systems in many areas. Steel is heavy, expensive and transmits vibrations. By contrast Novoplast, plastic pipes dazzle because of their lightness, their moderate cost and their ability to absorb vibrations. Custom-fit hose production means individual solutions can be achieved with respect to the required installation.

The combination of products for medical and industrial technology, the high degree of processing expertise and the option of different refining processes for the hoses produced (assembly, 2D and 3D deformation) using a broad range of materials make the company unique in this form.

State-of-the-art machinery and equipment is used for hose and profile extrusion. Well over 300 different materials are now processed in Halberstadt. Cutting-edge equipment to secure product quality is available in the form of measuring and testing equipment as well as laboratory facilities.

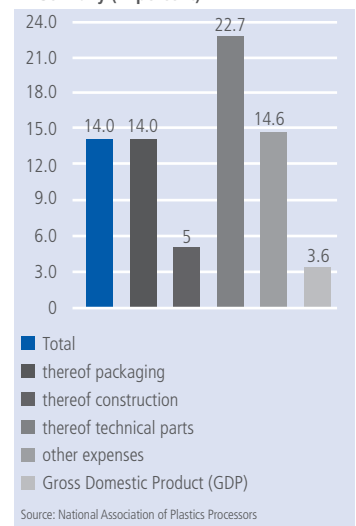
#### • Matzen & Timm GmbH

Matzen & Timm GmbH is a highly regarded manufacturer of specialist hoses, industrial hoses and many other moulded parts produced from high quality plastic materials. The products are hand-made on an industrial scale and are used, most notably, in sectors in which precision and resilience are paramount. Its special hoses can be found, for example, in the air-conditioning system of the Airbus A 380, in the space shuttle for the International Space Station (ISS), under the bonnet of a racing car and in the chassis of a Pendolino train. One in two Matzen & Timm products is a custom-made product with a limited run.

Thanks, not least, to its adept handling of requirements and its considerable development expertise, Matzen & Timm has ranked as one of the key suppliers for the aviation industry for more than 50 years, frequently as the sole supplier of electrically conductible moulded parts for the Airbus inert gas system, for instance, the origin of which is based on a joint development with Airbus and another supplier.

In the 2010 financial year, the company pressed ahead with expanding the corporate structure – in both technological and production-related terms – by, among other things, constructing an in-house sewing shop for special hoses and moulded parts. The product range was also rounded off with special seals developed in-house in addition to a new generation of light weight special moulded parts.

Revenue of plastics processing industry in Germany (in percent)



Abrasive dust extraction in rail vehicles

- **Masterduct Holding Inc.**

The Masterflex Group is represented in North and South America through Masterduct Holding Inc., a wholly-owned subsidiary of Masterflex AG. Masterduct Holding Inc. has two major subsidiaries: Flexmaster USA Inc. and Masterduct Inc.

Flexmaster USA Inc., headquartered in Houston/USA, which was founded in 1977 and has been owned by Masterflex since 1999, has established itself as a specialist in the air-conditioning and ventilation sector with a series of top quality patent-protected products. Flexmaster USA is a leading name in public sector construction, such as in hospitals, schools, sports facilities and universities. Over time, the Company has significantly distanced itself from its competitors through the quality of its products and is a preferred provider, particularly in the health sector, since the hoses it manufactures contain no adhesives or solvents of any kind. Special tubular woven fabrics, which are very good at reducing acoustic noise, are used in meeting rooms at the Pentagon, for example.

Masterduct celebrated its 11th birthday in 2010. Since then, it has developed an extensive production portfolio aimed at successfully establishing the Masterflex AG product programme on the American continent. The product portfolio encompasses polyurethane hoses, silicon hoses and highly heat-resistant hoses. Application-specific technical solutions are devised jointly with customers. The current clientele ranges from the wood industry to the aviation and service industry and up to the US government. Among other things, a new special hose for extracting exhaust fumes from fire brigade vehicles was launched on the market last year.

## B. Results of operations, net assets and financial position

Results of operations, net assets and financial position of Masterflex were essentially marked by the following in 2010:

- A marked increase in revenue in the core business unit, high-tech hose systems, of around 20 % to € 46.1 million.
- A corresponding increase in the adjusted operating result (EBIT) from € 3.7 million to € 6.4 million.
- The successful placement of an equity increase and an associated restructuring of the liabilities side of the balance sheet.
- The sale of the Advanced Material Design (AMD) segment and recognition of the Mobility segment as a discontinued operation. This was accompanied by the requirement for a write-down in the balance sheet.



Transporting fertilisers

The refinancing and the restructuring of the liabilities side of the balance sheet was completed with the successful execution of the equity increase at the end of 2010.

The key components of this process and their impact on the net assets, financial position and results of operations are:

1. Until the end of 2010, Masterflex AG had total debts of € 46.0 million provided by 13 financing partners. This group was reduced to six banks within the framework of several rounds of negotiations with banks in 2010. A syndicated loan agreement for € 30.6 million and a term of five years was concluded with these six banks. At the end of 2010, Masterflex AG had drawn € 28.6 million under this syndicated loan agreement. The seven banks leaving the financing consortium waived 40% of their loans, which equates to an amount of € 10.24 million. This effect is recognised under the non-operating factors in the statement of comprehensive income. In balance sheet terms, this led to an improvement in equity and to a reduction in liabilities to banks.

2. The syndicated loan agreement consists of three tranches. Two tranches have repayments starting in 2014, of which one tranche is guaranteed by the state. The third tranche is a revolving loan with a bullet maturity (working capital line).

3. In December 2010, 4,365,874 new shares were placed successfully in the course of a capital increase. The effect of this capital increase amounts to € 13.1 million and has an impact on several balance sheet items. Firstly, subscribed capital was increased by the number of newly issued shares (with a notional principal amount of € 1 per share). Secondly, the amount of € 2.0 per share exceeding the notional principal amount increased the capital reserve by € 8.4 million. Part of the capital increase (€ 7.2 million) was used to reduce debt and consequently reduced liabilities to banks and led to the available credit line not being fully utilised; the remaining portion (€ 5.9 million) is apparent in the increase in cash and cash equivalents.

4. In conjunction with this process, substantial extraordinary charges were incurred once more in the form bank charges, fees for furnishing collateral, legal and consulting costs and charges for expert opinions of some € 3.4 million.

The effects of the sale of the AMD segment and recognition of the Mobility segment as a discontinued operation are explained in detail in the notes and shown in condensed form in the consolidated income statement under the item Discontinued business unit.

Significant key performance indicators of the Group, based on continued operating activities, which are now solely the HTS segment and the costs of the holding company, and earnings adjusted for non-recurring effects, are as follows:

EUR thou.	2010	2009
EBITDA	9,114	6,124
EBIT	6,445	3,656
EBIT margin	14 %	9.5 %
Non-recurring effects – Group	6,033	-3,101
Consolidated net result – continued	8,100	-932
Consolidated net result	-2,333	-13,568
Earnings per share – continued	1.67	-0.24
Earnings per share	-0.49	-3.11



Transporting fritted glass filters

## I. Results of operations

	2010 EUR thou.	%	2009 EUR thou.	%	+/- EUR thou.	%	2008 EUR thou.	%	2007 EUR thou.	%
Revenue	46,057	97.9	38,409	98.2	7,648	19.9	73,380	97.5	88,943	95.2
Changes in inventories	160	0.3	-705	-1.8	865	-122.7	76	0.1	1,788	1.9
Other own work capitalised	20	0.0	130	0.3	-110	-84.6	896	1.2	1,089	1.2
Other operating income	832	1.8	1,287	3.3	-455	-35.4	891	1.2	1,577	1.7
<b>Gross revenue</b>	<b>47,069</b>	<b>100.0</b>	<b>39,121</b>	<b>100.0</b>	<b>7,948</b>	<b>20.3</b>	<b>75,243</b>	<b>100.0</b>	<b>93,397</b>	<b>100.0</b>
Cost of materials	-13,518	-28.7	-10,980	-28.1	-2,538	23.1	-30,319	-40.3	-41,010	-43.9
Staff costs	-16,042	-34.1	-14,313	-36.6	-1,729	12.1	-23,537	-31.3	-26,501	-28.4
Depreciation, amortisation and write-downs	-2,669	-5.7	-2,468	-6.3	-201	8.1	-3,282	-4.4	-2,910	-3.1
Other operating expenses	-8,178	-17.4	-7,477	-19.1	-701	9.4	-11,929	-15.9	-12,409	-13.3
Other taxes	-217	-0.5	-227	-0.6	10	-4.4	-204	-0.3	-202	-0.2
<b>Total operating expenses</b>	<b>-40,624</b>	<b>-86.4</b>	<b>-35,465</b>	<b>-90.7</b>	<b>-5,159</b>	<b>14.5</b>	<b>-69,271</b>	<b>-92.2</b>	<b>-83,032</b>	<b>-88.9</b>
<b>Adjusted EBIT</b>	<b>6,445</b>	<b>13.6</b>	<b>3,656</b>	<b>9.3</b>	<b>2,789</b>	<b>76.3</b>	<b>5,972</b>	<b>7.8</b>	<b>10,365</b>	<b>11.1</b>
Net finance costs	-3,341		-3,211		-130		-2,910		-3,264	
Non-operating expenses – Group	6,033		-3,101		9,134		-12,210		0	
<b>Net profit before income taxes</b>	<b>9,137</b>		<b>-2,656</b>		<b>11,793</b>		<b>-9,148</b>		<b>7,101</b>	
Income taxes	-1,037		1,724		-2,761		1,538		-2,935	
Income after taxes from continued activities	8,100		-932		9,032		-7,610		4,166	
Income after taxes from discontinued activities	-928		-3,970		3,042		4,020		3,391	
Non-operating expenses from discontinued activities	-9,339		-8,539		-800		-12,058		0	
<b>Consolidated net profit for the period</b>	<b>-2,167</b>		<b>-13,441</b>		<b>11,274</b>		<b>-15,648</b>		<b>7,557</b>	
thereof minority interests	166		127		39		86		88	
thereof attributable to shareholders of Masterflex AG	-2,333		-13,568		11,235		-15,734		7,469	

### 1. Revenue performance

Revenue in the HTS segment, which is presented below as the sole continuing operation, was € 46.1 million. As a result, it increased by a very gratifying 20% compared with the previous year.

Within the HTS segment, revenue in every subsidiary increased compared with the previous year. This trend also continued in the first quarter of 2011.

Apart from economic growth, this sharp increase in revenue is driven by the measures taken to internationalise our business as well as to expand and improve sales activities and the product innovations.

In regional terms, Germany was the most important sales market in 2010. For the next few years, we expect a gradual shift in revenue share towards other regions and countries because of our internationalisation activities.

## 2. Earnings development

Operating EBIT (the adjusted operating result) increased from € 3.7 million to € 6.4 million mainly due to the significant increase in revenue. This signifies an increase in earnings of some 76 %.

Consequently, the EBIT margin (EBIT in relation to revenue) increased from 9.5 % in 2009 to some 14.0 % in 2010.

In the segment presentation of the HTS segment, the segment result increased in comparison with previous years, i. e. excluding holding costs (in essence, these are the costs for the Executive Board, investor relations, the costs of the Annual General Meeting and Group Accounting), from € 5.0 million in 2009 to € 8.0 million in 2010. This results in an EBIT margin of over 17 %.

Developments in individual items in the statement of comprehensive income are explained in brief below.

Despite the sharp rise in revenue, the effect on changes in inventories was rather minor. This reflects the successful implementation of measures to manage inventories.

As in the previous year, work performed by the enterprise was only capitalised to a minor extent.

Other operating income is attributable to court cases won by the Company and the reversal of provisions partly associated therewith and the amortisation of investment grants and subsidies.

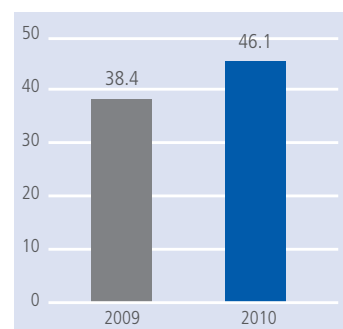
Despite rising commodity prices, the materials usage rate was almost maintained at the level of the previous year throughout the Group. The materials usage rate (cost of materials in relation to revenue plus the change in inventories) increased from 29.1 % in 2009 to 29.2 % in 2010. We shall make every effort in future to keep this rate to a similar low level despite the inflationary trend in commodities through further progress in increasing productivity. In 2010, the successful measures taken as part of the MOVE programme such as bundling requirements and renegotiating purchase prices had an impact here.

The staff cost ratio (staff costs in relation to revenue plus the change in inventories) was reduced from 38.0 % in 2009 to 34.7 % in 2010. This is attributable, primarily, to the personnel measures initiated in 2009 and, secondly, to better fixed cost utilisation resulting from the increase in revenue. Here, too, it is apparent that the measures we implemented in 2009 have provided the basis for a marked improvement in results in 2010 and we can now harvest the fruits of our endeavours.

Write-downs increased by € 0.2 million compared with the previous year.

Other operating expenses increased by € 0.7 million to some € 8.2 million in 2010. The key causes for this are the sales-related increase in variable costs, such as freight, energy, machine maintenance and the creation of reserves at Masterflex AG.

Consolidated revenue (EUR million)



Extraction of grit

Other taxes remained at the previous year's level of € 0.2 million.

All these effects combined led to operating, adjusted consolidated EBIT of € 6.4 million and consequently to an EBIT margin of some 14.0 %.

At € -2.3 million, the consolidated overall result is negative but is a significant improvement on the previous year's figure of € -13.4 million. Essentially, this improvement is attributable to positive non-recurring effects in terms of earnings but also negative non-recurring effects, which are presented below:

The financial result is slightly up from the figure for the previous year. While the interest burden has fallen slightly as a result of the additional reduction in debt, a regulation/condition in the syndicated loan agreement meant that a hedging transaction (interest rate cap) had to be concluded before year end, the cost of which (marking to market value) also had to be recognised in the financial result. We expect a sharp reduction in the interest burden over the next few years based on a further reduction in debt resulting from the debt waiver by the banks and the generation of additional cash and cash equivalent from operations.

The non-operating effects, at € 6.0 million, are very positive. In essence, they included:

- Debt waiver by the banks of € 10.2 million
- One-off expenses in connection with the refinancing of € -3.4 million
- Write-down of development costs and allocation of investment grants of € -0.5 million
- Discounting of the debt vis-à-vis the founding shareholders € -0.3 million

The 2010 financial year was once again dominated by substantial non-recurring expenses incurred as part of the refinancing of credit lines and the restructuring process of the Masterflex AG. In total, consultancy fees and bank charges amounted to € -3.4 million. The key items here are:

- € 1.5 million legal/consultancy fees, charges for the pool of banks, the provision of collateral and expenses in connection with obtaining the state guarantee
- € 0.9 million legal and consultancy fees for the equity process
- Provision of € 0.3 million for the preparation of the prospectus, which is needed to admit the new shares issued as part of the equity increase to trading on the regulated market.
- € 0.4 million legal and consultancy fees and restructuring expenses/severance payments for the "MOVE" project.
- € 0.3 million for other, extraordinary consultancy expenses.

The discounting of the debt vis-à-vis the founding shareholders because of the conclusion of a derivative (interest rate swap) was necessary since current legislation means that it can be assumed that neither an agreement with the issuing bank nor an agreement with the old members of the Executive Board and the founding shareholders can be reached in 2011.

Income tax was mainly due at the foreign subsidiaries and at Novoplast and Matzen & Timm. In contrast to the previous year, no additional deferred taxes were created in the Group despite the increase in the loss carryforwards at Masterflex AG.

Earnings after taxes from discontinued operations contain the results of SURPRO until it was sold and the results of Mobility. This is recognised as a discontinued operation because of the



Establishing connections to tumbler screening systems

concrete intention to sell. The result in question is significantly better than in the previous year, which is primarily attributable to the successful restructuring of SURPRO GmbH in 2010. The portion of the results attributable to SURPRO comes to € -0.2 million and that attributable to Mobility to € -0.7 million. Mobility's negative result is mainly based on the fact that there was a sharp fall in the generation of new business in 2010.

The deconsolidation losses resulting from the sale of SURPRO and the anticipated Mobility effects (write-downs) as well as the disposal costs accrued till then are taken into account in the non-operating effects. The Surpro effect amounts to € -6.0 million in total (thereof € 0.4 million consultancy fees), the effect of the reclassification of Mobility amounts to € -3.3 million (thereof € 0.1 million consultancy fees).



Welding smoke extraction in shipyards

## II. Net assets

### 1. Asset structure

	Dec. 31, 2010 EUR thou.	%	Dec. 31, 2009 EUR thou.	%	+/- EUR thou.	Dec. 31, 2008 EUR thou.	Dec. 31, 2007 EUR thou.
Intangible assets	4,090	6.2	6,263	9.1	-2,173	15,107	30,063
Property, plant and equipment	21,155	32.3	25,427	36.7	-4,272	28,026	28,472
Non-current financial assets	2,664	4.1	3,969	5.7	-1,305	4,729	9,544
Other assets	254	0.4	269	0.4	-15	900	453
Deferred taxes	5,866	9.0	5,840	8.4	26	3,431	1,768
<b>Non-current assets</b>	<b>34,029</b>	<b>52.0</b>	<b>41,768</b>	<b>60.3</b>	<b>-7,739</b>	<b>52,193</b>	<b>70,300</b>
Inventories	7,397	11.3	13,077	18.9	-5,680	21,114	28,219
Receivables and other assets	9,592	14.7	6,674	9.6	2,918	16,955	25,472
<b>Current assets</b>	<b>16,989</b>	<b>26.0</b>	<b>19,751</b>	<b>28.5</b>	<b>-2,762</b>	<b>38,069</b>	<b>53,691</b>
<b>Cash flow</b>	<b>14,398</b>	<b>22.0</b>	<b>7,779</b>	<b>11.2</b>	<b>6,619</b>	<b>11,012</b>	<b>5,895</b>
	<b>65,416</b>	<b>100</b>	<b>69,298</b>	<b>100</b>	<b>-3,882</b>	<b>101,274</b>	<b>129,886</b>

As at 31 December 2010, total assets were down by € 3.9 million compared with the previous year.

In summary, this change in total assets on the assets side is mainly due to the following effects:

- Increase in cash and cash equivalents as a result of the inflow of cash from the capital increase amounts to € 5.9 million. The other € 7.2 million, which Masterflex AG received from the capital increase, has been used to reduce debt.
- Reduction in various balance sheet items, such as inventories, receivables and non-current assets, as a result of the sale of SURPRO GmbH.
- Write-down of Mobility's assets



Clean room

The effects on the asset structure are presented below:

Intangible assets were reduced by € 2.2 million to € 4.1 million. This is mainly caused by the write-down of development costs of € 1.9 million, which is connected with the planned disposal of the Mobility Group. According to initial market assessments, Mobility cannot be sold at its carrying amount. As a result, the capitalised development costs in Masterflex AG and Brennstoffzellentechnik GmbH were written down on the basis of realistic expectations. Concessions and industrial rights were reduced by € 0.2 million for the same reason.

Property, plant and equipment were reduced by € 4.3 million to € 21.2 million. In essence, this is attributable to the sale of SURPRO GmbH and consequently the pro rata loss of these assets.

Financial assets fell from € 4.0 million in 2009 to € 2.7 million in 2010. The fall is attributable to a reduction in loans of some € 1.0 million and the write-down of a debt vis-à-vis the founding shareholders of € 0.3 million, as shown above.

Deferred taxes remained at the previous year's level.

As a result, non-current assets shrank by some € 7.7 million to € 34.0 million.

Current assets decreased from € 19.8 million in 2009 to € 17.0 million in 2010. In the process, inventories decreased by € 5.7 million, which is mainly due to the sale of SURPRO GmbH with its inventory-intensive operations.

Receivables and assets increased by € 2.9 million to € 9.6 million. At the same time, trade receivables remained at the level of the previous year. On the one hand, receivables decreased as a result of the sale of SURPRO, on the other hand, receivables increased because of growth in revenue in the HTS segment, meaning that there was no change to this balance sheet item. Here, the key reason for the increase is the item "Assets held for trading" amounting to € 3.6 million, which recognises the assets of the Mobility Group as a discontinued operation. There were no such assets of this kind in the previous year.

Other current assets and accrued tax refund claims decreased by € 0.7 million.

As explained previously, cash and cash equivalents in the Group rose by € 6.6 million to € 14.4 million. This item contains inflows from the capital increase of € 5.9 million.

## 2. Capital structure

	Dec. 31, 2010 EUR thou.	%	Dec. 31, 2009 EUR thou.	%	+/- EUR thou.	Dec. 31, 2008 EUR thou.	Dec. 31, 2007 EUR thou.
Consolidated equity	11,813	18.1	782	1.0	11,031	14,644	33,975
Minority interest	400	0.6	213	0.3	187	196	797
<b>Total equity</b>	<b>12,213</b>	<b>18.7</b>	<b>995</b>	<b>1.3</b>	<b>11,218</b>	<b>14,840</b>	<b>34,772</b>
Provisions	116	0.2	1,302	1.9	-1,186	1,263	1,308
Financial liabilities	30,265	46.3	19,472	28.1	10,793	21,536	39,316
Other non-current liabilities	1,869	2.8	2,809	4.1	-940	2,928	3,198
Deferred tax liabilities	514	0.8	1,467	2.1	-953	1,464	1,548
<b>Noncurrent liabilities</b>	<b>32,764</b>	<b>50.1</b>	<b>25,050</b>	<b>36.2</b>	<b>7,714</b>	<b>27,191</b>	<b>45,370</b>
Provisions	4,492	6.9	2,895	4.2	1,597	3,539	5,189
Financial liabilities	7,172	10.9	34,973	50.5	-27,801	47,544	29,183
Other current liabilities	8,775	13.4	5,385	7.8	3,390	8,160	15,372
<b>Current liabilities</b>	<b>20,439</b>	<b>31.2</b>	<b>43,253</b>	<b>62.5</b>	<b>-22,814</b>	<b>59,243</b>	<b>49,744</b>
	<b>65,416</b>	<b>100</b>	<b>69,298</b>	<b>100</b>	<b>-3,882</b>	<b>101,274</b>	<b>129,886</b>

Equity rose from € 1.0 million in 2009 to € 12.2 million in 2010. The increase of € 11.2 million is largely due to the two circumstances explained above.

- Equity increase of € 13.1 million and
- Consolidated net profit for the period of € -2.2 million

As a result, the equity ratio (equity in relation to total assets) rose to around 19 %. We expect an equity ratio of well over 20 % for the end of 2011.

Non-current liabilities increased by € 7.7 million to € 32.8 million. At the same time, non-current provisions decreased by € 1.2 million to € 0.1 million, which is due to the loss of SURPRO GmbH's pension obligations. Non-current financial liabilities rose despite a significant reduction in the debt burden overall from € 19.5 million to € 30.3 million. The conclusion of the syndicated loan agreement with a term of five years at the end of 2010 resulted in a shift from current financial liabilities to non-current financial liabilities.

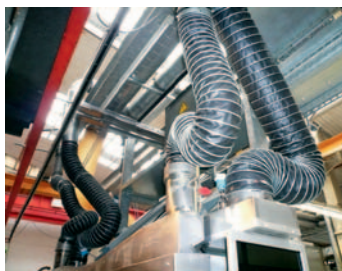
Other non-current liabilities decreased by € 0.9 million. Among other things, this is due to the reclassification of the Mobility balance sheet items into the line "Liabilities directly connected with assets held for disposal".

Deferred tax liabilities fell by some € 1.0 million because of the write-down of intangible assets, among other things.

Current liabilities decreased by € 22.8 million to € 20.4 million in 2010. At the same time, other provisions in the Group increased by € 1.6 million to € 4.5 million. The majority of these are items, which are recognised under non-operating expenses in the statement of comprehensive income, such as the provision for the preparation of the prospectus for admission to trading and provisions for bank/collateral charges payable in 2011 and legal and consultancy fees which originated in the 2010 financial year.



Food-safe hoses



Extraction of aggressive chemical vapours during the manufacture of adhesive foils

Current financial liabilities fell dramatically from € 35.0 million to € 7.2 million. Please refer to the Financing analysis section with regard to the analysis of financial liabilities.

Other current liabilities increased by € 3.4 million to € 8.8 million. In particular, liabilities directly connected with assets held for disposal of € 3.5 million contributed to this.

### III. Financial position

#### 1. Principles and objectives of financial management

The key short to medium-term aims of the financial management were implemented and achieved in 2010: In essence, they are:

- Ensuring and structuring financing over several years
- Reducing liabilities to banks by generating liquid funds from operating activities and/or from a capital increase as well as selling equity investments from the non-core business area
- Achieving a balance sheet structure with an equity ratio (equity in relation to total assets) of approaching 20 %
- Reducing the number of banking partners

The other medium term aims of financial management are a further gradual reduction in liabilities to banks and, associated herewith, a gradual reduction in the interest burden as well as an equity ratio, which remains steadily over 30 %.

#### 2. Financing analysis

As at 31 December 2010, current and non-current financial liabilities amounted to € 37.4 million, down € 17.0 million on the previous year. The cash and cash equivalents of Masterflex AG amounted to € 14.4 million, meaning that net debt stands at € 23.0 million as at 31 December 2010.

Financial liabilities are structured as follows:

- € 28.6 million from the syndicated loan agreement
- € 6.8 million amortising loans (including deferred amortising loans) outside the syndicated loan agreement
- € 1.7 million lease liabilities
- € 0.2 million other interest-bearing financial liabilities
- € 0.1 million deferred interest

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

## IV. Liquidity position

As explained previously, cash and cash equivalents rose by € 6.6 million to € 14.4 million mainly as a result of the inflow of liquid funds from the capital increase (effect of this: € 5.9 million).

The additional increase of € 0.7 million is mainly due to the fact that various non-recurring expenses caused by the refinancing as well as bonuses do not lead to an outflow of liquidity until the beginning/middle of 2011 but are recorded in the statement of comprehensive income in 2010.

A detailed description of the liquidity position and the consolidated cash flow statement is given in the consolidated financial statements.

# C. Corporate Governance Report

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

## I. Declaration on corporate management pursuant to section 289a of the German Commercial Code

### 1.1 Declaration of conformity with corporate governance pursuant to section 161 of the German Stock Corporation Act

Corporate governance traditionally enjoys high priority at Masterflex AG. The corporate principles of Masterflex AG 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 Supervisory Board, protecting shareholders' interests and open and transparent corporate communications.

Section 161 of the German Stock Corporation Act (AktG) requires that the Executive Board and Supervisory Board issue an annual declaration stating that the Company has complied 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. The declaration of conformity pursuant to section 161 AktG is to be made permanently available to the shareholders. The declaration of conformity for the 2010 financial year was submitted in September 2010 and available for inspection on the Internet at [www.masterflex.de](http://www.masterflex.de).

An updated declaration of conformity was submitted dated April 2011.



Flame-retardant hoses

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

### Declaration of Conformity with Corporate Governance

#### Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The term corporate governance refers to responsible corporate management and supervision aimed at creating long-term enterprise value. Key aspects of good corporate governance are efficient cooperation between the Executive Board and Supervisory Board, protecting shareholders' interests and open and transparent corporate communications.

Masterflex AG is a stock corporation in accordance with German law. Accordingly, the Company is managed by the Executive Board and Supervisory Board. Corporate governance enjoys high priority at Masterflex AG. The Executive Board and Supervisory Board have worked closely together from the very start in the best interests of the Company and have maintained intensive and ongoing 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 is intended to improve the transparency and better the understanding of the German corporate governance system. The legal provisions reflected in the Code must be observed and complied with by the Company without exception. The Company is not bound to comply with the recommendations contained in the Code. Such deviations are expressly provided for in the preamble to the Code, and are intended as a contribution to "more flexibility and more self-regulation in German corporate constitution".

The Executive Board and Supervisory Board of Masterflex AG declare that the recommendations of the previous version of the Code dated 26 May 2010 have been observed since the most recent version of the declaration of conformity dated 30 September 2010 with the exceptions stated therein and continues to be observed with the exceptions stated below. The declaration of conformity is permanently available to Masterflex AG shareholders on the Company website. All of the Company's previous declarations of conformity can also be accessed via this link.

#### Exceptions:

##### 2.3.3 Sentence 2 Postal vote

In section 2.3.3 sentence 2, the Code recommends that the Company should assist shareholders in the use of postal votes and proxies. The Articles of Association of Masterflex AG have not provided for a postal vote option, which would be an essential requirement for its implementation so that, strictly speaking, the Company does not deviate from the Code recommendations because these require the feasibility of performance. In our view, however, postal votes have not yet been adequately tested and, in particular, there are difficulties in determining the authenticity of the votes cast. In addition, Masterflex AG already gives its shareholders the opportunity to authorise a proxy named by the Company to exercise their voting right. Therefore, the shareholders already have the opportunity to cast their vote before the day of the Annual General Meeting, and particularly to par-



Extraction of welding smoke with increased flying sparks

ticipate in electoral decisions, meaning that the additional option of a postal vote would not make it significantly easier to exercise voting rights overall.

#### 4.2.3 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 never been considered necessary to seek the additional services of a separate, independent compensation expert.

#### 5.1.2 Age limit for Executive Board members

The issue of an age limit for members of the Executive Board has up to now been regulated on a case-by-case basis and not set out as a principle. For this reason, a deviation in this respect is declared as a precautionary measure. In light of the ages of the members of the Executive Board, this has not been considered necessary in the past. However, an express declaration is now to be anchored in the Rules of Procedure for the Supervisory Board for future application according to which the last appointment must not be made after the 65th year. This was also the basis of the employment relationships to date.

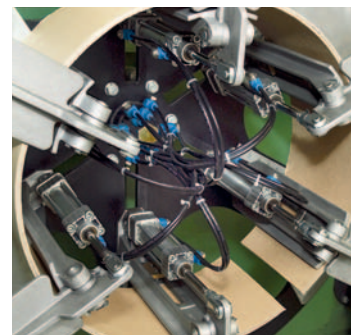
#### 5.3. Supervisory Board – committees

With a total of three members, the Masterflex AG Supervisory Board is deliberately kept small in order to allow resolutions to be passed efficiently, rapidly and flexibly on streamlined structures, as is the case throughout the Group. The appointment of recognised experts to the Supervisory Board is an important factor in Masterflex AG's successful development, as it allows major strategic decisions to be reached on a joint basis and in a spirit of continuous dialogue. As such, the formation of committees, which would also have to be composed of at least three Supervisory Board members, is not considered to be practicable.

We have a recognised financial expert on our Supervisory Board in the form of Mr. van Hall. He will have the added support of Mr. Klomp, also a financial auditor. Where necessary, the Supervisory Board calls on qualified external help in order to assess difficult matters.

#### 5.4.1 Section (4) sentence 2 Appropriate support of Supervisory Board members in training and further education measures

With the new version of the German Corporate Governance Code dated 26 May 2010, a new recommendation was introduced in section 5.4.1 (4) sentence 2 according to which the Supervisory Board members should be appropriately supported by the Company in taking on the training and further education measures required for their tasks. As it is currently still unclear what conditions must be fulfilled in order for the support of the training and further education of the Supervisory Board members by the Company to be regarded as appropriate, a deviation from section 5.4.1 (4) sentence 2 of the German Corporate Governance Code is declared as a precaution. However, appropriate support for the members of the Supervisory Board has always been considered a matter of course for Masterflex AG and, with two financial auditors on the Supervisory Board, the Company believes it has a considerable amount of experience and expertise, therefore also professionalism.



Pneumatic hoses



Hoses resistant to hydrolysis and microbes

#### 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 a 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.

#### 7.1.2 Deadlines for publication

The Code recommends that interim reports be published within 45 days of the end of the reporting period, and that annual reports be published within 90 days of the end of the financial year. Up to now, Masterflex AG has observed the provisions of the German Securities Trading Act following the amendments implemented in accordance with the German Transparency Directive Implementation Act and the Exchange Rules for the Frankfurt Stock Exchange, which provide for publication within two months and four months respectively. However, with the annual financial statements and the consolidated financial statements for the 2011 financial year, i.e. in 2012, the Company intends to change this practice and to publish within 90 days in compliance with the Code.

#### 7.1.4 Publication of the results of subsidiaries

The Code requires the publication of the results of the Company's individual subsidiaries for the past financial year in the 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 to the Executive Board and Supervisory Board.

### 1.2 Relevant disclosures on corporate management practices

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

### 1.3 Description of the operating methods of the Executive and Supervisory Boards

Masterflex AG is a stock corporation in accordance with 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 AG is appointed by the Supervisory Board. The Executive Board of Masterflex AG 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 determines the Company's strategic orientation. It consists of no fewer than two members. The Executive Board of Masterflex AG currently consists of two members: The Chairman and the Chief Financial Officer.

The work of the Executive Board is also 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 central responsibility of the Supervisory Board consists of advising and supervising the Executive Board. With a total of three members, the Masterflex AG Supervisory Board 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. There are therefore no separate Supervisory Board committees. 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 article 11 (4) 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 the duties of the Supervisory Board can be performed effectively and competently on a plenary basis.

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

The appointment of recognised experts to the Supervisory Board is an important factor in Masterflex AG'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.

It regularly discusses business development as well as plans, strategy and their implementation 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 content 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 achieved in the Supervisory Board by taking account of diversity. In this connection, "diversity" must be understood as international origin, education, training or professional activity and not as citizenship and as gender and age diversity.



Insulating tubes

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

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 are equally suitable but not as part of a mandatory quota.



Water cooling tubes

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. The objective and the extent to which it has 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 realise 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. However, the aim in future, as it has been in the past, should be to facilitate and further increase appropriate participation by women at all levels of the company, which is already the case in administration and cross-departmental functions in particular. Masterflex AG was one of the first listed companies that had already appointed a woman to an Executive Board consisting of two members in the past. However, we are also aim to achieve diversity by appointing an increasing number of people from abroad as staff and managers in line with our commercial development and this is a key component of our future personnel planning. A woman is also to be proposed as a member of the Supervisory Board to the Annual General Meeting at the next Supervisory Board election and, as a result, the quota of 30 % will be met. In the process, particular account will also be taken of people with an international background.

Every year, the Chairman of the Supervisory Board explains the activities of the Supervisory Board in his 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 Annual General Meeting of Masterflex AG takes place within the first eight months of the financial year in the context of the statutory requirements given under section 175 of the German Stock Corporation Act. 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 equities on the part of the Executive Board and the Supervisory Board in Masterflex AG can be found on the Company's homepage [www.masterflex.de](http://www.masterflex.de) 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 AG. Together, the Executive Board has a stake of 4% in the Company through BBC GmbH, as a result of participating in the last capital increase, and parts of the Supervisory Board, namely Messrs Bishoping and Klomp, are also shareholders in the Company. The disclosures made in this respect are not necessarily of the kind required by securities trading or corporate legislation but are made solely for the purposes of corporate governance. The disclosures in question, separated according to members of the Executive Board and Supervisory Board, are presented in tabular form below and show the respective investments:

BBC GmbH (Dr Bastin and Mr Becks)	Mr Friedrich Wilhelm Bishoping	Mr Axel Klomp
4.51 %	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 AG. 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.masterflex.de](http://www.masterflex.de).

Masterflex AG keeps a list of individuals with insider information in accordance with section 15 b 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. 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



Welding smoke extraction

Code (HGB). Interim reports are not reviewed by an auditor. A monthly report is also 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 immediately of any significant findings or events during the audit.

### Management variables and control system

The internal corporate management systems have been improved considerably since 2008, so that undesirable developments can be recognised at an early stage and appropriate measures to counteract them can be commenced. With the efficiency programme "MOVE", new methods for business and action planning have been developed and the internal reporting system has been expanded considerably. The division has also been strengthened in terms of the number of staff.

Key income figures and key liquidity indicators are the main focus of corporate management. The key figures used for corporate management are discussed under section A III in this report.

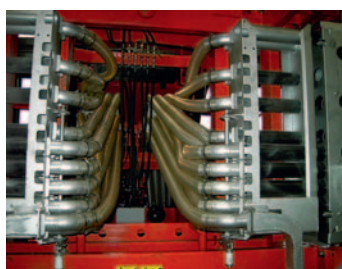
### Risk management

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

We therefore view risk management as the central responsibility of the Executive Board, the managers and all employees. It should succeed in recognising risks at an earlier stage, limiting them and, at the same time, exploiting corporate opportunities. A detailed presentation of risk management is given in the risk report.

## II. Compensation report

Masterflex AG 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 members includes fixed and variable components, being set out in the Company's Articles of Association in the case of the 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. Taking the sustainability precept and a reference variable into account, the variable component of Supervisory Board compensation is granted if this is reached or achieved in two successive years and amounts to a maximum of € 5,000 per Supervisory Board member and financial year.



Transporting fertilisers

The Executive Board's compensation consists of fixed and variable components and fringe benefits and, with regard to the variable component, is divided into an amount, of which two thirds is paid in the following financial year once the parameters for success and the degree to which they have been achieved are established by the Supervisory Board, while a further third remains with the Company for a period of a further two years and is only paid out if the parameters for success were permanently guaranteed over a period of three years; otherwise this component will be forfeited accordingly in whole or in part.

## 1. Executive Board compensation

The compensation paid to the members of the Executive Board consists of an annual salary with a fixed and a variable component. The total compensation paid to the Executive Board and the distribution of this is presented in the following table:

All disclosures in EUR thou.	Fixed compensation	Variable compensation based on sustainable targets, short-term focus	Variable compensation originated in 2010, long-term focus <sup>1</sup>	Fringe benefits (remuneration in kind)	Total (2010)
Chief Executive Officer Dr Andreas Bastin	258	158	82	25	441
Executive Board member Mr Mark Becks	170	66	34	34	270
<b>Total</b>	<b>428</b>	<b>224</b>	<b>116</b>	<b>59</b>	<b>711</b>

As shown in the above table, 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 members of the Executive Board at the beginning of the past financial year. As stated in the Management Report and the report by the Supervisory Board, all the Company's targets were achieved or even exceeded in the past financial year.

For us, giving a transparent and intelligible presentation of Executive Board compensation has been a key element of good corporate governance for years. The total compensation of the members of the Executive Board consists of the following compensation components: Fixed compensation, bonus, fringe benefits (remuneration in kind). Contrary to usual practice in comparable companies, members of the Executive Board of Masterflex AG do not receive any pension commitments. The Plenum is responsible for determining the compensation of individual Executive Board members in accordance with the German Act on the Appropriateness of Management Board Remuneration (VorstAG) which came into force on 5 August 2009 and a corresponding regulation in the Rules of Procedure for the Supervisory Board, which has in fact always been the case at Masterflex AG.

The compensation system in force was adopted by the Supervisory Board in its meeting on 15 April 2010. New additions are material adjustments to the compensation structure in the Executive Board contracts. 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, consisting of the bonus, include components with an assessment basis spread over several years. These provide long-term performance incentives and gear the compensation structure towards sustainable Company development. There are no further incentive systems, in particular share-based systems, such as a stock option plan, in particular, in place at the Company.

The Executive Board contracts, which came into force in the year under review and provide new regulations on compensation components and other benefits, include provisions for the event that Executive Board activities are terminated prematurely without good cause. This is



Pneumatic hoses

<sup>1</sup> This compensation component is subject to sustainable performance criteria to be achieved over a period of three years. If they are not achieved that can be discontinued in part or in full and remain at the Company.



Heat-set hoses

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. A commitment to provide benefits of the same amount and in the same manner in the event of the premature termination of Executive Board activities as a result of a change of control (change of control regulation) is also in place.

As regards the various compensation components:

The compensation of members of the Executive Board consists of non-performance-related and performance-related components. The non-performance-related components comprise fixed compensation and fringe benefits, while the performance-related components contained in the bonus are broken down into a component that is effective immediately and a long-term incentive component that is only paid out in the third year following the base year. Reviews of the total amount and parameters take place regularly at the end of two years.

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 and Supervisory Board will ask the Company's shareholders to approve the current Executive Board compensation system at the Annual General Meeting on 28 June 2011 and will formulate a proposed resolution to this effect for the agenda.

## 2. Supervisory Board compensation

On the basis of a resolution to amend the Articles of Association adopted at the Annual General Meeting in 2010, the compensation paid to the members of the Supervisory Board consists of an annual salary with a fixed and a variable component.

The Supervisory Board's compensation system has been revised completely and, as a result, takes account of the current requirements of the German Corporate Governance Code, under which the Supervisory Board's compensation should contain a variable component geared to sustainability. Sustainability is achieved by the fact that certain corporate figures must trend positively over a period of two years to allow the respective variable to apply, which is limited to a maximum of € 5,000 per Supervisory Board member and financial year. It is also apparent that the increased demands placed on the Supervisory Board, in the first place, and the limited size of the Board – consisting of only three members – involve all Supervisory Board members in the work of the Supervisory Board to a considerable degree, which is why no additional compensation is paid to the Chairman or Deputy Chairman, rather the compensation is paid across the board to all members of the Supervisory Board. In the absence of any committees being formed, which would make no sense with a Supervisory Board consisting of three members, there is no separate compensation for committee work either, since the facts are all discussed on a plenary basis. Finally, members of the Supervisory Board receive an attendance fee of € 500 per meeting.

The total compensation to be paid to the Supervisory Board on this basis and the distribution of this is presented in the following table.

All disclosures in EUR thou.	Fixed compensation	Variable compensation <sup>2</sup>	Total attendance allowance	Total (2010)
Chairman of the Supervisory Board, Mr Friedrich Wilhelm Bischooping	14.0	2.5	2.5	16.5
Deputy Chairman (member since 11 August 2009, Deputy Chairman since 17 August 2010), Mr Georg van Hall	14.0	2.5	2.5	16.5
Deputy Chairman of the Supervisory Board, Professor Dr Detlef Stolten (until 17 August 2010)	7.0	1.25	1.0	8.0
Supervisory Board Member, Mr Axel Klomp (since 17 August 2010)	7.0	1.25	1.5	8.5
<b>Total compensation</b>	<b>42.0</b>	<b>7.5</b>	<b>7.5</b>	<b>49.5</b>

### III. Other disclosures in accordance with sections 289 (4) and 315 (4) of the German Commercial Code

The share capital of Masterflex AG amounts to € 8,865,874 and is divided into 8,865,874 no-par value bearer shares each with a notional interest in the share capital of € 1. Each share grants the holder a voting right. The shares from the capital increase in December 2010 are not yet admitted for trading on the stock market, however, the admission process is ongoing and will be completed shortly. The new shares are fully entitled to a share of the profits.

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

The Company has been notified of direct or indirect equity investments in the capital, which exceed 10 % of the voting shares via SBF GmbH & Co. KG as well as its controlling shareholder SVB GmbH & Co. KG and of this in conjunction with Mr Edelhart Schmidt and Mr Thorsten Schmidt and the Company has announced these.

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

In accordance with section 76 of the German Stock Corporation Act and Article 7 of the Articles of Association of Masterflex AG, the Executive Board consists of at least one person. In accordance with section 84 of the German Stock Corporation Act and Article 7 of the Articles of Association, the Supervisory Board is responsible for appointing the members of the Executive Board and determining the number of members.

Any amendment to the Articles of Association requires a resolution by the Annual General Meeting. In accordance with section 179 of the German Stock Corporation Act, 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 Article 18 of the Articles of Association, resolutions at the Annual



Hose station in the plastics industry

<sup>2</sup> Portion of the variable compensation acquired in 2010 but not yet paid out



Removal of grass and leaves

General Meeting are passed by a simple majority of the votes cast unless otherwise required by law. If a majority of the share capital represented at the passing of the resolution is also required by law, a simple majority of the capital represented is sufficient, to the extent that this is permitted by law. This also applies to amendments to the Articles of Association. In accordance with Article 14 (5) of the Articles of Association, the Supervisory Board is authorised to make changes to the Articles of Association that affect only the wording.

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions up to 31 July 2014 by issuing up to 2,250,000 new no-par value bearer shares in exchange for cash and/or non-cash contributions, by a maximum value of € 2,250,000 (authorised capital for 2009). Subscription rights can be disappplied in accordance with the more detailed provisions of the authorisation.

The Company's share capital has been contingently increased by up to € 2,250,000.00 through the issue of 2,250,000 new no-par value bearer shares. The contingent capital increase serves to secure the granting of options and the arrangement of warrant obligations in accordance with the conditions for bonds with warrants to the bearers or creditors of warrants from bonds with warrants or to secure the fulfilment of conversion rights and conversion obligations in accordance with the conditions for convertible bonds for the bearers or creditors of convertible bonds issued by the Company during the period up to 31 July 2014 on the basis of the authorisation granted at the Annual General Meeting on 11 August 2009.

The Annual General Meeting on 11 August 2009 authorised the Company to acquire treasury shares with a notional interest in the Company's share capital of up to € 450,000 until 10 February 2011. No use was made of this authorisation which has since expired. However, at the time this report is submitted, the Company holds a total of 134,126 treasury shares.

The Executive Board was also authorised, in accordance with the more detailed provisions of the authorisation and with the approval of the Supervisory Board, to sell the acquired treasury shares to third parties with shareholders' subscription rights excluded in exchange for non-cash contributions and/or to sell the acquired treasury shares in exchange for cash contributions in a manner other than via the stock exchange or the circulation of an offer to shareholders, with the approval of the Supervisory Board and with shareholders' subscription rights excluded.

The Executive Board contracts, which came into force in the year under review, include provisions for the event that Executive Board activities are terminated prematurely without good cause, particularly in the event of a takeover ("change of control" regulation). 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.

## D. Employees

As at 31 December 2010, 397 employees were employed in the Masterflex Group. The sale of SURPRO GmbH is the reason for the fall of 26 %, i. e. 140 employees, in comparison to the 537 employees reported in the last annual report.

Following the difficult years in 2008 and 2009 in which massive restructuring and deconsolidation effects placed massive burdens on our balance sheets, we can now look back on a successful year in 2010. This success would not have been possible without our committed and motivated employees. We were able to end the short-time working introduced in 2009 at various German sites as early as the beginning of the year and to expand our capacity by taking on new staff towards the middle of the year. In the HTS segment, the number of employees increased from 384 in 2009 to 397 in 2010.

We are aware of our obligation to society and again employed trainees in commercial and administrative functions in 2010. At present, we employ 16 trainees in Germany. We also work with educational establishments in the area and offer retrainees the option of completing the practical part of their training with us.

We also encourage the employment of people bringing up children and parents, most notably through the option of working part-time and flexible working hours including the option, in certain areas, of largely structuring your working hours to suit yourself.

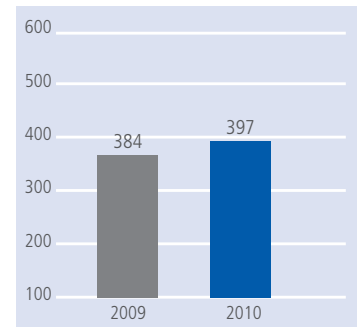
As part of our internal employee development and promotion programme, the targeted appointment of women to senior roles in technical and sales departments is also to be encouraged to a greater degree in future. While Masterflex AG already has a comparatively high proportion of women working in all commercial and administrative areas, there is still a lack of sufficiently qualified women in the areas of technology and technical sales/project sales. The increasing number of non-German employees employed in all areas of the Company will also be expanded as part of the Company's continuing internationalisation.

Staff appraisals take place on a scheduled basis every year. At this time, managers and employees get together to assess their performance. New personal targets are agreed for the year to come, which, in addition to the general corporate targets, form the basis for variable compensation.

We are aware of the fact that satisfied and committed employees are essential to corporate success. This satisfaction is expressed by, among other things, very low staff turnover and in a low sickness rate in recent years, which is falling still further compared with previous years.

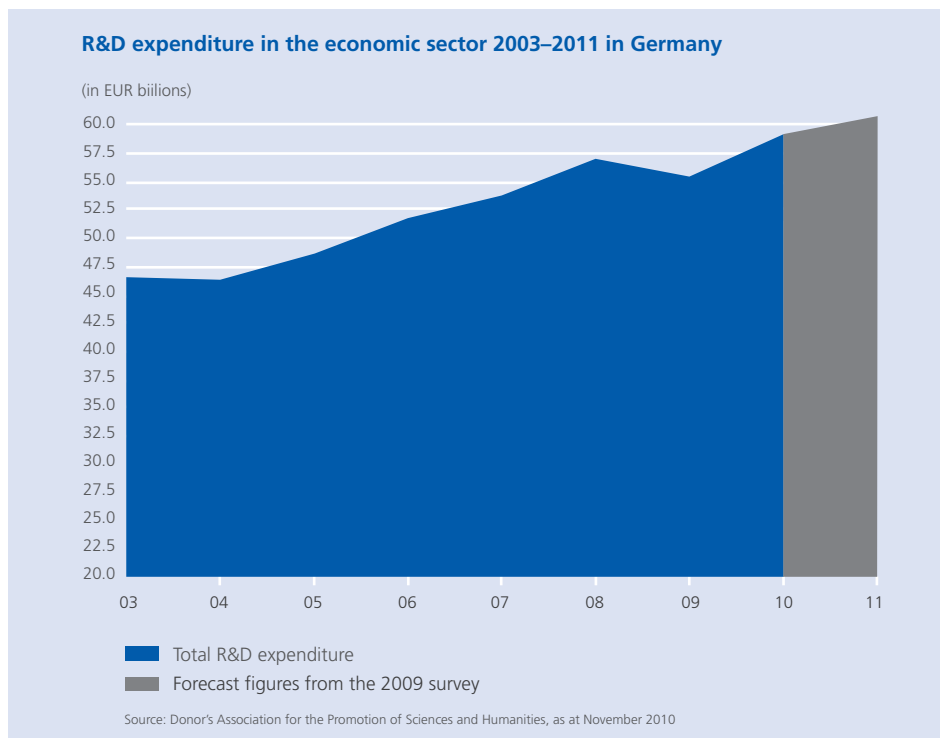
The training of our employees is also very close to our hearts. We offer them individual training measures and, given our continuing internationalisation, courses in foreign languages.

Staff development



Transporting fertilisers

## E. Research and Development



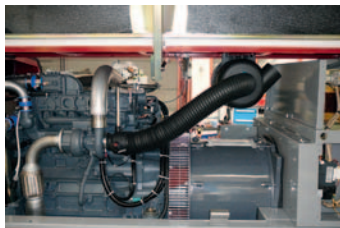
### I. Research and Development in the Masterflex Group

Its innovative strength is a core strength of the Masterflex Group and makes a direct contribution to future growth through the diversification of the product portfolio. We attach great importance to continuous research and development, to develop new markets and to satisfy the standards of our customers and the requirements of the markets.

Close cooperation with our clients and the utilisation of our expertise in materials, processing and production, which we have acquired and constantly consolidated in the course of almost 25 years in our core business unit, are crucial to the development of new products. To this end, we make use of both internal and external expertise and sources of information. Intensive contact with leading research institutions guarantees that our products are at the forefront of technology. We develop material-based standards in close cooperation with our suppliers.

We are and will remain extremely innovative in our core business area, as is demonstrated by the latest developments in 2010.

As in the past, we again focused on the theme of product innovation in 2010. Product innovation was driven by the change in technical requirements. For example, new material requirements for industrial hoses resulting from changes to the technical guidelines for operational safety (TRBS) led to the development of a new antistatic hose series with a permanent antistatic agent for use in the food industry.



Air supply from the air filter to the engine

The electrically heated hose system templine® constituted a focal point. Electrically heated hoses offer a flexible solution compared with rigid pipes in cases where media have to be transported through a feed pipe without any loss of heat. The core of this development constitutes a highly innovative structure consisting of a plastic hose combined with an economical heating system. Among other things, benefits of the new heated tube include heating the medium to be transported homogeneously and constantly, its extreme flexibility in all directions (360°) and a reduction in energy consumption compared with conventional systems of up to 30 %. Electrically heated hose systems are used, among other places, in the food and luxury food industry, for transporting fats, liquid sugar and cocoa butter or in adhesive technology for labelling machines or machines for laminating wood and plastic.

In addition to thermo-sensitive hoses, where the colour changes if the temperature exceeds or falls short of a specific value, a new production process was developed in 2010, which has allowed the simultaneous production of a dual hose with different colours or characteristics since last year. Two hoses are manufactured using coextrusion or dual hose extrusion in a single production process and, at the same time, fused together. Individual colouring plays an important role in medical technology in that improvements to the identification of the hoses means that it is virtually impossible to confuse the various media being transported through the hoses and this means that patients can be monitored far more safely.

Development is also focused on the area of in-house compounding in order to be able to react more specifically to individual customer requirements. In the process, different polymers are combined individually to develop specific material properties. The development of an in-house production process should be completed in the 2011 financial year.

Modifications of existing applications to the geometry required in each case also constitute an ongoing research and development process throughout the Company.



Paint hoses

## II. Environmental protection/REACH

Responsibility for the environment is just as important a component for us as the quality standards demanded of our products and cost-effective procedures. Compliance with and regular monitoring of environmental protection legislation and advice on the options for implementing this is guaranteed through external agents.

Above and beyond compliance with legislation and official regulations, we pursue a policy of continually improving measures to reduce the impact of our operations on the environment without losing sight of our quality standards.

In the production of our hoses we mainly process polyurethanes and other polymers, which do not contain any toxic components.

The production of our extruded profile PUR hoses is practically waste-free. Any rejects produced in the start-up and shut-down phases are recycled. Wires and polyurethane are separated and resold or reused in production without a loss in quality.

Appropriate account was also taken of aspects of environmental impact in the development of the new templine® product line. The heated hoses do not contain any materials with softening agents or any acid-emitting components in the event of the hoses overheating or even

catching fire. They do not affect ground water and are highly effective in converting electrical energy into heat energy. This saves energy (CO<sub>2</sub> saving). The longer service lives of heated hoses lead to a reduction in the consumption of raw materials. Durability tests show, for example, that Masterflex hoses used on automation robots in the automotive industry currently have a service life that is three times that of comparable products.

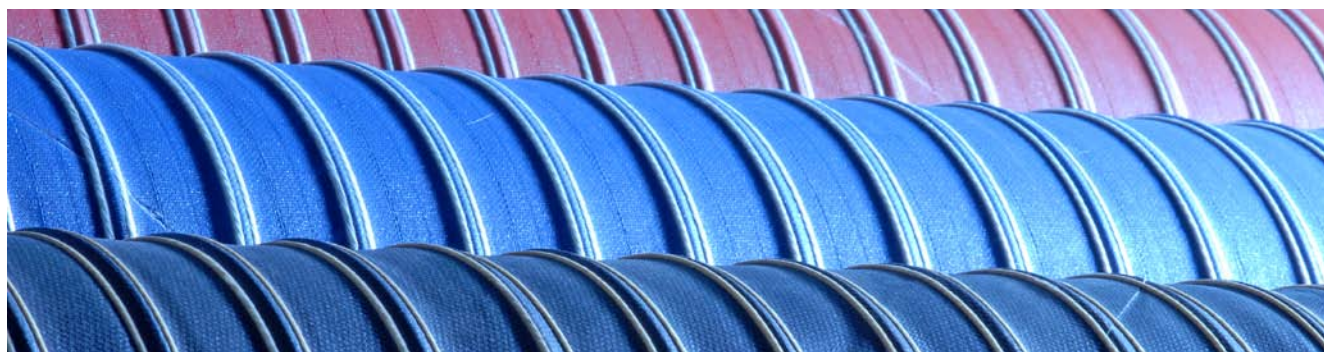
With its master TPA hose series, Masterflex AG offers hoses, where 30 % of the materials used are renewable. The trend towards raw material shift has already reached many sectors of industry; the manufacturers of technical hoses are also facing new demands. The reason for this development is, not least, the decreasing availability of fossil and mineral resources and the resultant increase in the cost of these materials.

The EU regulation, REACH, which came into effect on 1 July 2007, stands for the registration, evaluation and authorisation of chemicals and obliges manufacturers or importers to identify the harmful properties of materials (chemicals and natural materials) and to evaluate their impact on health and the environment. The aim of the European Chemicals Agency (ECHA) – the nerve centre of REACH – is to close existing gaps in people's knowledge to allow chemicals to be dealt with responsibly.

In the REACH supplier chain, the Masterflex Group, as a product supplier, has the status of a downstream user and for this reason has not carried out any pre-registration. When REACH came into effect on 1 June 2007, all necessary measures were adopted responsibly and well-founded exchange of information was carried out with suppliers in order to examine its implementation. Constantly updated information on REACH can be found on the Internet at [www.masterflex.de](http://www.masterflex.de) in the Products/REACH section.

## F. Report on post-balance sheet date events

At present we are not aware of any transactions of particular significance after the end of the financial year affecting the results of operations, net assets and financial position.



# G. Risk report

## I. Risk management system for value-oriented corporate management

All corporate activity involves risks and rewards. A risk describes the possibility of unfavourable future developments with a realistic, though not necessarily significant, probability of occurrence. We define possible successes in excess of our defined targets as opportunities.

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

The structure of the accounting ICS is based on the organisation of our accounting and financial reporting process. One of the key functions of this process is the management of the Group as a whole and its operating units. The targets developed by the Executive Board of Masterflex AG form the starting point. Rolling medium-term plans are drawn up on the basis of these and our monthly forecast plans for operating development. The ICS is to be 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 sub-units using quantitative, qualitative and process criteria. Our generally binding guidelines and ethical values form the basis of the ICS. In a control process that was refined in 2009, we will in future provide evidence once a year that the necessary control measures actually took place and were implemented correctly.

This review of our control processes will be carried out by external auditors, an internal risk manager and the managing directors or heads of department responsible for implementing the checks.

The internal control system for accounting and its effectiveness have increasingly been a regular feature in meetings of the Supervisory Board since 2008.

On this basis, at Masterflex, risk management 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, control and management of risks. This controlled approach to risk is intended to safeguard the net assets, financial position and results of operation of the Group.



Hoses for special cables

## II. Efficient risk management organisation

Masterflex AG's risk management is integrated into existing structures and is therefore an inextricable component of corporate management and business processes. Strategic corporate planning, internal reporting and the internal control system are the core elements of the risk management system in addition to the risk manual applicable throughout the Group.

The identification, analysis, assessment, management and monitoring of risks is guaranteed throughout the Group through standardised, internal reporting.

The following section contains information on the key risk areas potentially affecting our business development and net assets, financial position and results of operations. 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 affect in the event of a change in circumstances.

## III. Risk factors

### 1. Market risks

The Masterflex Group companies are exposed to potential market risks in their procurement and sales activities.

They may continue to be exposed to sales risks despite the economic recovery in 2010. The further business development of Masterflex AG is particularly dependent on the German as well as the global economy. However, since Masterflex is involved in many sectors and markets and also supplies many different customers, it is not dependent on one sector or one customer.

General customer-related risks (e.g. the loss or insolvency of major customers, increased price pressure due to competitive hegemony) are mitigated by ensuring a broad-based customer structure.

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

Overall, we will counteract the potential increase in competitive pressure in our business units by continuously improving our products, services and business processes. Prices may suffer as a result of the aggressive behaviour of our competitors. We mitigate this by constantly reviewing our cost structures and also by developing unique, innovative products with unique selling points.

## 2. Financial risks

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

Within the Group, there are binding provisions on the types of financial instruments that may be used, the limits for their conclusion and the banks with which such instruments may be entered into. Compliance with all regulations is constantly examined. Receivable default risk is reduced by systematically obtaining information on creditworthiness, setting credit limits and performing active debtor management, including dunning and proactive collection measures.

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

We rarely enter into business and financing activities in foreign currencies. The resultant cash flows in foreign currencies may constitute outstanding risk positions, which are monitored centrally and closed using derivative instruments on an individual basis.

If interest rate risks arise when raising funds on the capital or credit markets, these risks are also monitored and closed using interest rate derivatives.

Translation risks arising from original balance sheet items expressed in foreign currency are not hedged in the Masterflex Group.

The conclusion of the syndicated loan agreement with a term of five years and the low level of foreign currency transactions mean that the financial risks at Masterflex AG are viewed as low. The interest-rate risk is significantly curtailed because of the further reduction in debt, regulations in the loan agreement and the conclusion of an interest-rate hedge (interest-rate cap) imposed by the loan agreement. Two covenants have been agreed in the loan agreement. Here, Masterflex agrees to comply with defined financial key ratios at Group level. These are the debt-to-equity ratio and the equity ratio. If Masterflex AG is not in compliance with these covenants, the lender is entitled to cancel the entire loan commitment. Based on current business conditions we anticipate being in compliance with these covenants.

## 3. Production risks

We counteract the risk of production downtimes, e.g. due to disasters or fire damage, by performing preventive maintenance work and maintaining adequate inventories of key replacement parts, as well as through fire prevention measures, employee training and the establishment of a network of external suppliers. We also have reasonable insurance coverage for any damages that may arise in spite of these measures.

In order to control quality risks relating to its goods and services, the Masterflex Group gives a high degree of priority to quality assurance. By setting ambitious quality standards for its development activity, intensively examining the entire process chain and maintaining permanent contact with suppliers, quality-specific risks within the Masterflex Group are limited in a systematic manner.



Grass embankment cutter

#### 4. Technology and quality risks

The Masterflex Group strives to reinforce its market position by offering globally competitive products and services. This requires a permanent innovation and development process in order to meet the demanding requirements of its customers. Efforts are being made to press ahead with the expansion of our innovation management process for this purpose. The Group also aims to maintain close cooperation with its customers in order to help it to develop new applications and leverage new markets at an early stage. This also frequently results in innovative business ideas, some of which eventually become new standard applications.

The position of Masterflex as an innovation and quality leader sets it apart from its competitors. Failures in quality assurance or products that do not meet the needs of the market can have an adverse effect on the Group's sales potential. The quality of Masterflex's products and services is not only a prerequisite for repeated customer orders, but also serves to reduce the additional expense resulting from warranty and compensation payments. Accordingly, targeted innovation and quality management enjoy the highest priority. Risks resulting from undesirable developments and the associated financial expense are minimised through an integrated project controlling system.

#### 5. IT risks

The continuous availability of IT systems is a vital factor in ensuring the operability of the Group's individual sites and offices. Accordingly, internal and external experts work permanently with a view to optimising the Group's central and decentralised information security systems. The hardware and software components currently available are employed to protect the Group against potential system failures due to external disruptions, e.g. the infection of computer systems with viruses. Among other measures, the protective measures implemented include the use of virus scanners and state-of-the-art firewall systems, as well as extensive user access controls. Masterflex AG and a few of its subsidiaries also use an external computer centre in order to fulfil these service requirements.

#### 6. Legal risks

The Group is not aware of any current or potential legal proceedings that could have a tangible effect on the net assets, financial position and results of operations of Masterflex AG or the Group. However, the possibility that such risks will arise in future cannot be fully excluded. Appropriate and sufficient provisions were set up for pending or imminent legal proceedings.

#### 7. Personnel risks

The expertise and commitment of our employees are vital factors in the Masterflex Group's economic success and future development. We counter the intensive competition for qualified technical and management staff and the associated risks in the form of a loss of expertise caused by employee turnover with attractive opportunities for acquiring additional qualifications and a compensation system that rewards performance.

#### 8. Acquisitions and de-investments

The strategy of Masterflex includes both company sales and strengthening business units via business combinations and company acquisitions.

Despite careful planning, company mergers and acquisitions are exposed to risks which can negatively impact the net assets, financial position and results of operations. Moreover, there is the risk that considerable costs may be incurred as a result of such measures. Company



Diversion of engine exhaust gases to dynamic power analysers

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 may ensue as a result of unscheduled developments.

#### 9. Overall assessment of the Group's current risk situation

We are not aware of individual risks that could jeopardise the continued existence of the Masterflex Group at present.

In addition to global risk factors, the expected positive development of the net assets, financial position and results of operations of the Masterflex Group may be considerably negatively impacted by negative business trends in individual sectors or economies. Recessive trends in the overall economy will also have an impact on the Group.

Our net assets, financial position and results of operations may be considerably adversely affected in future if the Masterflex Group is unable to adapt to market changes and particularly if it is unable to develop, manufacture and distribute new, high-quality products. An undesirable development of this kind could lead to extraordinary write-downs on internally-created assets and intangible assets.

### IV. Individual risks

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

## H. Report on expected developments

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

### I. Outlook

#### 1. Economic environment

According to forecasts by economic experts, sustained growth in the economies of greatest importance to the Group is to be expected in 2011 and 2012. In the euro region, economic output is even expected to pick up slightly and grow by 1.2 % in 2011 and 1.4 % the year after. European growth will continue to be driven by Germany. The economy will grow more strongly in the USA than in the euro zone. Brazil, China and India will continue their rapid growth.



Spiral brake hoses for trucks

**Expected economic development in 2011 and 2012 in countries in which Masterflex is represented (% change in GDP)**

	2011	2012
Germany	2.0	1.4
USA	3.0	3.4
France	1.2	1.6
United Kingdom	2.2	2.0
Czech Republic	2.3	3.1
Sweden	3.5	2.5
Russia	5.0	5.3
Brazil	4.5	4.6

Source: Deutsche Bank

Industry made a significant recovery in 2010. The German economy has started the new year full of optimism. The joint Mittelstandsbarometer (SME barometer) produced by the KfW banking group and ifo established the most positive figure for the near future since calculations started in January 1991. Capacity utilisation in the plastic processing industry is also at an unexpectedly high level at the beginning of 2011. The innovative industry is also expecting additional new areas of application for the individual product segments. Following growth of 8.8 % in 2010, the German Engineering Association (VDMA) has increased its forecast for 2011 in additional 2 % to 10 %.

Nevertheless, declines cannot be ruled out. Despite the very positive trend in revenue in the sector, the German association of the plastics processing industry is expecting margins to collapse. A key factor here is higher commodity prices, which continue to reach new heights. Ever more frequent price spikes are a particular problem since plastics processing companies cannot pass these onto the market at the speed and in the amounts they are occurring. There are also signs of further supply bottlenecks, in particular in the case of technical plastics.

The Organisation for Economic Co-operation and Development (OECD) anticipates an upturn in the German economy of 2.5 % in 2011. It is currently enjoying an unusually strong recovery and, in the process, is benefiting from an upturn in global trade. Domestic demand, which is also rising, is likely to contribute to balanced growth, even if the German economy will continue to feature a large export surplus. At the same time, however, the OECD report highlights risks. For the OECD economists, these include a possible further fall in real estate prices in the USA of the United Kingdom, the substantial sovereign debts of some countries and possible yield spreads on government bonds.

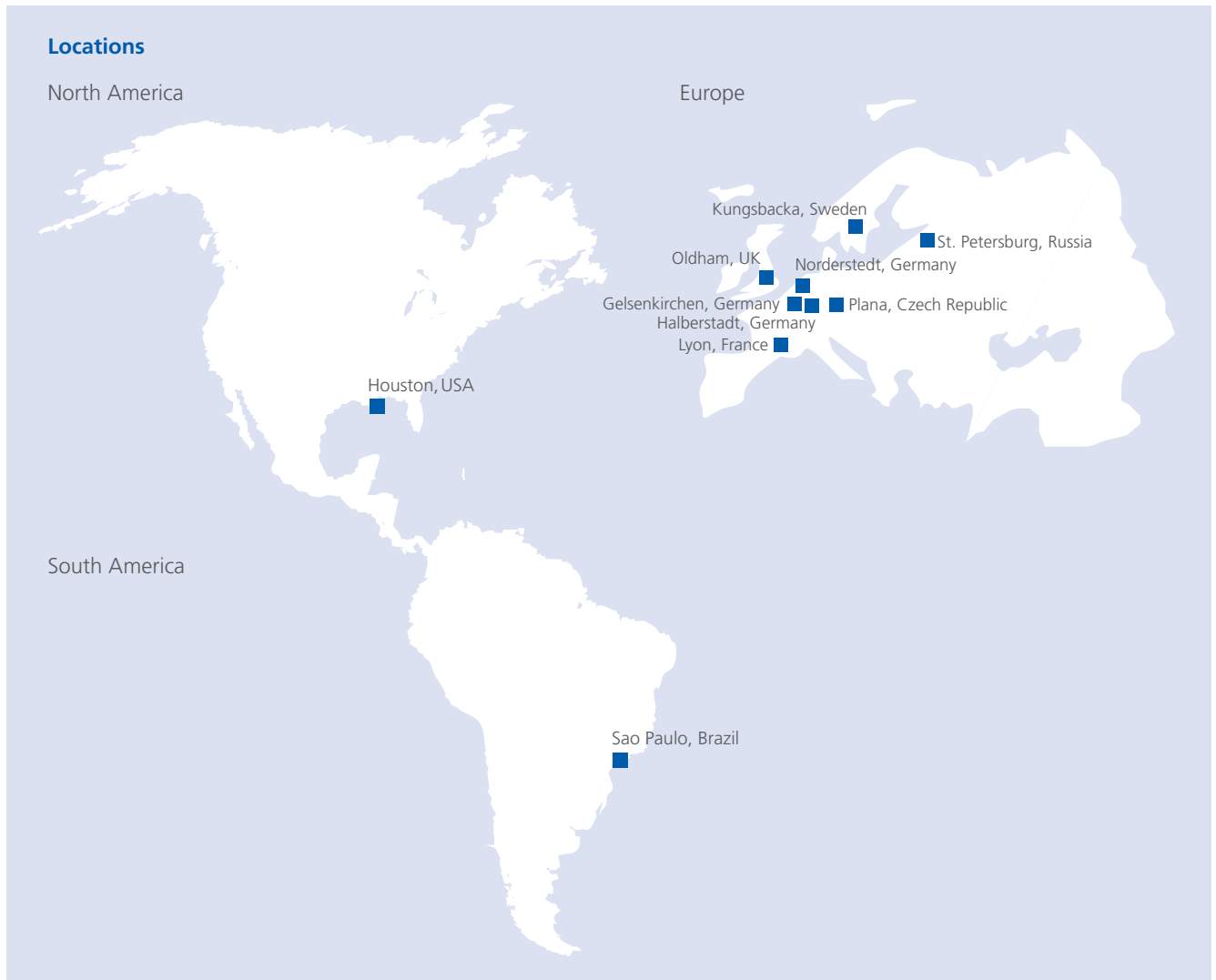
Despite last year's impressive growth, the German Chambers of Commerce and Industry are forecasting another increase in gross domestic product of 3 % this year. The confidence of the DIHK's economists is based on their survey of the economy involving 28,000 companies. Accordingly, prospects have improved in all areas compared with the last survey in autumn 2010. Companies' expectations of business and exports have increased once more, their employment and investment plans have risen in turn and the proportion of those who consider their business situation to be positive has also risen sharply once more.



Clean room

Against this backdrop, our Group outlook is of a general nature and should be seen in the context of a longer-term time horizon.

## 2. Group outlook



We pressed ahead decisively in focusing on our profitable hose business in 2010. An important step in the concentration process was achieved through the sale of the Advanced Material Design (Surface Technology) segment. The reorganisation of the Group initiated in 2008 will be completed in the near future with the planned sale of the Mobility Group. The Group's long-term strategy envisages concentrating business activities solely on the core business, high-tech hose systems, and consequently no longer pursuing any non-associated activities within the Group. A good starting position for future business developments was created with the measures implemented. A key part of a sustainable financing concept was the extremely successful capital increase at the end of 2010. This was accompanied by a partial waiver by the banks and agreement on a long-term focused financing concept. As a result, all future measures will be of absolute benefit in strengthening and developing the core business.

As a result, we are starting 2011 on a sound basis.

Our long-term growth strategy includes entering into new markets with existing products and creating new markets with product innovations. Our internationalisation strategy will be a key driver in this process. As part of the targeted development of new markets, a subsidiary was founded in Brazil and a joint venture in Russia in 2010. As a result, Masterflex AG is now focusing more on expanding its international business activities in the core business field of High-Tech Hose Systems.

Masterflex is now represented in many European countries, as well as in North and South America. In future, we shall increasingly concentrate our focus on markets with growth potential that are not yet addressed or are not addressed in any meaningful way. To this end, we are already examining options for entering markets in Asia and, in particular, China, among others.

We again provided impressive evidence of our capacity for innovation in 2010 and, at the same time, created a base for additional impetus in 2011. We succeeded in launching electrically heated hoses on the market with the *templine®* product line, which will give us a significant competitive lead compared with our competitors. Hoses with a permanent antistatic agent are another technologically demanding innovative new product. We shall also continue to develop high-performance product and material solutions and use our high levels of materials, applications and technological expertise in hoses in a targeted manner.

Another positive aspect is the fact that following the crisis-riven years, we employed 13 new staff across the Group in 2010. This positive trend is also to be continued in 2011; we attracted ten more new employees to our company in the first few weeks of the year alone.

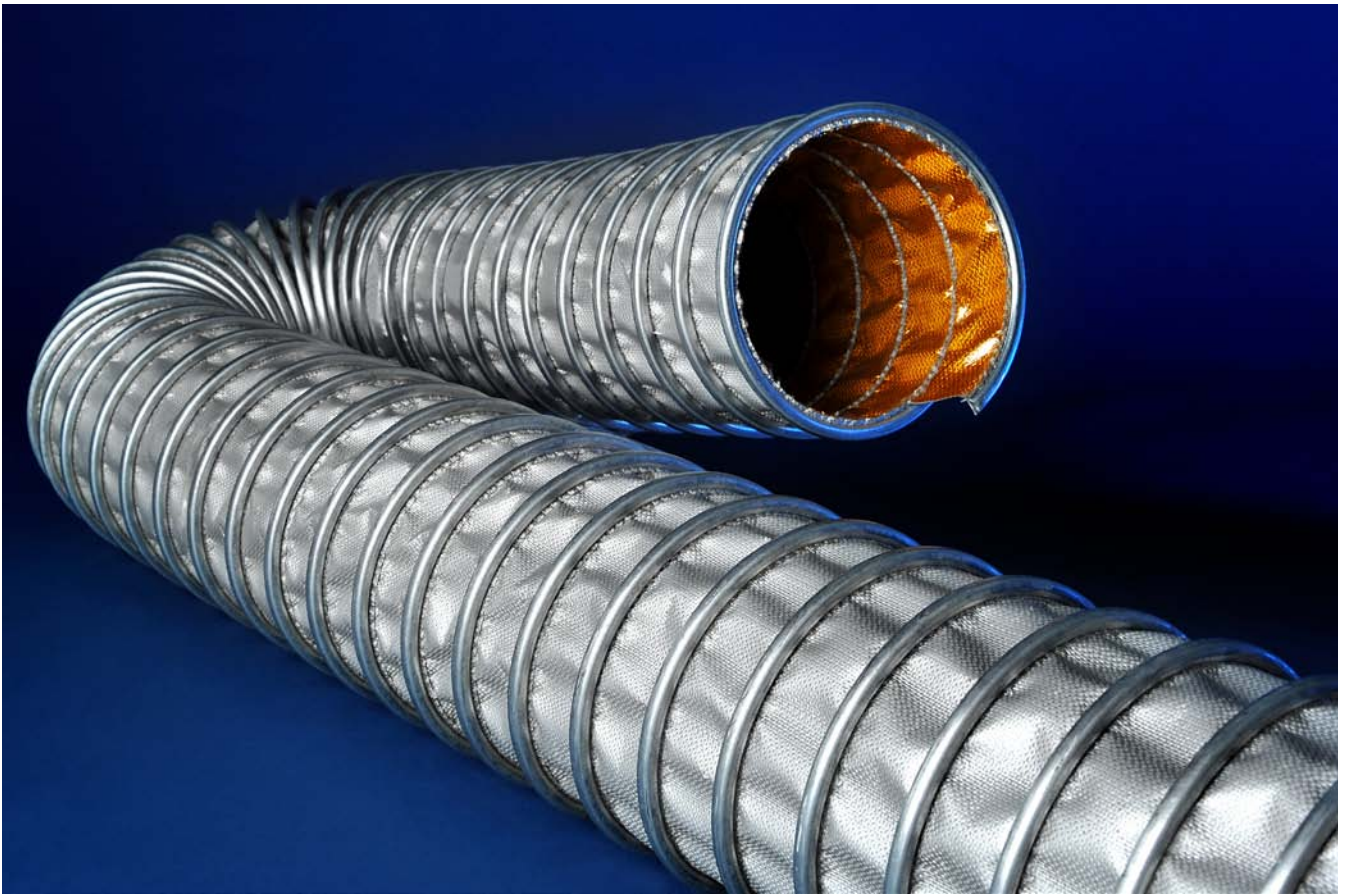
We have made a successful start to the 2011 financial year. We are planning an increase of 8 to 10 % in revenue from approx. € 46 million (2010) to approximately € 50 to 51 million. Growth in EBIT will shadow the increase in sales albeit at a somewhat more moderate rate. Against the background of rising commodity prices and, in particular, the preproduction costs of opening up new markets, we expect an increase in EBIT to at least € 7.0 million in 2011. This would still correspond to a very good EBIT margin of 14 %. We are also expecting a very positive consolidated net profit for the period.

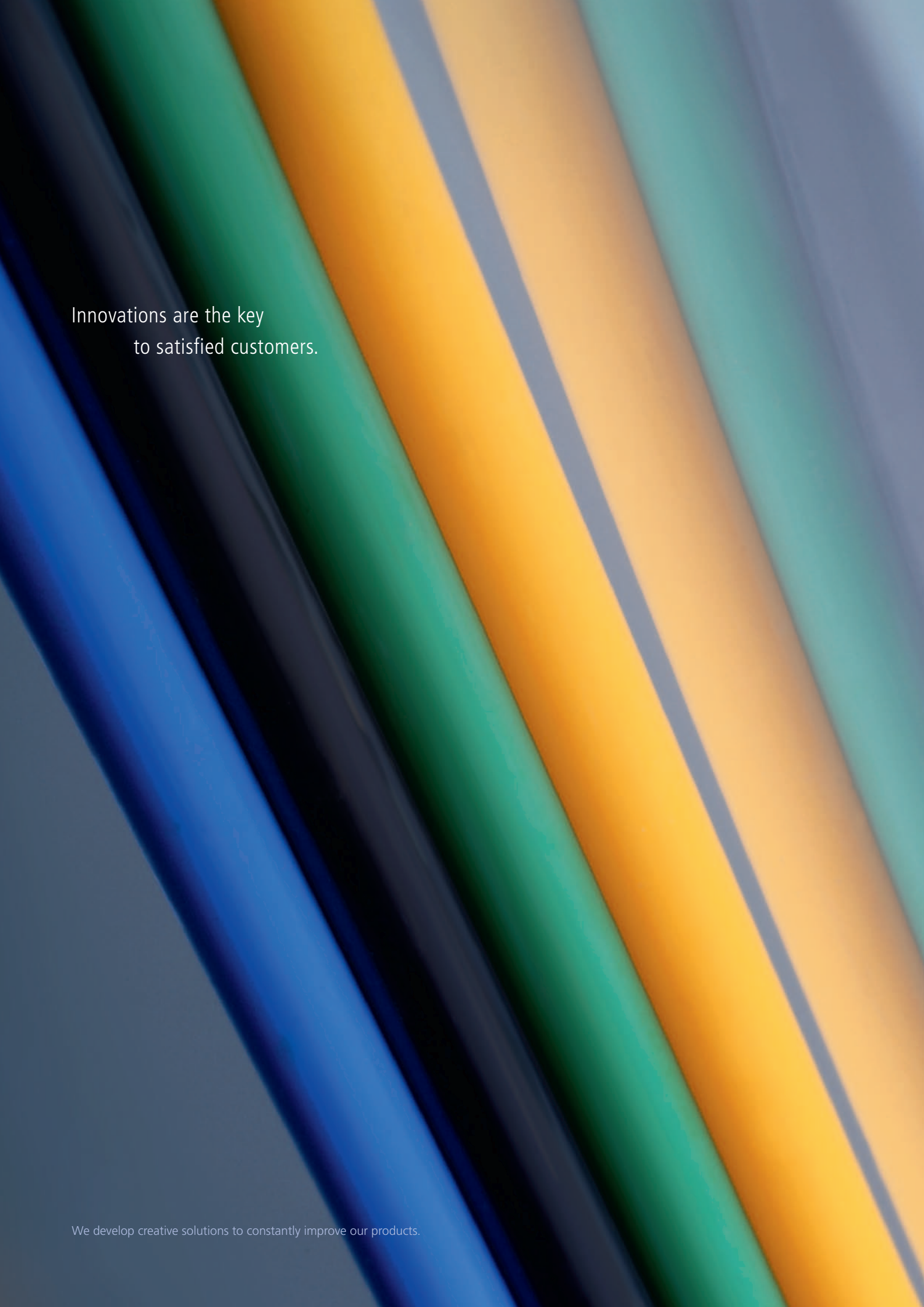
We are assuming comparable increases in revenue in subsequent financial years. We are also planning a positive revenue performance with a further gradual increase in the EBIT margin from year to year.

## II. Our vision

Our core business has again provided impressive evidence of its strengths and profitability in the past financial year. Our starting position for a successful 2010 financial year has improved considerably compared with previous years because we have completed key measures, such as the restructuring of our financing and the cost cutting programmes, very successfully. We have started the 2011 financial year with a strong tailwind. The aim is now to build on the two mainstays of our growth, innovation and internationalisation. Our future prospects are good, since, thanks to our materials and innovation expertise, we are ideally positioned and we have only just started tapping into the development potential of the applications for high-tech polymers.

We want to become a global leader in all the specialist markets we address. We focus on our core competence: generating long-term added value for our customers and their applications by processing demanding high-tech polymers and developing innovative solutions for specialist connector systems, hoses and application components.





Innovations are the key  
to satisfied customers.

We develop creative solutions to constantly improve our products.

# THE MASTERFLEX SHARE

Share information	
ISIN	DE 000 549 293 8
ISIN new shares	DE 000 A1 E8 N63
German Securities Code Number (WKN)	549 293 (A1E8N6 for unlisted shares)
Class of shares	No par value bearer shares
Exchange symbol	MZX
Listing	Frankfurt/Xetra
Market segment	Prime Standard
Member of the following indices	CDAX
	Prime All Share Index
	Classic All Share Index
	Prime Industrial Index
Designated sponsor	Close Brothers Seydler AG
Number of shares	8,865,874 (thereof 4,365,874 unlisted)
Theoretical interest in share capital per share	€ 1.00

## Share performance

The price of the Masterflex share was decisively affected by the restructuring. In the first quarter of 2010, the price slid to new lows of less than € 3.00 at times. Over the rest of the year, as the successes in concluding the restructuring measures became more apparent, the price started to recover. It rapidly returned to the level it had been at the beginning of the year. At times, the share went above € 4.00 in the first half. Over the rest of the year, the share trended sideways but remained very volatile. At the time of the capital increase, the price was back at € 3.50 but recovered to € 4.00 once the transaction was completed. It also stood at € 4.00 at the year end.

Its volatility can be viewed as an expression of the still prevailing uncertainty as to the actual success of the measures in 2010. With the raising of its forecast, the successful placement of the capital increase and finally with the provisional figures for 2010, Masterflex has provided evidence that a sharp upward trend may be possible on the new basis.

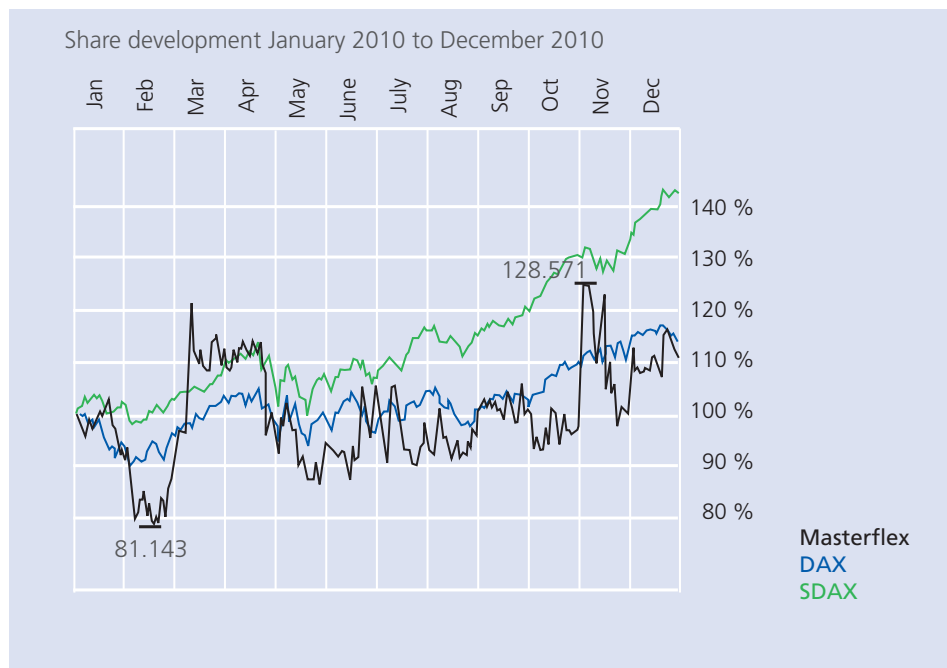
The share price increased by 14.3 % in 2010. The annual low was € 2.84. On the basis of this low, the share rose by 40.8 % to the end of the year.

The comparable indices of relevance to Masterflex, namely the SDAX and the industry index, Industrial Products & Services, performed far better in 2010. They were shaped, most notably, by the significant economic recovery and the upturn enjoyed by many small and medium-sized industrial companies. The index for Industrial Products & Services gained 35.6 % in 2010, while the SDAX gained 45.8 %.

In the first quarter of 2011, the Masterflex share price remained stable between € 4.00 and € 4.20. A phase of uncertainty followed in March, triggered not least by events in Japan, as a result of which the price eased to € 3.77. However, the provisional figures for 2010 published at the end of March again underlined the fact that Masterflex is on a positive course in operational and strategic terms and this has been achieved more rapidly and more successfully than was expected by either the Company itself or analysts. Accordingly, the share price started a significant upward trend at the end of March and closed the first quarter on € 4.60, its annual high to date.

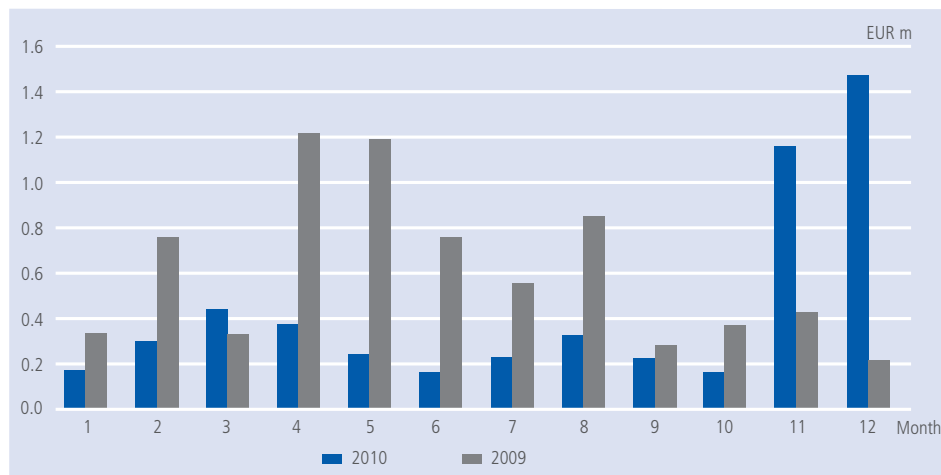
## Masterflex AG share performance

### Masterflex share price compared with the DAX and the SDAX in 2010



## Liquidity of the Masterflex share

### Masterflex AG order book turnover



The average number of Masterflex shares traded each day on Xetra and in floor trading in Frankfurt stood at 5,598 in 2010 and was consequently down on the comparable figure for the previous year. Trading volume was subject to significant fluctuations in 2010. In the first nine months, the average daily volume was still 3,744 shares, while 11,158 shares were sold in the fourth quarter – particularly around the capital increase. In the year under review, a total of 1.4 million Masterflex shares changed hands in 2010 in combined Xetra and floor trading (previous year: 1.6 million). In 2010, the trading volume in value terms was some € 5.2 million, which is 28 % less than in the previous year (€ 7.3 million). All figures for trading volume relate to 4.5 million shares and do not yet take account of the capital increase carried out in December 2010. Masterflex has supported the share's liquidity since it was first listed through a designated sponsor. This role was performed by HSBC Trinkaus & Burkhardt in 2010. Since the beginning of the current year, this role has been taken over by Close Brothers Seydler AG.

### Capital increase

In the course of the capital increase, which was resolved by the Annual General Meeting in August 2010 and carried out in December 2010, Masterflex AG placed all the 4,365,874 shares in total at a subscription price of € 3.00 each. Of this figure, 2,006,831 shares were acquired on the basis of subscription rights exercised by existing shareholders. The remaining shares, not acquired on the basis of the subscription right, were allocated at the subscription price as part of a private placement.

Masterflex generated a gross inflow of funds of some € 13.1 million from the capital increase. The funds will be used to repay liabilities and as working capital as well as for targeted investment in expanding the core business. The new shares are still managed under a separate securities identification number and are not yet included in trading over the German stock exchanges.

### Shareholder structure

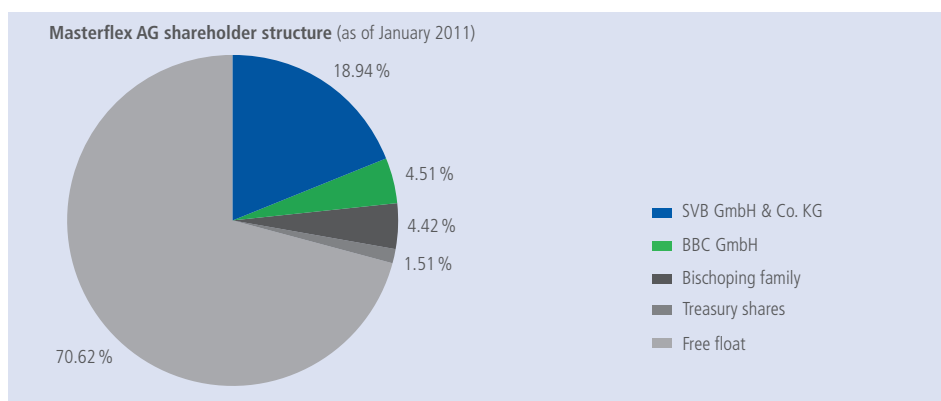
As a result of the successful capital increase, the shareholder structure of Masterflex changed with effect from 2 December 2010. Mr Edelhart Schmidt now holds 18.94 % of the shares himself and attributably to him via SVB GmbH & Co. KG, of which a total of 10.80 % are held directly via an associate of SVB GmbH & Co. KG, namely SFB GmbH & Co. KG. BBC GmbH, behind with the two current Executive Board members of Masterflex AG stand, holds 4.51 % of the Company. 4.42 % of the capital is attributable to members of the Bischooping family. 1.51 % of shares are held by the Company. The free float amounts to 70.6 %.

### Share price statistics

		2011	2010	2009
Xetra		1. Quarter		
Highest variable price	€	4.60	4.50	7.06
Lowest variable price	€	3.77	2.84	3.41
Opening price	€	3.98	3.50	6.00
Closing price	€	4.60	4.00	3.50
Performance		+15.0 %	+14.3 %	-41.7 %

### Analysts' recommendations

The Masterflex share was not monitored by any analysts or institutions during the restructuring phase. With the successful conclusion of the measures and the first signs of their effectiveness, the ability to plan the course of Masterflex AG's business and consequently to forecast it will improve further. As a result, analysts will once again have a basis for their own estimates and forecasts. Close Brothers Seydler Bank AG plans to prepare and publish analyses of the Masterflex share in 2011. These will be made available to interested parties on the Company's website.



## Earnings performance in 2010

Key figures		31.12.2010	31.12.2009
Share capital	€ m	8.9	4.5
Number of shares	million shares	8.9	4.5
Treasury shares	shares	134,126	134,126
Closing share price	€	4.00	3.50
Market capitalisation as of 31 Dec.	€ million	35.5	15.8
Free float market capitalisation as of 31 Dec.	€ million	25.1	13.2
Free float as of 31 Dec.		70.6%	83.4%
Earnings per share	€	-0.49	-3.11

## Capital market communications

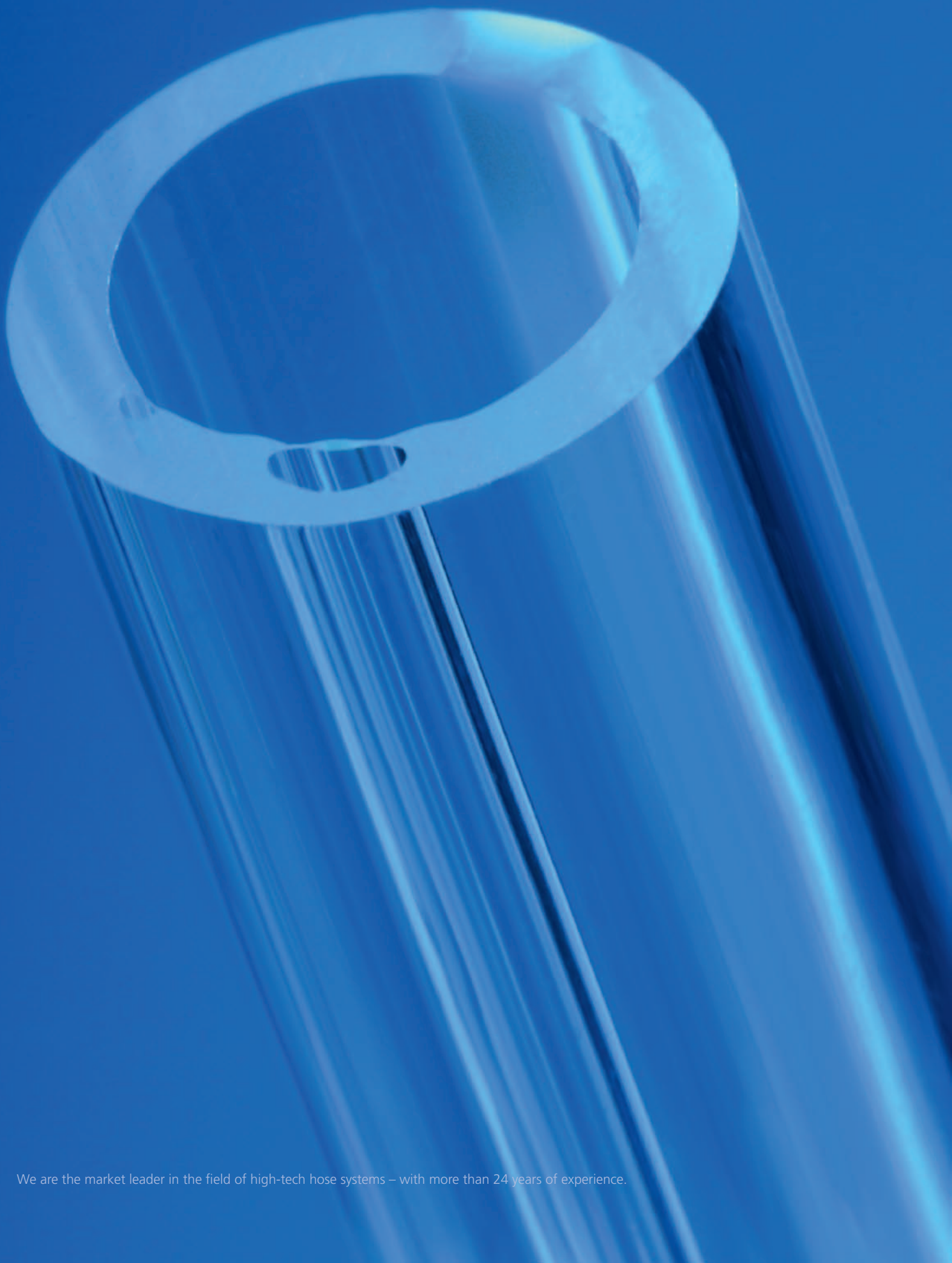
Masterflex AG's investor relations work centres on providing open, transparent and simultaneous communications to all capital market participants. Masterflex continued its communication with the capital market even in the difficult restructuring period. Shareholders appreciated this – not least in the context of the capital increase – and endowed the management with a considerable leap of faith.

In 2011, Masterflex intends to increase its communication with the capital market considerably. The effectiveness of the measures must be made transparent. At the same time, the marked improvement in the company's operational starting position must be made clear to capital market participants.

## Masterflex AG financial calendar 2011

<b>28 April</b>	Financials press conference, presentation of 2010 annual report, Düsseldorf
<b>28 April</b>	DVFA analysts' conference, Frankfurt/Main
<b>28 April</b>	Interim report I/2011
<b>28 June</b>	Annual General Meeting, 11:00 a.m., Gelsenkirchen
<b>11 August</b>	Interim report II/2011
<b>15 November</b>	Interim report III/2011
<b>21 to 23 November</b>	German Equity Forum, Frankfurt/Main

A solid foundation  
creates scope for positive developments.



We are the market leader in the field of high-tech hose systems – with more than 24 years of experience.

# CONSOLIDATED FINANCIAL STATEMENT

# Consolidated Balance Sheet

Assets	Notes	Dec. 31, 2010 EUR thou.	Dec. 31, 2009 EUR thou.
<b>NONCURRENT ASSETS</b>			
<b>Intangible assets</b>	<b>3, 4, 24</b>	<b>4,090</b>	<b>6,263</b>
Concessions, industrial and similar rights	4	706	872
Development costs	4	33	1,949
Goodwill	3, 4, 24	3,258	3,258
Advance payments	4	93	184
<b>Property, plant and equipment</b>	<b>4</b>	<b>21,155</b>	<b>25,427</b>
Land, land rights and buildings		11,819	12,708
Technical equipment and machinery		6,005	9,012
Other equipment, operating and office equipment		2,184	3,140
Advance payments and assets under development		1,147	567
<b>Noncurrent financial assets</b>	<b>4</b>	<b>2,664</b>	<b>3,969</b>
Noncurrent financial instruments		193	250
Other loans		2,471	3,719
<b>Other assets</b>	<b>6</b>	<b>38</b>	<b>269</b>
<b>Other financial assets</b>	<b>6, 17</b>	<b>216</b>	<b>0</b>
<b>Deferred taxes</b>	<b>27</b>	<b>5,866</b>	<b>5,840</b>
		<b>34,029</b>	<b>41,768</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>	<b>5</b>	<b>7,397</b>	<b>13,077</b>
Raw materials and consumables used		4,169	6,286
Work in progress		437	3,256
Finished products and goods purchased and held for sale		2,721	3,520
Advance payments		70	15
<b>Receivables and other assets</b>	<b>6, 7</b>	<b>5,830</b>	<b>6,485</b>
Trade receivables	7	4,361	4,355
Other assets	6	1,415	2,130
Other financial assets	6, 17	54	0
<b>Income tax assets</b>	<b>8</b>	<b>163</b>	<b>189</b>
<b>Cash in hand and bank balances</b>	<b>9</b>	<b>14,398</b>	<b>7,779</b>
<b>Assets held for disposal</b>	<b>6</b>	<b>3,599</b>	<b>0</b>
		<b>31,387</b>	<b>27,530</b>
<b>Total Assets</b>		<b>65,416</b>	<b>69,298</b>

Equity and liabilities	Notes	Dec. 31, 2010 EUR thou.	Dec. 31, 2009 EUR thou.
<b>SHAREHOLDERS' EQUITY</b>			
<b>Consolidated equity</b>	<b>10</b>	<b>11,813</b>	<b>782</b>
Subscribed capital		8,732	4,366
Capital reserve		26,252	17,521
Retained earnings		-21,952	-19,618
Revaluation reserve		-629	-590
Exchange differences		-590	-897
<b>Minority interest</b>	<b>11</b>	<b>400</b>	<b>213</b>
<b>Total equity</b>		<b>12,213</b>	<b>995</b>
<b>NONCURRENT LIABILITIES</b>			
<b>Provisions</b>	<b>12</b>	<b>116</b>	<b>1,302</b>
<b>Other financial liabilities</b>	<b>13</b>	<b>30,045</b>	<b>19,472</b>
<b>Noncurrent financial liabilities</b>	<b>13</b>	<b>220</b>	<b>0</b>
<b>Other current liabilities</b>	<b>15</b>	<b>1,869</b>	<b>2,809</b>
<b>Deferred taxes</b>	<b>27</b>	<b>514</b>	<b>1,467</b>
		<b>32,764</b>	<b>25,050</b>
<b>CURRENT LIABILITIES</b>			
<b>Provisions</b>	<b>12</b>	<b>4,492</b>	<b>2,895</b>
<b>Current financial liabilities</b>	<b>13</b>	<b>7,135</b>	<b>34,973</b>
<b>Other financial liabilities</b>	<b>13</b>	<b>37</b>	<b>0</b>
<b>Income tax liabilities</b>	<b>14</b>	<b>1,075</b>	<b>712</b>
<b>Other current liabilities</b>	<b>15, 16</b>	<b>3,317</b>	<b>4,673</b>
Trade payables		1,768	2,248
	<b>16</b>		
Other current liabilities	<b>15</b>	1,549	2,425
<b>Liabilities directly connected with assets held for disposal</b>	<b>15</b>	<b>4,383</b>	<b>0</b>
		<b>20,439</b>	<b>43,253</b>
<b>Total Equity and liabilities</b>		<b>65,416</b>	<b>69,298</b>

# Statement of Income and Accumulated Earn

Continued business units	Notes	2010 EUR thou.	2009 EUR thou.
1. Revenue	18	46,057	38,409
2. Changes in inventories of finished goods and work in progress		160	-705
3. Work performed by the enterprise and capitalised		20	130
4. Other operating income	19	832	1,287
<b>Gross profit</b>		<b>47,069</b>	<b>39,121</b>
5. Costs of materials	20	-13,518	-10,980
6. Staff costs	23	-16,042	-14,313
7. Depreciations		-2,669	-2,468
8. Other expenses	21	-8,395	-7,704
9. Financial result	25		
Financial expenses		-3,493	-3,359
Other financial result		152	148
<b>10. Earnings before taxes and non-operating income/expenses</b>		<b>3,104</b>	<b>445</b>
11. Non-operating income/expenses	26	6,033	-3,101
<b>12. Earnings before taxes</b>		<b>9,137</b>	<b>-2,656</b>
13. Income tax expense	27	-1,037	1,724
<b>14. Earnings after taxes from continued business units</b>		<b>8,100</b>	<b>-932</b>
<b>Discontinued business units</b>			
<b>15. Earnings after taxes from discontinued business units</b>	28	<b>-928</b>	<b>-3,970</b>
16. Non-operating expenses	28	-9,339	-8,539
<b>17. Consolidated net income/loss</b>		<b>-2,167</b>	<b>-13,441</b>
<b>Other result</b>			
18. Currency translation differences from the translation of foreign operations	10	307	-150
19. Net result from "available-for-sale" financial assets		-39	21
<b>20. Other result for the period under review, after taxes</b>		<b>268</b>	<b>-129</b>
<b>21. Overall result for the period under review</b>		<b>-1,899</b>	<b>-13,570</b>
<b>Consolidated net income/loss:</b>		<b>-2,167</b>	<b>-13,441</b>
thereof minority interests		166	127
<b>thereof attributable to shareholders of Masterflex AG</b>		<b>-2,333</b>	<b>-13,568</b>
<b>Overall result for the period under review:</b>		<b>-1,899</b>	<b>-13,570</b>
thereof minority interests		166	127
<b>thereof attributable to shareholders of Masterflex AG</b>		<b>-2,065</b>	<b>-13,697</b>
<b>Earnings per share (diluted and non-diluted)</b>			
from continued business units	29	1.67	-0.24
from discontinued business units	29	-2.16	-2.87
from continued and discontinued business units	29	-0.49	-3.11

# Consolidated Statement of Changes in Equity

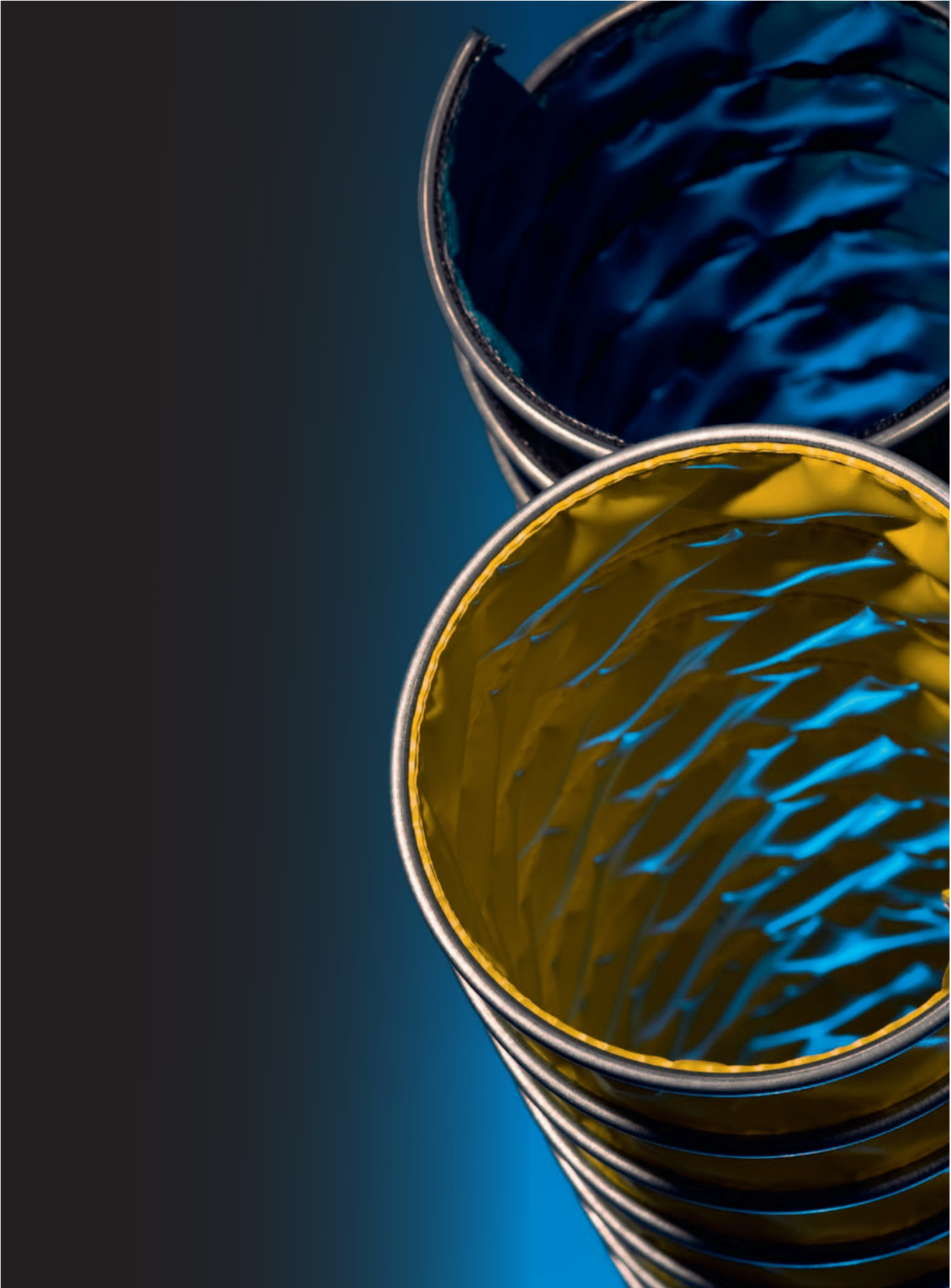
	Subscribed capital	Capital reserve	Retained earnings (retained profits brought forward)	Revaluation reserve	Exchange differences	Minority interest	Total
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Notes	10	10	10	10	10	11	
<b>Equity at Dec. 31, 2008</b>	<b>4,366</b>	<b>17,521</b>	<b>-5,885</b>	<b>-611</b>	<b>-747</b>	<b>196</b>	<b>14,840</b>
Consolidated net income/ Minority interests	0	0	-13,568	0	0	127	-13,441
Changes in fair values of financial instruments	0	0	0	21	0	0	21
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	-150	0	-150
<b>Overall result for the financial year</b>	<b>0</b>	<b>0</b>	<b>-13,568</b>	<b>21</b>	<b>-150</b>	<b>127</b>	<b>-13,570</b>
Dividend distributions	0	0	0	0	0	-110	-110
Change due to equity decreases	0	0	-170	0	0	0	-170
Other changes	0	0	5	0	0	0	5
<b>Equity at Dec. 31, 2009</b>	<b>4,366</b>	<b>17,521</b>	<b>-19,618</b>	<b>-590</b>	<b>-897</b>	<b>213</b>	<b>995</b>
Consolidated net income/ Minority interests	0	0	-2,333	0	0	166	-2,167
Changes in fair values of financial instruments	0	0	0	-39	0	0	-39
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	307	0	307
<b>Overall result for the financial year</b>	<b>0</b>	<b>0</b>	<b>-2,333</b>	<b>-39</b>	<b>307</b>	<b>166</b>	<b>-1,899</b>
Dividend distributions	0	0	0	0	0	-106	-106
Change due to equity decreases	4,366	8,731	0	0	0	126	13,223
Other changes	0	0	-1	0	0	1	0
<b>Equity at Dec. 31, 2010</b>	<b>8,732</b>	<b>26,252</b>	<b>-21,952</b>	<b>-629</b>	<b>-590</b>	<b>400</b>	<b>12,213</b>

# Consolidated Cash Flow Statement

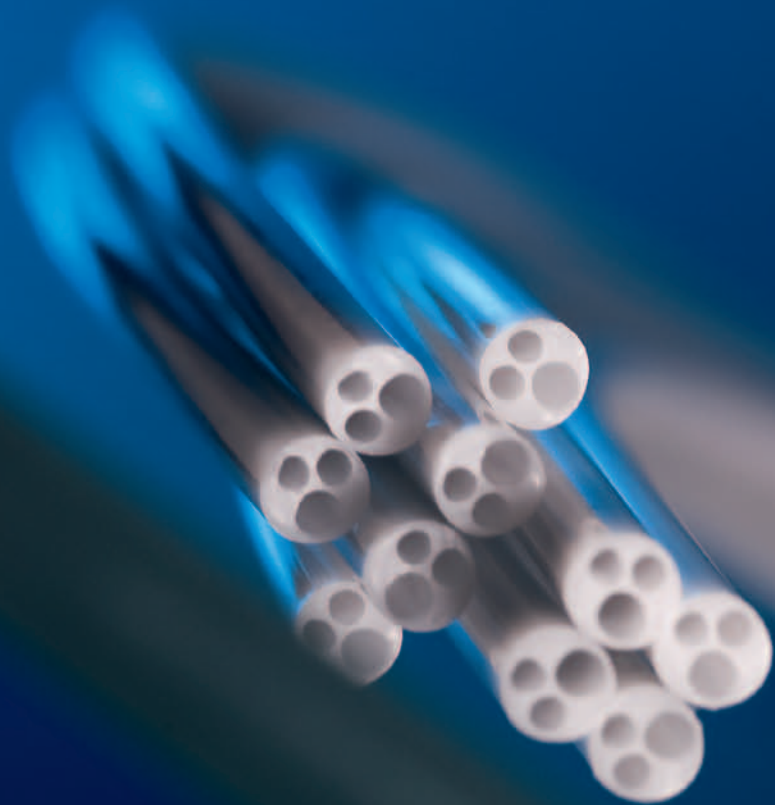
Cash Flow	2010 EUR thou.	2009 EUR thou.
Result for the accounting period before taxes, interest income and financial income	2,755	-11,091
Non-cash non-operating results	-1,241	7,580
Cash non-operating expenses	3,557	3,286
Gain/loss from the disposal of business units	1,036	774
Income taxes paid	-1,256	1,094
Depreciation of intangible assets	692	787
Depreciation expense for property, plant and equipment	2,291	2,849
Write-up of non-current financial assets	0	-431
Change in provisions	635	-1,282
Other non-cash expenses/income and gains/losses from the disposal of noncurrent assets	-45	723
Changes in inventories	-781	4,412
Changes in trade receivables and other assets that cannot be allocated to investment or financing activities	-2,933	1,567
Changes in trade payables and other equity and liabilities that cannot be allocated to investment or financing activities	376	-5,205
<b>Net cash from operating activities</b>	<b>5,086</b>	<b>5,063</b>
Proceeds from the disposal of non-current assets	33	25
Payments to acquire intangible assets	-189	-34
Payments to acquire property, plant and equipment	-1,811	-963
Changes in cash and cash equivalents due to the sale of consolidated subsidiaries	983	10,150
Changes in cash and cash equivalents due to the acquisition of consolidated subsidiaries	-432	-178
Changes in cash and cash equivalents due to the repayment of financial assets	145	1,365
Payments to acquire financial assets	0	-321
<b>Net cash from/used in investing activities</b>	<b>-1,271</b>	<b>10,044</b>
Payments for transfers to equity (capital increase, disposal of treasury shares)	13,097	0
Payments to owners and minority interests (dividends, purchase of own shares)	-106	-110
Interest and dividend receipts	334	278
Interest expenditure	-3,819	-3,746
Proceeds from the sale of term deposits/securities	18	23
Proceeds from raising loans	28,600	766
Payments for the repayment of loans	-35,368	-15,401
<b>Net cash from/used in financing activities</b>	<b>2,756</b>	<b>-18,190</b>
<b>Net change in cash and cash equivalents</b>	<b>6,571</b>	<b>-3,083</b>
Changes in cash and cash equivalents due to exchange rates and other factors	143	-150
<b>Cash and cash equivalents at start of period</b>	<b>7,830</b>	<b>11,095</b>
<b>Change in the consolidated group</b>	<b>-51</b>	<b>-83</b>
<b>Cash and cash equivalents at the end of period</b>	<b>14,493</b>	<b>7,779</b>

Explanatory notes given in Notes 34 and 3.

\*) thereof T€ 900 thousand from the sale of DICOTA GmbH



Concentrate on  
the most important things.



We commit to the big and small things in life without taking our eyes off the goal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Principles of financial reporting

### Basis of presentation

The present consolidated financial statements have been prepared in accordance with section 315 a of the German Commercial Code ("Consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRSs) and the interpretations issued by the International Accounting Standards Board (IASB) as applicable within the EU in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. These comprise the obligatory IASs, IFRSs and the relevant interpretations (SIC/IFRIC) as at the balance sheet date 31 December 2010. The prior-period amounts were calculated in accordance with the same principles.

The option regarding the early application of new standards, revisions of standards and interpretations that had already been approved as at 31 December 2010 and had been adopted by the European Union by the time the consolidated financial statements were approved was not exercised.

The following accounting standards and interpretations and amendments to existing standards were published as of the reporting date but were not yet required to be applied in preparing the IFRS consolidated financial statements for the year ended 31 December 2010:

- IAS 24 Revised definition of related party disclosures
- IAS 32 Amendments regarding the classification of rights issues

- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The following amendments to standards and interpretations have been published by the IASB but have yet to be incorporated into European law by the EU and are not yet being applied:

- IFRS 7 Amendments to improve disclosures during transfers of financial assets
- IFRS 9 Financial Instruments: Classification and Measurement
- IAS 12 Restricted amendment with regard to the repercussions of the underlying assets

As part of the annual "improvement" project of October 2010, various IFRS were amended.

The future application of new or revised standards and interpretations is not expected to have a material impact on the consolidated financial statements.

The following interpretations have been passed by the International Financial Reporting Interpretations Committee (IFRIC) and are to be applied for the first time in the current financial year:

- IFRS 2 Amendment regarding share-based payments in the Group that are made in cash
- IFRS 3/IAS 27, 28, 31 Extensive revision of the purchase method

- IAS 39                      Amendments with regard to permissible underlying transactions and embedded derivatives in the reclassification of financial assets
- IFRIC 17                    Distributions of Non-cash Assets to Owners
- IFRIC 18                    Transfers of Assets from Customers

As part of the annual "improvement" project of April 2009, various IFRS were amended.

The first-time application of these standards and interpretations did not materially affect the financial statements of Masterflex AG.

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

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

The consolidated financial statements are prepared in euro (€). All amounts, including prior-period amounts, are stated in thousands of euro (€ 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 single-entity financial statements of the companies included in consolidation are prepared to the same reporting date as the consolidated financial statements.

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

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

Changes in accounting policies are discussed in the notes.

The Executive Board of Masterflex AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the Group management report.

## 2. Accounting principles

### Basis of consolidation

The consolidated financial statements of Masterflex AG contain all companies in which Masterflex AG 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 31 December 2010, a total of 10 domestic subsidiaries (previous year: 11) and 10 foreign subsidiaries (previous year: 7) were consolidated in addition to Masterflex AG. The table below shows the subsidiaries that were fully consolidated as of 31 December 2010:

Company name	Company headquarters		Equity interest held by Masterflex (%)
Masterflex S. A. R.L.	F	Béligneux	80
Masterflex Technical Hoses Ltd.	GB	Oldham	100
Masterduct Holding Inc.*	USA	Houston	100
· Flexmaster USA, Inc.	USA	Houston	100*
· Masterduct Inc.	USA	Houston	100*
· Masterduct Holding SA Inc.	USA	Houston	100*
· Masterduct Brazil LTDA.	BR	Santana de Parnaíba	100*
Novoplast Schlauch-technik GmbH	D	Halberstadt	100
Fleima-Plastic GmbH	D	Mörlenbach	100
Masterflex Handelsgesellschaft mbH	D	Gelsenkirchen	100
Masterflex Cesko s. r. o.	CZ	Plana	100
M & T Verwaltungs GmbH*	D	Gelsenkirchen	100
· Matzen und Timm GmbH	D	Norderstedt	100*
Masterflex RUS 000	RUS	St. Petersburg	51
Masterflex Scandinavia AB	S	Kungsbacka	100
SURPRO Verwaltungsgesellschaft mbH	D	Gelsenkirchen	100
Masterflex Mobility GmbH*	D	Herten	100
· Clean Air Bike GmbH	D	Berlin	51*
· Masterflex Brennstoffzellentechnik GmbH	D	Herten	100*
· Velodrive GmbH	D	Herten	100*

\*) = subgroup

The basis of consolidation has changed in comparison with the previous year. SURPRO GmbH, D-Wilster, which was included in the consolidated financial statements for the previous year, was sold and deconsolidated with effect from 31 August 2010.

Masterduct Holding S.A. Inc., Houston, Texas, was founded in 2010 and now holds the equity interest in Masterduct Brazil LTDA., founded in Santana de Parnaíba, Brazil.

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

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

### 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 IAS 27, capital consolidation is performed by offsetting the carrying amounts of subsidiaries against the Group's proportionate interest in their shareholders' equity. The shareholders' equity of acquired subsidiaries is calculated at the acquisition date on the basis of the fair values of the assets, liabilities, contingent liabilities and deferred taxes of the subsidiaries and any goodwill as of this date.

### Currency translation

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

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

The financial statements of all companies with a functional currency other than the Group reporting currency are translated into the reporting currency of Masterflex's consolidated financial statements. The assets and liabilities of the consolidated companies are translated using the middle rates prevailing at the balance sheet date, while their statements of comprehensive income 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 remeasured at each balance sheet date. At 31 December 2010, these differences amounted to € -590 thousand (previous year: € -897 thousand).

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

The following exchange rates were applied for currency translation purposes:

	31 Dec. 2010 €
1 pound sterling (£)	1.1594
1 US dollar (\$)	0.7474
1 Russian rouble (RUB)	0.0247
1 Brazilian real (BRL)	0.4509
1 Czech koruna (CZK)	0.0396
1 Swedish krona (SEK)	0.1114

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

	31 Dec. 2010 €
1 pound sterling (£)	1.1647
1 US dollar (\$)	0.7518
1 Russian rouble (RUB)	0.0242
1 Brazilian real (BRL)	0.4377
1 Czech koruna (CZK)	0.0394
1 Swedish krona (SEK)	0.1047

### 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 for administrative purposes and that are expected to be used during more than one period.

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

Items of property, plant and equipment held under finance leases are carried at the lower of fair value and the present value of the minimum lease payments and are depreciated on a straight line basis over their expected useful life.

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

### Goodwill

Goodwill arising from business combinations is recognised as an intangible asset.

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

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

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

### Other intangible assets

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

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

### Useful lives

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

	Useful life	Method of depreciation
Software	4 years	straight-line method
Licences and similar rights	over the term of the respective agreement	straight-line method
Buildings/parts of buildings	10–50 years	straight-line method
Technical equipment and machinery	2–18 years	straight-line method
Other equipment, operating and office equipment	2–10 years	straight-line method

### Non-current financial assets

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

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

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

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

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

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

### Deferred taxes

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

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

### Inventories

Inventories are carried at the lower of cost and net realisable value. The majority of the Company's inventories are measured using the FIFO (first-in, first-out) method. The cost of inventories includes direct costs, indirect materials and indirect labour costs relating to production and depreciation, as well as production-related administrative expenses, but not borrowing costs. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. If the reasons for impairment no longer apply, the corresponding write-down must be reversed up to a maximum of the amortised cost of the respective asset.

### Prepaid expenses

Prepaid expenses are recognised for items that constitute expenses in future periods and are reported under other assets.

### Other receivables and other assets

Other assets are carried at the lower of their nominal amount and fair value.

### Trade receivables

Trade receivables are carried at their principal amount, taking into account all identifiable risks. Specific valuation allowances have been recognised for individual trade receivables.

### Cash in hand and bank balances

Cash in hand and bank balances are primarily composed of bank balances, cash in hand and uncredited cheques, and are carried at their principal amount. Cash and cash equivalents denominated in foreign currencies are translated at the exchange rate at the balance sheet date.

### Subscribed capital

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

### Provisions

Provisions are recognised when the Group has a current (legal or constructive) obligation from a past event that it is expected to be required to settle, and the amount of this obligation can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the current obligation as of the balance sheet date, taking into account the risks and uncertainties underlying the obligation. Provisions for pension obligations are recognised on the basis of actuarial reports prepared by independent actuaries. If a provision is

measured using the estimated cash flow required to settle the obligation, the carrying amount of the provision is the present value of the respective cash flow. In order to ensure that the Company is able to meet its pension obligations, qualifying insurance policies are concluded for financial assets.

If the economic benefit required to settle the provision is expected to be reimbursed by a third party, either in part or in full, the corresponding right is recognised as an asset if reimbursement is virtually certain and the amount to be reimbursed can be reliably estimated.

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

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

### Financial liabilities

Liabilities to banks are reported as financial liabilities and carried at their settlement or repayment amount in accordance with the effective interest method. Finance lease liabilities are recognised in the amount of the present value of the lease installments.

### Other liabilities

Other liabilities are carried at their repayment amount.

### Trade payables

Trade payables are carried at their principal amount.

### Financial instruments

The financial instruments recognised on Masterflex AG's balance sheet relate in particular to cash and cash equivalents, available-for-sale securities, trade receivables, trade payables and liabilities to banks. Financial instruments held for trading, which primarily consist of derivatives, are carried at fair value with any changes recognised in the statement of comprehensive income.

sive income. Available-for-sale securities are carried at fair value. Unrealised changes in fair values are reported in the reserve for the marking-to-market of financial instruments as a separate component of shareholders' equity. The Executive Board is responsible for determining the allocation of financial instruments to the aforementioned categories at the acquisition date and reviewing this allocation at each subsequent reporting date. The securities held by the Group are reported as financial assets.

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

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

### Revenue recognition

Revenue from the sale of products is recognised when the respective products are delivered and transferred to the buyer. Revenue is measured at the fair value of the consideration received or receivable. Customer bonuses, trade discounts and volume rebates and the elimination of intragroup profits and losses serve to reduce revenue.

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

### Borrowing costs

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

### Research and Development

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

### Government grants

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

### Estimates

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

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

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

#### a. Goodwill

The Group tests goodwill for impairment on an annual basis. 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 (see note 24).

#### b. Deferred taxes

When estimating the realisability of deferred tax assets, the Group's management assesses the extent to which the factors in favour of realisation outweigh those against it. The actual realisability of a deferred tax asset depends on the availability of future taxable income that can be offset against the tax loss carryforwards. To this end, the Group's management examines the dates at which the deferred tax liabilities are expected to re-

verse and the future taxable income is expected to be received. Based on Masterflex's expected future business development, the Group's management assumes that the deferred tax assets recognised will be realisable (see note 27).

### c. Provisions and contingent liabilities

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

### d. Pension obligations

The present value of pension obligations depends on factors that are based on actuarial assumptions. The assumptions applied in determining net pension costs include the expected long-term return on plan assets and the discount rate. The carrying amount of pension obligations is affected by any changes in these assumptions.

The expected return on plan assets is calculated on a uniform basis, taking into account the long-term historic return, asset allocation and estimates of the future long-term return on investment.

The appropriate discount rate is determined at the end of each year. The discount rate is the interest rate applied in determining the present value of the expected future cash outflows that will be required to settle the obligation. In determining the discount rate, the Group applies the interest rate of high-quality corporate bonds of a currency and term consistent with the currency and term of the corresponding pension obligations.

### e. Development costs

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

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

In some cases, actual values can deviate from the assumptions and estimates made, meaning that it is necessary to adjust significantly the carrying amount of the assets or liabilities concerned. Changes to estimates are recognised in income in accordance with IAS 8 at the time they become known. Values from the previous year did not need to be adjusted and can be taken as a comparison.

## 3. Company sales/discontinued business units

Masterflex sold its equity investment in SURPRO GmbH, D-Wilster, with effect from 31 August 2010. The carrying amount of the associated net assets exceeds the gain on the disposal, meaning that write-downs of € 3,725 thousand (previous year: € 3,586 thousand) were included when reclassifying the business unit as held-for-sale. Further details from the sale are shown in the tables below. The values from the previous year relate to the disposal of Angiokard Medizintechnik GmbH & Co. KG and Angiokard Medizintechnik Verwaltungs GmbH.

### Carrying amount of net assets sold

	31. Dec. 2010	31. Dec. 2009
	EUR thou.	EUR thou.
<b>Current assets</b>		
Cash	51	83
Trade receivables	1,442	1,501
Inventories	4,063	3,313
Other	189	64
<b>Non-current assets</b>		
Property, plant and equipment/ intangible assets	623	328
Goodwill	0	1,084
Deferred taxes	0	85
<b>Current liabilities</b>		
Liabilities	-3,401	-142
Provisions	-1,823	-287
<b>Non-current liabilities</b>		
Deferred taxes	-154	-5
<b>Net assets sold</b>	<b>990</b>	<b>6,024</b>
Loss on sale	-1,036	-774
<b>Total</b>	<b>-46</b>	<b>5,250</b>

**Sale price**

	31. Dec. 2010	31. Dec. 2009
	EUR thou.	EUR thou.
Sale price settled in cash	0	5,050
Deferred gain/loss on disposal	-46	200
<b>Total</b>	<b>-46</b>	<b>5,250</b>

**Net cash inflow/outflow from sale**

	31. Dec. 2010	31. Dec. 2009
	EUR thou.	EUR thou.
Sale price settled in cash	0	5,050
Less: cash issued on sale	-51	-83
<b>Total</b>	<b>-51</b>	<b>4,967</b>

**Notes to the consolidated balance sheet: assets****4. Non-current assets**

The development of non-current assets is presented in a separate statement of changes in non-current assets (see appendix). Liabilities to banks are secured by way of entries in the land register in the amount of € 5,806 thousand (previous year: € 6,967 thousand) and transfers of title to production facilities totalling € 2,810 thousand (previous year: € 4,412 thousand).

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

**a) Intangible assets**

All intangible assets are purchased, with the exception of individual industrial rights and developments by Masterflex AG. The industrial rights held by the Company relate to internally generated patents, while developments consist of capitalisable expenses incurred in the development of marketable products.

The cost of, additions to and disposals from intangible assets are composed as follows:

	Internally generated intangible assets	Acquired intangible assets	Goodwill	Total
	EUR thou.	EUR thou.	EUR thou.	EUR thou.
<b>Balance at 1 Jan. 2009</b>	<b>2,416</b>	<b>3,151</b>	<b>20,451</b>	<b>26,018</b>
Changes in consolidated group	0	-399	-11,290	-11,689
Additions	458	34	0	492
Disposals	416	613	0	1,029
Reclassifications	0	0	0	0
Currency translation differences	0	0	0	0
<b>Balance at 1 Jan. 2010</b>	<b>2,458</b>	<b>2,173</b>	<b>9,161</b>	<b>13,792</b>
Changes in consolidated group	-976	-475	0	-1,442
Additions	3	186	0	189
Disposals	1,155	32	0	1,187
Reclassifications	0	0	0	0
Currency translation differences	0	0	0	0
<b>Balance at 31 Dec. 2010</b>	<b>339</b>	<b>1,852</b>	<b>9,161</b>	<b>11,352</b>

Current and accumulated amortisation are composed as follows:

	Internally generated intangible assets EUR thou.	Acquired intangible assets EUR thou.	Goodwill EUR thou.	Total EUR thou.
<b>Balance at 1 Jan. 2009</b>	<b>275</b>	<b>1,192</b>	<b>9,444</b>	<b>10,911</b>
Changes in consolidated group	0	-354	-10,205	-10,559
Amortisation in the year under review	270	969	6,664	7,903
Disposals	120	606	0	726
Currency translation differences	0	0	0	0
<b>Balance at 1 Jan. 2010</b>	<b>425</b>	<b>1,201</b>	<b>5,903</b>	<b>7,529</b>
Changes in consolidated group	0	-264	0	-264
Amortisation in the year under review	494	198	0	692
Disposals	625	70	0	695
Currency translation differences	0	0	0	0
<b>Balance at 31 Dec. 2010</b>	<b>294</b>	<b>1,065</b>	<b>5,903</b>	<b>7,262</b>

The carrying amounts of intangible assets are composed as follows:

	Internally generated intangible assets EUR thou.	Acquired intangible assets EUR thou.	Goodwill EUR thou.	Total EUR thou.
<b>Balance at 31 Dec. 2009</b>	<b>2,033</b>	<b>972</b>	<b>3,258</b>	<b>6,263</b>
<b>Balance at 31 Dec. 2010</b>	<b>45</b>	<b>787</b>	<b>3,258</b>	<b>4,090</b>

## b) Property, plant and equipment

Property, plant and equipment also includes land and buildings held under a finance lease. Production and warehouse facilities and an administrative building used by Masterflex AG are held under the terms of a real estate lease. The lease, which was entered into on 30 March 1993 with the lessor MODICA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt

Masterflex KG, Gelsenkirchen, was designed in such a way that all of the risks and rewards incident to ownership of the leased assets were transferred to Masterflex AG. Masterflex AG has a notarised option to purchase the leased assets with effect from 31 July 2014. The Group has also entered into finance leases for operating equipment.

The following table shows the original cost and useful life and changes in the carrying amount of the leased assets:

	Cost EUR thou.	Useful life	Carrying amount 31 Dec. 2010 EUR thou.	Changes in consolidated group EUR thou.	Carrying amount 31 Dec. 2009 EUR thou.
Buildings	4,568	30 years	2,244	0	2,398
Land	587	-	587	0	587
Technical equipment and machinery	1,608	10 years	0	-1,158	1,158
Operating and office equipment	842	5 years	180	-238	516
<b>Total</b>	<b>7,605</b>		<b>2,424</b>	<b>-1,396</b>	<b>4,659</b>

The payment obligations relating to the lease instalments are divided into an interest element and a capital element over the term of the lease. The interest expense in the year under review amounted to € 117 thousand (previous year: € 237 thousand).

### c) Non-current financial assets

Financial assets are composed as follows:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Non-current financial instruments	193	250
Loans and receivables	2,471	3,719
<b>Total financial assets</b>	<b>2,664</b>	<b>3,969</b>

Investment securities relate to available-for-sale financial instruments within the meaning of IAS 39 and are composed as follows:

	EUR thou.
Shares	155
Debt instruments	38
<b>Total</b>	<b>193</b>

The following table shows the cost, unrealised gains and losses and fair values of available-for-sale securities as of 31 December 2010:

Cost	Unrealised gains/ losses	Fair value
EUR thou.	EUR thou.	EUR thou.
<b>1,003</b>	<b>810</b>	<b>193</b>

Income from available-for-sale securities totalled € 8 thousand.

Receivables from existing shareholders amount to € 1,780 thousand. Trade receivables in the amount of € 360 thousand are reported as non-current receivables on account of a financing agreement.

## 5. Inventories

Inventories are composed as follows:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Raw materials and consumables used	4,169	6,286
Work in progress	437	3,256
Finished products and goods purchased and held for sale	2,721	3,520
Advance payments	70	15
<b>Total</b>	<b>7,397</b>	<b>13,077</b>

Inventories of the continued and discontinued business units were expensed in the amount of € 20,241 thousand (previous year: € 29,845 thousand).

Depreciation of inventories to the net realisable value amounted to € 214 thousand (previous year: € 626 thousand).

## 6. Receivables and other assets

Receivables and other assets are composed as follows:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Trade receivables	4,361	4,355
Other assets	1,453	2,399
Other financial assets	270	0
Assets classified as available-for-sale	3,599	0
<b>Total receivables and other assets</b>	<b>9,683</b>	<b>6,754</b>

Other assets are composed as follows:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Deferred gain on disposal	1,000	1,100
Deferred income	229	429
Receivables from investment grants and subsidies	112	47
Receivables from tax authorities	61	172
Receivables from employees	16	12
Creditors with debit balances	8	23
Loans	3	235
Provision of collateral and security deposits	0	131
Receivables from the disposal of non-current assets	0	109
Bonus receivables	0	42
Other	24	99
<b>Total other assets</b>	<b>1,453</b>	<b>2,399</b>

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

Miscellaneous other financial assets include receivables totalling € 38 thousand (previous year: € 269 thousand), which will not be realised until one year after the balance sheet date.

Receivables from tax authorities primarily relate to VAT receivables.

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

Other financial commitments are discussed in note 17. Derivatives to be reported as non-current amount to € 216 thousand.

Assets classified as available-for-sale includes the assets of the following discontinued operations:

- SURPRO Verwaltungsgesellschaft mbH
- Masterflex Mobility GmbH
- Masterflex Brennstoffzellentechnik GmbH
- Clean Air Bike GmbH
- Velodrive GmbH

## 7. Trade receivables

The nominal value of trade receivables is composed as follows:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Trade receivables	4,655	4,672
Other assets	-294	-317
<b>Total trade receivables</b>	<b>4,361</b>	<b>4,355</b>

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

Specific and global valuation allowances on trade receivables totalled € 294 thousand (previous year: € 317 thousand).

Individual risks were taken into account on the basis of write-downs totalling € 79 thousand (previous year: € 100 thousand).

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

The maturity structure of trade receivables is composed as follows:

2010	EUR thou.	EUR thou.
<b>Carrying amount (net):</b>		<b>4,361</b>
<b>1. thereof: non-impaired and non-overdue at the balance sheet date</b>		<b>3,205</b>
<b>2. thereof: non-impaired, but overdue at the balance sheet date</b>		<b>1,156</b>
less than 30 days	422	
30 to 59 days	452	
60 to 89 days	99	
90 to 119 days	45	
120 days or more	138	

2009	EUR thou.	EUR thou.
<b>Carrying amount (net):</b>		<b>4,355</b>
<b>1. thereof: non-impaired and non-overdue at the balance sheet date</b>		<b>2,940</b>
<b>2. thereof: non-impaired, but overdue at the balance sheet date</b>		<b>1,415</b>
less than 30 days	578	
30 to 59 days	285	
60 to 89 days	169	
90 to 119 days	27	
120 days or more	356	

## 8. Income tax assets

Income tax assets amounted to € 163 thousand at the balance sheet date (previous year: € 189 thousand). All income tax assets are due within one year.

## 9. Cash in hand and bank balances

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

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Cash in hand and bank balances	14,398	7,779

The effective interest rate for short-term bank deposits was between 0.00% and 1.50%.

## Notes to the consolidated balance sheet: shareholders' equity and liabilities

### 10. Total equity

#### Capital management

The Masterflex Group's strategic orientation sets the framework for the optimisation of capital management. The Group intends to generate a sustainable increase in enterprise value in the interests of its shareholders, customers and employees by way of a continuous increase in earnings driven by growth and the improved efficiency of our business processes. This requires a balance between the business and financial risks and the financial

flexibility of the Masterflex Group, which is achieved through intensive communications with the financial markets and banks in particular.

The Articles of Association of Masterflex AG do not prescribe any specific capital requirements.

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

#### Subscribed capital

Due to a capital increase on 6 December 2010, the subscribed capital of Masterflex AG increased in the financial year by € 4,365,874 from € 4,500,000 to € 8,865,874 no-par value bearer shares each with a notional interest in the share capital of € 1. The Company's share capital is fully paid up.

*The resolution of the Annual General Meeting on 17 August 2010 authorised the Company to increase its share capital against cash contributions by up to € 4,365,874.00 by issuing up to 4,365,874 new no-par value bearer shares. The new shares come with full entitlement to profits as of 1 January 2010. They are issued at the lowest issue price of € 1.00 (at par) per share, to a total price of up to € 4,365,874.00.*

*The new shares are to be offered to shareholders for subscription. The subscription rights are granted in such a way that the new shares are taken over by a bank or company (to be selected and authorised by the Executive Board) that operates in accordance with section 53 (1) sentence 1 or section 53b (1) sentence 1 or section 7 of the German Banking Act at the lowest issue price and with the obligation to offer them to the Company's shareholders in a 1 : 1 ratio for subscription at a purchase price yet to be defined and to transfer the surplus proceeds – less an appropriate commission and costs – to the Company (indirect subscription rights). The 134,126 treasury shares held by the Company do not form part of the offer for subscription and therefore were not taken into account during the calculation of the subscription ratio.*

*The subscription period is to last at least two weeks.*

*The purchase price will be defined through a separate resolution by the Executive Board at its sole discretion, taking into account the market conditions; the price must not be lower than the minimum amount stipulated in section 9 (1) of the German Stock Corporation Act. The purchase price will be announced in the offer for subscription, which will be published in the electronic Federal Gazette (elektronischer Bundesanzeiger) and in an official stock exchange gazette.*

*The Executive Board is also authorised to determine and implement the further details of the capital increase, in particular the further conditions for issue of the shares, subject to the ap-*

*proval of the Supervisory Board. In the event that new shares are not subscribed by exercising subscription rights during the subscription period, it must also be determined whether and under which conditions these will be offered to shareholders beyond their subscription rights (oversubscription) and/or to third parties as part of a private placement at a defined purchase price following the end of the subscription period which applies to all shareholders.*

*This resolution regarding the increase of share capital will become invalid if the execution of the relevant capital increase has not been registered for entry in the Company's commercial register by 31 January 2011.*

*The Company shall bear the costs associated with the capital increase.*

*The Supervisory Board is authorised to make the necessary amendments to the wording of section 4 of the Articles of Association in accordance with the execution of the capital increase.*

In the year under review, the Executive Board exercised its authorisation to increase the share capital while observing the subscription rights of the shareholders by issuing 4,365,874 new no-par value bearer shares at the notional principal amount of € 1 in exchange for cash.

No treasury shares were sold or newly acquired in the 2010 financial year. At the balance sheet date, Masterflex AG held a total of 134,126 treasury shares (previous year: 134,126).

The 134,126 no-par value bearer shares have a nominal amount of € 134,126. They represent 1.54% of the share capital. The shares were acquired between September 2004 and July 2005. The relevant Annual General Meeting resolutions from 2004 and 2005 authorised the Company to acquire treasury shares with a notional interest in the Company's share capital of up to € 450,000. At the date of the Annual General Meeting, this was 10 % of the Company's share capital of € 4,500,000. The acquired shares, together with the other treasury shares held by the Company or attributable to it in accordance with sections 71 a ff. of the German Stock Corporation Act, could not to exceed 10 % of the Company's share capital at any time. This authorisation could not to be used for the purpose of trading in treasury shares.

Accordingly, Masterflex AG reports issued capital of € 8,731,748.

### **Authorised capital**

By resolution of the Ordinary General Meeting on 11 August 2009, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions up to 31 July 2014 by issuing

up to 2,250,000 new no-par value bearer shares in exchange for cash and/or non-cash contributions, by a maximum value of € 2,250,000.00 (authorised capital). In principle, shareholders have a statutory subscription right to new shares issued by the Company. 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 53b (1) sentence 1 or section 7 of the German Banking Act with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to decide to disapply shareholders' statutory subscription rights. Subscription rights can be excluded:

- For fractional amounts resulting from the proportion of subscription rights,
- For capital increases in exchange for cash contributions up to a total amount of € 450,000 or, if lower, 10 % of the share capital at the time the authorisation is exercised (in each case, taking into account any use, during the term of this authorisation, of other authorisations to disapply subscription rights in accordance with section 186 (3) sentence 4 of the German Stock Corporation Act; furthermore, those shares that have been or will be issued in order to service bonds with conversion rights or options or a warrant or conversion obligation are to count towards this limit, provided that these bonds were issued during the term of this authorisation with subscription rights disapplying in accordance with section 186 (3) sentence 4 of the German Stock Corporation Act), provided that the issue price of the new shares is not significantly lower than the quoted price,
- For capital increases in exchange for non-cash contributions,
- In order to grant the holders or creditors of any bonds with warrants or convertible bonds previously issued by the Company subscription rights to new shares 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 Executive Board is authorised to determine the further details of the capital increase and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board.

### Contingent capital

By resolution of the Ordinary General Meeting on 11 August 2009, the Executive Board was also authorised, 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 € 15,000,000 and a maximum term of 25 (twenty-five) years on one or more occasions up to 31 July 2014. Options can be granted to the holders and creditors of bonds with warrants and conversion rights can be granted to the holders and creditors of convertible bonds up to a total of 2,250,000 new no-par value bearer shares in the Company with a proportionate interest in the share capital of up to € 2,250,000 in accordance with the more detailed provisions of the terms and conditions for bonds with warrants and convertible bonds. The bonds with warrants and convertible bonds can also carry variable interest rates, whereby the interest may be partly or entirely dependent on the amount of the Company's dividend, as with an income bond. However, the Executive Board is authorised, with the approval of the Supervisory Board, to disapply subscription rights if the instruments are issued at a price that is not significantly lower than the fair value of the instruments. The limit on the disapplication of subscription rights in accordance with section 186 (3) sentence 4 of the German Stock Corporation Act, which is 10% of the share capital, must not be exceeded. Both shares and those instruments that are issued with subscription rights disappplied, with direct or analogous application of section 186 (3) sentence 4 of the German Stock Corporation Act, count towards this limit.

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

### Capital reserve

The capital reserve amounted to € 26,252 thousand at the balance sheet date (previous year: € 17,521 thousand). It related primarily to the proceeds from the Company's IPO in 2000 less initial stock exchange listing costs.

The capital increase entered on 6 December 2010 meant that the capital reserve increased by € 8,731,748 compared with the previous year. The shares were placed at a price of € 3 each. The increase results from the premium of the shares issued.

In accordance with IAS 32, acquisitions and disposals of treasury shares are offset against capital reserves after adjustment for income tax effects.

### Retained earnings

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

### Revaluation reserve

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

### Exchange differences

The exchange differences recognised in equity are composed as follows:

	Exchange differences from the translation of foreign financial statements EUR thou.	Exchange differences in accordance with IAS 21.17 EUR thou.	Exchange differences in accordance with IAS 21.19 EUR thou.	Total EUR thou.
Balance at 31 Dec. 2008	-642	-200	95	-747
Change in 2009	-137	-13	0	-150
Balance at 31 Dec. 2009	-779	-213	95	-897
Change in 2010	288	19	0	307
Balance at 31 Dec. 2010	-491	-194	95	-590

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

The changes in fair value recognised directly in equity in the amount of € 19 thousand (previous year: € -13 thousand) are established when the foreign currency obligation is repaid, in accordance with IAS 21.17/21.19/21.32 in conjunction with IAS 21.37. The exchange differences recognised directly in equity are not reversed in income until the time of disposal of the economically independent unit.

## 11. Minority interests

Minority interests held in Masterflex companies total € 400 thousand (previous year: € 213 thousand).

## 12. Provisions

Provisions are composed as follows:

	Balance at 1 Jan. 2010 EUR thou.	Changes in con- solidated group EUR thou.	Utilisation EUR thou.	Reversal EUR thou.	Addition EUR thou.	Balance at 31 Dec. 2010 EUR thou.
<b>Non-current provisions</b>						
Pensions	1,302	-1,302	0	0	0	0
Bonuses	0	0	0	0	116	116
<b>Total</b>	<b>1,302</b>	<b>-1,302</b>	<b>0</b>	<b>0</b>	<b>116</b>	<b>116</b>
<b>Current provisions</b>						
Year-end closing costs	214	-52	162	0	220	220
Vacation	258	-62	196	0	310	310
Customer bonuses	42	0	39	3	82	82
Incentive payments, severance payments, commission	1,008	-140	758	110	1,193	1,193
Warranties	83	-4	57	22	515	515
Employers' Liability Insurance Association	164	-37	108	19	146	146
Outstanding invoices	300	-56	244	0	1,657	1,657
Onerous contracts	150	-150	0	0	0	0
Other	676	-313	104	8	118	369
<b>Total</b>	<b>2,895</b>	<b>-814</b>	<b>1,668</b>	<b>162</b>	<b>4,241</b>	<b>4,492</b>

### a) Non-current provisions

Non-current provisions relate to the performance-related components of Executive Board remuneration only to be paid out in the third year following the base year.

### b) Current provisions

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

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

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

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

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

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

The provision for outstanding purchase invoices includes primarily invoices for legal and consultancy fees.

### 13. Financial liabilities

As of 31 December 2010, financial liabilities were composed as follows:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Liabilities to banks	28,818	17,088
· of which due in > 5 years	1,341	2,038
Finance lease liabilities	1,227	2,384
· of which due in > 5 years	0	0
Other financial liabilities	220	0
· of which due in > 5 years	83	0
<b>Non-current financial liabilities</b>	<b>30,265</b>	<b>19,472</b>
Liabilities to banks	6,632	34,242
Finance lease liabilities	503	731
Other financial liabilities	37	0
<b>Current financial liabilities</b>	<b>7,172</b>	<b>34,973</b>
<b>Total financial liabilities</b>	<b>37,437</b>	<b>54,445</b>

#### Liabilities to banks

At the end of 2010, the Company successfully completed the refinancing and restructuring of the liability side of the balance sheet. As a result, the group of banks has been reduced from thirteen to six banks at Masterflex AG with which the Company has concluded a syndicated loan agreement worth € 30.6 million and with a term of five years. In terms of maturity, liabilities to banks can be broken down as follows:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Liabilities due within 1 year	6,632	34,242
Liabilities due between 1 and 5 years	27,477	15,050
Liabilities due in more than 5 years	1,341	2,038
<b>Total liabilities to banks</b>	<b>35,450</b>	<b>51,330</b>

The fair values of financial liabilities are broadly equal to their carrying amounts.

Liabilities to banks totalling € 21,910 thousand are secured (previous year: € 32,335 thousand). Of this, € 5,806 thousand is attributable to land charges, € 4,172 thousand to other non-current assets, € 4,865 thousand to inventories, € 2,639 thousand to current receivables and other assets and € 4,428 thousand to credit at banks.

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 2.0 % and 9.25 % p.a. depending on the maturity and purpose of the respective liabilities (previous year: between 3.0 % and 9.25 % p.a.). The Company also had foreign-currency liabilities in US dollars, on which interest was charged at approximately 7.2 % p.a.

As of 31 December 2010, the Company had cash advance facilities totalling € 1,336 thousand, of which € 1,297 thousand were unutilised. Additional guarantee facilities for contractual fulfilment, advance payments and warranties were not utilised in 2010 (previous year: € 25 thousand).

#### Finance lease liabilities

The following table provides a breakdown of future payments under finance leases in terms of their due date:

	up to 1 year EUR thou.	2–5 years EUR thou.	more than 5 years
<b>Future financial obligations (including interest)</b>	591	1,324	0
<b>Present value of future financial obligations (capital element)</b>	503	1,227	0

The Company's material leases relate to land and buildings. The present value of the minimum lease payments for land and buildings amounted to € 1,530 thousand at 31 December 2010 (previous year: € 1,903 thousand), while the present value of the minimum lease payments for technical equipment and machinery and office and operating equipment totalled € 200 thousand (previous year: € 1,212 thousand).

As the leases entered into by the Company are based on constant interest rates, the fair values of lease obligations may be subject to a degree of interest rate risk. All lease arrangements contain fixed interest rates.

The fair values of lease liabilities are broadly equal to their carrying amounts.

Lease liabilities are effectively hedged, as the rights to the leased asset return to the lessor in the event of any breach of contractual provisions.

### Other financial liabilities

Other financial liabilities include the settlement amount for the withdrawal of the American companies from the collective wage agreement.

## 14. Income tax liabilities

Income tax liabilities relate to current taxes and totalled € 1,075 thousand at the balance sheet date (previous year: € 712 thousand).

## 15. Other liabilities

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

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Trade payables	1,768	2,248
Other liabilities	3,299	5,215
Payments received on account of orders	119	19
Liabilities directly connected with assets held for sale	4,383	0
<b>Total other liabilities</b>	<b>9,569</b>	<b>7,482</b>

Miscellaneous other liabilities include the following items:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Deferred income	1,990	3,008
Tax liabilities	584	553
Amount withheld from acquisitions	251	1,313
Liabilities to employees	116	88
Loan commitment commissions (syndicated loan agreement)	103	0
Liabilities to energy providers	93	104
Social security liabilities	71	69
Assignment of disposal proceeds	32	0
Other	59	80
<b>Total</b>	<b>3,299</b>	<b>5,215</b>

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

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

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Investment grants	1,225	2,218
Subsidies	765	790
<b>Total</b>	<b>1,990</b>	<b>3,008</b>

The following amounts were reversed to income in 2010 and 2009:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Reversal of investment grants	112	208
Reversal of subsidies	105	111
<b>Total</b>	<b>217</b>	<b>319</b>

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 2010. The subsidies were granted for the acquisition of machinery and office and operating equipment. The required evidence of the utilisation of investment grants and subsidies has been provided in full.

The other liabilities item includes liabilities totalling € 1,869 thousand (previous year: € 2,809 thousand), which do not fall due until one year after the balance sheet date.

The liabilities directly connected with assets held for sale includes liabilities for discontinued operations. Other assets are discussed in note 6.

## 16. Trade payables

At the balance sheet date 31 December 2010, the Company had the following trade payables:

	31 Dec. 2010 EUR thou.	31 Dec. 2009 EUR thou.
Trade payables	1,768	2,248

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 1,768 thousand (previous year: € 2,248 thousand) are due within one year.

## 17. Derivative financial instruments

In 2010, Masterflex AG entered into an agreement on a derivative financial agreement for hedging against varying interest payments from variable-rate loans. It is reported under other financial assets on the basis of the current market conditions on the balance sheet date. The change in the fair value of € 148 thousand is recognised in net interest income.

Derivative financial instruments	Measurement category in accordance with IAS 39	Carrying amount 31 Dec. 2010 EUR thou.	Fair value 31 Dec. 2010 EUR thou.	Carrying amount 31 Dec. 2009 EUR thou.	Fair value 31 Dec. 2009 EUR thou.
Derivatives without hedging relationship	Held-for-trading	418	270	0	0

## Notes to the consolidated statement of comprehensive income

In the 2010 financial year, Masterflex AG successfully implemented the new strategic alignment, placing its emphasis on the core business unit High-Tech-Hose-Systems and a stronger focus on value. As a result of the sale of SURPRO GmbH on 31 August 2010, the disclosures on the de-consolidated segment Advanced Material Design are presented in condensed form in the consolidated statement of comprehensive income under the item Discontinued business unit. The contribution to results consolidated until the sale and the contributions to results of Angiokard GmbH & Co. KG, which was sold in the previous year, are therefore no longer included in the comparative presentation of 2009. Furthermore, in 2010, nonrecurring effects are recognised separately in the item Non-operating expenses, in order to ensure comparability with the previous year. For clarity, some income and expense items have been summarised and explained in the Notes section.

## 18. Revenue

Revenue is composed as follows:

	2010 EUR thou.	2009 EUR thou.
Gross revenue	48,604	39,981
Elimination of intragroup revenue	2,547	1,572
<b>Total</b>	<b>46,057</b>	<b>38,409</b>

## 19. Other operating income

The other operating income generated by the Group was as follows:

	2010 EUR thou.	2009 EUR thou.
	832	1,287

Other operating income is composed as follows:

	2010 EUR thou.	2009 EUR thou.
Investment grants	399	208
Income from the reversal of provisions	162	109
Subsidies	105	111
Income from non-typical incidental sales	47	34
Other prior-period income	38	23
Gains on the sale of assets	19	3
Income from written-down receivables	20	563
Income from reductions in specific valuation allowances	14	16
Compensation	13	72
Currency translation gains	8	77
Other	7	71
<b>Total</b>	<b>832</b>	<b>1,287</b>

## 20. Cost of materials

The cost of materials is composed as follows:

	2010 EUR thou.	2009 EUR thou.
Cost of raw materials, consumables and supplies	13,321	10,884
Cost of goods purchased and held for resale	197	96
<b>Total</b>	<b>13,518</b>	<b>10,980</b>

## 21. Other expenses

The other expenses incurred by the Group were as follows:

	2010 EUR thou.	2009 EUR thou.
	8,395	7,704

Other expenses are composed as follows:

	2010 EUR thou.	2009 EUR thou.
Selling costs	3,367	2,780
Administrative expenses	1,478	1,420
Operating costs	1,254	1,102
Incidental premises expenses	1,131	1,368
Warranty expenses	455	34
Insurance costs	262	275
Currency translation losses	109	41
Cost of valuation allowances	40	81
Expenses for the sale of assets	33	261
Write-downs of receivables	23	33
Other	26	82
Other taxes	217	227
<b>Total</b>	<b>8,395</b>	<b>7,704</b>

## 22. Research and development costs

Capitalisable development costs are reported in intangible assets. Research costs and non-capitalisable development costs are expensed as incurred. In the 2010 financial year, research and development costs totalled € 53 thousand (previous year: € 72 thousand).

## 23. Staff costs

In 2010, staff costs increased by € 1,729 thousand to € 16,042 thousand (previous year: € 14,313 thousand). Staff costs include wages and salaries in the amount of € 13,120 thousand (previous year: € 11,808 thousand) and social security, post-employment and other employee benefit costs totalling € 2,922 thousand (previous year: € 2,505 thousand).

## 24. Impairment of assets

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

Goodwill and internally generated intangible assets which have not yet been completed are tested 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, the residual carrying amounts of the individual cash-generating units are compared with their recoverable amounts, i.e. the higher of the fair value less costs to sell and the value in use.

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

The recoverable amount is determined by calculating the value in use in accordance with the discounted cash flow method. The cash flow applied in calculating the value in use is determined on the basis of the medium-term forecasts by Group management. These forecasts are based on past experience and expected future market developments, taking into account strategic and operational business unit management measures that have already been initiated. The detailed planning period is generally 5 years.

The cost of capital is calculated as the weighted average cost of equity and debt capital (WACC). The discount rate for cash flow forecasts is composed of a basic interest rate of 4.25 % plus a risk premium. The weighted average cost of capital before taxes that is applied when discounting cash flow is between 6.42 % and 7.01 %. WACC takes into account data on the German financial markets, long-term German government bonds and

effective Group financing. A growth discount of 1 % is factored into the perpetual annuity.

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

	EUR thou.
Novoplast Schlauchtechnik GmbH	462
Flexmaster Inc.	1,488
Fleima Plastic GmbH	1,075
Matzen & Timm GmbH	233
<b>Total</b>	<b>3,258</b>

## 25. Net finance costs

Net finance costs are composed as follows:

	2010 EUR thou.	2009 EUR thou.
Income from equity investments	0	3
Other interest and similar income	177	173
Write-downs of non-current financial assets	-25	-28
Interest and similar expenses	-3,493	-3,359
<b>Total</b>	<b>-3,341</b>	<b>-3,211</b>

Interest income relates to current items. Interest expense also includes interest relating to leases that are classified as finance leases in accordance with IAS 17.

## 26. Non-operating expenses

	Explanations in note	2010 EUR thou.
Continued business units		
Bank waivers		10,240
Remaining purchase price DICOTA	6	800
Reversal of investment grants for intangible assets	15	568
Consultancy fees (ongoing expense)		-4,161
Write-downs on intangible assets	4	-1,120
Other		-294
<b>Total continued business units</b>		<b>6,033</b>
Discontinued business units		
Write-downs on non-current assets (SURPRO)	28	-3,725
Sale of SURPRO		-2,288
Expected loss on disposal (Mobility)	28	-2,171
Write-downs on non-current assets (Mobility)	28	-1,155
<b>Total</b>		<b>-3,306</b>

	2009 EUR thou.
Continued business units	
Consultancy fees (ongoing expense)	-2,823
Settlement payments (ongoing expense)	-159
Write-downs on intangible assets	-119
<b>Total continued business units</b>	<b>-3,101</b>
Discontinued business units	
Sale of Angiokard	-4,360
Write-down on goodwill at SURPRO	-3,078
Write-downs on intangible assets	-333
Write-down on inventories at TEKOV	-312
Settlement payments (ongoing expense)	-304
Other	-152
<b>Total</b>	<b>-11,640</b>

Non-operating expenses includes write-offs of non-current assets and write-downs on intangible assets and property, plant and equipment, as well as consultancy fees, allocation to provisions and liabilities.

At approximately € 3,361 thousand in continued business units (previous year: € 2,732 thousand) and € 519 thousand in discontinued business units (previous year: € 1,230 thousand), these expenses had a cash impact.

## 27. Income tax expense

The income tax expense in the statement of income and accumulated earn is composed as follows:

	2010 EUR thou.	2009 EUR thou.
Income tax expense	-1,418	-1,234
Deferred taxes		
From time differences	45	73
From loss carryforwards	336	2,885
Total deferred taxes	381	2,958
<b>Total income tax expense</b>	<b>-1,037</b>	<b>1,724</b>

The following reconciliation of income tax expense for the 2010 financial year is based on an overall tax rate of 30.0 % (previous year: 30.0 %) reconciled to an effective tax rate of 11.3 %:

	2010 EUR thou.	2009 EUR thou.
Net profit before income taxes	9,137	-2,656
Expected tax expense 30.0 %	-2,741	797
Effect of non-deductible expenses and tax-exempt income	1,717	768
Reversal of deferred tax assets	0	145
Other	-13	14
<b>Total income tax expense</b>	<b>-1,037</b>	<b>1,724</b>

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

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

	31 Dec. 2010		31 Dec. 2009	
	Deferred tax assets EUR thou.	Deferred tax li- abilities EUR thou.	Deferred tax assets EUR thou.	Deferred tax li- abilities EUR thou.
Tax loss carryforwards	5,882	0	5,571	0
Non-current assets	570	2,129	496	3,288
Inventories	0	0	0	27
Receivables	66	0	52	0
Other assets	67	0	0	0
Pension provisions	0	0	137	0
Other provisions	0	0	0	127
Liabilities	896	0	1,531	0
Other	0	0	28	0
<b>Before offset- ting</b>	<b>7,481</b>	<b>2,129</b>	<b>7,815</b>	<b>3,442</b>
thereof non-current	6,686	1,916	7,214	3,086
Offsetting	-1,615	-1,615	-1,975	-1,975
<b>Consolidated balance sheet</b>	<b>5,866</b>	<b>514</b>	<b>5,840</b>	<b>1,467</b>

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

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

As of 31 December 2010, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of € 5,882 thousand (previous year: € 5,571 thousand).

For foreign companies, the applicable tax rates vary between 19 % and 34 %.

No deferred tax assets were recognised for tax loss carryforwards in the amount of € 7,003 thousand (previous year: € 107

thousand), as their utilisation is not sufficiently certain. Tax losses at German companies may be carried forward for an unlimited period. By contrast, tax loss carryforwards at foreign companies are generally limited.

Taxes amounting to € -8 thousand (previous year: € 5 thousand) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognised directly in equity.

## 28. Discontinued business units

SURPRO GmbH was sold on 31 August 2010. The carrying amount of the associated net assets exceeds the gain on disposal less ancillary costs to sell, meaning that impairments of non-current assets of € 3,725 thousand were recognised when reclassifying the business unit as held for sale. The disposal of SURPRO GmbH forms part of the Group's long-term strategy of focusing its activities on the core High-Tech-Hose Systems business unit. Further details on the assets and liabilities sold can be found under note 3.

The Executive Board's long-term strategy also impacts the Mobility Group. As at 31 December 2010, the assets and liabilities attributable to the Mobility Group were entered separately in the consolidated balance sheet as available for sale. Due to the fact that fuel cell technology and the bicycle segment were sold under various premises, the carrying amount of the total net assets associated with the disposal group exceeded the expected disposal proceeds less ancillary costs to sell, meaning that an impairment of € 1,155 thousand was recognised when reclassifying the business unit as held for sale. Since it is no longer possible to allocate the disposal group to the fair value – due to a lack of non-current assets – a liability of € 2,085 thousand has been reported.

The result components from the discontinued business unit included in the consolidated statement of income are shown below. The comparative disclosures regarding results and cash flows from discontinued business units have been adjusted to take into consideration business units classified as discontinued in the current financial period. The previous year values for Angiokard Medizintechnik GmbH & Co. KG have been adjusted.

	2010 EUR thou.	2009 EUR thou.
<b>Result from discontinued business units</b>		
Revenue	12,263	30,891
Changes in inventories of finished goods	-314	-1,374
Work performed by the enterprise and capitalised	154	265
Other operating income	225	465
	<b>12,328</b>	<b>30,247</b>
Cost of materials	-6,723	-18,864
Other expenses	-6,535	-14,857
Earnings before taxes and non-operating expenses	-930	-3,474
Income tax expense to be included	3	-495
<b>Earnings after taxes from discontinued business units</b>	<b>-927</b>	<b>-3,969</b>
Write-downs on non-current assets	-4,880	-645
Loss from fair value measurement less disposal costs	-2,171	-6,664
Loss from the disposal of business unit	-2,288	-774
Other	0	-456
<b>Total non-operating expenses</b>	<b>-9,339</b>	<b>-8,539</b>

<b>Cash flows from discontinued business units</b>		
Net cash flows from operating activities	553	718
Net cash flows from investment activities	-32	-225
Net cash flows from financing activities	-174	-936
<b>Total net cash flows</b>	<b>347</b>	<b>-443</b>

## 29. Earnings per share

Earnings per share are calculated as follows:

	Continuing business unit EUR thou.	Discontinued business units EUR thou.	Continuing and discontinued business units EUR thou.
Earnings for 2010 financial year	7,934	-10,267	-2,333
Weighted average number of shares in circulation	4,740,874	4,740,874	4,740,874
<b>Earnings per share (€)</b>	<b>1.67</b>	<b>-2.16</b>	<b>-0.49</b>

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
	EUR thou.	EUR thou.	EUR thou.
Earnings for 2009 financial year	-1,059	-12,509	-13,568
Weighted average number of shares in circulation	4,365,874	4,365,874	4,365,874
<b>Earnings per share (€)</b>	<b>-0.24</b>	<b>-2.87</b>	<b>-3.11</b>

There were no dilutive effects in the 2010 financial year or the previous year.

### 30. Appropriation of net retained earnings

The single-entity financial statements of Masterflex AG in accordance with the German Commercial Code for the year ended 31 December 2010 reported a net loss of € 19,671 thousand. The Executive Board and the Supervisory Board propose carrying the result forward to new account.

### 31. Financial risk management

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

In addition to originated financial instruments, the Group may employ various derivative financial instruments, such as currency futures and interest rate swaps. Derivative financial instruments are employed exclusively to hedge existing or planned underlyings in order to reduce the risks associated with exchange rates, interest rates and raw materials prices. The use of derivatives must be agreed with the Executive Board of Masterflex AG in each case.

#### Exchange rate risk management

The global nature of the Group's business activities means that it has cash flows in a number of different currencies, particularly US dollars. Foreign-currency items include exchange rate risks relating to highly probable future transactions, foreign-currency receivables and liabilities, and fixed purchase and sale agreements denominated in foreign currencies. Orders in emerging economies are generally invoiced in US dollars or euro.

The sensitivity analysis of the outstanding US dollar-denominated monetary items, assuming a 10 % appreciation or depreciation of the US dollar against the euro, did not have a significant impact on shareholders' equity and consolidated net profit.

#### Interest rate risk management

Due to the international nature of its business activities, Masterflex generates and invests cash on the global money and capital markets in various currencies.

The resulting financial liabilities and investments are subject to a degree of interest rate risk. In individual cases, derivative financial instruments may be employed with a view to minimising the interest rate volatility and financing costs of the respective underlyings, and hence hedging the related interest rate risk.

The sensitivity analyses performed by the Group were determined on the basis of its interest rate exposure at the balance sheet date. For variable-rate liabilities, the analysis is carried out under the assumption that the amount of the outstanding liability at the balance sheet rate remained outstanding for the entire year.

The sensitivity analysis assuming a 100 bp fluctuation in interest rates results in an increased/reduced cash outflow of approximately € 198 thousand.

#### Counterparty default risk management

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

At the balance sheet date, the Group had trade receivables from a large number of domestic and foreign customers across various industries. The resulting counterparty default risk was negligible.

Risks relating to loans to subsidiaries and equity investments are managed via a Group-wide controlling system including fully consolidated forecasts, monthly consolidated financial statements and regular discussions of the course of business.

The maximum default risk is calculated as the sum of the carrying amounts of the financial receivables recognised on the face of the balance sheet.

### Liquidity risk management

Group-wide liquidity management aims to secure cash and cash equivalents, the availability of sufficient credit facilities and the Group's ability to close out market positions.

The table below presents the contractually agreed repayments of financial liabilities:

2010 EUR thou.	Carrying amount	2011	2012	2013	2014	2015	≥ 2016
Trade payables	1,768	1,768	0	0	0	0	0
Liabilities to banks	35,450	6,632	1,459	907	3,254	21,857	1,341
Finance lease liabilities	1,730	503	519	447	261	0	0
Other liabilities	1,309	1,309	0	0	0	0	0
Other financial liabilities	257	37	31	33	35	38	83
<b>Total</b>	<b>40,514</b>	<b>10,249</b>	<b>2,009</b>	<b>1,387</b>	<b>3,550</b>	<b>21,895</b>	<b>1,424</b>

2009 EUR thou.	Carrying amount	2010	2011	2012	2013	2014	≥ 2015
Trade payables	2,248	2,248	0	0	0	0	0
Liabilities to banks	51,330	34,242	8,225	5,038	899	888	2,038
Finance lease liabilities	3,115	731	694	706	542	442	0
Other liabilities	2,207	2,207	0	0	0	0	0
<b>Total</b>	<b>58,900</b>	<b>39,428</b>	<b>8,919</b>	<b>5,744</b>	<b>1,441</b>	<b>1,330</b>	<b>2,038</b>

This table only includes contractually agreed payments for financial liabilities at the balance sheet date, and hence does not include forecasts for new liabilities. Financial liabilities that can be repaid at any time are presented as due within one year. Payments under operating leases are reported in other financial commitments.

Deferred income reported under Other liabilities totalling € 1,990 thousand (previous year: € 3,008 thousand) does not have a cash impact. Its reversal is therefore not presented in this table.

## 32. Other financial commitments

At 31 December 2010, other financial commitments related to lease obligations and other commitments.

### a) Lease obligations

The financial commitments relating to finance leases are discussed in note 13.

The Group's other financial commitments for subsequent periods due to operating leases are as follows:

	2011 EUR thou.	2012–2015 EUR thou.	2016 EUR thou.
Notional amount of future minimum lease payments	150	157	0

The operating lease liabilities relate primarily to office and operating equipment. Payments recognised as expenses amount to € 202 thousand (previous year: € 287 thousand).

### b) Other commitments

All contingent liabilities at the level of the individual Group companies are recognised as liabilities in the consolidated balance sheet.

## 33. Segment reporting

The Masterflex Group divides up its operating segments in accordance with the criteria of IFRS 8. Reporting for operating segments subject to reporting requirements is carried out on the basis of the information to which the management refers when measuring the performance of operating segments and allocating resources (management approach).

As a result of the implementation of the Group strategy and the associated concentration on the core business unit High-Tech Hose Systems (HTS), the Surface Technology (AMD) segment sold in the financial year and the climate-neutral Mobility (MOB) segment reported as "held-for-sale" are presented on a uniform basis under "Discontinued business units". This has also been carried out with retroactive effect for the 2009 financial year. Masterflex AG thus has one operating segment, the core business unit (HTS). To ensure comparability, the "Reconciliation" column is presented for Group/holding expenditure as well as extraordinary expenses.

In the High-Tech-Hose-Systems (HTS) segment, which constitutes the core business of the Masterflex Group, the development and manufacture of high-tech hose systems, moulded parts and injection moulding elements from innovative advanced polymers for industrial and medical applications is the main focus of activities. Products from this segment are used across an extremely wide range of industrial applications such as chemicals, food, automotive engineering and medical technology.

The segments are controlled both in terms of revenue and earnings. EBIT serves as an earnings indicator in the Masterflex Group, which was still reported as EBIT adjusted for restructuring expenses in 2009 and 2010.

The non-operating expenses reported in the statement of comprehensive income include one-off bank charges incurred as part of the restructuring and legal and consultancy fees.

Intersegment revenue was settled at transfer prices in line with the market ("arm's length principle").

Segment assets include the operating assets of the individual segments such as property, plant and equipment, intangible assets including goodwill, inventories, receivables, other assets and cash in hand. Tax receivables, deferred tax assets and financial assets do not form part of the respective segment assets.

According to IFRS 8, segment liabilities are only to be included in segment reporting if these are regularly used and reported for corporate management purposes. Masterflex AG does not employ this indicator, meaning that it does not need to be reported.

The "Reconciliation" column contains amounts resulting from differences between the definition of the content of segment items and the corresponding items at Group level as well as those resulting from Group expenditure.

#### Segment information by business unit:

2010	HTS	Total for continued business units	Reconciliation	Discontinued business units	Group
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue from non-Group third parties	46,057	<b>46,057</b>		12,263	58,320
Revenue from other continued business units	0	<b>0</b>	0	0	0
Total revenue	46,057	<b>46,057</b>	0	12,263	58,320
EBIT	14,021	<b>14,021</b>	-1,543	-9,850	2,628
EBIT (adjusted)	7,988	<b>7,988</b>	-1,543	-512	5,933
Investments in property, plant and equipment and intangible assets	2,000	<b>2,000</b>	0	31	2,031
Scheduled depreciation and amortisation	2,669	<b>2,669</b>	0	382	3,051
Valuation allowances	0	<b>0</b>	0	4,880	4,880
Write-downs on goodwill	0	<b>0</b>	0	0	0
Assets	52,852	<b>52,852</b>	8,965	5,262	65,416

2009	HTS	Total for continued business units	Reconciliation	Discontinued business units	Group
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue from non-Group third parties	38,409	<b>38,409</b>	0	30,891	69,300
Revenue from other continued business units	0	<b>0</b>	0	0	0
Total revenue	38,409	<b>38,409</b>	0	30,891	69,300
EBIT	4,700	<b>4,700</b>	-4,145	-11,494	-10,939
EBIT (adjusted)	5,013	<b>5,013</b>	-1,357	-2,955	701
Investments in property, plant and equipment and intangible assets	842	<b>842</b>	0	613	1,455
Scheduled depreciation and amortisation	2,468	<b>2,468</b>	0	1,168	3,636
Valuation allowances	119	<b>119</b>	0	333	452
Write-downs on goodwill	0	<b>0</b>	0	6,664	6,664
Assets	45,304	<b>45,304</b>	8,824	15,170	69,298

Due to the altered regulations on segment reporting, the geographical breakdown of revenue is no longer carried out at individual segment level, but at Group level. The calculation is based on the headquarters of the customer. This results in the following geographical breakdown of revenue:

2010	Revenue from non-Group third parties EUR thou.	Of which continued business units EUR thou.
Germany	32,065	21,937
Rest of Europe	15,084	13,280
Rest of the World	11,171	10,840
<b>Total</b>	<b>58,320</b>	<b>46,057</b>

2009	Revenue from non-Group third parties EUR thou.	Of which continued business units EUR thou.
Germany	44,523	18,460
Rest of Europe	13,463	9,584
Rest of the World	11,314	10,365
<b>Total</b>	<b>69,300</b>	<b>38,409</b>

In the 2010 financial year, revenue equalling more than 10 % of consolidated revenue was not generated with any customers from the continued business units.

The reconciliation of adjusted EBIT from continued business units to earnings after taxes is presented below:

Reconciliation to consolidated earnings after taxes	2010 EUR thou.	2009 EUR thou.
Adjusted EBIT from continued business units	7,988	5,013
Extraordinary expenses from continued business units	6,033	-313
Reconciliation	-1,543	-1,357
Extraordinary expenses from reconciliation	0	-2,788
<b>EBIT from continued business units</b>	<b>12,478</b>	<b>555</b>
Interest income/income from equity interests	177	176
Interest expense, etc.	-3,518	-3,387
<b>EBT from continued business units</b>	<b>9,137</b>	<b>-2,656</b>
Income taxes	-1,418	-1,234
Deferred taxes	381	2,958
Minority interests	-166	-127
<b>Earnings after taxes (EAT) from continued business units</b>	<b>7,934</b>	<b>-1,059</b>
Earnings from discontinued business units	-10,267	-12,509
<b>EAT</b>	<b>-2,333</b>	<b>-13,568</b>

In accordance with IFRS 8, the geographical distribution of non-current assets must be disclosed. Non-current assets include property, plant and equipment and intangible assets. Deferred taxes and financial assets do not form part of the non-current assets to be disclosed in accordance with IFRS 8.

Non-current assets	2010 EUR thou.	2009 EUR thou.
Germany	20,766	21,714
Rest of Europe	1,480	1,523
Rest of the World	3,037	2,878
<b>Total</b>	<b>25,283</b>	<b>26,115</b>

The reconciliation of assets from continued segments to consolidated assets breaks down as follows:

Reconciliation to consolidated assets	2010 EUR thou.	2009 EUR thou.
Total assets of continued segments	52,852	45,304
Assets of discontinued segments	3,599	15,170
Deferred tax assets	5,866	5,512
Tax receivables	163	188
Non-current financial assets	2,936	3,124
<b>Total consolidated assets</b>	<b>65,416</b>	<b>69,298</b>

### 34. Cash flow statement

The consolidated cash flow statement is prepared in accordance with IAS 7 (Cash Flow Statements). A distinction is made between cash flows from operating, investing and financing activities. The cash and cash equivalents reported in the cash flow statement correspond to the cash in hand and bank balances reported on the face of the balance sheet.

The cash and cash equivalents at the end of the period, as presented in the consolidated cash flow statement, can be reconciled to the associated items in the consolidated balance sheet as follows:

	2010 EUR thou.	2009 EUR thou.
Cash and cash equivalents at the end of period	14,493	7,779
Cash in hand and bank balances included in assets held for sale	95	0
<b>Cash in hand and bank balances</b>	<b>14,398</b>	<b>7,779</b>

The effects of the acquisition and disposal of subsidiaries are presented in notes 3 and 28.

### 35. Government grants

In the 2010 financial year, government grants related to income were recognised in the amount of € 81 thousand (previous year: € 121 thousand). Grants for depreciable assets are recognised over the depreciation period of the respective assets and in proportion to the depreciation recognised in each period.

### 36. Related party disclosures

With the exception of income and expense items between continuing and discontinued operations, transactions between Masterflex AG and its consolidated subsidiaries are eliminated in consolidation.

Masterflex AG and the companies included in the consolidated financial statements conducted material transactions with the following related parties within the meaning of IAS 24:

MODICA Grundstücks-Vermietungsgesellschaft mbH & Co., Objekt Masterflex KG, Gelsenkirchen.

Since 1 January 1994, Masterflex AG, Gelsenkirchen, has used the production, warehousing and administrative buildings of the above company. Further information can be found under Leases and Financial liabilities.

The lease is scheduled to run until 31 July 2014. In the 2010 financial year, the monthly lease instalment was approximately € 20 thousand.

The shareholders of MODICA Grundstücksvermietungsgesellschaft mbH also hold shares in Masterflex AG, Gelsenkirchen.

In addition, the Group has a subordinate receivable from one member of the Supervisory Board as well as two major shareholders in the amount of € 1,780 thousand, which may only be enforced if it is not satisfied by the claims arising from pending legal proceedings in which the Group is the claimant or covered by the D&O-insurance policy.

### 37. Declaration of conformity with the German Corporate Governance Code

In April 2011, the declaration of conformity in accordance with section 161 of the German Stock Corporation Act was again submitted by the Executive Board and Supervisory Board of Masterflex AG and made permanently available to shareholders via the Company's website. The declaration of conformity is also reproduced in the Corporate Governance section of this Annual Report.

### 38. Number of employees

At the balance sheet date, the number of employees was distributed across the operating functions as follows:

	2010*	2009*
Production	251	244
Sales	66	66
Administration	56	46
Technology	24	28
<b>Employees in the Group</b>	<b>397</b>	<b>384</b>
thereof trainees	16	11

\* excluding SURPRO GmbH and Mobility Group

### 39. Audit and advisory fees

The fees expensed (provision) in the 2010 financial year for the auditors of the consolidated financial statements, Rölfs RP AG, Wirtschaftsprüfungsgesellschaft, amounted to € 165 thousand and consisted of fees for the audit of the consolidated financial statements and the statutory separate financial statements of Masterflex AG and its domestic subsidiaries. An additional € 44 thousand was expensed for tax advisory services.

### 40. Exemption from publication

In accordance with section 264 (3) and section 264 b of the German Commercial Code, the following consolidated companies are exempt from the requirement to publish their separate financial statements:

- SURPRO Verwaltungsgesellschaft mbH
- Matzen & Timm GmbH

### 41. Events after the balance sheet date

No events or developments of particular significance to the results of operations, net assets and financial position of the Masterflex Group have occurred since the balance sheet date of 31 December 2010.

### 42. Publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Executive Board on 15 April 2011 and published on 28 April 2011.

### 43. Significant equity investments

The complete list of equity investments of Masterflex AG is published in the electronic Bundesanzeiger (Federal Gazette).

Gelsenkirchen, 15 April 2011

The Executive Board

Dr Andreas Bastin  
(Chief Executive Officer)

Mark Becks  
(Chief Financial Officer)

## Responsibility statement


“To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.”

Gelsenkirchen, 15 April 2011

The Executive Board



Dr. Andreas Bastin  
(Chief Executive Officer)



Mark Becks  
(Chief Financial Officer)



# Consolidated Statement of Changes in Non-Current Assets 2010

2010	Historical cost Jan. 1, 2010	Changes to the consolidated Group	Additions	Disposals	Reclassifications	Currency translation differences	Historical cost Dec. 31, 2010
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
<b>Intangible assets</b>							
Concessions, industrial and similar rights and assets, licenses	2,034	-78	96	46	0	0	2,006
Development costs	2,200	-967	0	1,141	0	0	92
Goodwill	9,161	0	0	0	0	0	9,161
Advance payments	397	-397	93	0	0	0	93
<b>Total</b>	<b>13,792</b>	<b>-1,442</b>	<b>189</b>	<b>1,187</b>	<b>0</b>	<b>0</b>	<b>11,352</b>
<b>Property, plant, and equipment</b>							
Land, land rights and buildings on third-party land	17,691	-446	13	0	10	117	17,385
Technical equipment and machinery	20,034	-4,095	348	153	253	160	16,547
Other equipment, operating and office equipment	7,508	-1,406	385	237	61	66	6,377
Advance payments and assets under development	567	-4	1,065	157	-324	0	1,147
<b>Total</b>	<b>45,800</b>	<b>-5,951</b>	<b>1,811</b>	<b>547</b>	<b>0</b>	<b>343</b>	<b>41,456</b>
<b>Non-current financial assets</b>							
Non-current financial instruments	1,038	0	0	35	0	0	1,003
Other loans	3,751	-833	32	169	0	0	2,781
<b>Total</b>	<b>4,789</b>	<b>-833</b>	<b>32</b>	<b>204</b>	<b>0</b>	<b>0</b>	<b>3,784</b>
	<b>64,381</b>	<b>-8,226</b>	<b>2,032</b>	<b>1,938</b>	<b>0</b>	<b>343</b>	<b>56,592</b>

2010	Cumulative depreciation and amortization Jan. 1, 2010 EUR thou.	Changes to the consolidated group EUR thou.	Depreciation and amortization for fiscal year EUR thou.	Disposals EUR thou.	Fair value changes recognized directly in equity EUR thou.	Currency translation differences EUR thou.	Cumulative depreciation and amortization Dec. 31, 2010 EUR thou.	Balance at Dec. 31, 2010 EUR thou.	Balance at Dec. 31, 2009 EUR thou.
<b>Intangible assets</b>									
Concessions, industrial and similar rights and assets, licenses	1,162	-51	198	9	0	0	1,300	706	872
Development costs	251	0	494	686	0	0	59	33	1,949
Goodwill	5,903	0	0	0	0	0	5,903	3,258	3,258
Advance payments	213	-213	0	0	0	0	0	93	184
<b>Total</b>	<b>7,529</b>	<b>-264</b>	<b>692</b>	<b>695</b>	<b>0</b>	<b>0</b>	<b>7,262</b>	<b>4,090</b>	<b>6,263</b>
<b>Property, plant, and equipment</b>									
Land, land rights and buildings on third-party land	4,983	-40	563	0	0	60	5,566	11,819	12,708
Technical equipment and machinery	11,022	-1,482	1,044	129	0	87	10,542	6,005	9,012
Other equipment, operating and office equipment	4,368	-595	566	194	0	48	4,193	2,184	3,140
Advance payments and assets under development	0	0	118	118	0	0	0	1,147	567
<b>Total</b>	<b>20,373</b>	<b>-2,117</b>	<b>2,291</b>	<b>441</b>	<b>0</b>	<b>195</b>	<b>20,301</b>	<b>21,155</b>	<b>25,427</b>
<b>Non-current financial assets</b>									
Non-current financial instruments	788	0	0	0	22	0	810	193	250
Other loans	32	0	319	41	0	0	310	2,471	3,719
<b>Total</b>	<b>820</b>	<b>0</b>	<b>319</b>	<b>41</b>	<b>22</b>	<b>0</b>	<b>1,120</b>	<b>2,664</b>	<b>3,969</b>
	<b>28,722</b>	<b>-2,381</b>	<b>3,302</b>	<b>1,177</b>	<b>22</b>	<b>195</b>	<b>28,683</b>	<b>27,909</b>	<b>35,659</b>

# Consolidated Statement of Changes in Non-Current Assets 2009

2009	Historical cost Jan. 1, 2009	Changes to the consolidated Group	Additions	Disposals	Reclassifications	Currency translation differences	Historical cost Dec. 31, 2009
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
<b>Intangible assets</b>							
Concessions, industrial and similar rights and assets, licenses	2,976	-363	34	613	0	0	2,034
Development costs	2,158	0	458	416	0	0	2,200
Goodwill	20,451	-11,290	0	0	0	0	9,161
Advance payments	433	-36	0	0	0	0	397
<b>Total</b>	<b>26,018</b>	<b>-11,689</b>	<b>492</b>	<b>1,029</b>	<b>0</b>	<b>0</b>	<b>13,792</b>
<b>Property, plant, and equipment</b>							
Land, land rights and buildings on third-party land	18,024	-361	30	0	8	-10	17,691
Technical equipment and machinery	20,431	-1,116	297	147	588	-19	20,034
Other equipment, operating and office equipment	8,580	-741	314	665	31	-11	7,508
Advance payments and assets under development	878	0	322	6	-627	0	567
<b>Total</b>	<b>47,913</b>	<b>-2,218</b>	<b>963</b>	<b>818</b>	<b>0</b>	<b>-40</b>	<b>45,800</b>
<b>Non-current financial assets</b>							
Non-current financial instruments	990	0	60	12	0	0	1,038
Other loans	5,223	0	261	1,733	0	0	3,751
<b>Total</b>	<b>6,213</b>	<b>0</b>	<b>321</b>	<b>1,745</b>	<b>0</b>	<b>0</b>	<b>4,789</b>
	<b>80,144</b>	<b>-13,907</b>	<b>1,776</b>	<b>3,592</b>	<b>0</b>	<b>-40</b>	<b>64,381</b>

2009	Cumulative depreciation and amortization Jan. 1, 2009 EUR thou.	Changes to the consolidated group EUR thou.	Depreciation and amortization for fiscal year EUR thou.	Disposals EUR thou.	Fair value changes recognized directly in equity EUR thou.	Currency translation differences EUR thou.	Cumulative depreciation and amortization Dec. 31, 2009 EUR thou.	Balance at Dec. 31, 2009 EUR thou.	Balance at Dec. 31, 2008 EUR thou.
<b>Intangible assets</b>									
Concessions, industrial and similar rights and assets, licenses	1,363	-354	759	606	0	0	1,162	872	1,613
Development costs	104	0	267	120	0	0	251	1,949	2,054
Goodwill	9,444	-10,205	6,664	0	0	0	5,903	3,258	11,007
Advance payments	0	0	213	0	0	0	213	184	433
<b>Total</b>	<b>10,911</b>	<b>-10,559</b>	<b>7,903</b>	<b>726</b>	<b>0</b>	<b>0</b>	<b>7,529</b>	<b>6,263</b>	<b>15,107</b>
<b>Property, plant, and equipment</b>									
Land, land rights and buildings on third-party land	4,715	-234	507	0	0	-5	4,983	12,708	13,309
Technical equipment and machinery	10,441	-878	1,535	63	0	-13	11,022	9,012	9,990
Other equipment, operating and office equipment	4,731	-599	807	561	0	-10	4,368	3,140	3,849
Advance payments and assets under development	0	0	0	0	0	0	0	567	878
<b>Total</b>	<b>19,887</b>	<b>-1,711</b>	<b>2,849</b>	<b>624</b>	<b>0</b>	<b>-28</b>	<b>20,373</b>	<b>25,427</b>	<b>28,026</b>
<b>Non-current financial assets</b>									
Non-current financial instruments	737	0	0	0	51	0	788	250	253
Other loans	747	0	0	715	0	0	32	3,719	4,476
<b>Total</b>	<b>1,484</b>	<b>0</b>	<b>0</b>	<b>715</b>	<b>51</b>	<b>0</b>	<b>820</b>	<b>3,969</b>	<b>4,729</b>
	<b>32,282</b>	<b>-12,270</b>	<b>10,752</b>	<b>2,065</b>	<b>51</b>	<b>-28</b>	<b>28,722</b>	<b>35,659</b>	<b>47,862</b>

# Auditor's Report

We have audited the consolidated financial statements – comprising the balance sheet, the statement of comprehensive income, the statements of changes in equity and cash flows and the notes to the financial statements – and the Group management report prepared by Masterflex AG for the financial year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as it is to be applied in the EU, and with the provisions given after section 315a (1) of the German Commercial Code (HGB) also to be applied as well as the supplementary provisions of the Articles of Association, is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of inaccuracies and irregularities, which have a considerable impact on the image of the net assets, financial position and results of operations conveyed in the consolidated financial statements in accordance with the accounting standards to be applied and in the Group management report. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal financial reporting control systems and evidence supporting the amounts and disclosures in the consolidated financial statements and Group management report are examined primarily on a sample test basis within the framework of the audit. The audit includes assessing the annual financial statements of companies included in the consolidated financial statements, the delimitation of the consolidated group, the accounting principles and principles of consolidation used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

Following our assessment and based on our findings from the audit, the consolidated financial statements are in accordance with IFRS, as it is to be applied in the EU, and with the provisions given after section 315a (1) HGB also to be applied as well as the supplementary provisions of the Articles of Association, and in our opinion give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The Group management report is in accordance with the consolidated financial statements and provides a suitable understanding of the position of the Group and suitably presents the risks and opportunities of future development.

Düsseldorf, 15 April 2011

Rölfs RP AG  
Wirtschaftsprüfungsgesellschaft

Frank Wettstein  
CPA

Stefan Kemp  
CPA

# Report of the Supervisory Board

## Dear shareholders,

In the 2010 financial year, we achieved the most important targets, the successful conclusion of the reorganisation of our Group, securing long-term Group financing and the return to sustainable growth and profitability in our core business with its clear strategic focus. Masterflex is now looking towards the future from a stronger position.

## Reports and meetings

In the 2010 financial year, the Supervisory Board of Masterflex AG performed the duties assigned to it by the German Stock Corporation Act and the Company's Articles of Association in full as well as regularly monitoring and advising the Executive Board.

The basis was the regular written and oral reports provided by the Executive Board to the Supervisory Board about all issues concerning the planning, business development, risk situation and risk management of the Company and the Group. The predominant theme of the past financial year was the measures to complete the reorganisation of the Group and to restructure the liabilities on the balance sheet. The agreements with both future lenders and with previous lenders that have been replaced and the successful execution of the capital measure towards the end of 2010 dominated the Supervisory Board's work in the past year. Throughout these drastic and important processes, the Supervisory Board was closely involved at all times in the approach and measures taken by the Executive Board.

The Supervisory Board was also informed regularly and in detail about developments affecting the equity investments in the SURPRO Group and the Mobility Group.

Five scheduled meetings of the Supervisory Board took place in total in the 2010 financial year in which all members of the Supervisory Board and Executive Board took part. In addition to the regular face-to-face meetings, this group of people held several telephone conferences for the purposes of exchanging information and passing resolutions. The Supervisory Board also discussed submissions by the Executive Board and issues concerning the Executive Board in separate telephone conferences on two occasions.

At its meetings and on the occasion of the telephone conferences involving the members of the Executive Board, the Supervisory Board was comprehensively informed by the Executive Board about the Group's course of business, financial position, human resources situation, business development, and the status of corporate planning. The reports and proposals for resolution by the Executive Board were discussed in detail and evaluated following an in-depth examination and consultation. A number of meetings also took place between individual members of the Supervisory Board and Executive Board in order to provide content-related support for its activities taking into account the members of the Supervisory Board's personal expertise.

## Focus issues in 2010

At the meeting on 4 March 2010, the Supervisory Board addressed the issues of financing and restructuring as well as the revised and significantly extended reporting system. It also addressed the targets for the 2010 financial year and the regulations governing the Executive Board's bonuses in accordance with the guidelines of the VorstAG and the German Corporate Governance Code (Code). In connection with the legal guidelines and the recommendations of the Code on the inclusion of long-term incentives covering several years and a sustainability-focused structure for the variable compensation, both Executive Board contracts were subsequently re-negotiated with the Executive Board members and adjusted accordingly.

In the Accounting Supervisory Board meeting on 15 April 2010, the Supervisory Board discussed the consolidated financial statements for the 2009 financial year in detail. The Supervisory Board also resolved to propose to the Annual General Meeting on 17 August 2010 that Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, be appointed as the Group's auditor.

Following a telephone meeting of the Supervisory Board on 22 July 2010 and detailed information from the Executive Board on the issues in question, the Supervisory subsequently adopted a circular resolution on the sale of SURPRO.

The meeting held on 17 August 2010 following the ordinary Annual General Meeting was Mr Axel Klomp, auditor and tax advisor, first as new member of the Supervisory Board. The Supervisory Board unanimously elected Mr Bischooping as Chairman and Mr van Hall as Deputy Chairman of the Supervisory Board.

Following appropriate preparations, the updated Declaration of Conformity was adopted by the Supervisory Board in a circular resolution on 30 September 2010 and subsequently published immediately.

At the meeting on 15 October 2010, the current status of the capital increase and the latest discussions with the consortium banks, the banks leaving the consortium and the status of discussions with potential anchor investors to secure the planned equity measure were discussed in detail and the additional steps needed to implement the placement, which was subsequently successful, were agreed. The implementation of the MOVE project was also debated and reports on its current status provided. At the same time, the very satisfactory order situation in the hose segment and the performance of foreign subsidiaries was presented by the Executive Board and approved by the Supervisory Board. In particular, this also encompassed developments in the new markets in Brazil and the Russia.

At the Supervisory Board meeting on 2 December 2010, the Supervisory Board received information on the completed capital measure and resolved the amendments to the Articles of Association that were needed as a result (amount and division of the share capital). Within this meeting, a resolution to adjust and implement the existing excess for the D&O-insurance policy for members of the Supervisory Board in accordance with the Code's recommendations for the Supervisory Board was also adopted.

The Supervisory Board received regular information on the Company's sales and earnings development, balance sheet situation and human resources development. The Executive Board has provided the Supervisory Board with extensive information on the current development

of the individual companies. The Executive Board reported in writing and verbally in meetings and discussions during the year as well as in telephone conferences on the content of the six-month and quarterly reports, and discussed these extensively with the Supervisory Board.

In addition, the Supervisory Board examined the planning documents, the risk position and the risk management system of Masterflex AG. All of the risk areas identified by the Executive Board and the Supervisory Board were discussed. It also reported on the launch of a new information tool designed to improve liquidity management across all the companies.

Risk management was subject to an intensive examination by the auditor, who confirmed that the Executive Board of the Company had implemented the measures required in accordance with Section 91 (2) of the German Stock Corporation Act, in particular the establishment of a monitoring system, and that this monitoring system was suitable for the early recognition of developments that could endanger the continued existence of the Company and for identifying undesirable developments.

## Trusting cooperation with the Executive Board

The Supervisory Board continued its open and trusting cooperation with the Executive Board in the past financial year. The Chairman of the Supervisory Board remained in contact with the Executive Board even between the meetings and was kept informed about significant developments and forthcoming decisions, which were of particular significance for the Company. The Chairman of the Executive Board informed the Chairman of the Supervisory Board without delay of all major events, which are of material significance for assessing the situation and performance as well as the management of the Company. All members of the Supervisory Board were comprehensively informed of these events by the Chairman of the Supervisory Board by the following meeting, if not earlier.

## Changes in the Supervisory Board

There were the following changes in the composition of the Supervisory Board in the year under review.

Professor Dr. Detlef Stolten left the Board at the end of the Annual General Meeting on 17 August 2010. The Annual General Meeting elected Mr. Axel Klomp, auditor and tax advisor, as his successor in the Supervisory Board.

The Supervisory Board thanks Professor Dr. Stolten for his excellent cooperation and his commitment to the Company over the past years.

Mr. Georg van Hall, a member of the Supervisory Board since August 2009, was elected as Deputy Chairman of the Supervisory Board in place of Professor Dr. Stolten at the Supervisory Board meeting on 17 August 2010. He also performs the role of financial expert in the Supervisory Board.

## Corporate Governance

The implementation of the Code is a key element of the meetings of the Supervisory Board of Masterflex AG. In 2010 too, the Supervisory Board and Executive Board discussed the recommendations and suggestions of the Code with the amendments that took place in 2010 in depth and resolved an update of the Declaration of Conformity in September, which was published on 30 September 2010. In accordance with Section 5.6 of the Code, the Supervisory Board is required to examine the efficiency of its activities on a regular basis. In view of the tasks and content dealt with and the fact that the Supervisory Board with its three members is the minimum size prescribed by law, both the cooperation between the members and the way in which tasks are dealt with were assessed and efficient and very effective.

In April 2011, the Executive Board and Supervisory Board resolved and submitted a revised Declaration of Conformity in accordance with section 161 AktG. The continued discussion and developments on the subject of diversity but also developments in legislation regarding the content of the Declaration of Conformity prompted the Company to submit a revised Declaration and also to report on content, in which there is no effective deviation from the Code's guidelines according to the Company but which, if there are any legal doubts, it considers should be depicted accordingly in the interests of an undoubted commitment to good Corporate Governance. In this annual report, the declaration of conformity from April 2011 submitted on the basis of the version dated 26 May 2010 is provided in the Corporate Governance report in the explanation of corporate management on pages 26. In addition, the Executive Board reported on corporate governance – including on behalf of the Supervisory Board – in accordance with Section 3.10 of the Code.

## Supervisory Board committees

With a total of three members, the Masterflex AG Supervisory Board 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. Accordingly, no committees were formed.

## Adoption of the single-entity and approval of the consolidated financial statements

The annual financial statements and management report of Masterflex AG and the consolidated financial statements and Group management report for 2010 as submitted by the Executive Board, together with the bookkeeping system, were audited by Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, which was appointed as the Group's auditor by the Annual General Meeting on 17 August 2010, and issued with an unreserved audit certificate. The auditor took part in discussions regarding the annual financial statements and consolidated financial statements in the Accounting Meeting on 6 April 2011. He outlined the key findings of the audits and provided additional information where necessary. The adoption and the approval of the annual financial statements and the consolidated financial statements were carried out on 15 April 2011. The auditor also participated in this discussion.

There were no conflicts of interest affecting Supervisory Board members in the period under review, nor did the members of the Supervisory Board hold any positions in the executive bodies of other companies.

Following the difficult years of Masterflex's much needed reorganisation, all major targets were achieved or even exceed in the 2010 financial year. Much credit is due to all those who were involved therein. The Supervisory Board would like to take this opportunity to thank Executive Board and all of Masterflex's employees for their commitment as well as their constructive, trusting and successful work in the past year.

Gelsenkirchen, April 2011

For the Supervisory Board  
Friedrich Wilhelm Bischooping  
Chairman of the Supervisory Board

## The members of the Supervisory Board

### **Friedrich Wilhelm Bischooping** (Chairman)

After graduating from university, Mr. Bischooping formed an industrial engineering company with a partner in 1974, which he expanded in the 1990s by way of acquisitions. In 1987, he was one of the co-founders of Masterflex Kunststofftechnik GmbH. Mr. Bischooping resigned from the senior management of his engineering companies in 1998. When Masterflex Kunststofftechnik GmbH became a stock corporation under German law (Aktiengesellschaft), Mr. Bischooping stepped down from its management team and became Chairman of the Supervisory Board.

### **Dipl.-Kfm. Georg van Hall** (member of the Supervisory Board since 11 August 2009 and Deputy Chairman since 17 August 2010)

After studying business administration at the Technical University of Berlin and the University of Illinois, USA, and after taking his professional examinations, Georg van Hall held a number of management positions in his capacity as auditor and tax advisor. Since 2005, he has run his own business and, since May 2009, is a partner at AccountingPartners Wirtschaftsprüfungsgesellschaft in Düsseldorf.

### **Dipl.-Kfm. Axel Klomp** (member of the Supervisory Board since 17 August 2010)

After studying business administration at the University of Cologne, in 1992, Mr Klomp joined the consultancy founded by his grandfather in 1931. He was appointed tax consultant in 1992 and auditor in 1997. Today, Mr Klomp is the senior partner at KLOMP – EXNER – ARETZ in Mönchengladbach, which is managed by three professionals today. He is also a member of the Executive Board of the Chamber of Tax Consultants and the Dusseldorf Tax Consultants Association.

# Glossary

Cash flow	The cash flows generated in a particular period, adjusted for significant non-cash expenses and income. This demonstrates a company's ability to finance itself, i.e. its earnings power.
Corporate governance	Corporate governance refers to responsible corporate management and supervision aimed at creating long-term enterprise value.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
EBIT	Earnings before interest and taxes.
EBT	Earnings before taxes.
Extrusion	A process used in plastics manufacture. The raw materials (in granulated form) are broken down and heated in an extruder until they are plasticised, i.e. mouldable, and can be processed further.
Free Cash Flow	Measures a company's net increase in cash from operations, less the dividends paid to preferred shareholders, less expenditures necessary to maintain assets.
Free Float	Refers to the percentage of share capital which is freely available for trading on the stock market. The opposite of this is the non-free float, in which the total shares held by one shareholder account for five percent or more of the share capital.
GKV	German association of the plastics processing industry
Going Concern	Continuation of business.
Gross Domestic Product (GDP)	The total value of all goods and services produced by an economy for the market within a reporting period.
Heated Hose	Medium-conducting hose with electrical heating system for maintaining or increasing temperature
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
Injection Moulding	Method to manufacture moulded parts. With an injection moulding machine the relevant material, generally plastic, is plasticised in a moulded unit and injected into an injection moulding tool. The cavity of the tool determines the form and the surface structure of the finished part.
Joint Venture	Joint ventures (collaborations between companies) resulting in the establishment of a new, legally independent business unit.

Market capitalisation	The share price multiplied by the number of shares in free float.
Medical Devices	Medical components/parts such as infusion tubes, catheters, etc.
Minimum-invasive surgery	The umbrella term used to describe operations involving minimum trauma (inflicting minimum injury to the skin and soft tissues).
MOVE	Masterflex's internal efficiency program
Multi-lumen tubing	Medical hose with multiple chambers.
Nanotechnology	Research and technological development at the atom level, focusing on a range of between one and a hundred nanometers.
Net dividend yield	Dividend per share divided by the share price.
Net margin	Also net turnover yield: the percentage share of the net profit in an enterprise's turnover during a specific period.
PlasticsEurope	European Plastics Association
Polymer Optic Fibres (POF)	Polymer fibres.
Polyurethane (PUR)	Highly versatile special polymer.
Product portfolio	'Portfolio' is a management and marketing term used to denote a collection of products, services, projects or brands offered by a particular company.
Return on Investment (ROI)	Return on investment
Stack	Several individual fuel cells are combined to form a stack. In a bipolar stack, electrical contact between individual cells is ensured by a bipolar plate sandwiched between them.
TPR Approval	Thermoplastic rubber, a type of thermoplastic elastomer.
Working capital	Current assets minus current liabilities



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### Forecasts:

This annual report contains a number of forecasts and estimates which are based on present expectations, anticipations and predictions on the part of the Executive Board and the information it currently has. Such estimates should not be construed as a warranty that the future developments and results therein stated will in fact materialise since these hinge on a host of factors, and encompass a variety of risks and imponderables while resting on assumptions that might be inappropriate. We therefore incur no obligation to update any forecasts or estimates herein made.

# WE ARE THERE FOR YOU WHENEVER AND WHEREVER YOU NEED US!

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