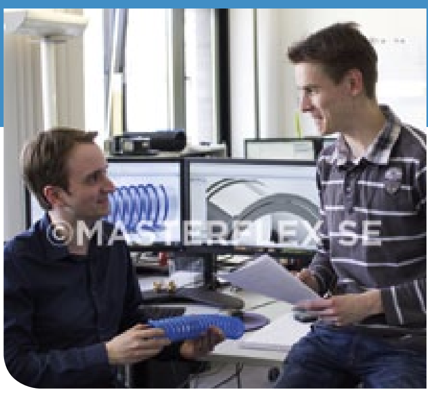
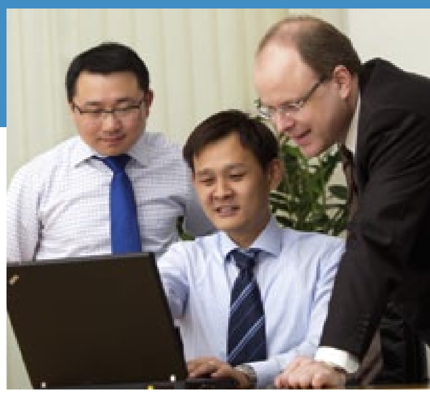
Annual Report 2012



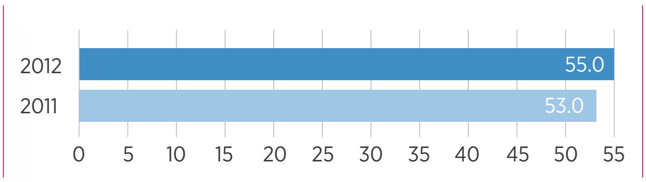


MASTERFLEX GROUP
Connecting Values

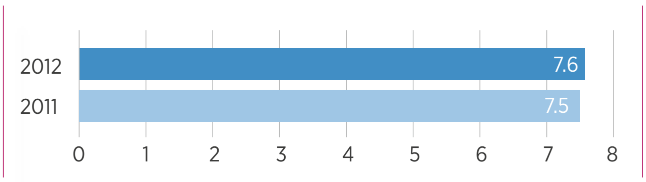
Masterflex at a glance	31 Dec. 2012	31 Dec. 2011	Change in %
Consolidated revenue (€ thousand)	54,984	52,999	3.7 %
EBITDA (€ thousand)	10,171	9,964	2.1 %
EBIT (€ thousand)	7,556	7,499	0.8 %
EBT (€ thousand)	5,989	5,261	13.8 %
Consolidated earnings from continued business units (€ thousand)	4,904	4,256	15.2 %
Consolidated earnings from discontinued business units (€ thousand)	–262	–114	–129.8 %
Consolidated net income/loss (€ thousand)	4,443	3,883	14.4 %
Consolidated equity (€ thousand)	20,524	16,239	26.4 %
Consolidated total assets (€ thousand)	52,435	50,930	3.0 %
Consolidated equity ratio %	39.1 %	31.9 %	
Employees	501	448	11.8 %
EBIT margin	13.7 %	14.2 %	
Return on sales	8.9 %	8.0 %	
Consolidated earnings per share (€)			
from continued business units	0.53	0.45	17.8 %
from discontinued business units	–0.03	–0.01	200.0 %
from continued and discontinued business units	0.50	0.44	13.6 %

Continued business units

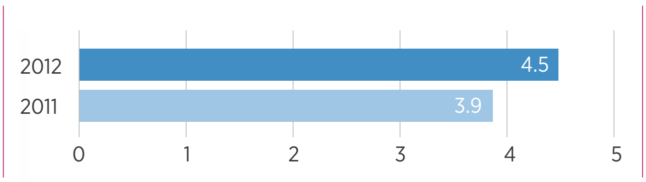
Consolidated revenue
In € million



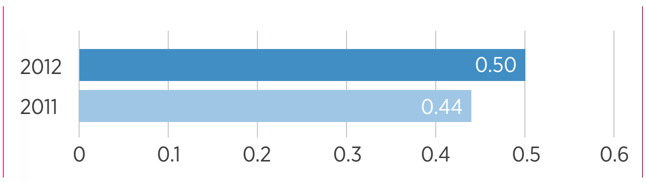
Consolidated EBIT
In € million



Consolidated net income/loss
In € million



Consolidated earnings per share
in €



Only the german version of this report is legally binding

Cover picture large:
Multiple expendable tubing from NOVOPLAST SCHLAUCHTECHNIK For all areas where large distances have to be bridged flexibly

Content

Dear Shareholders,

Dr. Andreas Bastin,
Chief Executive Officer

Overall, 2012 has been a successful year for Masterflex, although there have been some ups and downs. Never before in the company's 25 year history have we produced so many of our high-tech hoses and connector systems. Revenue of € 55 million in our traditional core business is a new record. Earnings before interest and taxes (EBIT) have risen to € 7.6 million. And the annual net profit rose gratifyingly by 14.4 percent to € 4.4 million. This corresponds to earnings per share of 50 cents.

But we should not fail to mention that we set ourselves even more ambitious objectives which were also made clear in our annual forecast for 2012. And, measured against our very own objectives, we were still not good enough. In particular, the difficult economic climate in Europe, delays starting the Asian business which promises to be a success, as well as start-up costs for the internationalisation, have meant that we have failed to meet some of our objectives. We already referred to this possibility in the 2012 nine-month report. At that time, however, we were still fairly optimistic that we would make up the revenue and resulting dip in earnings by means of the end-of-year rush. Compared to the economic slowdown which has developed in Germany (minus 0.6% gross domestic product in the fourth quarter), we still remain in comparatively good shape with slight growth in sales in the 4th quarter of 2012.

So what's the next step? It is very clear: We are striving to continue unerringly with our value-orientated long term objective. By 2020, we want to be global market leaders in all the markets where we have a trading presence. With our traditional core business, we would like to continue to grow sustainably and profitably and to achieve above-average growth of the global economy. To do this, we are consistently pursuing our growth strategy along two strands.

Internationalisation is increasingly important to us – because the economic outlook can turn out differently in regions in which we now operate our business. A gap has opened up between Europe and the rest of the world. Therefore, our business development and our growth will increasingly be determined by how successfully we are able to market ourselves in new regions. The basis for this forms our own market research, which we have steadily been building up and expanding since 2008. Accordingly, we are aiming for new target markets which take into account many parameters. In this way, in 2010 we commenced operations in Brazil and Russia and followed this with our launch last year in Singapore and China. Our success will be determined in particular by implementing the means of internationalisation.

Innovation was, is and will always remain important to us. Because only by doing so, do we also remain the standard-setter. With yet further technically developed or newly designed hoses and connection solutions, we can create further applications for high-tech plastic connections which other materials have been used for until now. Only with innovative high-tech plastic connection solutions are we in a position to provide ever better solutions to the increasing requirements of our customers' production processes. One recent example is the multifunction hose Master-PUR that was launched at the beginning of March, which now combines both the 'micro-resistant' and 'antistatic' properties as standard without compromising the performance of the hose.

As well as these two pillars, there are a series of other topics that we have been involved with in 2012, such as our legal form on both a legal and visual level.

- We discarded our previous legal form in 2012 and instead chose an internationally oriented entity. Masterflex AG became Masterflex SE following the change of legal form adopted by a large majority at the Annual General Meeting on 1 October 2012. With this new legal entity of 'Societas Europae' (SE), we can better service international customers and investors and also effortlessly open new locations in the European Union. This change of legal form was implemented on time and according to plan.

- Our visual image until now had become out of date and lo longer worthy of our image we wish to portray. This is why we have replaced it with a worldwide uniform, modern and appealing corporate design. First and foremost, we hope that this achieves better recognition for our brands amongst our globally operating customers. In addition, we have completely redesigned our website. Everyone, shareholders and customers alike, will be able to access information much more quickly and in more detail on our new site. I hope you like the new design which you can already see in this report or simply visit us at www.MasterflexGroup.com.

The Executive Board of the Masterflex SE: Dr. Andreas Bastin, CEO since April 2008, and Mark Becks, CFO since June 2009 (from left to right)

- Our new slogan 'Connecting Values' also forms part of the relaunched brand identity. In a nutshell – this is our promise which the Masterflex Group stands for: We provide holistic connection solutions which are based on leading technology and often customised. With our self-developed high-tech hoses and connector systems, we create clear added value for our customers. We stand for German Engineering with global production and, in so doing, consult closely with our customers. And we also stand for reliability, safety and service. Put as simply as possible: Our hoses connect; and this connection means real added value for our customers – simply *Connecting Values*.

What does the future hold? We will approach 2013 purposefully. On the one hand, much will depend on pressing ahead with the implementation of our internationalisation in Asia. Our complete product portfolio is not yet sufficiently actively marketed in a consistent fashion across the regions of the world where we have a trading presence. In particular, in our European plants, further synergy effects can be achieved in certain parts of the value chain. On the other hand, we need to develop our internal structures and processes further in order to make the group fit for long-term, dynamic growth on a sustainable basis. In addition, we are currently working on creating financial and organisational conditions for future acquisitions. There is still much to be done to successfully and actively shape our exciting and promising future in a goal-oriented manner. And I promise you, the Executive Board and Management will keep their eyes on the ball!

Dear Shareholders, I would like to extend my special thanks to you for your trust in this company and its workforce. I would also like to thank all our employees in all 13 locations throughout the world for their commitment and loyalty and our business partners for their trust and support.

Our objectives are ambitious but realistic because the potential is there. We are on the right track – join us on our journey!

Gelsenkirchen, 5 March 2013

Yours sincerely,

Andreas Bastin

Dr. Andreas Bastin
Chief Executive Officer

The top section of a drip chamber made of PVC from FLEIMA-PLASTIC for use in disposable tubing sets for blood separation treatment

"What I really like is being able to introduce and implement my own ideas."

Stefan Nüßen, graduate engineer, designs hoses and connecting parts at the head-quarter of Masterflex.

High quality spiral hoses from Masterflex. On the left is our highly versatile Master-PUR suction and transport hose, available with various depths of wall thickness. On the right, a sample of the extensive product portfolio: extrusion and master clip hoses, PU hoses and connector elements such as flanges and clamps.

Consolidated Management Report

A. Business development and business environment

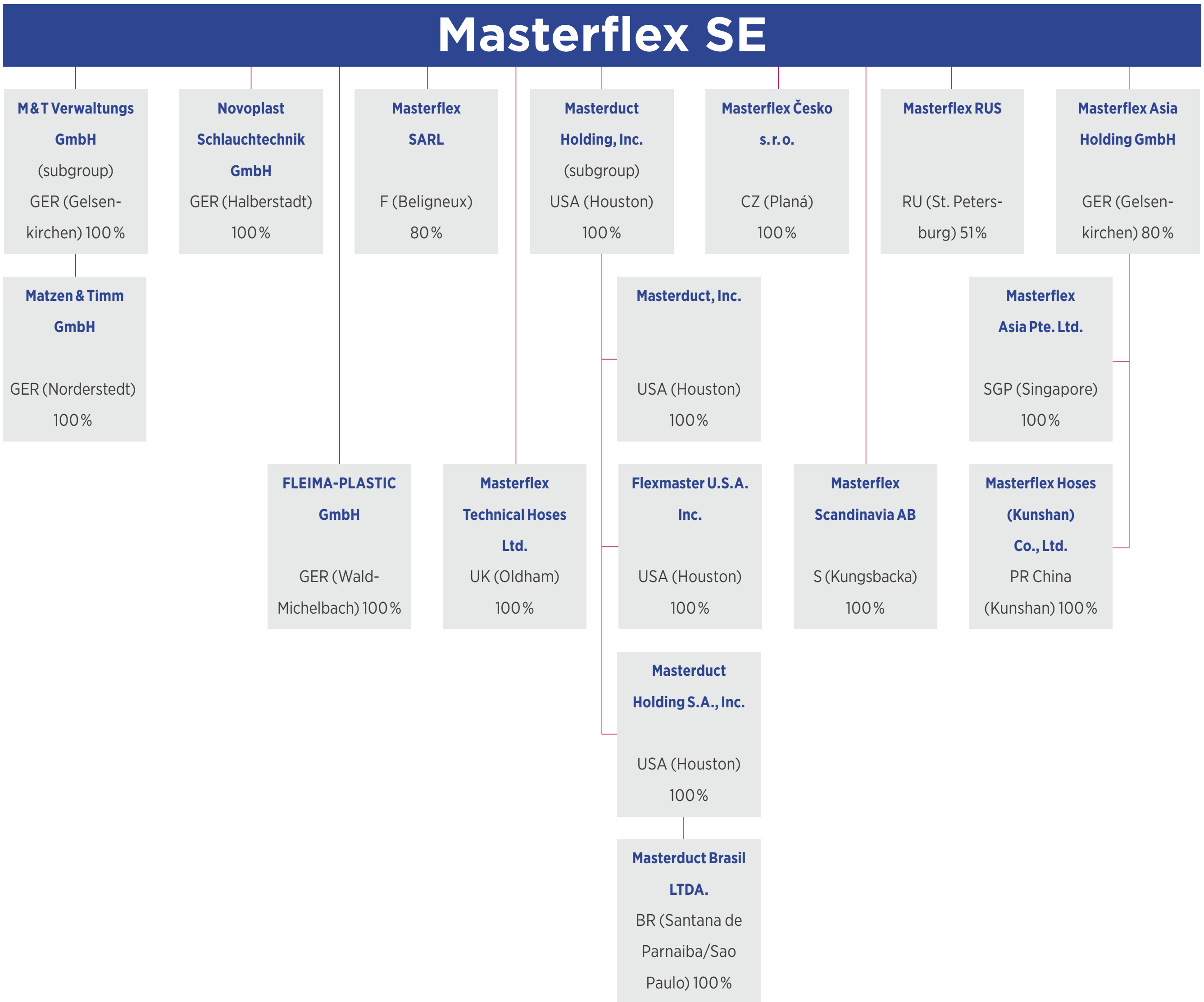
I. Group structure and business activities

The Masterflex Group, with its parent company Masterflex SE, Gelsenkirchen, (hereinafter referred to as Masterflex Group or Masterflex) is a supplier of high-tech hoses and connector systems. The internationally active group company with its roots in Germany is a specialist in the development and manufacture of high-quality connector systems which are made from high-tech plastics and fabrics.

The main production sites of the international Masterflex Group with 13 operating subsidiaries are Gelsenkirchen, Halberstadt, Norderstedt and Houston (USA). In addition, Masterflex has different locations in Europe, America and Asia through our subsidiary branches and sales partners.

Since 2000, Masterflex SE shares have been listed on the Frankfurt stock exchange.

After the successful re-structuring process was completed in 2010, the group has concentrated on its traditional business of high-tech hoses and connector systems.



Important changes

Within the framework of international expansion, the new subsidiary Masterflex Asia Pte. Ltd. was established with its headquarters in Singapore in February 2012. The establishment of the Chinese subsidiary Masterflex Hoses (Kunshan) Co., Ltd. then followed in August 2012.

In June 2012, with a large majority, the Annual General Meeting authorised the change of legal form from a stock corporation under German law into a European company. The international legal form of SE is readily accepted amongst globally operating customers and investors. The change of legal form was implemented as of 1 October 2012. Since then, the company has been operating under the name Masterflex SE.

II. Management and control

1. The Executive Board

The Masterflex Group is run by the Executive Board of Masterflex consisting of two members. Dr. Andreas Bastin has been CEO of the stock corporation since 1 April 2008 while Mark Becks has been CFO since 1 June 2009.

2. The Supervisory Board

The three-member Supervisory Board of Masterflex SE comprises Chairman, Friedrich Wilhelm Bischoping, his Deputy Georg van Hall, and the member Axel Klomp.

The deliberately small size of the Supervisory Board means that no separate Supervisory Board committees are formed. Between meetings, the Executive Board and the Supervisory Board discuss key topics in telephone conference calls and strategy discussions arranged at short notice. In addition, the chairman of the Supervisory Board regularly informs the members about the business performance and the company's upcoming projects.

The detailed report by the Supervisory Board is published on page 113 of this annual report.

III. Objectives, strategies, corporate management

1. Objectives and strategies

The focus of the Masterflex Group is pinpointed exclusively on its traditional business: the development, production and marketing of high-tech hoses and connector systems for a wide range of applications in industry and manufacturing. The business by which Masterflex started trading more than 25 years ago offers significant growth potential. Therefore, we continue to purposefully pursue further expansion.

Our growth strategy is based on two pillars: internationalisation and innovation. Our medium term goal is to become a global leader in the demanding regional specialist connector system markets, both industrial and commercial.

Goal
International expansion
Asia
Brazil
Russia
Innovation
Extension of our material expertise
Substitution of conventional connector systems
Improvement
Realizing internal synergy effects in the Group
Growth

Internationalisation

In 2012, we pressed ahead with expansion into Asia as part of the targeted development of new markets. At the beginning of 2012, the subsidiary in Singapore was formally launched; the Chinese branch in Kunshan near Shanghai followed in summer. The new companies founded in Brazil and Russia in 2010 generated notable orders and revenue in 2012 which meant that business development in Russia performed particularly well, whilst in Brazil, high import duties and the subdued pace of economic activity weighed on business development. Intensified sales activities in the USA led to good expansion of the business. In addition, further steps were taken to successively offer our entire product range in all markets where we have a trading presence.

Innovation

The development of new products which were previously initiated primarily by customer request has systematically been broadened and further improved. Our engineers are now developing innovative products from a continually expanding variety of high-performance polymers and production processes. These products could replace conventional connection solutions or their materials for the good of the business. Both our company and our or technological facilities are geared towards almost all of our customers' product processes which are becoming increasingly more exacting. In particular in this regard, three parameters drive the demand for connection solutions which meet these requirements: firstly, the speed of the manufacturing process, secondly, the flexibility in terms of small end product volumes with frequent variations in production, and thirdly quality requirements of the end products being manufactured.

Further explanations and examples of these processes are given in section E. Research & Development (R & D).

2. Internal corporate management system

The starting point for strategic corporate planning is an annually updated 5 year plan dealing with the income statement, balance sheet, investments and liquidity. Budget planning for the following financial year is derived from this strategic planning and apportioned to individual months. Controlling in the group is driven by the monthly target-actual derivation analyses. Forecasts are prepared quarterly allowing a rolling earnings projection. The management is informed on a weekly basis about the sales and incoming orders from the preceding week. Within the realms of monthly reporting the EBIT for the entire group is reported to the complete Executive Board.

The key performance indicators and their development remain at the forefront for the Masterflex Group; they are modelled on liquidity and the value of the company and support the corporate strategy. These include in particular:

- Revenue growth compared to budget and previous year.
- EBIT development at an entire group level
- Net debt (financial liabilities less cash in hand) and net debt in relation to EBITDA (on a group level).

IV. Market and competition

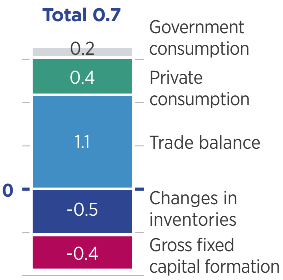
1. General and industry-specific economic situation in 2012

The momentum of the German economic upturn cooled off more and more during the course of 2012. After a good start to 2012 (+0.5 percent in the first quarter of 2012), the dynamics weakened from quarter to quarter; in the last three months of the year under review, the macroeconomic performance has even declined by 0.6 percent. This results in a growth rate of the gross domestic product (GDP) for the whole of 2012 of plus 0.7 percent. The GDP growth rate is significantly lower than the previous year (2011: +3.0 percent, 2010: +4.2 percent).

The economic downturn in the European Union (EU) has become far more noticeable. EU-wide, the economy in real terms has shrunk by 0.2 percent; in the Euro zone states even by 0.4 percent (see the table below). For them, all of 2012 was significantly weaker than the development in Germany. In particular, important trade partners like France or Great Britain are currently undergoing a difficult economic phase. The impact of the European sovereign debt crisis which has led to broader discussions on currency stability in Europe continues to weigh on growth and employment in the EU.

Growth contribution to real GDP

In percentage points; data for 2012



Source: Destatis

Economic growth in states in which Masterflex is present in %
(year-on-year change in GDP)

Country	2012	2011
Euro zone	**-0.4**	**1.5**
Germany	0.7	3.1
France	0.0	1.6
EU	**-0.2**	**1.6**
United Kingdom	-0.1	0.9
Sweden	1.2	4.0
Czech Republic	-1.3	1.8
World	**3.0**	**3.7**
USA	2.3	1.7
Russia	3.4	4.2
Brazil	1.1	3.0
China	7.8	9.2
Singapore	1.4	5.3

Source: Commerzbank

The economy has developed positively however in the other regions of the world where Masterflex is active. In USA, the year fared better than expected initially with a GDP growth of 2 percent. Brazil (+1.1 percent) and Russia (+3.4 percent) were slightly below the forecast made at the beginning of 2012, although they nevertheless showed particular momentum compared to Europe. This applies to China in particular: the economy grew at a price-adjusted rate of almost 8 percent. For the Masterflex Group, this demonstrates looming divergent development between Europe on the one hand and Asia and America on the other, and also how correct and important the internationalisation strategy is which was initiated with great verve in 2010.

As far as the industry is concerned, the 2012 financial year looked very similar compared to the German economy as a whole. The plastics-processing industry in Germany recorded only a slightly increased annual revenue of € 56.2 billion (+0.5 percent) compared to the previous year. Here too, the economic climate in the entire industry slowed from late spring according to the information from the National Association of Plastics Processors and then remained at a constant level for the rest of the year. The plastics-processing industry with 299,000 employees in 2,825 business remained one of the most important sectors of the manufacturing industry. The sector consisting primarily of SMEs is characterised by high levels of innovation and a diverse array of products. Plastics are processed into packaging, building materials, technical parts, semi-finished products, consumer good and numerous other products.

2. The market for high-tech hoses

The global market for high-tech hoses and connector systems comprises many rather regionally oriented specialist markets which are mostly served by SMEs. Customers primarily come from manufacturing, including industrial application (B2B market); they range from internationally operating corporations to wholesale and medium-sized industrial enterprises down to regional small businesses. Due to its rather inconsistent and opaque structure there is little reliable market data. Nevertheless, due to the hard-to-come-by expertise in materials, processing and usages of the demanding polymers and their diverse possible applications, it is an attractive and profitable market. It is characterised by small batch sizes in both production and sales as well as by the intensity of consulting and development expertise for customer-specific solutions. In contrast, the market better known to the general public for mass-produced hose items (such as garden and industrial hoses and bicycle tubes) which is strongly focused on end-customers is determined by large batch sizes, lower margins and major international providers.

The business with high-tech hoses and connector elements has been the basis and mainstay of the Masterflex Group since it was founded 25 years ago. In this regard, we have consistently created stable, cash flow and attractive margins with continuous product innovations.

Our success is based on an experienced research and development team and control of the entire value added chain 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, the automotive industry, energy companies, or in the manufacture and processing of food and pharmaceutical products as well as in 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.

Products of Masterflex Group cannot easily be replaced with other materials. On the other hand, high-tech plastics processed by Masterflex offer significant potential as replacements for conventional material like steel. Moreover, we don’t offer or undertake contract manufacture. Nearly all our products and services are developed by our own engineers and technicians and to a large extent produced in-house.

Protection cap with flap made of HD-PE from FLEIMA-PLASTIC Fleima-Plastic for protecting the tube connections on life support machines

3. Market presence

The following sections presents the most important companies with which Masterflex operates in the market of high-tech hoses. These five companies are the brand components of our future unified market presence under the **MASTERFLEX GROUP** umbrella brand. In addition, there are eight other operating companies in Europe, USA and Asia which sell products of these brands and also produce products on site.

We provide holistic connection solutions which are based on leading technology and often customised to customer-specific requirements. With our self-developed, high-tech hoses and connector systems, we create clear added value for our customers. We stand for German engineering with global production and close customer consultation. And we also stand for reliability, safety and service. Our new slogan Connecting Values expresses this promise in brief and succinct form: our hoses simply combine **Connecting Values** and this combination brings added value for our customers.

MASTERFLEX

The spiral hose business is the core competency of Masterflex SE in Gelsenkirchen. In addition to these extruded spiral hoses, master clip and foil hoses in particular are developed, produced and sold. Connector elements, like cuffs, flanges, threaded sockets and clamps complete our flexible connection solutions.

The extensive range offers products to satisfy individual requirements and fulfil demanding tasks. Irrespective of whether it is extremely abrasive solid matter, aggressive chemicals, gaseous media up to +1,100 °C or even foodstuffs to be conveyed, our hoses constructed from high-tech plastics and fibres always constitute a customer-oriented flexible application solution. The product range offered by Masterflex was expanded in this reporting year to include Master-PURgreen hoses. These hoses are produced from up to 52 percent renewable raw materials. Master-PURgreen hoses have the same quality as the traditional Master-PUR product range in terms of the mechanical properties and resistance.

MATZEN & TIMM

Matzen & Timm GmbH is highly regarded manufacturer of specialist hoses, industrial hoses and many other moulded parts produced from high quality plastic and rubber materials like, for example, silicon. The products are handmade on an industrial scale and are used most notably in sectors in which precision and resilience are paramount. In particular, these include the continually rapidly developing aviation industry, automotive sector and railway transport. Production occurs in both Norderstedt in Hamburg and Planá in the Czech Republic. Special hoses can be found, for example, in the air conditioning system of the Airbus 380 as well as the future Airbus 350, under the bonnet of a racing car or on the chassis of a train with a tilting mechanism. As a manufacturer with its own development department, the value added chain includes all sub-steps from design to prototypes up to series production. Almost all products are custom-made for specific customers.

Thanks not least to its adept handling of requirements and its considerable development expertise, Matzen & Timm has ranked as one of the key suppliers to the aviation industry for more than 50 years. Innovative products such as lightweight and/or electronically conducive hoses and moulded parts, as well as special forms and sealing components, help to meet the requirements of the various markets.

NOVOPLAST SCHLAUCHTECHNIK

Within the Masterflex Group's entire product range, the Novoplast Schlauchtechnik company in Halberstadt, founded over 20 years ago, specialises in smooth hoses and moulded parts, particularly in the extrusion of hoses and profile for industrial and medical technology. In parallel, products are further processed such as by thermosetting or special assembly processes.

Only with thermofixing can hoses in 2D and 3D and with complex geometry and bending radii be manufactured in accordance with customer requirements and with high precision. This process has great potential in many new areas. Curved metal pipes are still used as connector systems. These are heavy, expensive and transmit unwanted vibrations. By contrast, plastic pipes score plus points with their low weight, moderate cost and ability to absorb vibrations. And using the process of thermosetting, accurate precise-fit parts can be produced for specific individual installations.

During the course of 2012, Novoplast Schlauchtechnik recorded sales of pneumatic and special hoses in the USA through our US-based subsidiary. In addition, internal group cooperation with subsidiary FLEIMA-PLASTIC GmbH, manufacturer of medical precision injection-moulded parts, was further intensified. Thus, it is possible to provide our customers with the full package of hose and medical components such as, for instance, Luerlock connectors, drip chambers or roller clamps all from the one source.

State-of-the-art equipment is used for hoses and profile extrusion. The current large range of materials is regularly supplemented by special materials. For the production of medical technology, clean rooms are equipped up to ISO class 6. Product innovations over the past year included profile hoses for special-purpose engineering, electro-conductive special hoses, and high pressure hoses for medical applications, specifically in the realm of angiography.

FLEIMA-PLASTIC

The 100 percent-owned subsidiary FLEIMA-PLASTIC GmbH was founded in 1974; since 2004, the company has been part of the Masterflex Group. High quality plastic injection moulded parts and assembled components are produced mainly for the medical technology, cosmetics and food technology sectors.

In 2011, Fleima-Plastic moved to new production facilities at Wald-Michelbach in Odenwald. In the modern factory, injection-moulded components (also in 2-component design) are manufactured, assembled and finished in clean rooms. In addition, we have vast experience in the manufacture of precision injection moulds in our in-house mould construction department and in the creation of prototypes in all the usual rapid prototyping procedures.

Fleima-Plastic increasingly operates on the market in conjunction with the medical technology sector of Novoplast Schlauchtechnik in order to provide customers the complete solutions from one source. The hoses are used in medical components such as for instance, Luerlock connectors, drip chambers or roller clamps. We will further strength and expand this 'system approach' in the future.

MASTERDUCT

The Masterflex Group is represented in North and South America by Masterduct Holding, Inc., a wholly-owned subsidiary of Masterflex SE. Masterduct Holding has two operating subsidiaries: Masterduct, Inc., in Houston/Texas and Masterduct Brasil LTDA. in Sao Paulo, Brazil. Masterduct, Inc., is active in two industry sectors: heating, ventilation and air conditioning (HVAC) sector as well as in industrial applications.

Under the trade mark FlexmasterUSA, the sector HVAC has established itself as a specialist in the air conditioning and ventilation domain and is a leading name for public sector construction, such as in hospitals, schools sports facilities and universities. Today, it is the preferred supplier in the health sector because the products it manufactures do not contain any adhesives or solvents of any kind. In place of rigid metal pipes, sound-insulated hose designs proved not only to be more cost effective and flexible but worked to absorb sound at the same time. Special compounds made from PE and spunbonded material – woven nylon, bonded, pliable, pressure-resistant and textile-based – are also used for connection purposes where reducing noise is neccesary. These products are used in many publicly known projects, for instance in the meeting rooms in the Pentagon.

Since the founding of Masterduct, more than twelve years ago, an extensive product portfolio has been developed. Masterduct has become one of the market leaders in North America for exhaust fume extraction. Moreover, the company offers an extensive product portfolio of innovative hoses for a multitude of industrial applications. The clientele ranges from the wood industry to the aviation and service industry right up to the US government.

Fireproof bellow from **MATZEN & TIMM**, used in aircrafts to compensate movements

B. Results of operations, net assets and financial position

Results of operations, net assets and the financial position of the Masterflex Group were essentially marked by the following factors in the 2012 financial year:

- An increase in revenue from € 53.0 million to € 55.0 million; this equates to a growth of around four percent. The lower than projected revenue growth is primarily due to delays in the construction of the new premises in Asia and a considerable, wide-ranging downturn in Europe particularly in France.
- EBIT increased slightly by € 0.1 million to € 7.6 million. This lower increase compared to the revenue growth is mainly due to the up-front costs in connection with internationalisation, to the expansion of the sales and technology areas on our sites, and inflation effects (increase in staff costs).
- Within the framework of the internationalisation strategy, market entry into Asia was completed in 2012; two Asian subsidiaries were founded in Singapore and Kunshan (near Shanghai). Due to administrative hurdles, our business activities were recorded later than planned. The first significant orders were nevertheless recorded in the last year.
- The Executive Board decided to expand the plant in the Czech Republic for more intensive use in the future. This is linked to an increased valuation on the property which is reported under other operating income.
- The former Masterflex AG converted into Masterflex SE. The costs incurred are shown separately under non-operating effects.
- The group's debt remained at the previous year's level. Interest expenses fell considerably in 2012 due to the strong debt reduction the previous year and the favourable development of the Euribor interest rate.
- The equity ratio now stands at 39 percent.

The key figures for the Masterflex Group are as follows:

k€	2012	2011
EBITDA	10,171	9,964
EBIT	7,556	7,499
EBIT margin	13.7%	14.2%
Consolidated net result – continued	4,904	4,256
Consolidated net result – discontinued	–262	–114
Earnings per share – continued	0.53	0.45
Earnings per share	0.50	0.44

I. Results of operations

	2012 k€	%	2011 k€	%	+/– k€	%
Revenue	54,984	95.4	52,999	96.7	1,985	3.7
Changes in inventories	772	1.3	205	0.4	567	276.6
Other own work capitalised	290	0.5	52	0.1	238	457.7
Other operating income	1,626	2.8	1,518	2.8	108	7.1
Gross revenue	**57,672**	**100.0**	**54,774**	**100.0**	**2,898**	**5.3**
Cost of materials	–17,798	–30.9	–17,002	–31.0	–796	4.7
Staff costs	–20,069	–34.8	–18,032	–32.9	–2,037	11.3
Depreciation, amortisation and write-downs	–2,615	–4.5	–2,465	–4.5	–150	6.1
Other operating expenses	–9,396	–16.3	–9,553	–17.4	157	–1.6
Other taxes	–238	–0.4	–223	–0.4	–15	6.7
Total operating expenses	–50,116	–86.9	–47,275	–86.2	–2,841	6.0
Adjusted EBIT	**7,556**	**13.1**	**7,499**	**13.8**	**57**	**0.8**
Financial result	–1,567		–2,238		671	
Non-operating income	–187		910		–1,097	
Earnings before taxes	5,802		6,171		–369	
Income tax expense	–898		–1,915		1,017	
Earnings after taxes from continued acitivities	4,904		4,256		648	
Earnings after taxes from discontinued activities	–262		–978		716	
Non-operating result from discontinued activities	0		864		–864	
Consolidated net income/loss	**4,642**		**4,142**		**500**	
thereof minority interests	199		259		–60	
thereof attributable to shareholders of Masterflex SE	4,443		3,883		560	

1. Turnover development

Revenue increased year-on-year by € 2.0 million or around four percent to € 55.0 million (previous year € 53.0 million). This increase in revenue is significantly lower than our forecast for the 2012 financial year which is particularly attributable to weaker business in the last few months of 2012, to administrative delays related to the market entry in Asia and to a general economic slowdown in Europe, particularly in France.

Revenue was maintained or increased in almost every subsidiary. The largest sales market for the Masterflex Group was and still is Germany. The main drivers for our growth however were our activities via our companies in North and South America, in Russia and the Novoplast Schlauchtechnik subsidiary. Our sales were significantly down in France at minus twelve percent year-on-year. The difficult development is closely linked to the zero growth which the second largest country in the Euro zone had to record (see on page 13).

The very different development of the economies around the world was also clearly reflected in our sales figures. A gap has opened up between Europe and the rest of the world. This shows how important it is to prioritise our steps towards internationalisation in the coming years. Even if this involves run-up costs, our engine for growth lies in the non-European markets. Thus, we expect a gradual shift in our sources of revenue in other regions and countries, particularly outside Europe over the next few years.

2. Earnings development

Operating EBIT (EBIT before discontinued business activities and non-operating income and expenditure) increased by 0.8 percent from € 7.5 million to € 7.6 million. This equates to an EBIT margin of 13.7 percent (14.2 previous year). Thus the result on earnings still lies in the range or our annual forecast (14 percent).

The causes for the slight fall in the EBIT margin, on the one hand, are the increased costs of our internationalisation activities, an increase in staff costs due to the strengthening of sales and technology in our traditional location, wage inflation and costs connected with necessary certifications and contract reviews. On the other hand – in addition to the special regional developments already stated – revenues in particular from our new activities have shifted backwards on the time line. Both of these effects grouped together lead to a slightly lower fixed cost absorption which will pick up again with future growth.

The development of individual items in the consolidated income statement are explained in brief below.

The change in inventories amounted to € 0.8 million and thus € 0.6 million over last year's figure. Due to the expected growth phase, we also expect a slight increase in inventories in the future.

The work performed and capitalised are essentially related to the creation of facilities in Russia and China. On the other hand, despite the increase in staff and material costs in relation to revenue, the staff cost ratio has no effect on earnings.

Other operating income rose slightly year-on-year by € 0.1 million to € 1.6 million. Included there are the effects from the reversal of accruals (including the provision set up for warranty risks in 2010) from the amortisation of grants and allowances as well as the appreciation in value of two properties in the Czech Republic and of Fleima-Plastic.

The cost of materials ratio (material costs in relation to sales and stock changes) remained below the previous year in 2012. In the previous year they amounted to 32.0 percent, whereas in 2012 they fell to 31.9 percent. This is due to stable raw material prices and a favourable change in the product mix.

The recruitment of staff for new international locations as well as the expansion of sales and technology areas at the traditional sites are two reasons for the increase in the staff cost ratio (staff costs in relation to sales and changes in inventories) from 33.9 percent (previous year) to 36.0 percent. Other factors are also the increasing staff costs in relation to annual wage and salary adjustments.

Other operating expenses (including other taxes) remained slightly below the level of the previous year. In 2012 they fell from € 9.8 million to € 9.6 million. The special effect due to relocation of Fleima-Plastic to Wald-Michelbach was included in the previous year's figures.

Due to moderate investment activates, depreciation increased from € 2.5 million (previous year) to € 2.6 million in 2012.

With a consolidated operating result of € 7.6 million, the EBIT margin (EBIT in relation to revenue) could not maintained year-on-year. It fell from 14.2 percent to 13.7 percent. This is essentially due to the lack of coverage of fixed costs due to only a moderate growth in sales. In line with sales, the operating EBIT also fell below our expectations.

The financial result was seen to significantly improve from € –2.2 million in 2011 to € –1.6 million. In particular, the interest rate for liabilities to banks was lowered considerably due to the intensified debt reduction and also due to the favourable development of Euribor interest rate.

The costs of € 0.2 million for the change in legal form to SE status are included in the result from non-operating income and expenditure from continued business activities. The effect on earnings due to an out-of-court settlement for an interest rate swap to a bank amounting to € +0.9 million last year was also reflected here.

Tax expense fell year on year from € 1.9 million to € 0.9 million, in particular due to the capitalisation of deferred taxes. Current income tax was incurred mainly by the foreign subsidiaries and within the context of so-called minimum taxation at Masterflex SE. The income tax burden was, on the basis of the Masterflex SE loss carried forwards, optimised by two profit transfer agreements concluded in 2011 between the former Masterflex AG on the one hand and M & T Verwaltungs GmbH and Novoplast Schlauchtechnik GmbH on the other. In addition, deferred tax assets were recognised after this item had been somewhat redundant the previous year. On the basis of our positive business planning and the profit transfer agreements concluded by Masterflex SE, we expect the loss carried forwards to be significantly depleted in the next five years. Higher deferred taxes were set up for this. In the future, the balance sheet position deferred taxes will be reduced by the consumption of loss carried forwards.

The provisions for legal dispute with the buyer of both Mobility group companies are included under earnings from discontinued business activities. In total, the result for this activity amounts to € –0.3 million.

Consolidated net income amounts to € 4.6 million; against the previous year's figure (€ 4.1 million), this amounts to an increase in net profit of 12.1 percent. € 4.4 million of the net profit (€ 3.9 million the previous year) was allotted to Masterflex SE shareholders.

Minority interests reflect the ownership of the subsidiary in France (Masterflex SE: 80 percent) and the Russian subsidiary (Masterflex SE: 51 percent) as well as Masterflex Asia Holding GmbH (Masterflex SE: 80 percent).

Earnings per share for both continued and discontinued business activities increased from € 0.44 (previous year) to € 0.50 in 2012.

II. Net assets

1. Asset structure

Assets	31 Dec. 2012 k€	%	31 Dec. 2011 k€	%	+/– k€	%
Intangible assets	4,187	8.1	4,107	8.0	80	1.9
Property, plant and equipment	21,232	40.5	20,881	41.0	351	1.7
Non-current financial assets	445	0.8	615	1.2	–170	–27.6
Other assets	26	0	81	0.2	–55	–67.9
Deferred taxes	5,932	11.3	5,641	11.1	291	5.2
Non-current assets	**31,822**	**60.7**	**31,325**	**61.5**	**497**	**1.6**
Inventories	11,119	21.2	9,295	18.3	1,824	19.6
Receivables and other assets	6,671	12.7	5,766	11.3	905	15.7
Current assets	**17,790**	**33.9**	**15,061**	**29.6**	**2,729**	**18.1**
Cash	**2,823**	**5.4**	**4,544**	**8.9**	**–1,721**	**–37.9**
	52,435	**100.0**	**50,930**	**100.0**	**1,505**	**3.0**

Total assets increased by € 1.5 million year-on-year to € 52.4 million.

On the assets side, non-current assets increased by € 0.5 million to € 31.8 million. This is attributable to the increase in property, plant and equipment by € 0.4 million and the capitalisation of deferred taxed by € 0.3 million.

Masterflex invested around € 2.6 million in intangible assets and property, plant and equipment (previous year € 2.4 million). Significant investments related to the expansion of clean room technology and extrusion lines at Novoplast Schlauchtechnik, a mobile clean room facility and injection moulding machines at Fleima-Plastic, renewal of the machine park at the US subsidiary Masterduct and various machines and equipment for our subsidiaries in Russia and China.

Current assets and cash equivalents increased by € 1.0 million from € 19.6 million (previous year) to € 20.6 million in 2012. Important effects were:

- Reduction of cash-in-hand by € 1.7 million
- A growth-driven increase in receivables and other assets by € 0.9 million
- The build-up of inventories amounting to due to € 1.8 million due to growth, medium-term replacement of a raw material where supply shortages are expected and increasing internationalisation.

2. Capital Structure

Equity and liabilities	31 Dec. 2012 k€	%	31 Dec. 2011 k€	%	+/– k€	%
Consolidated equity	19,988	38.1	15,682	30.8	4,306	27.5
Minority interest	536	1.0	557	1.1	–21	–3.8
Total equity	**20,524**	**39.1**	**16,239**	**31.9**	**4,285**	**26.4**
Provisions	191	0.4	242	0.5	–51	–21.1
Financial liabilities	17,126	32.7	18,446	36.2	–1,320	–7.2
Other non-current liabilities	1,489	2.8	1,629	3.2	–140	–8.6
Deferred tax liabilities	838	1.6	431	0.8	407	94.4
Non-current liabilities	**19,644**	**37.5**	**20,748**	**40.7**	**–1,104**	**–5.3**
Provisions	2,600	5.0	3,561	7.0	–961	–27.0
Financial liabilities	6,056	11.5	5,656	11.1	400	7.1
Other current liabilities	3,611	6.9	4,726	9.3	–1,115	–23.6
Current liabilities	**12,267**	**23.4**	**13,943**	**27.4**	**–1,676**	**–12.0**
	52,435	**100.0**	**50,930**	**100.0**	**1,505**	**3.0**

Equity grew from € 16.2 million to € 20.5 million on the basis of net profit. As a result, the equity ratio (equity in relation to total assets) was 39.1 percent as of 31 December 2012 (31.9 percent previous year). Due to existing distribution restrictions at Masterflex SE, no dividend can be distributed for the 2012 financial year.

Non-current liabilities decreased by € 1.1 million from € 20.7 million to € 19.6 million. This is primarily due to the reduction in non-current financial liabilities by € 1.3 million to € 17.1 million.

Current liabilities dropped by € 1.7 million to € 12.3 million. These most notably include a decrease in current provisions from € 1.0 million which was formed in 2010 for warranty risks as well as the reduction in holidays and other provisions. The reduction of deferred tax liabilities from € 0.6 million and other liabilities by € 0.4 million.

III. Financial position

1. Principles and objectives of financial management

The key short to medium term objectives of our financial management were achieved in 2012. In essence these are:

- Reducing liabilities to banks by generating liquid funds from operating activities
- Strengthening equity
- A reduction in interest expenses.

Our current medium aims in financial management are a further gradual moderate reduction in liabilities to banks and the associated gradual reduction of interest expense. As part of long term growth strategy and possible future acquisitions in the hose business, we are currently having intense discussions about potential means of financing such investments and considering them in terms of internal effects on results of operations and net assets so that we are able to act quickly if opportunities arise on the market.

2. Financing analysis

Long and short term financial liabilities amounted to € 23.2 million as at 31 December 2012 down € 0.9 million on the previous year. The cash and cash equivalents of the Masterflex Group amounted to € 2.8 million (previous year € 4.5 million). This meant the net debt stood at € 20.4 million at the end of the year. Net debt in relation to EBITDA (one of the group management variables) was at 2.0. This key figure is a measure of the group's debt-to-equity ratio and indicates how quickly debt can be reduced.

The financial liabilities amounting to € 23.2 million are structured as follows:

- € 17.7 million from the syndicated loan agreement,
- € 4.6 million amortising loans and mortgage loans (including deferred amortising loans) outside the syndicate loan agreement,
- € 0.7 million lease liabilities and
- € 0.2 million other interest bearing financial liabilities.

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

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

3. Liquidity position

Cash in hand and bank balances decreased from € 4.5 million to € 2.8 million at the end of 2012.

The € 1.7 million reduction is largely due to the following circumstances:

- Positive earnings before depreciation (EBITDA, € +10.2 million)
- Capital expenditure on property, plant and equipment and intangible assets (€ –2.6 million)
- Build-up in inventories (€ –1.8 million)
- Income taxes paid (€ –1.8 million)
- Interest payments of € 1.6 million
- A non-cash reduction of provisions (€ –1.0 million)
- Further reduction of the group's debt (€ –0.9 million)

- An increase in receivables and other current assets (€ –0.7 million).
- Non-cash appreciation of two properties of our subsidiaries Fleima-Plastic and Masterflex Česko in the Czech Republic (€ –0.6 million)
- Cost of the change in legal form (€ –0.2 million)
- Payment of the last instalment to Surpro shareholders (€ –0.2 million)
- Other (€ –0.5 million)

The cash flow statement, condensed to the main rows and showing the reduction of cash in hand and bank balances in 2012, appears on page 61 (consolidated cash flow statement).

The Masterflex Group was solvent at all times throughout 2012. Under the syndicated loan agreement, Masterflex SE has a further freely available non-utilised credit line of € 3.5 million.

IV. Summarising overall statements of results of operations, net assets and financial position

Overall, the group management considers the results of operations, net assets and financial position of the Masterflex Group as of the reporting date considering

- The growth particularly in the international markets,
- The increase in the group's equity and
- The ratio of net debt to EBITDA of 2.0

to be extremely satisfying and as a good foundation for future development of the Masterflex Group.

The Master-Clip Neopren suction hose from MASTERFLEX withstands everything thrown at it – from aggressive gases and fine dust through to cold or hot air of up to +125 °C

C. Corporate Governance Report

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

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

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

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

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

1.2 Relevant disclosures on corporate management practices

Structures for the management and supervision of Masterflex are set out in the company's Articles of Association as well as the Rules of Procedure for the Executive Board and Supervisory Board. The company's Articles of Association can be examined on the internet at www.MasterflexGroup.com.

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

Masterflex SE is a European stock corporation in accordance with EU regulation and German law. The basic principle of German stock corporation law is the dual management principle consisting of an Executive Board and Supervisory Board which each have their own areas of responsibility. Details of the functions of the Executive Board and Supervisory Board can be found on the company's website at www.MasterflexGroup.com.

II. Compensation report

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

1. Executive Board compensation

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

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

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

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

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

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

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

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

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

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

2. Supervisory Board compensation

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

The variable components of the Supervisory Board's compensation are also geared to sustainability. For sustainability, certain corporate figures must trend positively over a period of two years. These components are limited to a maximum of € 5,000 per Supervisory Board member and financial year. It is also apparent that the increasing demands placed on the Supervisory Board, on the one hand, and its limited size, consisting of only three members, on the other hand, involve all members in the work of the Supervisory Board to a considerable degree. Therefore, no additional remuneration is paid to the chairman or deputy chairman. Rather, the same amount of compensation is paid to all members of the Supervisory Board. Furthermore, there is separate compensation for committee work as their formation would make no sense with a three-member Supervisory Board.

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

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

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

All disclosures in k€	Fixed compen-sation	Performance-related compensation[1]	Total attendance allowance	Total compensation relevant to payment 2012
Chairman of the Supervisory Board, Mr Friedrich W. Bischoping	10.5[2]	3.75[2]	1.5[2]	15.75[2]
(Previous year)	(14)	(5)	(2)	(21)
Deputy Chairman of the Supervisory Board, Mr Georg van Hall	10.5[2] (14)	3.75[2] (5)	1.5[2] (2)	15.75[2] (21)
Supervisory Board Member, Mr Axel Klomp	10.5[2] (14)	3.75[2] (5)	1.5[2] (2)	15.75[2] (21)
Total compensation	31.5[2]	11.25[2]	4.5[2]	47.25[2]
(Previous year)	(42)	(15)	(6)	(63)

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

2 *Pursuant to § 113 para 2 of the German Stock Corporation Act, the remuneration is determined at the Annual General Meeting for members of the first Supervisory Board of Masterflex SE by separate decision. Owing to the change of legal form to SE on 1 October 2012, the compensation paid to the Supervisory Board only included nine months in 2012 in accordance with the system previously applicable.*

III. Other disclosures in accordance with § 315 para 4 of the German Commercial Code

The share capital of Masterflex SE amounts € 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 €1.00. Each share grants the holder a voting right.

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

The company is aware of one case of direct or indirect equity investment in the capital exceeding 10 percent of the voting shares. This is a strategic investor, who to the company's most recent knowledge, holds 19.9 percent of shares in Masterflex SE.

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

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

Any amendment to the Articles of Association requires a resolution by the Annual General Meeting. In accordance with § 179 of the German Stock Corporation Act, a resolution by the Annual General Meeting requires a majority of at least three quarters of the share capital represented when the resolution is passed. The Articles of Association can stipulate a different majority, although only a larger majority for a change to the purpose of the company. In accordance with § 18 of the Articles of

Association, resolutions at the Annual General Meeting are passed by a simple majority of the votes case unless otherwise required. In addition as far as the German Stock Corporation Act stipulates on the decision making process the simple majority of the represented share capital, a majority of the represented share capital is sufficient in so far as this is legally permitted. This also applies to amendments to the Articles of Association. In accordance with § 14, para 5 of the Articles of Association, the Supervisory Board is authorised to make changes to the Articles of Association that effect only the wording.

The 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 27 June 2016 by issuing up to 4,432,937 no-par value bearer shares in exchange for cash and/or non-cash contributions by a maximum value of € 4,432,937 (authorised capital). Subscription rights can be disapplied 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 through the issue of 2,250,000 new no-par value bearer shares. The contingent capital increase was used 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 28 June 2011 authorised the company from 29 June 2011 to 28 June 2016 to acquire treasury shares of up to 10 percent of the company's share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised. The company has not yet exercised this authorisation.

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

D. Non-financial performance indicators

I. Employees

In 2012, there was an average of 501 employees employed in the Masterflex Group (448 previous year). The increase in employee numbers is due to the development of Masterflex Asia on the one hand and the increase of the sales and technology areas on the other.

Thanks to our extremely dedicated and motivated employees, we could continue this positive trend and continue the expansion our international activities.

During the annual staff appraisal interviews, managers and employees get together to assess their performance. Personal targets are agreed for the year to come, which, in addition, to the general corporate targets, form the basis for various compensation. At the same time, these meetings are the basis for specific employee development. We regularly offer our employees both individual professional training opportunities and courses in foreign languages. We also support vocational study programmes.

Satisfied and committed employees are enormously important for our success. Happily, key figures for staff turnover rate remain low.

II. Social responsibility

We are aware of our social responsibility towards young people. For this reason, we again employed trainees in commercial and administrative functions in 2012. In Germany alone, we currently employ 14 trainees in various occupations. We also work with various educational establishments and offer retraining placements so that practical training can be completed at our premises.

The expansion of our contact with educational establishments and vocational colleges, as well as the Masterflex Group's presence at universities, means that we are well known among young potential employees in Germany. We regularly offer training places to school and university students.

Masterflex supports the compatibility of family and career. We offer parents in our employment the opportunity to balance their family and career by working part-time or on flexible hours. In this way, we retain the skills of these experienced employees. Masterflex received the “family-friendly company” award in 2012, presented by the Gelsenkirchen Alliance for Families.

As part of our employee development and promotion programme, the target appointment of women to senior roles in technical and sales departments is also encouraged. While Masterflex already has a comparatively high proportion of women working in all commercial and administrative areas, there are still too few sufficiently qualified women applicants in the areas of technology and technical sales/project sales. The recruitment of increasing employment of employees who were not born in Germany is also an aim in all areas of the company. Not least as part of our continuing internationalisation, potential managers with international backgrounds are supported.

III. Environmental protection

We are aware of our ecological responsibility. This is just as important to us as the high standards demanded for the quality of our products and processes. Compliance with and regular monitoring of environmental protection legislation and advice for options for implementing this is secured through internal project managers and external agents.

In the production of our hoses, we mainly process 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 as far as possible: wires and polyurethane are separated and resold or reused in production without a loss in quality.

Masterflex SE go beyond this by pursuing a policy of being an 'Eco-profit' company by continually of improving measures to save resources and making an important contribution to protecting the environment.

The EU regulation REACH, which came into effect in 2007, stands for the registration, evaluation, authorisation and restriction of chemicals and obliges manufacturers 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 authority responsible for REACH – is to close existing gaps in people's knowledge to allow chemicals to be dealt with responsibly. In the REACH supply chain, the Masterflex Group, as a product suppliers, has the status of a downstream user and for this reason has not carried out any pre-registration. All necessary measures have been adopted since REACH came into effect. Information on REACH can be found on the Masterflex website at www.Masterflex.de.

E. Research and development

Our high innovative strength of the Masterflex Group, as an essential part of our corporate strategy, contributes directly to our profitable growth. This is all the more important because innovation is key to the long term success of companies operating in a dynamic environment with increasing international competition.

Application development with a focus on innovative tools, production processes as well as new product application is in the foreground. This development frequently occurs across the entire value chain: often when customer requirements are addressed and implemented in solutions to specific problems. We regularly develop material-based standards in close cooperation with raw materials suppliers. In doing so, we align the quality standards to various market requirements at a very early stage and in a targeted manner.

In view of shortened product life cycles and increasing innovation expenditure, success depends more than ever on the planning and management of development projects. This is taken into account by our active management of innovation. Structured innovation processes and goal-orientated project management are indispensable requirements for optimising the effectiveness and efficiency of innovation. Intensive contact with leading research institutions guarantees our development engineers access to cutting edge technology.

For every individual innovation, we review whether it is necessary, legally possible and reasonable in terms of our corporate strategy to apply for patents or other property rights. We are continually improving the targeted review of possible protective measures and cost-benefit analysis at an early stage of development. The Masterflex Group thus owns an increasing number of intellectual and industrial property rights.

With the development of tubes made of polyethylene, which has particularly excellent chemical resistance, we could again demonstrate impressively our expertise in materials. The result is an innovative product which meets the highest demands and, through its resistance to acids, alkalis and other chemicals, is predestined for transportation of aggressive gaseous and liquid media or of fine-grained particles such as dust and powder in the chemical industry.

Compared to PU suction and transport hoses, PE material has a much higher chemical resistance. Thus, many standard materials are no longer suitable for the extraction of highly aggressive solvents which only have a short lifespan. The most aggressive media, which occur during production and which must be extracted, often represent a significant challenge to the hoses. Where comparable types of PU hose have little or no chemical resistance, polyethylene hoses score well with their high durability.

On the product side, another focus for development was our flame-resistant and halogen-free XFlame® tube which we successfully introduced on the market. As XFlame® XFlame soft® or XFlame hydro® are available in different rates of hardness, this hose is preferably used in the welding and assembly lines. The tubes are halogen-free and fulfil the flame retardancy requirements of UL94-V0. Because these hoses conform to the RoHS directive, they thus contribute to the protection of human health and the environment, including environmentally sound recovery.

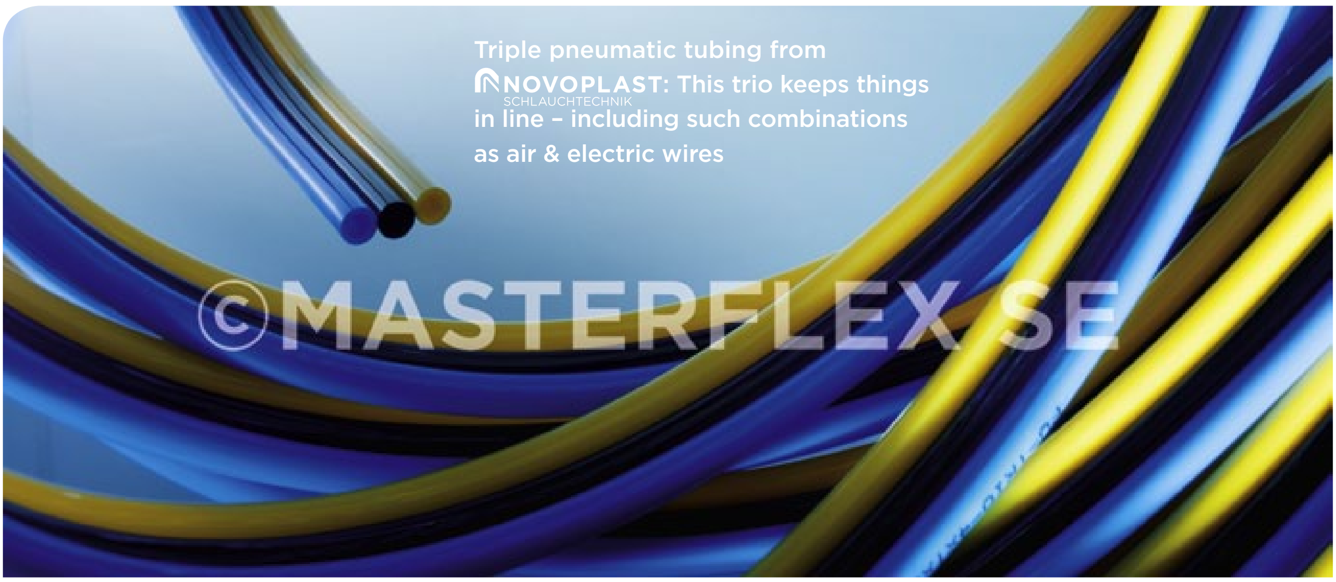
Examples of other results of these processes in 2012 were:

- Hoses made from renewable raw materials
- Protective tubes for the fuel line of aircraft
- Profile tubes for specialist mechanical engineering
- Special electrically conducive hoses
- High pressure hoses for medical applications, specifically in angiography.

The focus of our development projects will remain our innovative materials and production processes and new product applications in order to develop and strengthen the Masterflex Group's high innovative strength in the future.

F. Report on post balance sheet date events

No events of particular significance relating to the results of operations, net assets and financial position took place after the balance sheet date.



G. Risk report

I. Risk management system for value-orientated corporate management

Corporate activity always involves risks and rewards. 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. For all transactions we enter, the opportunities must clearly outweigh the risks. We strive to limit existing risks to an acceptable and manageable level. Amongst other things, we use insurance and contractual provisions for this purpose.

The 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 for error and to limit risks arising from them. This external 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 procedures. One of the key functions of this process is the management of the group and its operating units. The targets developed by the Executive Board of Masterflex SE form the starting point. Rolling medium term plans are drawn up on the basis of these and our monthly forecast plans for operating development. The ICS is reviewed thoroughly at least once a year to ensure that it is effective and efficient.

We identify risks in financial reporting at the level of the 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 of whether the necessary control measures actually took place and were implemented correctly. This is 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 been a regular feature in meetings of the Supervisory Board since 2008.

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

On this basis, risk management at Masterflex 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 the group.

II. Efficient risk management organisation

The Masterflex Group's risk management is integrated into existed 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.

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

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

In sales, risks can arise, in particular, from the as-yet unresolved sovereign debt crisis and its influence on further economic development. The further business development of Masterflex 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 individual customer.

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

On the procurement side, the availability of raw materials and of intermediate products as well as changes in purchase prices constitute a risk for our companies. We strive to reduce these price and availability risks, through international purchasing, 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 or quantities, we aim to ensure close cooperation with the 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 in specific suppliers. However, in order to limit this risk, we pursue a second source strategy to avoid dependence on one supplier.

We will counteract the potential increase in competitive pressure in our product groups by continuously improving our products, services and business processes. Our selling 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 new one-of-a-kind products with unique selling points.

2. Financial risks

Financial risks included 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 the subsequent hedging financing decisions or changes in the values of 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 maximum limits for their conclusion and the banks with which such instruments may be entered into. Compliance with all regulations is constantly examined and revised. Receivable default risk is reduced by systematically obtaining information on creditworthiness, setting credit limits and performing active debtor management, including dunning and proactive collective measures. Nevertheless, individual – even major – defaults on receivables from customers cannot be ruled out.

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

Business and financing activities in foreign currencies are rarely entered into and do not exist to any noteworthy degree at present. Cross-currency financing within the group which naturally leads to foreign exchange positions in the group, does not exist to any noteworthy degree. Exchange translation risks arising from balance sheet items originally in foreign currency are not hedged in the group. Likewise, Masterflex SE does not hedge its net asset claims from group companies outside the Euro zone.

If interest rate risks arise when raising funds on the capital or credit markets, these risks are also monitored and individual cases hedged if necessary using rate derivatives.

The conclusion of the syndicated loan agreement at Masterflex SE with a remaining term of three years and the low level of foreign currency transactions mean that the financial risks at Masterflex are viewed as low.

The interest-rate risk is significantly limited 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. The interest-rate cap hedges the balance due from the various tranches of the syndicated loan over its entire term against an increase in short-term interest rates beyond a specified amount. Therefore, Masterflex does not give itself the opportunity to benefit from current low interest rates. Moreover, there is no noteworthy variable-rate financing in the Masterflex Group. Finance lease liabilities include no noteworthy interest rate risk, as these liabilities will expire within the next two years, and no significant conversion dates remain.

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

Based on current and planned business development, we anticipate being in compliance with these covenants, because the covenant limits were defined on the basis of a business plan that forecast the economic recovery of the company much later. The upper limit for the key figure 'debt-to-equity ratio' (calculated in accordance with the syndicated loan agreement) in 2012 was initially 4.5, and from September 2012 it was 4. However, due to debt being greatly reduced, Masterflex has maintained a debt-to-equity ratio continuously below 3 since the beginning of 2012. As of the 2012 balance sheet date, this key figure was 2.0. The lower limit of the second key figure 'equity ratio' (calculated according to the loan agreement, in which the equity on the balance sheet is adjusted for certain assets) was initially at a value of 1 percent but had reached a value of 4 percent at the end of 2012. From the beginning of 2012, Masterflex was also quite considerably above the mandatory threshold for the second key figure with values of 17.5 percent to most recently 24.9 percent. Therefore, the covenants would only be breached by a dramatic deterioration of future results.

3. Production risks

We counteract possible production downtime, e.g. caused by 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. Moreover, our production is not limited to one location.

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. In order to secure this in the future, an innovation management process was introduced. An expert body from sales, product management, R&D, controlling and production makes decisions on further developments in accordance with clear process and assessment criteria (stage-gate-process). In particular, the members make decisions on the basis of market analyses and considerations of economic viability. Risks resulting from undesirable developments and the associated financial expense are thus minimised.

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 later become new standard applications. We secure the results of our R&D activities, when possible and reasonable, with our own property rights.

The recognised quality of our products and high delivery capacity are important requirements for our success. In order to control such risks relating to its goods and services, we give 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 Group are limited in a systematic manner.

Connector from MATZEN & TIMM for the vacuum toilet system of the Airbus 380

5. IT risks
The continuous availability of IT systems is a vital factor in ensuring operations at the Group's individual sites and offices. Accordingly, internal and external experts work continuously to optimise the Group's central and decentralised information security systems. The hardware and software components currently available are employed to protect the Group against potential system failures due to external disruptions, such as 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 SE 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 only aware of one instance of litigation proceedings that could have a tangible effect on the results of operations, net assets and financial position of the Group.

This concerns the buyer of both former Mobility Group companies, Clean Air Bike GmbH and Velodrive GmbH, suing Masterflex SE primarily due to the reversal of the purchase agreement. Alternatively, an additional application for substantive relief was submitted due to breach of warranty. Based on the information available, we have, from our point of view, taken a different, very reasonable stance. As a precautionary measure, however, a provision of € 200 thousand was made under discontinued operations.

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. In addition, contracts of economic significance for Masterflex are reviewed by external lawyer before they are concluded.

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. The loss of experts or experienced technical and management staff is one of the greatest risks for the Group, although no such trend can be seen at the moment.

Masterflex's ability to retain young technical and management staff in the Company will also become increasingly important in the future. The necessary personnel development steps have already been introduced. They include performance-related pay, conducting annual assessment meetings, providing employees with further qualifications, developing future prospects and cooperating with universities and research institutions. These efforts will be intensified in future. To lend even more impetus to these measures and widen the pool of potential new technical and management staff for the Masterflex Group, women, people with international backgrounds and older people will be identified and developed in terms of qualifications in a targeted manner. As an SME, we see a chance in the already noticeable shortage of technical and management staff to balance out possible competitive disadvantages against large-scale enterprises on the human resources market.

8. Acquisitions and divestments

The strategy of Masterflex includes both company sales and strengthening the hose business via business combinations or acquisitions.

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

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

9. Tax risks

Due to future audits or audits not yet completed, there is a risk of tax back payments or nonrecognition of losses carried forwards. It could be the case that § 8c para 1a of the German Corporation Tax Act will not be able to be applied and that the requirements for the restructuring privilege will not be met, meaning that the principle of carrying tax losses forwards cannot be used. Tax back payments would negatively affect the Group's liquidity. A reduction of losses carried forwards would lead to a reversal of deferred tax assets.

IV. Other individual risks

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

V. Summary and overall statement of the group's current risk situation

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

Our results of operations, net assets and financial position may be considerably adversely affected in future if the Masterflex Group is unable to adapt to market changes – 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.

Currently, the greatest individual risk is recruiting and retaining qualified technical and management staff in order to achieve the growth planned over the next few years. For this purpose we will make every effort to remain a highly attractive employer.

On the procurement market, the availability of all raw materials needed is a substantial risk. We try to minimise this risk in particular by substituting raw materials that are in especially short supply, so that overcoming this scarcity actually represents an opportunity for future business.

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

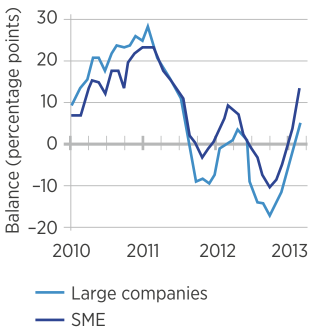
H. Report on expected developments

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

I. Outlook

1. Economic environment

Kfw-ifo business expectations



Source: KfW, ifo Institut Munich

After the very weak, even recessive final quarter of 2012, there are now signs that the German economy is starting to move again. The risk of disintegration of the Monetary Union is now generally considered much less likely. Also for Germany, unusually low interest rates are having a positive effect on the economy according to economic experts from Commerzbank.

This positive macroeconomic development for Germany is reflected in the business climate. Thus, the business expectations for SMEs as well as large companies have stabilised significantly (see Illustration), while the business expectations of SMEs measured by the KfW-ifo SME barometer increased for the third consecutive month. Traditionally these are considered to refer to an economic turnaround. Commerzbank economists forecast a GDP growth of 0.5 percent in Germany (see table left). Also in the plastics processing industry, according to the National Association of

Plastics Processors (GKV), we look to the beginning year 2013 with cautious optimism and again expect a momentum in growth at the latest for the second half of 2013.

In the Euro zone, the economy is likely to further stabilise again in 2013 following the recessive phase in 2012 and a GDP shrinkage of 0.4 percent in 2012. Again, the concern about the breakup of the Monetary Union in the face of the interventions of the Central Bank has diminished. However, as there is no short term fix for the structural problems in many Euro area countries, the economic recovery in the Euro zone will at reach achieve zero growth according to the assessment of bank economists. They expect a slight growth of 0.3 percent for the entire European Union.

Outside Europe, the dynamics of economic growth has also seen a marginal fall. But the growth rate of real gross domestic product in the countries with Masterflex activities nevertheless went down by rates from as good as 1 to almost 8 per cent in 2012, which nevertheless are significantly more positive than those of the European economy (see table page 13). The more Masterflex's decision to resume internationalisation in 2010 which had not been the focus for a few years was the right one, the more important it is today to promote further internationalisation steps wisely and courageously.

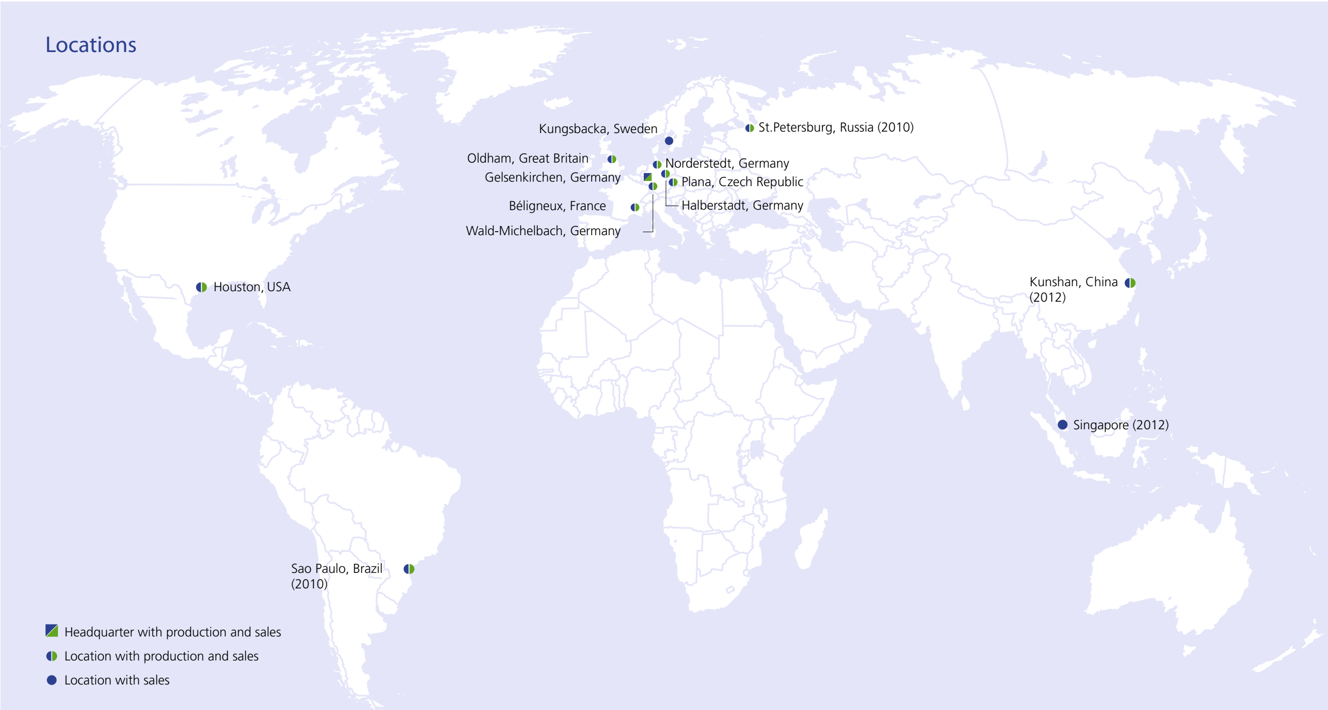
Economists expect that the US economy will works its way out of the crisis in 2013. The political handling of the so-called fiscal cliff (debt ceiling) will still remain a latent risk for the development of the US economy. Even in Brazil, the experts expect growth rates beyond three percent again after the low growth of 2012. The upcoming major events (2014 football World Cup, 2016 Olympic Games) will however probably impact on it. Nevertheless, the import restrictions are quite unfavourable for further growth in this country at present. In China, the economy has revived strongly again after marginally lower growth.

Country	2014 forecast	2013 forecast
Euro zone	**1.5**	**0.0**
Germany	2.5	0.5
France	1.5	0.2
EU	**1.6**	**0.3**
United Kingdom	1.4	1.0
Sweden	2.8	1.5
Czech Republic	1.6	0.8
World	**3.9**	**3.2**
USA	2.8	2.0
Russia	3.4	3.0
Brazil	4.2	3.4
China	7.5	7.5
Singapore	4.0	3.0

Source: Commerzbank

2. Group outlook

The Masterflex Group's growth strategy features two pillars: internationalisation and innovation.



The Masterflex Group accesses international markets

Between 1999 and 2008, there were no major initiatives taken that promoted international market development apart from a certain degree of development of export activities. After extensive market research and developing a comprehensive internationalisation strategy, implementation of the measures commenced in 2009. Today, the opening up of markets, in particular the markets still not significantly addressed in Southern and Eastern Europe, as well as in parts of Asia and South America, is an integral part of business planning. The first milestones along this path were achieved through the establishment of companies in Brazil and Russia in 2010 and in 2011 through the creation of the holding company Masterflex Asia. The two operating companies in Singapore and China were founded in 2012. Thus, Masterflex has established itself in the dynamic regions in the world. Today, it is our goal to continue to grow both in the subsidiaries and through the expansion of export activities into neighbouring countries. Further market entries are planned in the future.

The Masterflex Group grows through innovation

The high demands of customers with their requirements from their very different industries are crucial to the development of new products which, together with our customers – and partially also our suppliers – we bring to fruition in our research and development departments at the major production sites. We will continue to develop sophisticated product and material solutions in the future and use our high materials, application and technological expertise in the business of connection solutions.

In addition to the organic growth, Masterflex strives to expand its competence as a solutions provider of high-tech hose systems through acquisitions. This can also include acquisitions where Masterflex receives access to the market or can expand their materials expertise.

The economic forecasts for 2013 vary significantly for the regions in which Masterflex is active. A gap has opened up between Europe and the rest of the world. Therefore, business development is increasingly characterised by the degree of implementation of the ongoing internationalisation activities in 2013. After a sales growth of four percent in the last year, we expect a significant increase in sales for the Masterflex Group depending on the implementation progress of our internationalisation. However, as a listed SME, we know that delays in the process of internationalisation never can entirely be ruled out. The same applies for measures which have to be taken for preparing the company for a long-term and continous growth above average. We shall not xx this distract us, however: the strategic goal is the right one and our success until now proves us right.

Our operating result will follow the sales growth at a more moderate pace: given the start-up costs for the further internationalisation, which were largely unchecked but recorded in the financial statements, we expect an operational, clear two-digit EBIT margin. In turn, we expect a substantial profit in the group's annual results.

For the 2014 financial year, we expect comparable sales growth to that of 2013 subject to the economy stabilising in Europe (see table on page 43) although an accurate forecast, particularly in light of the uncertainty regarding economic developments in the world economy, is only possible with a degree of uncertainty. Our earnings (EBIT) will only follow with an moderate increase in sales. The revenue and earnings performance will also be reflected in the cash flow from current business activities.

II. Our vision

Again in the second year after completion of successful restructuring, our business has demonstrated its strength and profitability. Even if we have not succeeded in completely fulfilling the forecast that was submitted at the beginning at the year, never before has Masterflex achieved such high turnover in the business of high-tech hoses than in 2012. Our strategy of internationalisation has never been more important given the gap opening up between Europe and the industrialised and emerging nations. The aim now is to be able to strengthen both of our strands for growth, namely internationalization and innovation, in order to take advantage of the opportunities that arise on an international level.

By 2020, we want to be global market leaders in all the markets where we have a trading presence. With our development, manufacturing, and engineering-oriented distribution of hoses and connection systems, we will grow still sustainably, profitably and above the average of the global economy, which is highlighted in the slogan Connecting Values. Therefore, we are pursuing the strategy of developing and producing customised and sophisticated products with high value for the customer. This consultation-oriented specialist market strategy differentiates Masterflex from other hose manufacturers.

III. Summarising overall statement of the forecast

Overall, the Executive Board considers the Masterflex Group, in its restructured form and on the basis of its growth strategy, to be very well positioned for positive future growth including further increases in revenue, operating result and consolidated net profit for the year.

"Whether in Europe or in South-East Asia, the ideas are the key to us making our customers the best offer."

Li Xiang,
head of sales of Masterflex
Kunshan/PR China


High quality spiral hoses from Masterflex. On the left is our Master-PUR food hose with cone flange made out of polyurethane suitable for use with foodstuffs. On the right, a selection of extrusion, PU and master clip hoses. Each of these hoses is characterised by specific properties such as shock absorption, resistance to microbes/hydrolysis and suitability for use at high temperatures.

The Masterflex Share

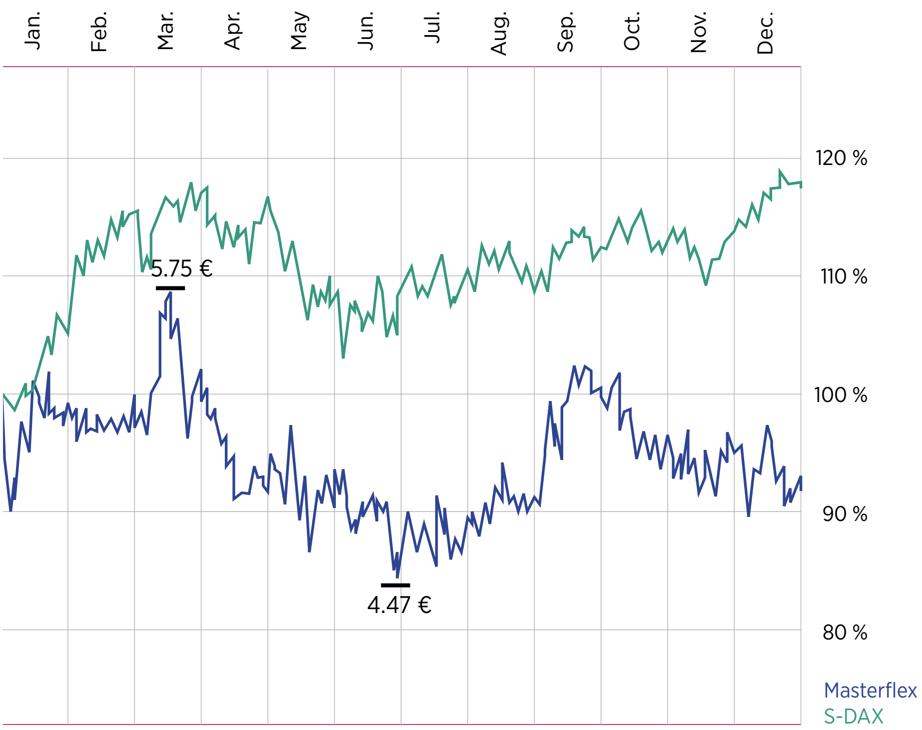
Share information	
ISIN code	DE0005492938
German Securities Code Number (WKN)	549 293
Class of shares	No par value bearer shares
Stock Ticker Symbol	MZX
Bloomberg symbol	MZX GR
Reuter code	MZXG.DE
Market segment	Prime Standard
Member of the following indices	CDAX Prime All Share Index Classic All Share Index Prime Industrial Index
Designated Sponsor	Close Brothers Seydler Bank AG
Number of shares	8,865,874
Theoretical interest in share capital per share	1.00 €

The stock market year

In 2012, the development of the Masterflex share was characterised by high volatility and overall slightly negative performance. The share price has fluctuated within a range of € 4.60 to € 5.75. The share price opened 2012 at a price of € 5.33, the closing price on 28 December 2012 was € 4.844.

Masterflex share price compared with S-DAX

January to December 2012

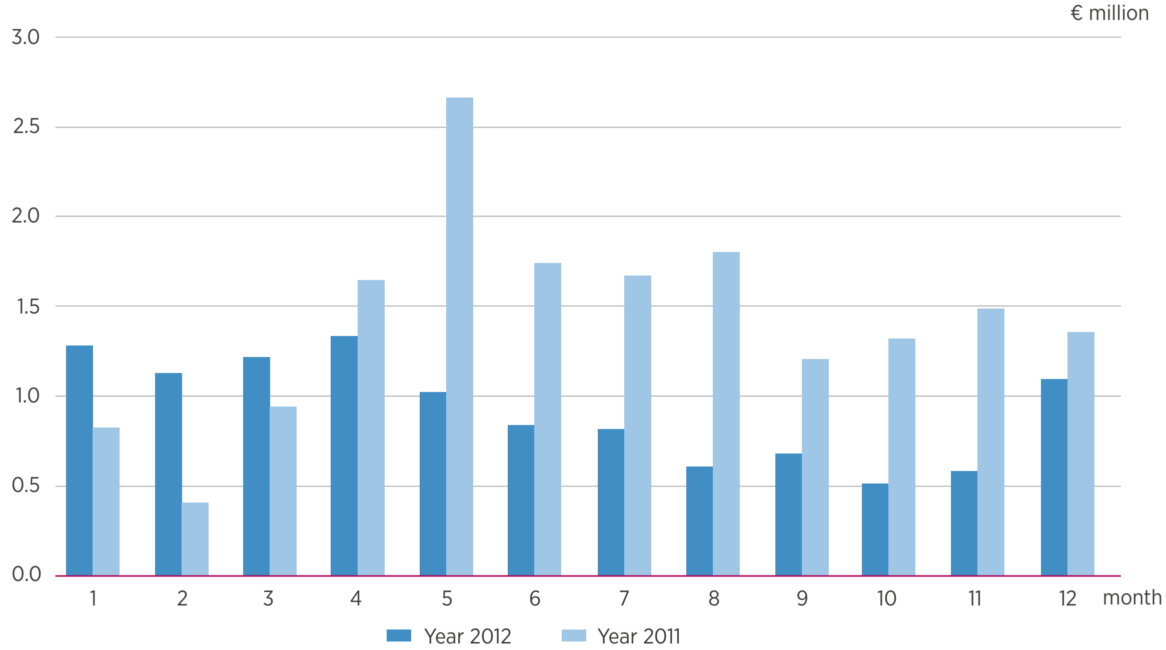


based on daily closing prices

The first quarter of the year was marked by major price fluctuations and a very lively turnover in the stock. After the release of the 2011 year results and subsequent profit-taking as well as the national debt and Euro crisis which worsened again in the summer, the interest on share commitments suffered in general. The small cap Masterflex shares were unable to escape this trend. The investment in second-line stocks were in high demand again after the interest rate and currency markets stabilised from August. Masterflex also benefited from the share price climbing to € 5.39 in September. After the announcement of the nine-month figures for 2012 and the management assessment, the sales forecast for the 2012 financial year could not be fully met, and the share price fluctuated around € 5. The year-end price stood at € 4.84. At the beginning of 2013, the stock then pulled back with a price well over € 5, and remained so until the date financial statements were prepared.

Liquidity of the Masterflex share

Order book turnover



The total sales volume on Xetra and in floor trading in Frankfurt stood at € 11.3 million (previous year € 14.7 million). This corresponds to a sales per trading day of an average 8,867 shares while there were 11,187 shares traded per day on average the previous year. Whilst revenues in the first quarter of 2012 exceeded that of the previous year (see illustration), the interest on the capital market decreased in real terms on small caps and also for Masterflex. In addition, more speculative investors had probably committed before the publication of the financial statement and they subsequently withdrew again. The reluctance of investors gradually gave way due to livelier sales performance as the price level of the stock fell, and in the fourth quarter the stock traded at around or just under € 5.

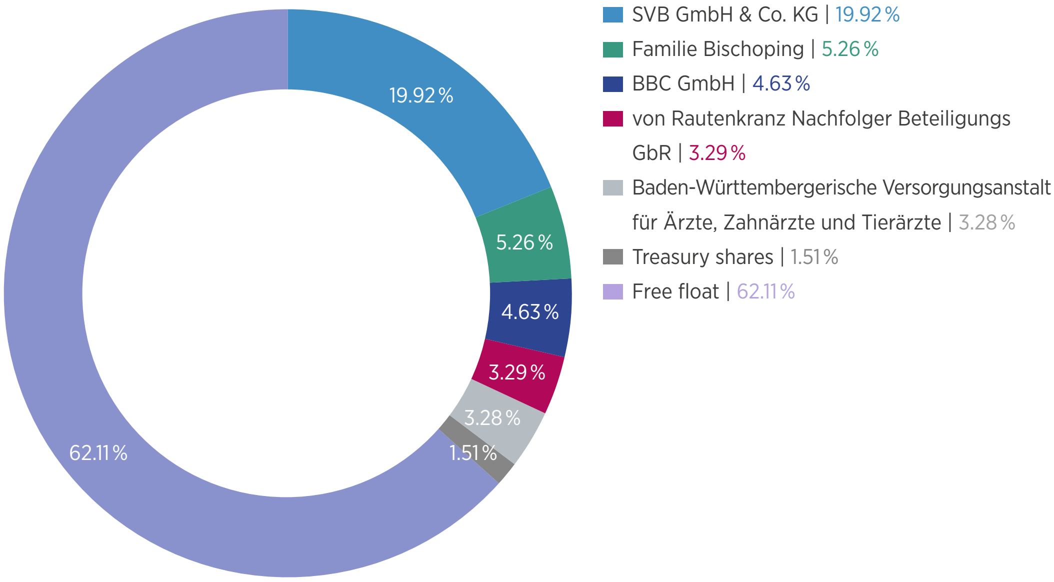
In daily trading, the stock demonstrated wide margins: on extremely busy days, Xetra traded well over 10,000 shares; in between, there were days where only very small quantities were traded and so the stock market prices are of comparably little relevance.

Since the stock market listing in 2000, Masterflex has supported the liquidity of their shares with a designated sponsor. This function was taken on by the Close Brothers Seydler Bank AG in 2012. In April 2013, the Düsseldorf WGZ Bank will also assume the function of designated sponsor. We hope to see an improved trading of shares on the stock exchange and on the capital market.

Shareholder structure

The company's shareholder structure was marked by great stability in 2012. Since the capital increase in 2010, the largest investor has been SVB Holding GmbH & Co KG, a Family Office, whose percentage of voting shares amounts to 19.92 percent. The second largest shareholder is one of the founders of Masterflex, Friedrich Wilhelm Bischoping, with other family members, with shares totalling 5.26 percent. BBC GmbH, whose company shares are held by the two Executive Board members, increased its stake through acquisitions so that it now stands at 4.63 percent. There were also two institutional investors above the statutory reporting threshold of three percent: von Rautenkranz Nachfolger BeteiligungsGbR (3.29 percent) and the Baden-Württemberg Pension Fund for doctors, dentists and veterinarians (3.28 percent). Due to the increased involvement of institutional investors and family offices, the free float declined to 63 percent.

Masterflex Shareholder structure (as of December 2012)



Share price statistics

Xetra		2012	2011	2010	2009
Highest variable price	€	**5.74**[1]	6.84[1]	4.50	7.06
Lowest variable price	€	**4.47**[1]	3.77[1]	2.84	3.41
Opening price	€	**5.15**	4.00	3.50	6.00
Closing share price	€	**4.84**	5.18	4.00	3.50
Performance		**-6.0 %**	+29.5 %	+14.3 %	-41.7 %

1 Based on daily closing prices

Analyst research

Close Brother Seydler Research AG (CBS Research) have covered the shares since 2010. In 2012, the analyst has updated his stock research five times upon publication of the financial reports. The latest report dated 20 November 2012 at the time of publication of the nine-month 2012 interim report. The recommendation associated with the so-called updated is "to buy", a share price of € 7.15 is aimed at.

Since the end of 2011, First Berlin Equity Research GmbH (First Berlin) is also analysing the Company's business development and the potential of the share. First Berlin's most recent update of 21 November 2012 was also created on the occasion of the publication of the Q3/2012 financial report ending in a recommendation to buy at a share price of € 7.50.

From the company perspective, increasing interest from analysts is welcome. Since a professional analysis of the business model, as well as of the business performance can thus be provided to analysts, portfolio managers and private shareholders.

The studies can be downloaded on the Company's website **www.Masterflex.de** under Investor Relations / Analysts & Press.

Performance in 2012

		31 Dec. 2012	31 Dec. 2011
Share key figures	Unit	8,865,874	8,865,874
Number of shares	Unit	134,126	134,126
Closing share price	€	4.84	5.18
Market capitalisation	€ mill.	42.9	45.9
Market capitalisation – not including treasury shares	€ mill.	42.3	45.2
Free Float	%	62.1	64.0
Earnings per share	€	0.50	0.44

Annual General Meeting 2012

The Annual General Meeting took place in Gelsenkirchen on 19 June 2012. Around 200 shareholders took part in the meeting at the historic Schloss Horst which has been used by Masterflex for this purpose for years. After a lively debate between various bodies of the company, discharge was granted to the Executive Board and Supervisory Board. Rölfs RP AG Wirtschaftsprüfungsgesellschaft was appointed as the Group's auditor for the 2012 financial year.

In addition, the Annual General Meeting decided by a large majority to give their approval to the plan for conversion of legal form from Masterflex AG into a Euro Company (SE). The requirements for the conversion plan were met in the third quarter of 2012. Thus, the change of legal form came into effect on 1 October 2012 with entry into the Commercial Registry at the District Court in Gelsenkirchen. The company disclosed this by ad hoc announcement immediately after the entry was recorded.

All voting results are published on the **www.Masterflex.de** website under Investor Relations / Annual General Meeting.

Capital market communications

The foundation of successful capital market communications is an information policy for all financial market participants that is open, simultaneous and identical in content. Masterflex adhered to this principle in the past period of restructuring, which was not always easy even for shareholders. And the guiding principle continues unchanged. The Investor Relations team is happy to receive questions or comments from shareholders or anybody who wishes to become a shareholder.

In 2012, professional information exchange with investors and the capital market was also intensified. In addition to numerous meetings and telephone conversations with participants, Masterflex once again took part in the Small Cap Conference in Frankfurt in February 2012. In March 2012, the Company attended and gave a presentation on their 2012 annual results at the, what is now, traditional analysts' conference which generated a great deal of interest. In May 2012, the Executive Board and IR gave a presentation to French investors who specialise in so-called Small Cap stocks in Paris. In September, Masterflex gave a presentation to investors in the Netherlands and Luxembourg. At the end of the year, Masterflex presented its business model and stocks over 2.5 days to the German Equity Forum with the entire Executive Board; a great deal of interest was shown. In addition, question and answer sessions were conducted in one-to-one discussions with institutional investors throughout 2012 to all questions relating to the financial statements and business model.

Intensive dialogue with the capital market will continue into the future. The objective of Investor Relations is to explain the business model and products in details and to regularly publish capital market reports to all interested capital market participants and thus show the shares to their best advantage on the capital market. The group's long term aim is to become a global leader in all the markets where it has a trading presence. With our traditional core business, we would like to continue to grow sustainably and profitably and to achieve above-average growth compared to the global economy. And we would like to take our shareholders with us on the journey!

2013 financial calendar	
26 March	Financials press conference, presentation of 2012 annual report
26 March	Analysts' conference, Frankfurt
7 and 8 May	Spring conference of the German stock exchange, Frankfurt
8 May	Interim report I/2013
11 June	Annual General Meeting, 11:00 a.m., Gelsenkirchen
12 August	Interim report II/2013
11 November	Interim report III/2013
11 November	German equity forum, Frankfurt

Cast-on screwed pipe fittings for Master-PUR Food hoses from MASTERFLEX for use in the food, chemicals and pharmaceutical industries

"I especially enjoy putting the finishing touches to new products."

Sabine Dampke,
staff of the department
Multiform

Lightweight for all temperatures from Matzen und Timm: fire-resistant bellows (left hand image) are used in aircraft to compensate for movement. On the right, insulated ventilation hoses reduce heat loss in the air conditioning unit of aircraft.

Consolidated Financial Statements

Consolidated balance sheet

Assets	Notes	31 Dec. 2012 k€	31 Dec. 2011 k€
NON-CURRENT ASSETS			
Intangible assets	3, 23	**4,187**	**4,107**
Concessions, industrial and similar rights	3	678	774
Development costs	3	93	29
Goodwill	3, 23	3,258	3,258
Advance payments	3	158	46
Property, plant, and equipment	3	**21,232**	**20,881**
Land, land rights and buildings		11,674	11,504
Technical equipment and machinery		7,259	6,975
Other equipment, operating and office equipment		1,963	1,952
Advance payments and assets under development		336	450
Non-current financial assets	3	**445**	**615**
Non-current financial instruments		59	74
Other loans		386	541
Other assets	5	**26**	**30**
Other financial assets	5, 16	**0**	**51**
Deferred taxes	26	**5,932**	**5,641**
		31,822	**31,325**
CURRENT ASSETS			
Inventories	4	**11,119**	**9,295**
Raw materials and consumables used		6,507	5,566
Work in progress		244	303
Finished products and goods purchased and held for sale		4,365	3,389
Advance payments		3	37
Receivables and other assets	5, 6	**6,291**	**5,600**
Trade receivables	6	5,464	4,942
Other assets	5	825	641
Other financial assets	5, 16	2	17
Income tax assets	7	**364**	**144**
Cash in hand and bank balances	8	**2,823**	**4,544**
		20,597	**19,583**
Assets held for sale	5	**16**	**22**
		20,613	**19,605**
Total Assets		52,435	50,930

Equity and liabilities	Notes	31 Dec. 2012 k€	31 Dec. 2011 k€
SHAREHOLDERS' EQUITY			
Consolidated equity	9	**19,988**	15,682
Subscribed capital		8,732	8,732
Capital reserve		26,252	26,252
Retained earnings		–13,642	–18,075
Revaluation reserve		–733	–747
Exchange differences		–621	–480
Minority interest	10	**536**	**557**
Total equity		**20,524**	**16,239**
NON-CURRENT LIABILITIES			
Provisions	11	**191**	**242**
Financial liabilities	12	**16,987**	**18,262**
Other financial liabilities	12	**139**	**184**
Other liabilities	14	**1,489**	**1,629**
Deferred taxes	26	**838**	**431**
		19,644	**20,748**
CURRENT LIABILITIES			
Provisions	11	**2,600**	**3,561**
Financial liabilities	12	**6,012**	**5,612**
Other financial liabilities	12	**44**	**44**
Income tax liabilities	13	**409**	**1,042**
Other liabilities	14, 15	**2,755**	**3,202**
Trade payables	15	1,717	1,498
Other liabilities	14	1,038	1,704
		11,820	**13,461**
Liabilities directly connected with assets held for sale	14	**447**	**482**
		12,267	**13,943**
Total Equity and liabilities		**52,435**	**50,930**

Consolidated income statement

	Continued business units	Notes	2012 k€	2011 k€
1.	Revenue	17	54,984	52,999
2.	Changes in inventories of finished goods and work in progress		772	205
3.	Work performed by the enterprise and capitalised		290	52
4.	Other operating income	18	1,626	1,518
	Gross profit		**57,672**	**54,774**
5.	Cost of materials	19	–17,798	–17,002
6.	Staff costs	22	–20,069	–18,032
7.	Depreciations		–2,615	–2,465
8.	Other expenses	20	–9,634	–9,776
9.	Financial result	24		
	Financial expenses		–1,602	–2,474
	Other financial result		35	236
10.	**Earnings before taxes and non-operating expenses/income**		**5,989**	**5,261**
11.	Non-operating expenses/income	25	–187	910
12.	**Earnings before taxes**		**5,802**	**6,171**
13.	Income tax expense	26	–898	–1,915
14.	Earnings after taxes from continued business units		4,904	4,256
	Discontinued business units			
15.	**Earnings after taxes from discontinued business units and before non-operating income**	**27**	**–262**	**–978**
16.	Non-operating income	27	0	864
17.	**Consolidated net income/loss**		**4,642**	**4,142**
	thereof minority interests		199	259
	thereof attributable to shareholders of Masterflex SE		**4,443**	**3,883**
	Earnings per share (diluted and non-diluted)			
	from continued business units	28	0.53	0.45
	from discontinued business units	28	–0.03	–0.01
	from continued and discontinued business units	28	0.50	0.44

Consolidated statement of comprehensive income

		Notes	2012 k€	2011 k€
	Consolidated net income/loss		**4,642**	**4,142**
	Other result			
1.	Currency translation differences from the translation of foreign operations	9	–141	110
2.	Net result from “available-for-sale” financial assets		14	–118
3.	**Other result for the period under review, after taxes**		**–127**	**–8**
4.	**Overall result**		**4,515**	**4,134**
	Overall result:		**4,515**	**4,134**
	thereof minority interests		199	259
	thereof attributable to shareholders of Masterflex SE		**4,316**	**3,875**

Consolidated statement of changes in equity

		Subscribed capital k€	Capital reserve k€	Retained earnings (retained profits brought forward) k€	Revaluation reserve k€	Exchange differences k€	Minority interest k€	Total k€
	Note	9	9	9	9	9	10	
Equity at 31 Dec. 2010		**8,732**	**26,252**	**–21,952**	**–629**	**–590**	**400**	**12,213**
Consolidated net income/ Minority interests		0	0	3,883	0	0	259	4,142
Changes in fair values of financial instruments		0	0	0	–118	0	0	–118
Currency translation gains/ losses from translation of foreign financial statements		0	0	0	0	110	0	110
Overall result for the financial year		**0**	**0**	**3,883**	**–118**	**110**	**259**	**4,134**
Dividend distributions		0	0	0	0	0	–172	–172
Change due to equity decreases		0	0	0	0	0	70	70
Other changes		0	0	–6	0	0	0	–6
Equity at 31 Dec. 2011		**8,732**	**26,252**	**–18,075**	**–747**	**–480**	**557**	**16,239**
Consolidated net income/ Minority interests		0	0	4,443	0	0	199	4,642
Changes in fair values of financial instruments		0	0	0	14	0	0	14
Currency translation gains/ losses from translation of foreign financial statements		0	0	0	0	–141	0	–141
Overall result for the financial year		**0**	**0**	**4,443**	**14**	**–141**	**199**	**4,515**
Dividend distributions		0	0	0	0	0	–320	–320
Change due to equity decreases		0	0	0	0	0	100	100
Other changes		0	0	–10	0	0	0	–10
Equity at 31 Dec. 2012		**8,732**	**26,252**	**–13,642**	**–733**	**–621**	**536**	**20,524**

Consolidated cash flow statement

	2012 k€	2011 k€
Result for the accounting period before taxes, interest income and financial income	7,018	8,060
Non-cash non-operating results	0	0
Cash non-operating results	0	–910
Gain from the disposal of business units	0	–1,065
Income taxes paid	–1,805	–849
Depreciation of intangible assets	315	242
Write-ups on real properties	–558	0
Depreciation expense for property, plant and equipment	2,300	2,223
Write-downs of non-current financial assets	139	125
Change in provisions	–828	–2,117
Other non-cash expenses/income and gains/losses from the disposal of non-current assets	–80	328
Changes in inventories	–1,825	–1,793
Changes in trade receivables and other assets that cannot be allocated to investment or financing activities	–32	–1,251
Changes in trade payables and other equity and liabilities that cannot be allocated to investment or financing activities	–1,042	1,548
Net cash from operating activities	**3,602**	**4,541**
Proceeds from the disposal of non-current assets	37	42
Payments to acquire intangible assets	–427	–259
Payments to acquire property, plant and equipment	–2,149	–2,182
Changes in cash and cash equivalents due to the sale of consolidated subsidiaries	40	1,850
Changes in cash and cash equivalents due to the acquisition of consolidated subsidiaries	0	–832
Changes in cash and cash equivalents due to the repayment of financial assets	180	2,840
Payments to acquire financial assets	–135	–125
Net cash from/used in investing activities	**–2,454**	**1,334**
Payments to owners and minority interests (dividends, purchase of own shares)	–320	–172
Interest and dividend receipts	91	160
Interest expenditure	–1,589	–2,607
Proceeds from the sale of term deposits/securities	5	77
Proceeds from raising loans	612	0
Payments for the repayment of loans	–1,532	–13,336
Net cash from/used in financing activities	**–2,733**	**–15,878**
Net change in cash and cash equivalents	**–1,585**	**–10,003**
Changes in cash and cash equivalents due to exchange rates and other factors	–141	110
Cash and cash equivalents at start of period	**4,561**	**14,493**
Change in the consolidated group	**0**	**–39**
Cash and cash equivalents at the end of period	**2,835**	**4,561**

"Every day a new challenge – that's what I love and live for."

Fred Liebzeit, technical manager in Halberstadt, Novoplast Schlauchtechnik

Quality from Novoplast Schlauchtechnik: on the left, polyurethane pneumatic tubing is used where wide workflow routes have to be bridged without compromise. HGV polyurethane brake lines (right hand image) ensure a secure pneumatic connection between cab and trailer.

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 § 315 a of the German Commercial Code ('Consolidated financial statements in accordance with international accounting standards') in conjunction with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB) as applicable within the EU 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 IAS, IFRS and the relevant interpretations (SIC/IFRIC) as of the balance sheet date December 31, 2012. 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 already approved as of December 31, 2012 and adopted by the European Union by the time the consolidated financial statements were approved, was not exercised.

The following accounting standards, interpretations and amendments to existing standards were published as of the reporting date, but were not yet required to be applied in preparing the IFRS consolidated financial statements for the year ending December 31, 2012.

- IFRS 7 — Amendments to improve disclosures related to offsetting financial assets and liabilities as well as an amendment requiring disclosures on the first-time application of IFRS 9
- IFRS 10 — Consolidated Financial Statements
- IFRS 11 — Joint Arrangements
- IFRS 12 — Disclosure of Interests in Other Entities
- IFRS 13 — Fair Value Measurement
- IAS 1 — Amendments relating to presenting comprehensive income
- IAS 19 — Amendments resulting from the projects on employee benefits and termination benefits payments
- IAS 27 — Separate Financial Statements
- IAS 28 — Investments in Associates and Joint Ventures
- IAS 32 — Amendments to improve disclosures on offsetting financial assets and financial liabilities
- IFRIC 20 — Stripping Costs in the Production Phase of a Surface Mine

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 applied:

- IFRS 9 — Financial Instruments: Classification and Measurement, accounting for financial liabilities and derecognition
- IFRS 10, 11, 12 — Clarification and facilitation relating to the adoption of these standards for the first time
- IFRS 10, 12 IAS 27 — Amendments regarding investment companies

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 7 Amendments to improve disclosures related to transferring financial assets

- IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model

As part of the annual “improvement” project of May 2012, various IFRSs were amended. Adoption in European Law is still pending.

The initial application of these standards and interpretations did not materially affect the financial statements of Masterflex SE.

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

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

As of 31 December 2012, a total of 9 domestic subsidiaries (previous year: 9) and 12 foreign subsidiaries (previous year: 10) were consolidated in addition to Masterflex SE. The table below shows the subsidiaries that were fully consolidated as of 31 December 2012:

Company name	Company headquarters		Equity interest held by Masterflex (%)
Masterflex SARL	F	Béligneux	80
Masterflex Technical Hoses Ltd.	GB	Oldham	100
Masterduct Holding, Inc.*	USA	Houston	100
· Flexmaster U.S.A, Inc.	USA	Houston	100*
· Masterduct, Inc.	USA	Houston	100*
· Masterduct Holding S.A., Inc.	USA	Houston	100*
· Masterduct Brazil LTDA.	BR	Santana de Parnaiba	100*
Novoplast Schlauchtechnik GmbH	D	Halberstadt	100
FLEIMA-PLASTIC GmbH	D	Wald-Michelbach	100
Masterflex Handelsgesellschaft mbH	D	Gelsenkirchen	100
Masterflex Česko s.r.o.	CZ	Planá	100
M & T Verwaltungs GmbH*	D	Gelsenkirchen	100
· Matzen & Timm GmbH	D	Norderstedt	100*
000 Masterflex RUS	RUS	St. Petersburg	51
Masterflex Scandinavia AB	S	Kungsbacka	100
SURPRO Verwaltungsgesellschaft mbH	D	Gelsenkirchen	100
Masterflex Entwicklungs GmbH*	D	Gelsenkirchen	100
· Masterflex Vertriebs GmbH	D	Gelsenkirchen	100*
Masterflex Asia Holding GmbH*	D	Gelsenkirchen	80
· Masterflex Asia Pte. Ltd.	SG	Singapore	100*
· Masterflex Hoses (Kunshan) Co., Ltd.	P.R. China	Kunshan	100*

**) = sub-group*

The basis of consolidation has changed in comparison with the previous year. Masterflex Asia Pte. Ltd., Singapore, Republic of Singapore, was established on 1 February 2012. Masterflex Hoses (Kunshan) Co., Ltd., Kunshan, Jiangsu, P.R. China was founded on 30 July 2012. The shares in Masterflex Asia Pte. Ltd. and Masterflex Hoses (Kunshan) Co., Ltd. are held by Masterflex Asia Holding GmbH, Gelsenkirchen.

On February 14, 2012, the Group sold a 20 percent stake in Masterflex Asia Holding GmbH, Gelsenkirchen, for a purchase price of € 40k. Consequently, the non-controlling interests increased by € 40k.

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

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

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 income statements are translated using moving average rates for the year as a whole. If the average rate for the year is not a reasonable approximation of the actual exchange rates on the respective transaction dates, the latter rates are applied. Any exchange differences are classified as a separate component of equity and remeasured at each balance sheet date. On 31 December 2012, these differences amounted to € –621k (previous year: € –480k).

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. 2012 €
1 pound sterling (£)	1.2253
1 US dollar ($)	0.7579
1 Russian rouble (RUB)	0.0248
1 Brazilian real (BRL)	0.3699
1 Czech koruna (CZK)	0.0398
1 Swedish krona (SEK)	0.1165
1 Singapore dollar (SGD)	0.6207
1 Chinese Renminbi (CNY)	0.1216

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. 2012 €
1 pound sterling (£)	1.2329
1 US dollar ($)	0.7778
1 Russian rouble (RUB)	0.0250
1 Brazilian real (BRL)	0.3985
1 Czech koruna (CZK)	0.0398
1 Swedish krona (SEK)	0.1149
1 Singapore dollar (SGD)	0.6293
1 Chinese Renminbi (CNY)	0.1234

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 (“Sale-and-lease-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 feasibility was established and the date on which they were completed. Acquired intangible assets include concessions, licences, industrial and similar rights and assets, as well as technologies. Acquired intangible assets are carried at cost.

If the useful life of an intangible asset is identifiable, this is depreciated over its useful life. 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 IFRS, 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 for the first time 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 SE.

Provisions

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

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

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

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

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 instalments.

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

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. he 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 23).

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 reverse 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 26).

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 11).

d. 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 3).

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.

Notes to the consolidated balance sheet: assets

3. 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 € 4,884k (previous year: € 5,685k) and transfers of title to production facilities totalling € 5,071k (previous year: € 5,203k).

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 SE. 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 k€	Acquired tangible assets k€	Goodwill k€	Total k€
As of 1 January 2011	**339**	**1,852**	**9,161**	**11,352**
Additions	0	259	0	259
Disposals	0	0	0	0
Reclassifications	0	0	0	0
As at 1 January 2012	**339**	**2,111**	**9,161**	**11,611**
Additions	93	334	0	427
Disposals	93	2	0	95
Reclassifications	0	–32	0	–32
As at 31 December 2012	**339**	**2,411**	**9,161**	**11,911**

Current and accumulated amortisations are composed as follows

	Internally generated intangible assets k€	Acquired tangible assets k€	Goodwill k€	Total k€
As of 1 January 2011	**294**	**1,065**	**5,903**	**7,262**
Depreciation and amortisation for fiscal year	5	237	0	242
Disposals	0	0	0	0
As at 1 January 2012	**299**	**1,302**	**5,903**	**7,504**
Depreciation and amortisation for fiscal year	30	285	0	315
Disposals	93	2	0	95
As at 31 December 2012	**236**	**1,585**	**5,903**	**7,724**

The carrying amounts of intangible assets are composed as follows:

	Internally generated intangible assets k€	Acquired tangible assets k€	Goodwill k€	Total k€
As at 31 December 2011	**40**	**809**	**3,258**	**4,107**
As at 31 December 2012	**103**	**826**	**3,258**	**4,187**

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 SE 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-Vermietungs-gesellschaft 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 SE. Masterflex SE 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 k€	Useful life	Carrying amount 31 Dec. 2012 k€	Carrying amount 31 Dec. 2011 k€
Buildings	4,568	30 years	1,937	2,091
Land	587	-	587	587
Operating and office equipment	842	5 years	0	82
Total	**5,410**		**2,173**	**2,424**

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 € 57k (previous year: € 89k).

c) Financial assets

Financial assets are composed as follows:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Non-current financial instruments	59	74
Loans and receivables	386	541
Total financial assets	**445**	**615**

Investment securities relate to income-yielding stock from the Euro Stoxx 50 and available-for-sale financial instruments within the meaning of IAS 39.

The following table shows the cost, unrealised gains and losses and fair values of available-for-sale securities as of 31 December 2012:

Cost k€	Unrealised gains/losses k€	Fair value k€
817	758	59

Income from available-for-sale securities totalled € 4k.

Trade receivables in the amount of € 270k are reported as non-current receivables on account of a financing agreement.

4. Inventories

Inventories are composed as follows:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Raw materials and consumables used	6,507	5,566
Work in progress	244	303
Finished products and goods purchased and held for sale	4,365	3,389
Advance payments	3	37
Total inventories	**11,119**	**9,295**

Inventories of the continued and discontinued business units were expensed in the amount of € 17,453k (previous year: € 16,581k).

Depreciation of inventories to the net realisable value amounted to € 224k (previous year: € 144k).

The inclusion of production-related administration costs for the first time when calculating the cost of finished products led to a change of inventories amounting to € 528k.

5. Receivables and other assets

Receivables and other assets are composed as follows:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Trade receivables	5,464	4,942
Other assets	851	671
Other financial assets	2	68
Assets classified as available-for-sale	16	22
Total receivables and other assets	**6,333**	**5,703**

Other assets are composed as follows:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Prepaid expenses	525	430
Receivables from tax authorities	87	123
Bonus receivables	49	6
Receivables from legal disputes	45	0
Receivables from investment grants and subsidies	34	69
Receivables from employees	23	14
Deposits	21	0
Creditors with debit balances	16	17
Receivables from health insurance companies	11	0
Loans	8	3
Other	32	9
Total other assets	**851**	**671**

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

“Miscellaneous other financial assets” include receivables totalling € 26k (previous year: € 30k), 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 assets” are discussed in note 16.

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

- SURPRO Verwaltungsgesellschaft mbH
- Masterflex Entwicklungs GmbH (formerly Masterflex Mobility GmbH)
- Masterflex Vertriebs GmbH (formerly Masterflex Brennstoffzellentechnik GmbH.

6. Trade receivables

The nominal value of trade receivables is composed as follows:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Trade receivables	5,678	5,246
Impairment	–214	–304
Total trade receivables	**5,464**	**4,942**

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

Specific and global valuation allowances on trade receivables totalled € 214k (previous year: € 304k).

Individual risks were taken into account on the basis of write-downs totalling € 32k (previous year: € 49k).

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:

2012	k€	k€
Carrying amount (net):		**5,464**
1. of which: non-impaired and non-overdue at the balance sheet date		**4,060**
2. of which: non-impaired, but overdue at the balance sheet date		**1,404**
less than 30 days	590	
30 to 59 days	389	
60 to 89 days	299	
90 to 119 days	85	
120 days or more	41	

2011	k€	k€
Carrying amount (net):		**4,942**
1. of which: non-impaired and non-overdue at the balance sheet date		**3,746**
2. of which: non-impaired, but overdue at the balance sheet date		**1,196**
less than 30 days	618	
30 to 59 days	397	
60 to 89 days	164	
90 to 119 days	2	
120 days or more	15	

7. Income tax assets

Income tax assets amounted to € 364k at the balance sheet date (previous year € 144k). All income tax assets are due within one year.

8. 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. 2012 k€	31 Dec. 2011 k€
Cash in hand and bank balances	2,823	4,544

The effective interest rate for short-term bank deposits was between 0.0 percent and 2.0 percent.

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

9. 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 SE do not prescribe any specific capital requirements.

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

Subscribed capital

Subscribed capital in the year under review amounts to € 8,865,874, divided into 8,865,874 no-par value bearer shares each with a notional interest in the share capital of € 1.00. The company's share capital is fully paid up.

No treasury shares were sold or newly acquired in the 2012 financial year. At the balance sheet date, Masterflex SE held a total of 134,126 treasury shares (previous year: 134,126).

The 134,126 no-par value bearer shares have a nominal amount of € 134,126. They represent 1.51 percent 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 percent of the Company's share capital of € 4,500,000. The acquired shares, together with the other treasury shares held by the Company or attributable to it in accordance with § 71 a ff. of the German Stock Corporation Act, could not exceed 10 percent of the Company's share capital at any time. This authorisation could not be used for the purpose of trading in treasury shares.

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

Authorised capital

By resolution of the Annual General Meeting on 28 June 2011, the Executive Board was authorised

a) from 29 June 2011 to 28 June 2016 to acquire treasury shares of up to 10 percent of the Company's share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised, with the approval of the Supervisory Board. The acquired shares, together with the other treasury shares held by the Company or attributable to it in accordance with § 71 a ff. of the German Stock Corporation Act, may not exceed 10 percent of the Company's share capital at any time.

b) This authorisation may not be used for the purpose of trading in treasury shares.

c) The acquisition is to be made (1) via the stock exchange or (2) via a public offer to buy directed at all shareholders of the company.

- If treasury shares are acquired via the stock exchange, the purchase price per share (not including incidental acquisition costs) may not deviate from the market price of Company shares by more than 10 percent. The relevant market price for the purposes of the authorisation is the average price for the Company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last three trading days prior to the purchase of the shares.

- If treasury shares are acquired via a public offer to buy to all Company shareholders, the purchase price offered or the limits of the purchase price range offered per share (not including incidental acquisition costs) may not deviate from the market price of Company shares by more than 10 percent. The relevant market price for the purposes of the authorisation is the average price for the Company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable system taking the place of the Xetra system) at the Frankfurt Stock Exchange over the sixth to the third trading days prior to the day the offer is announced. The volume of the offer can be limited. If the total subscription for the offer exceeds this volume, acceptance must be proportionate to the number of shares offered. Small lots of shares offered for purchase (up to 50 per shareholder) may be preferred, and the number of shares may be rounded in accordance with commercial principles in order to avoid fractional shares.

d) The Executive Board is further authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares to third parties with shareholders' subscription rights disapplied in exchange for non-cash contributions, particularly in the context of business combinations and the acquisition of companies, parts of companies and/or equity interests in companies.

e) Moreover, the Executive Board is authorised 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 disapplied.

f) In the case of d), the value of the non-cash contribution, when considered as a whole, must be appropriate within the meaning of § 255 (2) of the German Stock Corporation Act. In the case of e), the shares may only be sold to third parties at a price (not including incidental selling costs) that is not significantly below the market price of Company shares with the same features at the time of the sale. The relevant market price for the purposes of the authorisation is the average price for the Company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last five trading days prior to the sale of the treasury shares.

g) The authorisation to disapply shareholders' subscription rights according to e) applies with the proviso that the treasury shares sold with subscription rights disapplied may not exceed 10 percent of the share capital, which means 10 percent of the share capital as of the date the authorisation was given, as well as 10 percent of the share capital as of the date the authorisation to disapply shareholders' subscription rights is exercised. The upper limit of 10 percent of share capital is lowered by the proportion of share capital attributable to the shares issued during the term of this authorisation due to an otherwise existing authorisation to disapply shareholders' subscription rights in accordance with § 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 conversion obligation are to count towards this limit, provided that these bonds were issued during the term of this authorisation with subscription rights disapplied in accordance with § 186 (3) sentence 4 of the German Stock Corporation Act.

h) The Executive Board is also authorised, with the approval of the Supervisory Board, to supply ordinary treasury shares to holders of bonds with warrants or convertible bonds of the Company or a Group company within the meaning of § 18 of the German Stock Corporation Act, which were issued on the basis of authorisations of the Company's Annual General Meeting of 11 August 2009 under agenda item 9, in accordance with the option and bond conditions.

i) The Executive Board is also authorised, with the approval of the Supervisory Board, to withdraw the treasury shares without a further Annual General Meeting resolution. In the context of withdrawal, it is also authorised to withdraw no-par value shares either with or without a capital reduction. If the no-par value shares are withdrawn without capital reduction, the proportion of other shares in the share capital is increased in accordance with § 8 (3) of the Stock Corporation Act. In this case, the Executive Board is also authorised to adjust the number of shares of the Company as set out in the Articles of Association § 237 (3) no. 3 of the German Stock Corporation Act.

j) The above authorisations may be exercised on one or several occasions, individually or in combination.

k) For the purposes of these authorisations, closing prices are the last trading prices recorded on a trading day. The provisions of the German Securities Acquisition and Takeover Act must be observed to the extent that they are applicable.

l) When acquiring treasury shares, the Executive Board is required to observe the statutory provisions for the possible creation of reserves in the amount of the expenses for acquisition § 71 (2) sentence 2 of the German Stock Corporation Act).

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

Contingent capital

By resolution of the Annual General Meeting on 28 June 2011, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the Company's share capital by up to € 4,432,937.00 by 27 June 2016 by issuing up to 4,432,937 no-par value bearer shares on one or more occasions in exchange for cash and/or non-cash contributions (authorised capital I). The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares are to be offered to shareholders for subscription. The new shares can also be taken over by a bank or a company that operates in accordance with § 53 (1) sentence 1 or § 53b (1) sentence 1 or § 7 of the German Banking Act with the obligation to offer them to shareholders for subscription. However, the Executive Board is authorised, with the approval of the Supervisory Board, to disapply shareholders' subscription rights in the following cases:

- For fractional amounts

- in the case of capital increases in exchange for non-cash contributions, in particular for granting shares for the acquisition of companies, parts of companies or equity interests in companies;

- for cash contributions up to an amount not exceeding 10 percent of the Company's share capital at the date the authorisation comes into effect and the date the authorisation is exercised, providing that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the Company at the date the issue price is finalised. Shares that are acquired on the basis of an authorisation issued by the Annual General Meeting and sold in accordance with § 71 (1) no. 8 in conjunction with § 186 (3) sentence 4 of the German Stock Corporation Act during the term of this authorisation or that are issued during the term of this authorisation on the basis of an otherwise existing authorisation to disapply shareholders' subscription rights in accordance with § 186 (3) sentence 4 of the German Stock Corporation Act are counted towards this 10 percent limit. Furthermore, those shares that have been or will be issued in order to service bonds with conversion rights or options or an option or conversion obligation are to count towards this limit, provided that these bonds were issued during the term of this authorisation with subscription rights disapplied in accordance with § 186 (3) sentence 4 of the German Stock Corporation Act.

- 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 Supervisory Board is authorised to amend the wording of § 4 of the Articles of Association following the full or partial implementation of the share capital increase to reflect the extent to which authorised capital I has been utilised and, if the authorised capital II is not fully utilised by 27 June 2016, after the authorisation period expires.

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

Capital reserves

The capital reserve amounted to € 26,252k at the balance sheet date (previous year: € 26,252k). It related primarily to the agio from the Company's capital increase in 2000 less initial stock exchange listing costs and the capital increase carried out in 2010.

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 k€	Exchange differences in accordance with IAS 21.17 k€	Exchange differences in accordance with IAS 21.19 k€	Total k€
As of 31 December 2010	–491	–194	95	–590
Change in 2011	121	–11	0	110
As of 31 December 2011	–370	–205	95	–480
Change in 2012	–112	–29	0	–141
As of 31 December 2012	–482	–234	95	–621

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 € –29k (previous Year: € –11k) 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.

10. Minority interests

Minority interests held in Masterflex companies total € 536k (previous year: € 557k).

11. Provisions

Provisions are composed as follows:

	As of 1 Jan. 2012 k€	Utilisation k€	Reversal k€	Addition k€	As at 31 Dec. 2012 k€
Bonuses	485	244	13	185	413
Year-end closing costs	229	207	22	203	203
Vacation	323	242	81	132	132
Customer bonuses	82	78	4	79	79
Incentive payments, severance payments, commission	1,293	1,040	18	993	1,228
Warranties	349	52	297	53	53
Employers' Liability Insurance Association	153	138	15	130	130
Outstanding invoices	450	349	1	342	442
Others	439	350	66	88	111
Total	**3,803**	**2,700**	**517**	**2,205**	**2,791**

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 amounting to € 292k (previous year: € 242k) and the supervision board's compensation totalling € 15k (previous year: € 0k).

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.

12. Financial liabilities

As of 31 December 2012, financial liabilities were composed as follows:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Liabilities to banks	16,726	17,553
· of which due in > 5 years	180	577
Finance lease liabilities	261	709
· of which due in > 5 years	0	0
Other financial liabilities	139	184
· of which due in > 5 years	0	32
Non-current financial liabilities	**17,126**	**18,446**
Liabilities to banks	5,564	5,093
Finance lease liabilities	448	519
Other financial liabilities	44	44
Current term financial liabilities	**6,056**	**5,656**
Total financial liabilities	**23,182**	**24,102**

Liabilities to banks

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

	31 Dec. 2012 k€	31 Dec. 2011 k€
Liabilities due within 1 year	5,564	5,093
Liabilities due between 1 and 5 years	16,546	16,976
Liabilities due in more than 5 years	180	577
Total liabilities to banks	**22,290**	**22,646**

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

Liabilities to banks totalling € 19,956k are secured (previous year: € 19,901k). Of this, € 4,884k is attributable to land charges, € 5,523k to other non-current assets, € 7,146k to inventories, € 2,411k to current receivables and other assets.

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

In the Eurozone, interest was charged on liabilities to banks at rates of between 2.4 percent and 8.2 percent p.a. depending on the maturity and purpose of the respective liabilities (previous year: between 2.8 percent and 9.6 percent p.a.). The Company also had foreign-currency liabilities in US dollars, on which interest was charged at approximately 7.2 percent p.a..

As of 31 December 2012, the Company had cash advance facilities totalling € 8,493k. Of this, credit lines totalling € 3,917k were not utilised. Additional guarantee facilities for contractual fulfilment, advance payments and warranties were not utilised in 2012.

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 k€	2–5 years k€	more than 5 years k€
Future financial obligations (including interest)	479	267	0
Present value of future financial obligations (capital element)	448	261	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 € 709k at 31 December 2012 (previous year: € 1,131k) while the present value of the minimum lease payments for office and operating equipment totalled € 0k (previous year: € 97k).

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.

13. Income tax liabilities

Income tax liabilities relate to current taxes and totalled € 409k at the balance sheet date (previous year: € 1,042k).

14. Other liabilities

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

	31 Dec. 2012 k€	31 Dec. 2011 k€
Trade payables	1,717	1,498
Other liabilities	2,432	3,254
Advanced payments received for orders	95	79
Liabilities directly connected with assets held for sale	447	482
Total other liabilities	**4,691**	**5,313**

Miscellaneous other liabilities include the following items:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Deferred income	1,659	1,811
Tax liabilities	331	930
Social security liabilities	127	106
Liabilities to employees	116	82
Compensatory levy	40	0
Surety fees (syndicated loan agreement)	28	40
Debtors with credit balances	24	25
Liabilities from customer bonuses	20	70
Liabilities to energy providers	0	81
Other	87	109
Total	**2,432**	**3,254**

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. 2012 k€	31 Dec. 2011 k€
Investment grants	1,024	1,119
Subsidies	635	692
Total	**1,659**	**1,811**

The following amounts were reversed to income in each year:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Reversal of investment grants	95	106
Reversal of subsidies	91	111
Total	**186**	**217**

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

The other liabilities item includes liabilities totalling € 1,489k (previous year: € 1,629k), which do not fall due until one year after the balance sheet date.

The "liabilities directly connected with assets held for sale" item includes liabilities for discontinued operations. Other assets are discussed in note 5.

15. Trade payables

At the balance sheet date 31 December 2012, the Company had the following trade payables:

	31 Dec. 2012 k€	31 Dec. 2011 k€
Trade payables	1,717	1,498

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 1,717k (previous year: € 1,498k) are due within one year.

16. Derivative financial instruments

In 2010, Masterflex SE 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 € 66k is recognised in net interest income.

Derivative financial instruments	Measurement category in accordance with IAS 39	Historical carrying amount k€	Fair value k€ 31 Dec. 2012	Fair value k€ 31 Dec. 2011
Derivatives without hedging relationship	Held-for-trading	418	2	68

Notes to the consolidated income statement

In April 2011, the Group sold its investments in Clean Air Bike GmbH, Berlin, and Velodrive GmbH, Herten. The Management committed to the sale of the companies, after a strategic decision was taken to concentrate more on its successful core business with high-tech hoses and connection systems.

The “Income from discontinued operations” item is recognised in the expenses from winding up these companies:

- SURPRO Verwaltungsgesellschaft mbH
- Masterflex Entwicklungs GmbH (formerly Masterflex Mobility GmbH)
- Masterflex Vertriebs GmbH (formerly Masterflex Brennstoffzellentechnik GmbH)

17. Revenue

Revenue is composed as follows:

	2012 k€	2011 k€
Gross revenue	58,683	56,249
Elimination of intragroup revenue	3,699	3,250
Total	**54,984**	**52,999**

18. Other operating income

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

	2012 k€	2011 k€
	1,626	1,518

Other operating income is composed as follows:

	2012 k€	2011 k€
Income from write-ups land and buildings	558	0
Income from the reversal of provisions	517	517
Income from non-typical incidental sales	134	173
Investment grants	95	115
Subsidies	91	111
Compensation	68	56
Currency translation gains	48	2
Refunds and credit notes	38	67
Income from reductions in general bad debt allowances	31	0
Other prior-period income	7	356
Income from reductions in specific valuation allowances	4	15
Gains on the sale of assets	3	26
Gains on the sale of securities	0	55
Other	32	25
Total	**1,626**	**1,518**

The income from write-ups on land and premises amounting to € 498k relates to premises in the Czech Republic which were written down in 2008.

19. Cost of materials

The cost of materials is composed as follows:

	2012 k€	2011 k€
Cost of raw materials, consumables and supplies	17,453	16,581
Cost of goods purchased and held for resale	345	421
Total	**17,798**	**17,002**

20. Other expenses

The other expenses incurred by the Group were as follows:

	2012 k€	2011 k€
	9,634	**9,776**

Other expenses are composed as follows:

	2012 k€	2011 k€
Selling costs	3,792	3,528
Administrative expenses	2,063	2,314
Operating costs	1,588	1,545
Incidental premises expenses	1,481	1,483
Insurance costs	298	261
Currency translation losses	48	44
Cost of valuation allowances	30	26
Write-downs of receivables	24	75
Warranty expenses	22	9
Expenses for the sale of assets	13	157
Other	37	111
Other taxes	238	223
Total	**9,634**	**9,776**

21. 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 2012 financial year, research and development costs totalled € 197k (previous year: € 217k).

22. Staff costs

In 2012, staff costs increased by € 2,037k to € 20,069k (previous year: € 18,032k). Staff costs include wages and salaries in the amount of € 16,615k (previous year: € 15,043k) and social security, post-employment and other employee benefit costs totalling € 3,454k (previous year: € 2,989k).

23. 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 activity 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 percent plus a risk premium. The weighted average cost of capital before taxes that is applied when discounting cash flow is between 6.25 percent and 6.79 percent. WACC takes into account data on the German financial markets, long-term German government bonds and effective Group financing. A growth discount of 1 percent 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:

	k€
Novoplast Schlauchtechnik GmbH	462
Flexmaster U.S.A, Inc.	1,488
FLEIMA-PLASTIC GmbH	1,075
Matzen & Timm GmbH	233
Total	**3,258**

24. Net finance costs

Net finance costs are composed as follows:

	2012 k€	2011 k€
Other interest and similar income	64	240
Write-downs of non-current financial assets	–29	–4
Interest and similar expenses	–1,602	–2,474
Total	**–1,567**	**–2,238**

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.

25. Non-operating income/expenses

	2012 k€
Continued business units	
Consultancy fees (current expense)	–187
Total continued business units	**–187**
Total	**–187**

	2011 k€
Continued business units	
Income from claims for damages to a bank	910
Total continued business units	**910**
Discontinued business units	
Reversal of liability on expected loss on disposal (Mobility)	864
Total	**1,774**

Non-operating expenses include expenses which arose in connection with the change of legal form to Masterflex SE into a European Stock Corporation (Societas Europaea, SE). In the interests of clarity, these expenses were removed from “Other expenses” and included as a single item in the income statement.

At approximately € –187k in continued business units (previous year: € 910k), these expenses had a cash impact.

26. Income tax expense

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

	2012 k€	2011 k€
Income tax expense	–1,212	–1,571
Deferred taxes		
From time differences	142	–127
From loss/es carried forwards	172	–217
Total deferred taxes	314	–344
Total income tax expense	**–898**	**–1,915**

The following reconciliation of income tax expense for the 2012 financial year is based on an overall tax rate of 30.0 percent (previous year: 30.0 percent) reconciled to an effective tax rate of 15.47 percent.

	2012 k€	2011 k€
Net profit before income taxes	5,802	6,171
Expected tax expense 30.0 %	–1,741	–1,851
Initial recognition of previously unrecognised deferred tax assets on loss carryforwards or use of loss carryforwards in the 2012 financial year	963	0
Tax payments for previous year	–149	0
Effect of non-deductible expenses and tax-exempt income	–26	–17
Other	55	–47
Total income tax expense	**–898**	**–1,915**

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

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

	31 Dec.2012		31 Dec.2011	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	5,837	0	5,665	0
Non-current assets	748	1,925	655	1,915
Inventories	0	144	0	0
Receivables	52	0	72	0
Other assets	16	0	20	0
Other provisions	0	0	21	0
Liabilities	510	0	692	0
Before offsetting	**7,163**	**2,069**	**7,125**	**1,915**
thereof non-current	6,132	1,733	5,890	1,915
Offsetting	–1,231	–1,231	–1,484	–1,484
Consolidated balance sheet	**5,932**	**838**	**5,641**	**431**

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

As of 31 December 2012, Masterflex recognised deferred tax assets for tax losses carryforwards in the amount of € 5,837k (previous year: € 5,665k).

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

No deferred tax assets were recognised for tax losses carryforwards in the amount of € 3,988k (previous year: € 6,281k), as their utilisation is not sufficiently certain. Tax losses at German companies may be carried forward for an unlimited period. By contrast, tax losses carryforwards at foreign companies are generally limited.

Taxes amounting to € –13k (previous year: € –4k) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognised directly in equity.

27. Discontinued business units

The result components from the discontinued business unit included in the income statement are shown below. The comparative disclosures regarding results and cash flows from discontinued business units have been adjusted to take into consideration business units classified as discontinued in the current financial period. The previous year's figures relate to sale of investments in Clean Air Bike GmbH, Berlin, and Velodrive GmbH, Herten.

	2012 k€	2011 k€
Earnings from discontinued business units		
Revenue	0	565
Changes in inventories of finished goods	0	–5
Work performed by the enterprise and capitalised	0	60
Other operating income	0	724
	0	**1,344**
Cost of materials	0	–497
Other expenses	–262	–1,820
Earnings before taxes and non-operating expenses	**–262**	**–973**
Income tax expense to be included	0	–5
Earnings after taxes from discontinued business units	**–262**	**–978**
Reversal of liability on expected loss on disposal (Mobility)	0	864
Total non-operating expenses	**0**	**864**

Cash flows from discontinued business units		
Net cash flows from operating units	–123	–114
Net cash flows from investment units	0	50
Net cash flows from financing units	0	0
Total net cash flows	**–123**	**–64**

28. Earnings per share

Earnings per share are calculated as follows:

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2012 financial year (k€)	4,705	–262	4,443
Weighted average number of shares in circulation	8,865,874	8,865,874	8,865,874
Earnings per share (€)	**0.53**	**–0.03**	**0.50**

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2011 financial year (k€)	3,997	–114	3,883
Weighted average number of shares in circulation	8,865,874	8,865,874	8,865,874
Earnings per share (€)	**0.45**	**–0.01**	**0.44**

There were no dilutive effects in the 2012 financial year or the previous year.

29. Appropriation of net retained earnings

The single-entity financial statements of Masterflex SE in accordance with the German Commercial Code for the year ended 31 December 2012 reported a net loss of € 12,240k. The Executive Board and the Supervisory Board propose carrying the result forward to new account.

As of 31 December 2012, the amounts excluded from distribution by Masterflex SE amounted to € 5,930k in total of which € 5,837k was allocated to deferred tax assets and € 93k for capitalisation of development costs.

30. 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 SE in each case.

Exchange rate risk management

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

The sensitivity analysis of the outstanding US dollar-denominated monetary items, assuming a 10 percent 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 basis points fluctuation in interest rates results in an increased/ reduced cash outflow of approximately € 217k.

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 Groupwide 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:

2012 k€	Carrying amount	2013	2014	2015	2016	2017	≥ 2018
Trade payables	1,717	1,717	0	0	0	0	0
Liabilities to banks	22,290	5,564	2,326	13,272	648	300	180
Finance lease liabilities	709	448	261	0	0	0	0
Other liabilities	773	773	0	0	0	0	0
Other financial liabilities	183	44	34	37	39	29	0
Total	**25,672**	**8,546**	**2,621**	**13,309**	**687**	**329**	**180**

2011 k€	Carrying amount	2012	2013	2014	2015	2016	≥ 2017
Trade payables	1,498	1,498	0	0	0	0	0
Liabilities to banks	22,646	5,093	901	2,303	13,126	646	577
Finance lease liabilities	1,228	519	448	261	0	0	0
Other liabilities	1,443	1,443	0	0	0	0	0
Other financial liabilities	228	44	34	37	39	42	32
Total	**27,044**	**8,597**	**1,383**	**2,601**	**13,165**	**688**	**609**

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 € 1,659k (previous year: € 1,811k) does not have a cash impact. Its reversal is therefore not presented in this table.

31. Other financial commitments

As at 31 December 2012, other financial commitments related to lease obligations and other Commitments.

a) Lease obligations

The financial commitments relating to finance leases are discussed in note 12.

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

	2013 k€	2014–2017 k€	2018 k€
Notional amount of future minimum lease payments	209	327	0

The operating lease liabilities relate primarily to office and operating equipment. Payments recognised as expenses amount to € 564k (previous year: € 368k).

b) Other commitments

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

32. Segment reporting

The Masterflex Group operates as a single-segment company. Control is carried out on the basis of the information to which the management as chief operating decision maker, refers when measuring the performance of and allocating resources for the Masterflex Group (management approach).

As a result of the implementation of the Group strategy and the associated concentration on the core business activity High-Tech Hose Systems (HTS), SURPRO Verwaltungsgesellschaft mbH, Masterflex Entwicklungs GmbH and Masterflex Vertriebs GmbH are presented on a uniform basis under "Discontinued business units". Masterflex SE thus has one operating segment, the core business activity (HTS). To ensure comparability with IFRS 8.28, the "Reconciliation" column is presented for Group/holding expenditure as well as extraordinary expenses.

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

The segments are controlled both in terms of revenue and earnings. EBIT serves as an performance indicator in the Masterflex Group and, was adjusted for restructuring expenses in 2011 and 2012.

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

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

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

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

Segment information by business unit:

2012	HTS k€	Total for continued business units k€	Reconciliation k€	Discontinued business units k€	Group k€
Revenue from non-Group third parties	54,984	**54,984**	0	0	54,984
Revenue from other continued business units	0	**0**	0	0	0
Total revenue	54,984	**54,984**	0	0	54,984
EBIT	9,324	**9,324**	–1,955	–152	7,217
EBIT (adjusted)	9,511	**9,511**	–1,955	–152	7,404
Investments in property, plant and equipment and intangible assets	2,575	**2,575**	0	0	2,575
Scheduled depreciation and amortisation	2,615	**2,616**	0	0	2,615
Valuation allowances	0	**0**	0	0	0
Write-downs on goodwill	0	**0**	0	0	0
Assets	45,677	**45,677**	6,742	16	52,435

2011	HTS k€	Total for continued business units k€	Reconciliation k€	Discontinued business units k€	Group k€
Revenue from non-Group third parties	52,999	**52,999**	0	565	53,564
Revenue from other continued business units	0	**0**	0	0	0
Total revenue	52,999	**52,999**	0	565	53,564
EBIT	10,778	**10,778**	–2,369	78	8,487
EBIT (adjusted)	9,868	**9,868**	–2,369	–786	6,713
Investments in property, plant and equipment and intangible assets	2,442	**2,442**	0	0	2,442
Scheduled depreciation and amortisation	2,465	**2,465**	0	10	2,475
Valuation allowances	0	**0**	0	0	0
Write-downs on goodwill	0	**0**	0	0	0
Assets	44,441	**44,441**	6,467	22	50,930

The geographical breakdown of revenue is carried out at Group level. The calculation is based on the headquarters of the customer. This results in the following geographical breakdown of revenue:

2012	Revenue from non-Group third parties k€	Of which continued business units k€
Germany	25,707	25,707
Rest of Europe	13,925	13,925
Rest of the World	15,352	15,352
Total	**54,984**	**54,984**

2011	Revenue from non-Group third parties k€	Of which continued business units k€
Germany	27,927	27,362
Rest of Europe	13,134	13,134
Rest of the World	12,503	12,503
Total	**53,564**	**52,999**

In the 2012 financial year, revenue equalling more than 10 percent of consolidated revenue was not generated with any customer 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	2012 k€	2011 k€
Adjusted EBIT from continued business units	9,511	9,868
Extraordinary earnings from continued business units	–187	910
Reconciliation	–1,955	–2,369
Extraordinary expenses from reconciliation	0	0
EBIT from continued business units	**7,369**	**8,409**
Interest income/income from equity interests	64	240
Interest expense, etc.	–1,631	–2,478
EBT from continued business units	**5,802**	**6,171**
Income taxes	–1,212	–1,571
Deferred taxes	314	–344
Minority interests	–199	–259
Earnings after taxes (EAT) from continued business units	**4,705**	**3,997**
Earnings from discontinued business units	–262	–114
EAT	**4,443**	**3,883**

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

Non-current assets in k€	2012	2011
Germany	19,871	20,293
Rest of Europe	1,765	1,410
Rest of the World	3,809	3,315
Total	**25,445**	**25,018**

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

Reconciliation to consolidated income statements in k€	2012	2011
Total assets of continued segments	45,677	44,441
Assets of discontinued segments	16	22
Deferred tax assets	5,932	5,641
Tax receivables	364	144
Non-current financial assets	446	682
Total consolidated assets	**52,435**	**50,930**

33. 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:

	2012 k€	2011 k€
Cash and cash equivalents at the end of the period	2,835	4,561
Cash in hand and bank balances included in assets held for sale	12	17
Cash in hand and bank balances	**2,823**	**4,544**

The effects of the disposal of subsidiaries are presented in note 27.

34. Government grants

In the 2012 financial year, government grants related to income were recognised in the amount of € 34k (previous year: € 38k). Grants for depreciable assets are recognised over the depreciation period of the respective assets and in proportion to the depreciation recognised in each period.

35. Related Party Disclosures

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

Masterflex SE 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 SE, 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 2012 financial year, the monthly lease instalment was approximately € 15k.

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

The compensation of the Executive Board for its services is shown below

	Fixed compen-sation k€	Variable compensation based on sustainable targets Short-term focus k€	Variable compensation originated in the financial year Long-term focus[1] k€	Fringe benefits (remuneration in kind) k€	Total compensation relevant to payment[2] k€
2012	485	122	63	66	673
2011	430	344	126	58	832

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

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

The members of the Supervisory Board were compensated as follows

All disclosures in k€	Fixed com-pensa-tion	Performance-related compensation[1]	Total attendance allowance	Total compensation relevant to payment 2012
Chairman of the Supervisory Board, Mr Friedrich W. Bischoping	10.5[2]	3.75[2]	1.5[2]	15.75[2]
(Previous year)	(14)	(5)	(2)	(21)
Deputy Chairman of the Supervisory Board, Mr Georg van Hall	10.5[2]	3.75[2]	1.5[2]	15.75[2]
(Previous year)	(14)	(5)	(2)	(21)
Supervisory Board Member, Mr Axel Klomp	10.5[2]	3.75[2]	1.5[2]	15.75[2]
(Previous year)	(14)	(5)	(2)	(21)
Total compensation	31.5[2]	11.25[2]	4.5[2]	47.25[2]
(Previous year)	(42)	(15)	(6)	(63)

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

2 *Pursuant to § 113 (2) of the German Stock Corporation Act, the remuneration is determined at the annual general meeting for members of the first supervisory board of Masterflex SE at its sole discretion. Owing to the change of legal form to SE on 01 October 2012, the compensation paid to the supervisory board only included nine months in 2012 in accordance with the system previously applicable.*

36. Declaration of conformity with the German Corporate Governance Code

In December 2012, the declaration of conformity in accordance with § 161 of the German Stock Corporation Act was again submitted by the Executive Board and Supervisory Board of Masterflex SE and made permanently available to shareholders via the Company's website, **www.masterflexGroup.com/Investor_Relations/Corporate_Governance**.

37. Number of employees

As annual average, the number of employees was distributed across the operating activities as follows:

	2012	2011
Production	308	289
Sales	106	80
Administration	63	57
Technology	24	22
Employees in the group	**501**	**448**
thereof trainees	14	12

38. Audit and advisory fees

The fees expensed (provision) in the 2012 financial year for the auditors of the consolidated financial statements, Rölfs RP AG, Wirtschaftsprüfungsgesellschaft, amounted to € 137k and consisted of fees for the audit of the consolidated financial statements and the statutory separate financial statements of Masterflex SE and its domestic subsidiaries. The expenses for business consulting in the 2012 financial year amounted to € 35k. An additional € 6k was expensed for tax advisory services.

39. Exemption from publication

In accordance with § 264 para (3) of the German Commercial Code, the following consolidated companies are exempt from the requirement to publish their separate financial statements.

- Novoplast Schlauchtechnik GmbH
- Matzen & Timm GmbH
- M&T Verwaltungs GmbH
- SURPRO Verwaltungsgesellschaft mbH
- Masterflex Handelsgesellschaft mbH.

40. 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 2012.

41. Publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Executive Board on 5 March 2013 and published on 26 March 2013.

42. Significant equity investments

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

Gelsenkirchen, 5 March 2013

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, 5 March 2013

The Executive Board

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

Consolidated statement of changes in non-current assets 2012

2012	Historical cost 1 Jan. 2012 k€	Additions k€	Disposals k€	Reclassifi-cations k€	Currency translation differences k€	Historical cost 31 Dec. 2012 k€
Intangible assets						
Concessions, industrial and similar rights and assets, licenses	2,312	132	2	58	0	2,500
Development costs	92	93	93	0	0	92
Goodwill	9,161	0	0	0	0	9,161
Advance payments	46	202	0	–90	0	158
Total	**11,611**	**427**	**95**	**–32**	**0**	**11,911**
Property, plant, and equipment						
Land, land rights and buildings on third-party land	17,540	30	0	51	7	17,628
Technical equipment and machinery	18,694	522	18	1,042	–25	20,215
Other equipment, operating and office equipment	6,588	561	423	88	–6	6,808
Advance payments and assets under development	450	1,036	3	–1,149	2	336
Total	**43,272**	**2,149**	**444**	**32**	**–22**	**44,987**
Non-current financial assets						
Non-current financial instruments	822	0	5	0	0	817
Other loans	976	135	180	0	0	931
Total	**1,798**	**135**	**185**	**0**	**0**	**1,748**
	56,681	**2,711**	**724**	**0**	**–22**	**58,646**

2012	Cumulative depreciation and amortisation 1 Jan. 2012 k€	Depreciation and amortisation for fiscal year k€	Disposals k€	Write-ups k€	Fair value changes recognised directly in equity k€	Currency translation difference k€	Cumulative depreciation and amortisation 31 Dec. 2012 k€	As of 31 Dec. 2012 k€	As of 31 Dec. 2011 k€
Intangible assets									
Concessions, industrial and similar rights and assets, licenses	1,538	286	2	0	0	0	1,822	678	774
Development costs	63	29	93	0	0	0	–1	93	29
Goodwill	5,903	0	0	0	0	0	5,903	3,258	3,258
Advance payments	0	0	0	0	0	0	0	158	46
Total	**7,504**	**315**	**95**	**0**	**0**	**0**	**7,724**	**4,187**	**4,107**
Property, plant, and equipment									
Land, land rights and buildings on third-party land	6,036	471	0	558	0	5	5,954	11,674	11,504
Technical equipment and machinery	11,719	1,233	15	0	0	19	12,956	7,259	6,975
Other equipment, operating and office equipment	4,636	596	379	0	0	–8	4,845	1,963	1,952
Advance payments and assets under development	0	0	0	0	0	0	0	336	450
Total	**22,391**	**2,300**	**394**	**558**	**0**	**16**	**23,755**	**21,232**	**20,881**
Non-current financial assets									
Non-current financial instruments	748	0	0	0	10	0	758	59	74
Other loans	435	110	0	0	0	0	545	386	541
Total	**1,183**	**110**	**0**	**0**	**10**	**0**	**1,303**	**445**	**615**
	31,078	**2,725**	**489**	**558**	**10**	**16**	**32,782**	**25,864**	**25,603**

Consolidated statement of changes in non-current assets 2011

2011	Historical cost 1 Jan. 2011 k€	Additions k€	Disposals k€	Reclassifi-cations k€	Currency translation differences k€	Historical cost 31 Dec. 2011 k€
Intangible assets						
Concessions, industrial and similar rights and assets, licenses	2,006	70	0	236	0	2,312
Development costs	92	0	0	0	0	92
Goodwill	9,161	0	0	0	0	9,161
Advance payments	93	189	0	–236	0	46
Total	**11,352**	**259**	**0**	**0**	**0**	**11,611**
Property, plant, and equipment						
Land, land rights and buildings on third-party land	17,385	113	0	31	11	17,540
Technical equipment and machinery	16,547	719	46	1,478	–4	18,694
Other equipment, operating and office equipment	6,377	531	358	7	31	6,588
Advance payments and assets under development	1,147	819	0	–1,516	0	450
Total	**41,456**	**2,182**	**404**	**0**	**38**	**43,272**
Non-current financial assets						
Non-current financial instruments	1,003	0	181	0	0	822
Other loans	2,781	125	1,930	0	0	976
Total	**3,784**	**125**	**2,111**	**0**	**0**	**1,798**
	56,592	**2,566**	**2,515**	**0**	**38**	**56,681**

2011	Cumulative depreciation and amortisation 1 Jan. 2011 k€	Depreciation and amortisation for fiscal year k€	Disposals k€	Fair value changes recognised directly in equity k€	Currency translation difference k€	Cumulative depreciation and amortisation 31 Dec. 2011 k€	As of 31 Dec. 2011 k€	As of 31 Dec. 2010 k€
Intangible assets								
Concessions, industrial and similar rights and assets, licenses	1,300	238	0	0	0	1,538	774	706
Development costs	59	4	0	0	0	63	29	33
Goodwill	5,903	0	0	0	0	5,903	3,258	3,258
Advance payments	0	0	0	0	0	0	46	93
Total	**7,262**	**242**	**0**	**0**	**0**	**7,504**	**4,107**	**4,090**
Property, plant, and equipment								
Land, land rights and buildings on third-party land	5,566	465	0	0	5	6,036	11,504	11,819
Technical equipment and machinery	10,542	1,161	29	0	45	11,719	6,975	6,005
Other equipment, operating and office equipment	4,193	597	181	0	27	4,636	1,952	2,184
Advance payments and assets under development	0	0	0	0	0	0	450	1,147
Total	**20,301**	**2,223**	**210**	**0**	**77**	**22,391**	**20,881**	**21,155**
Non-current financial assets								
Non-current financial instruments	810	0	0	–62	0	748	74	193
Other loans	310	125	0	0	0	435	541	2,471
Total	**1,120**	**125**	**0**	**–62**	**0**	**1,183**	**615**	**2,664**
	28,683	**2,590**	**210**	**–62**	**77**	**31,078**	**25,603**	**27,909**

Auditor's Report

We have audited the consolidated financial statements – comprising the balance sheet, the income statement, the statement of comprehensive income, the statements of changes in equity and cashflows and the notes to the financial statements – and the Group management report prepared by Masterflex SE for the financial year from 1 January to 31 December 2012. 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 den 19 March 2013

Rölfs RP AG,
Wirtschaftsprüfungsgesellschaft

Thomas Gloth CPA	Stefan Kemp CPA

Report of the Supervisory Board

Dear Shareholders

Overall the 2012 financial year was a successful year for Masterflex. For the most part, we have achieved our ambitious objectives despite a harsh economic headwind. particularly in Europe. With its strategic, clearly orientated business which features the two strands of internationalisation and innovation, Masterflex can also look forward to sustained growth in the future.

Reports and meetings

In the 2012 financial year, the Supervisory Board of Masterflex SE 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 preparation and implementation of the change of legal form of the Group and to further internationalise our operations, in particular in China as well as preparing for the modernisation and maintenance of the Corporate Identity. The Supervisory Board was and is closely involved at all times in the approach and measures taken by the Executive Board.

Four scheduled meetings of the Supervisory Board took place in total in the 2012 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. On 25 January 2012, in particular, a further Supervisory Board meeting was held in the form of a telephone conference call and minuted accordingly. The Supervisory Board also discussed submissions by the Executive Board and issues concerning the Executive Board in separate telephone conferences.

At its meetings and 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.

2012 focus issues

In the telephone meeting of 25 January 2012, the Supervisory Board drew up plans for the 2012 financial year and the intended investments and steps to implement the further internationalisation of the high-tech hose business (in particular China).

In the Accounting Supervisory Board meeting on 19 March 2012, the Supervisory Board discussed the separate financial statements and the consolidated financial statements for the 2011 financial year in detail. Furthermore, the corporate governance report and the updated declaration of compliance were subsequently published by the Company. Furthermore, it was decided to adapt the rules of procedure of the Executive Board with regard to the point of "Age limit for Executive Board members" and to propose Rölfs RP AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as statutory auditor for the 2012 financial year at the Annual General Meeting on 19 June 2012. A further decision related to the report of the Supervisory Board, which was presented to shareholders in the Annual General Meeting. With regard to the remuneration of the Executive Board, the decision was taken on establishing the objectives and the variable remuneration for the 2012 financial year as well as the fixing of targets for the bonus agreements with the Executive Board members for the 2012 financial year. In addition, the fixed compensation for the members of the Executive Board was redefined for the 2012 financial year on the basis of a benchmark study and the publicly available salary development analysis.

On 2 May 2012, in a telephone conference call, the Supervisory Board discussed the conversion of Masterflex AG into an SE and adopted the agenda for the Annual General Meeting on 19 June 2012. The draft conversion plan of 2 May 2012 was approved.

Following the Annual General Meeting, the Supervisory Board in its meeting on 19 June 2012 was briefed on the current economic development, as well as the status quo of activities in Asia by the Board by the Executive Board. As the Annual General Meeting voted to approve the conversion from Masterflex AG into an SE, the resolutions for electing the chairman and deputy chairman of the Supervisory Board of the future SE were made as well as the appointment of the Executive Board with effect from the date of registration.

At the meeting on 27 September, which took place at the subsidiary of Matzen & Timm GmbH in Norderstedt, the Executive Board reported on the latest economic developments, and about the progress in terms of market entry in Asia and on the status of possible, alternative financing options for the company. In addition, Executive Board contracts were adapted to the needs of the SE and finalised, however without making any changes to the existing compensation structure. Finally, the Managing Director of Matzen & Timm GmbH, Mr. Dirk Baumann, was introduced to the Supervisory Board.

At the Supervisory Board meeting on 10 December 2012, the Supervisory Board received information on current economic developments and the status of the 2013 planning as well as on the current status regarding reviewing possible financing options. In addition, the Declaration of Conformity to the corporate governance code, with a view to the code changing from May 2012, has been updated.

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

The Executive Board and the Supervisory Board of the Masterflex SE (from left to right): Dr. Andreas Bastin and Mark Becks (Executive Board); Georg van Hall, Axel Klomp and Friedrich Wilhelm Bischoping (Supervisory Board)

reported in writing and verbally in meetings, discussions and telephone conferences during the year, including on the preparation and content of the six-month and quarterly reports, discussing these extensively with the Supervisory Board.

In addition, the Supervisory Board examined the planning documents, risk position and risk management system of the Masterflex Group. All of the risk areas identified by the Executive Board and the Supervisory Board were discussed. 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 § 91 para 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 and Executive Board

There were no changes in the composition of the Supervisory Board or Executive Board in the year under review.

Corporate Governance

The implementation of the German Corporate Governance Code is a key element of the meetings of the Supervisory Board of Masterflex SE. Again in 2012, the Supervisory Board and Executive Board discussed the recommendations and suggestions of the Code with the amendments that were made in 2010 in depth. 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 as efficient and very effective.

In March 2012, the Executive Board and Supervisory Board resolved and submitted a revised Declaration of Conformity in accordance with § 161 AktG in the version of the German Corporate Governance Code dated 26 May 2010. This was made permanently available to shareholders on the Company website. The continued discussion and developments on the subject of diversity as well as developments in legislation regarding the content of the Declaration of Conformity had 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 December 2012, the Executive Board and Supervisory Board resolved and submitted a revised Declaration of Conformity in accordance with § 161 AktG in the version of the German Corporate Governance Code dated 15 May 2012. In addition, the Supervisory Board has also updated the concrete objectives for its composition, which shall include also information on the number of independent members of the Supervisory Board according to section 5.4.1, and noted that in their opinion only independent Supervisory Board members may adhere to it. This declaration was made permanently available to shareholders on the Company website.

Taking into account the declaration of conformity published on 15 May 2012, the Company remains particularly committed to the principles of the German Corporate Governance Code. Current amendments to the declaration of conformity are therefore based on amendments and clarifications to the corporate governance made in 2012. The declaration of conformity submitted on the basis of the above-mentioned version can be found at any time on the company website **www.MasterflexGroup.com/Investor Relations/Corporate Governance**. 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 SE 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 separate committees were formed.

Adoption of the separate financial statements and approval of the consolidated financial statements

The annual financial statements and management report of Masterflex SE and the consolidated financial statements and Group management report for 2012 as submitted by the Executive Board, together with the bookkeeping system, were audited by Rölfs RP AG Wirtschaftsprüfungsgesellschaft, Dusseldorf, which was appointed as the Group's auditor by the Annual General Meeting on 19 June 2012, and issued with an unreserved audit certificate. The documents to be audited and the auditor's reports were made available to all members of the Supervisory Board at the meeting convened to review the Group's accounts on 19 March 2013 and were sent to each member of the Supervisory Board sufficiently early for them to prepare for the meeting. The auditor took part in discussions regarding the separate financial statements and consolidated financial statements. He outlined the key findings of the audits and provided additional information where necessary. After a thorough audit of the documents and taking the auditor's reports into account, the Supervisory Board adopted the separate financial statements and approved the consolidated financial statements.

There were no conflicts of interest affecting Supervisory Board members in the period under review. The members of the Supervisory Board did not hold any positions in the executive bodies of other companies.

There have not been any changes to the Supervisory Board or Executive Board during the financial year and this is not permissible due to the change of legal form to SE.

During the past 2012 financial year, we have largely achieved our very ambitious objectives despite the economic headwind, especially in Europe. Never before in its 25-year history have we done so much business with our hoses and connection systems in so many parts of the world. The initiative for further internationalisation in 2012 can form the basis for further expansion of the Masterflex group. All credit goes to the shareholders for that. The Supervisory Board would like to take this opportunity to thank the 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, 19 March 2013

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

Members of the Supervisory Board

Friedrich Wilhelm Bischoping (Chairman)
After studying engineering at the Technical University of Berlin, Mr Bischoping 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 Bischoping resigned from the senior management of his engineering companies in 1998. When Masterflex Kunststofftechnik GmbH became a joint stock corporation, Mr Bischoping 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 taking the 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, has been a partner at AccountingPartners accounting firm in Düsseldorf.

Dipl.-Kfm. Axel Klomp (member of the Supervisory Board since 17 August 2010)
After graduating in business administration at the University of Cologne in 1992, Mr Klomp entered in the consultancy firm which was founded by his grandfather in 1931. He was appointed as Tax Consultant in 1992 and as Public Auditor in 1997. Mr Klomp is senior partner at KLOMP – EXNER – ARETZ consulting firm. In addition he is also a Member of the Board of Chamber of Tax Consultants and Association of Tax Consultants in Düsseldorf.

Master-PUR suction & transport hose from MASTERFLEX with a torque/slip-proof cast-on spring steel wire helix for transporting solids, liquids and gases

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.
Eco profit	Cooperation between municipal authorities and the regional business with the aim of cost cutting as well as the conservation of resources and the protection of the environment. The abbreviation is short for: Ecological project for integrated environment technology.
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
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 moulded process	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.
Market value	The share price multiplied by the number of all shares.
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).
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 margin	Also net turnover yield: the percentage share of the net profit in an enterprise's turnover during a specific period.
PE and PU	Polyethylene and Polyurethane: polymer which are used as basic material for many plastic products
PlasticsEurope	European Plastics Association
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.
REACH	REACH is a regulation of the European Union, adopted to improve the protection of human health and the environment from the risks that can be posed by chemicals (Registration, Evaluation, Authorisation and Restriction of Chemicals). The competent authority is the European Chemicals Agency (ECHA).
Research and development (R&D):	Applied research and engineering developments of a company
Return on Investment (ROI)	Return on investment
RoHS	The EU-regulation (No. 2002/95/EG) Restriction of Hazardous Substances
Stage-gate-process	Scientific model for the process optimization of innovation and development. The idea behind is to take in to account also aims which so far have been neglected partially or total in innovation processes, e. g. focusing and setting priorities, parallel and rapid process management, assignment of a cross divisional team and an increased market orientation and assessment.
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.

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