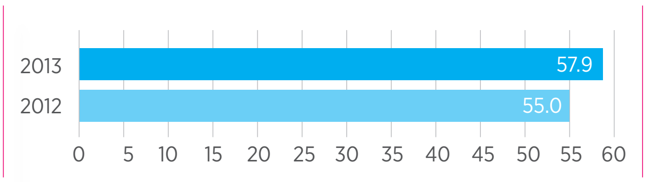
MASTERFLEX GROUP
Connecting Values

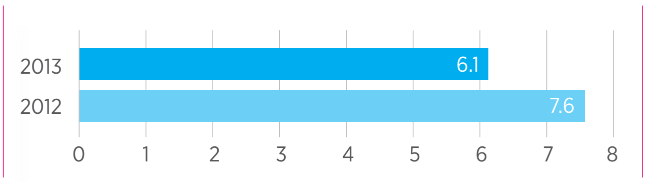
Masterflex at a glance	31.12.2013	31.12.2012	Change in %
Consolidated revenue (T€)	57,904	54,984	5.3 %
EBITDA (T€)	8,769	10,171	-13.8 %
EBIT (T€)	6,114	7,556	-19.1 %
EBT (T€)	4,537	5,989	-24.2 %
Consolidated earnings from continued business units (T€)	3,155	4,904	-35.7 %
Consolidated earnings from discontinued business units (T€)	-80	-262	69.5 %
Consolidated net income/loss (T€)	2,884	4,443	-35.1 %
Consolidated equity (T€)	23,023	20,524	12.2 %
Consolidated total assets (T€)	53,690	52,435	2.4 %
Consolidated equity ratio %	42.9 %	39.1 %	
Employees	550	501	9.8 %
EBIT margin	10.6 %	13.7 %	
Return on sales	5.5 %	8.9 %	
Consolidated earnings per share (€)			
from continued business units	0.33	0.53	-37.7 %
from discontinued business units	-0.01	-0.03	66.7 %
from continued and discontinued business units	0.32	0.50	-36.0 %

Continued business units

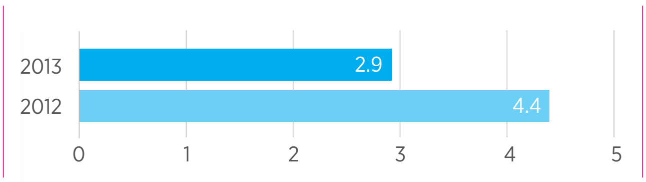
Consolidated revenue
In € million



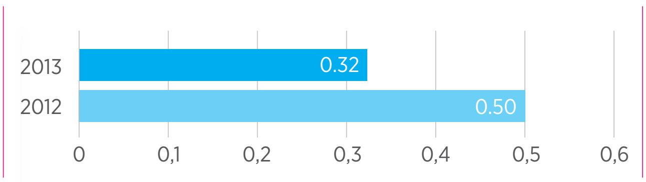
Consolidated EBIT
In € million



Consolidated net income/loss
In € million



Consolidated earnings per share
in €



Only the german version of this report is legally binding

Cover picture large:
On the market since 2013: The world-first Master-PUR Performance© from the MASTERFLEX brand with its totally & seamlessly smooth inner surface for the improved transport of heavy bulk solids is highly robust, yet still extremely flexible.

Content

Dear Shareholders,

Dr. Andreas Bastin,
Chief Executive Officer

We look back on a satisfactory financial year. We achieved almost all of our goals. Clearly, first and foremost is our growth: with a turnover of almost € 58 million, we have grown for the fourth year in a row; the rate of increase of 5.3 percent to an increasing momentum (previous year +3.7 percent). And with this increase in business, we also clearly lie above the overall growth rate in Germany, Europe or the rest of the world.

A slight delay to our growth is noticeable in profitability. The upfront costs of our internationalisation were reflected in the drop of our operating profit (EBIT) to € 6.1 million (previous year € 7.6 million). These costs – predominantly incurred through an increase in personnel – could still not be fully offset by additional revenues. Nevertheless, we consider the profitability of our business model with an EBIT margin of 10.6 percent within the range of our forecast – even in years of expansion – as very creditable. This also represents the operating cash flow of 2013 which at nearly € 8 million is much higher than the previous year (€ 3.6 million).

In the short term, it is essential to accept the upfront costs. Because in the long run, there is no alternative to our strategy: we want to gain a broader position internationally and loosen the European centrism. We could not have achieved our current growth rate of five percent without our non-European activity. Our prospects would be significantly more modest and we would not be moving forward towards this value-orientated, long term success.

After completing the first stage of the increase in personnel in the context of our internationalisation, all processes must now be brought up to an optimally steady state. To some extent, there are also some organisational adjustments to be made. As a streamlined medium-sized company, we have no staff divisions to implement these and instead simply put them into practice in our day-to-day business. And we can already see clear results here.

Our own growth prospects are even more important when you consider the sustained divergent development of the growth rates of the continents. Growth occurred and is continuing in America and Asia. Watch and invest today, reap the benefits tomorrow – our vision is to be market leader in all of the markets we serve. And we are firmly committed to this.

In addition to the business expansion, 2013 was also very successful in terms of our second strategy pillar, innovations. We have launched several new products onto the market either under our own brand name or on behalf of customers. For instance, I would like to introduce our two most revolutionary innovations, the Master-PUR Performance® and the protective hose for mobile filling systems in aircraft: The Master-PUR Performance is a very robust spiral hose with a completely seamless, smooth inner surface which is significantly more flexible than its predecessor. Our customers at home and abroad confirm this: this hose is setting new standards in the field of spiral hoses for bulk material handling. With the protective hose for mobile filling systems, our engineers have impressively demonstrated their expertise with lightweight parts for the extreme requirements of the aircraft industry in terms of flammability, positive and negative pressure, motion and density. With these and our other product launches over the past year, the Stage-Gate-orientated innovation process which was launched several years ago is making more and more of an impact.

Ladies and gentlemen, today you are holding a Group Management Report in your hands which for the first time has been compiled in accordance with the new DRS 20 standard. In addition to compliance with legal standards, this newly structured report provides you with the advantage of a much clearer representation of our business model – valid far beyond the individual calendar year – with its objectives and strategy for achieving these objectives (section A). In section B, the focus will be on our business development of the last year in the context of general economic development. In the prospects section (section F), you will find our estimation on achieving our strategic objectives for 2014. And in the opportunities and risks report (section E), individual opportunities and risks are listed in order of relevance. For you, esteemed ladies and gentlemen, with this approach, we wish to achieve even greater coherence – at least this is our commitment. We will be pleased when we succeed in doing this and look forward to your feedback!

The Masterflex stock price performance over the past year has also been pleasing. With a price rise of 40 per cent in 2013 – significantly better than the S-Dax – and an increase in stock market revenue of 37 percent, the stock formed part of our highly successful investments. We feel vindicated in our active information policy and will continue this purposefully.

We have decided, esteemed shareholders, in the context of the annual financial statements, to eliminate the loss carryforward, dating back to the restructuring period before 2010, by means of a withdrawal from the capital reserve. As a result, Masterflex SE is exempt from legal requirements for distribution earlier. We have done this to gain full capacity to act given our now stable earnings position. This does not necessarily mean a dividend payment for 2014. Because here we are moving in a quadrangle of goals which all need to be carefully balanced: an economically

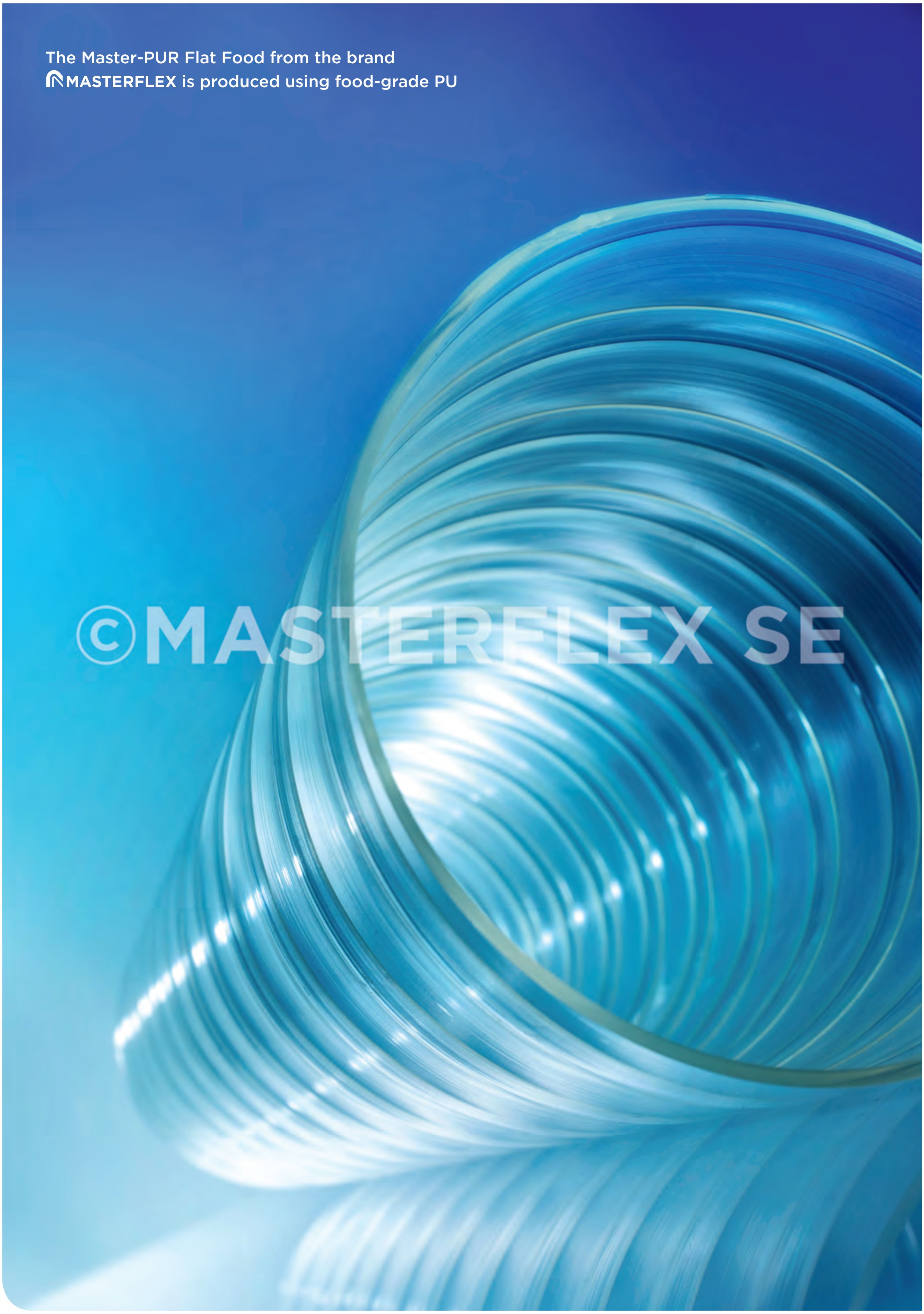
The Executive Board of the Masterflex SE: Dr. Andreas Bastin, CEO since April 2008, and Mark Becks, CFO since June 2009 (from left to right)

appropriate equity position; financing our organic growth; thirdly, possible acquisitions in the hose business and fourthly, the absolutely understandable wish of our shareholders to share in the profits. Please bear in mind that we will have to carefully explore these sometimes conflicting requirements. But, at the same time, please be assured that we want our shareholders to share the profits of our company without compromising our growth in so doing. Because both you and we will gain from international growth in the long term!

Gelsenkirchen, 18 March 2014

Ihr
Andreas Bastin

Dr. Andreas Bastin
Chief Executive Officer


The Master-PUR Flat Food from the brand
MASTERFLEX is produced using food-grade PU

"Great products, which deserve the best Marketing."

Diana Cordova,
Group Marketing officer in
the headquarter of Masterflex

High-tech spiral hoses from the Masterflex brand. A Master-PUR hose with easy-to-install quick-fix clamp (left). Next to this, the innovation of the year 2013: the Master-PUR Performance©. A seamlessly smooth inner surface, which makes light work of even the heaviest of bulk solids.

Consolidated Management Report

A. Basics of the Group

I. Group Business Model

The Masterflex Group with its parent company Masterflex SE, Gelsenkirchen, (hereinafter referred to as Masterflex), concentrates on the development, production and marketing of high-tech hoses and connecting systems for a wide range of applications in industry and manufacturing. This company has been the continuously profitable mainstay of the Masterflex Group since its inception 25 year ago.

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

Since 2000, Masterflex SE shares have been traded on the Frankfurt Stock Exchange in the sector with the highest standards of transparency, Prime Standard.

II. Vision, objectives and strategies

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

The development, production and consultation-orientated marketing of high-tech hose and connecting systems hold considerable growth potential. 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 which is clearly expressed in our slogan **Connecting Values** differentiates Masterflex from other hose manufacturers. In addition we pursue the goal of above-average, profitable growth purposefully and consistently. Our growth strategy is based on two pillars: internationalisation and innovation.

Internationalisation strategy
We want the lion's share of our sales which is currently still to be found in Europe to gradually become more widespread and to count for a larger share of our business in selected markets in other continents, especially in North and South America as well as in Asia.

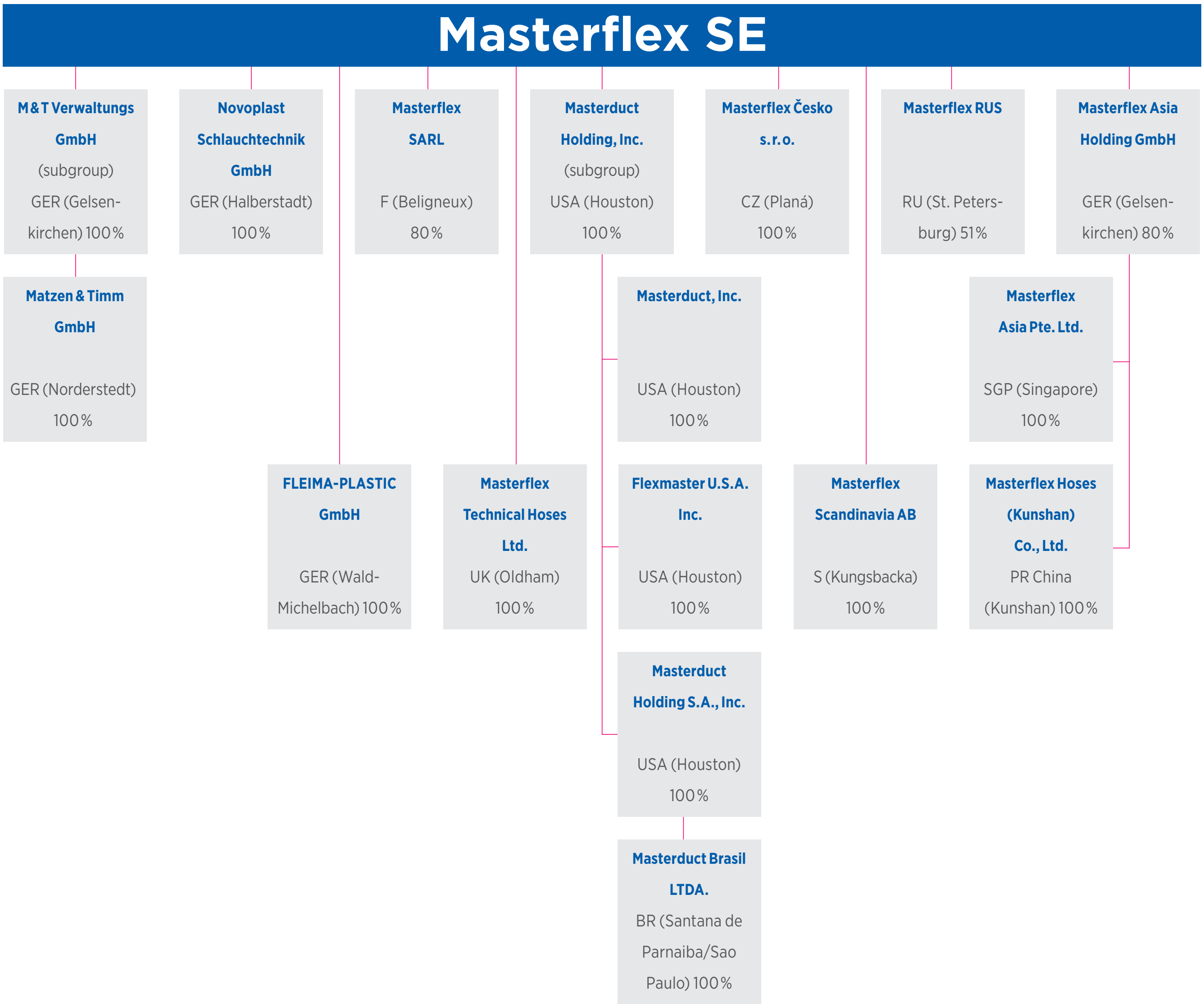
To implement this strategy, we have begun the targeted development of new regional markets outside Europe: in 2010, the Masterflex Group launched a joint venture in Russia and an individual company in Brazil. Then in 2012 locations in Singapore and Kunshan/China were opened. Our medium-term goal is to supply the entire product range of the group to our key markets.

Innovation strategy
We continually develop new hoses and connecting parts which are normally initiated by customer requests. Our engineers design, test and produce innovative products from the increasing diversity of high-performance plastics and manufacturing processes, which can replace conventional connection solutions or the materials used, to the benefit of our customers. These products are continuously being launched onto the market. Thanks to this innovation strategy, we maintain our market position as technology leader in the specialist market for high-tech hoses which has a positive impact on our price-setting options.

III. Control system and Group structure

Masterflex SE is a European stock corporation in accordance with SE-regulation and German law. The basis of the German Stock Corporation Act is the dual management principle consisting of an Executive Board and Supervisory Board.

The Group structure is illustrated in the following diagram.



1. Committees

The Executive Board

The Masterflex Group is run by the Executive Board consisting of two members. Dr.-Ing. Andreas Bastin has been Chief Executive Officer since April 2008, while graduate industrial engineer Mark Becks has been Chief Finance Officer (CFO) since June 2009.

Supervisory Board

The three-member Supervisory Board of Masterflex SE comprises Chairman, graduate engineer Friedrich Wilhelm Bischoping, his Deputy Georg van Hall and member Axel Klomp, both graduated in business administrations.

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

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 deviation analyses. Forecasts are prepared centrally at group-level on a quarterly basis allowing a rolling earnings projection. The management is informed on a weekly basis about the sales and incoming orders from the preceding week. As part of monthly reporting, the sales volume, operating result (Earnings before interests and taxes, or EBIT) and cash in hand for the entire Group are reported on directly at the beginning of the following month.

Within the Masterflex Group, key performance indicators and their continuous development are firmly at the forefront, focused on liquidity and the value of the company and supporting 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 EBIT before depreciation (EBITDA) on a group level.

IV. Research and development

Ensuring the Group's innovative power is an important objective of our corporate strategy. Product innovations were, are and will be the basis of success of long term business development.

The basis for this is our application development with focus on innovative materials, production methods as well as new product applications. On the one hand, this happens through the analysis of customers' needs and their implementation into specific solutions. On the other hand, we also design new products by virtue of close cooperation with our raw material suppliers: for example, they develop additives which give our materials certain application-relevant properties. In working this way, we align the quality requirements to the various market requirements at a very early stage and in a targeted manner. Intensive information exchange with leading research institutions guarantees cutting edge technology.

Thanks to our innovation capabilities, our products can‘t easily be substituted by other materials. However, the high-tech plastics processed by the Masterflex Group offer considerable potential for substituting conventional materials such as metal, rubber and so-called standard plastics. Moreover, we don‘t do contract manufacture. Nearly all our products and services are developed by our own engineers, technicians and specialist staff and to a large extent are made in-house.

During product development, we review on a case-by-case basis whether it is necessary, legally possible and reasonable in terms of our corporate strategy to apply for patents or other property rights to ensure protection of our intellectual property. In this way we are continuously improving not only the targeted review of protection opportunities but also cost-benefit analysis at an early stage of developments. The Masterflex Group thus owns an increasing number of intellectual and industrial property rights.

V. The market for high-tech hoses

The global market for high-tech hoses and connecting systems comprises many rather regionally-oriented specialist markets which are mostly served by SMEs. Customers primarily come from process manufacturing including industrial applications (B2B market); they range from internationally operating corporations to wholesale and medium-sized industrial enterprises down to small regionally-based businesses. Yet due to its rather inconsistent and opaque structure there is practically no publically available, reliable market data. Thus, for some years now, we have brought together all the relevant market information known to us purely for internal use. Nevertheless, due to the hard-to-come-by expertise in materials, processing and application of the demanding polymers and the 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, bicycle and vehicle hoses), and which is strongly focused on end-customers, is determined by large batch sizes, lower margins and major international providers.

The importance of possible uses of high-tech hoses will continue to increase in the medium term – because the production processes in the industry as a whole will become more and more challenging. In particular, three parameters drive the industrial demand for connection solutions here which meet these demands: firstly, the increasing speed of the manufacturing process; secondly, flexibility in terms of small end-product volumes with frequent variations in production; and thirdly, quality requirements of the end-products being manufactured.

The areas of application for high-tech hoses and connection systems cover a broad spectrum in industry terms: increasingly flexible and versatile connection solutions are used in mechanical engineering, in aerospace and automotive industries, by energy companies or even, increasingly, in the manufacture and processing of food and pharmaceutical products as well as in the medical industry. These complex areas of application, combined with outstanding expertise in processing modern and sophisticated plastics, allow us to create and produce connection solutions which can only be achieved inadequately, disadvantageously or not at all with conventional materials.

Connectors for medical tubings, used in life support machines by the brand FLEIMA-PLASTIC

VI. Brand identity and products

The five main operating companies of the Masterflex Group are presented below. These companies, which all have their own production capacities, represent at the same time the corporate brands which the Masterflex Group brings to market around the world. These five brands in their respective product portfolios provide the actual components for our future unified market presence under the **MASTERFLEX GROUP** umbrella brand. In addition to the five brand companies, there are eight other operating subsidiaries in Europe, USA and Asia which sell these brand products and also produce or assemble these products on site.

The **Connecting Values** slogan accurately emphasizes the core competence of the Masterflex Group: we provide holistic connection solutions which are based on leading technology and matched to the customers' requirements. The Masterflex Group represents German engineering with global production as well as close customer contact when it comes to advice, service, reliability and safety. Clear added value is created for customers with our in-house-developed, high-quality hoses and connection systems. In a nutshell, we combine values and this combination brings added value for our customers: **Connecting Values**.

MASTERFLEX

Spiral hose business is the core competence of Masterflex in Gelsenkirchen, Germany. In particular Master-Clip and PU hoses are developed, produced and distributed in addition to extruded spiral hoses. Connecting elements, like cuffs, flanges, threaded sockets clamps and other accessories complete our range of flexible and individual connection solutions.

This extensive variety offers products to satisfy individual requirements and fulfil demanding tasks. Irrespective of whether extremely abrasive solid matter, aggressive chemicals, gaseous media up to +1100 °C or even foodstuffs have to be transported, our hoses constructed from high-tech plastics and fibres always constitute a customer-oriented flexible application solution.

MATZEN & TIMM

Matzen & Timm GmbH is a 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 largely handmade on an industrial scale and are used most notably in sectors in which lightweight material, precision and resilience are paramount. In particular, this includes the aerospace industry, the automotive and rail sectors. Production takes place in both Norderstedt in Hamburg, Germany, and Plana in the Czech Republic. Special hoses can be found, for example, in the air conditioning system of the Airbus A380 as well as the future Airbus A350, under the bonnet of a racing car or on the chassis of a train with a tilting mechanism. As a manufacturer with is 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 conductive hoses or conduits for aircraft fuel lines meet the requirements of the various markets in terms of safety and function.

NOVOPLAST
SCHLAUCHTECHNIK

The Novoplast Schlauchtechnik GmbH in Halberstadt, Germany, specialises in the extrusion of hoses and profiles with diameters of 0.5 to 50 mm for industrial and medical applications. In parallel, products are further processed such as by thermosetting or special assembly and moulding 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.

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, 7 and 8.

In addition, there is intensive collaboration with the group subsidiary, FLEIMA-PLASTIC GmbH, manufacturer of medical precision injection-moulded parts. Thus, it is possible to provide our customers with the full package consisting of hose and medical components like, for instance, Luerlock connectors, drip chambers or roller clamps from one source.

FLEIMA-PLASTIC

Founded in 1974, the brand company FLEIMA-PLASTIC GmbH from Wald-Michelbach/Odenwald, Germany has been part of the Masterflex Group since 2004. High quality plastic injection moulded parts and assembled plastic components are produced mainly for the medical technology, cosmetics, food technology and biotechnology sectors. In the modern factory, injection moulding components (also using multi-component technology) are manufactured, assembled and finished. This also includes, amongst other things, our clean rooms. We also have vast experience in the construction of precision injection moulding tools with in-house mould-making and the creation of prototypes in all conventional rapid prototyping processes.

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 three operating subsidiaries: Masterduct, Inc., in Houston, Texas and Masterduct Brasil Comércio de Dutos LTDA in Sao Paulo, Brazil. Masterduct Inc. is active in two industry sectors: the heating, ventilation and air conditioning (HVAC) sector as well as for industrial applications.

The HVAC sector has established itself under the brandname Flexmaster U.S.A. as a specialist in the air conditioning and ventilation area 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.

Masterduct also sells the entire hose portfolio of the Masterflex, Novoplast Schlauchtechnik and Fleima-Plastic brands to the North American market under the Masterduct brand. Masterduct has become one of the market leaders in North America for exhaust fume extraction. The clientele ranges from the wood industry to the aviation and service industry right up to the US government.

B. Financial report

I. Macroeconomic and industry-related economic factors

The divergent economic development rates between our region of origin, Europe, and the market regions of America and Asia, which are being focussed on as part of the internationalisation strategy, have also continued over the past financial year.

While the economic development in Germany has continued its positive trend as expected; the growth rate of the gross domestic product (GDP) of +0.4 percent was again weaker than in the previous year (+0.7 percent, our expectation: +0.5 percent). This growth in Germany was the weakest since the financial crisis year of 2009 and can be attributed to a negative foreign trade balance which generated a negative contribution to growth of –0.3 percent and thus also had a negative impact on the investment climate. Positive boosts for the German economy primarily came from consumption where government spending at +1.1 percent exceeded private spending of 0.9 percent.

In comparison to the euro zone states, the German economy has nonetheless faired comparatively better: in the euro zone, the GDP has shrunk to 0.4 percent (previous year –0.4, anticipated 0 percent). Throughout the European Union, there has only been so-called zero growth (previous year –0.2 percent, anticipated +0.3 percent). The discussion on the future of the euro area and the gap between northern and southern states of the EU is reflected in this weak economic dynamic.

In contrast, states outside Europe in which the Masterflex Group operate have grown notably more dynamically (see following table). Even if the growth rates haven’t turned out as high as forecast at the beginning of the previous year, the economic development in America and Asia was notably more vigorous. Our sites have benefited from this economic recovery in the United States (+1.9 percent) and Brazil (+2.3 percent). This applies in particular to the markets in Asia, where we launched new activities in the previous year. In China alone, the economy grew in real terms by almost eight percent. Given this dynamic and also owing to the increasing demand for high-value industrial products in these markets, we feel vindicated in our internationalisation strategy and are encouraged to redouble our efforts to continue in this direction.

Economic growth in states where the Masterflex Group has a presence
Change of GDP compared to previous year in percent

State	2013 in %	2012 in %
Euro zone	**-0.4**	**-0.4**
Germany	0.4	0.7
France	0.3	0.0
Entire EU	**0**	**-0.2**
Great Britain	1.8	-0.1
Sweden	1.5	1.2
Czech Republic	-1.1	-1.3
World	**2.9**	**3.0**
Brazil	2.3	1.1
China	7.7	7.8
Russia	1.3	3.4
Singapore	3.7	1.4
USA	1.9	2.3

Data: Commerzbank, EU.

II. Business performance

Masterflex Group sales increased by 5.3 percent in 2013 to € 57.9 million compared to the previous year. Thus, we are clearly on track in terms of our forecast of significant disproportionately high growth. The operating income (EBIT) at € 6.1 million was around 19.1 percent below the previous year's result (€ 7.6 million) and also fell below our own expectations of a moderately growing income. With an EBIT margin of 10.6 percent, we are moving into the ambitious profitability framework we have set ourselves which we had outlined for the previous financial year with a clear double-digit EBIT margin.

The causes for the weaker than expected EBIT that was already visible in the individual quarters lie mainly in the upfront costs of our internationalisation which itself is starting to bear fruit more slowly than originally expected.

We were able to achieve our internationalisation objectives: Masterflex Group sales in Germany amounted to € 28.0 million in 2013 (previous year € 25.7 million). The stronger rise is attributed in particular to the growing industrial sector of aviation and the Novoplast Schlauchtechnik brand. Sales throughout the rest of Europe decreased slightly to €13.7 million (previous year €13.9 million). And, in the third countries, we recorded sales of €16.2 million (+5.2 percent) over the previous year's sales of € 15.4 million.

In particular, the development of the Chinese market through the subsidiary which was set up last year in Kunshan was pursued vigorously in the context of internationalisation. With a series of trade fairs in the region and targeted company visits, the now complete sales team succeeded in making an effective entrance into international companies from all over the world, as well as to national customers. In addition, the Singapore subsidiary which serves as the headquarters for our Asian activities, was able to extend its sales activities in countries around Singapore. Thus we have already been able to achieve considerable sales volumes from our Asian activities which only launched in 2011.

The sites established in Brazil and Russia in 2010 provided stable or increasing sales and earnings; in both sales regions, business was better compared with the previous year. Intensified sales activities in the USA led to good expansion of the business. In addition, further steps were taken to successively offer our full product range in all addressed markets.

In the second pillar of our growth strategy, we achieved a number of important milestones in 2013. The following innovations were launched on the market:

- Master-PUR multifunction hose under the MASTERFLEX brand. This very durable spiral hose combines the additional properties of microbe resistance and antistatic in a single product.

- PA DUOPART® under the NOVOPLAST SCHLAUCHTECHNIK brand. The partially welded multiple hose has a burr-free surface in the unwelded areas, which ensures leak-free push-in connectors or pneumatic control lines.

- Master-PUR Performance® under the MASTERFLEX brand. This extruded spiral hose with an absolutely seamless smooth internal surface withstands major loads when conveying rough or heavy bulk goods and is much more flexible than comparable heavy-duty PU hoses. Depending on the diameter, it can also be installed as a short length on tight curves. Its benefits come into their own when transporting abrasive media.

- CRP-Adsorber-cartridges (apheresis cartridges) which were developed by FLEIMA-PLASTIC on behalf of a customer. An injection-moulded and then ultrasound-welded cartridge for treating heart attacks which was produced under clean-room conditions.

- Protective hose for mobile filling systems under the MATZEN & TIMM brand. This hose with an integrated flange serves to collect any leaks from the fill pipework fitted inside it for the drive unit. To do this, it must meet the highest requirements in terms of vacuum and excess pressure, movement and tightness.

The significant key figures for the Masterflex Group are as follows:

T€	2013	2012
EBITDA	8,769	10,171
EBIT	6,114	7,556
EBIT margin	10.6%	13.7%
Consolidated net result – continued	3,155	4,904
Consolidated net result – discontinued	–80	–262
Earnings per share – continued	0.33	0.53
Earnings per share	0.32	0.50

III. Economic situation

1. Results of operations

	2013 T€	%	2012 T€	%	+/- T€	%
Revenue	57,904	98.6	54,984	95.4	2,920	5.3
Changes in inventories	319	0.5	772	1.3	–453	-58.7
Other own work capitalised	49	0.1	290	0.5	–241	–83.1
Other operating income	449	0.8	1,626	2.8	–1,177	–72.4
Gross revenue	**58,721**	**100.0**	**57,672**	**100.0**	**1,049**	**1.8**
Cost of materials	–18,101	-30.8	–17,798	-30.9	-303	1.7
Staff costs	–21,849	-37.2	–20,069	-34.8	-1,780	8.9
Depreciation, amortisation and write-downs	–2,655	–4.5	–2,615	–4.5	–40	1.5
Other operating expenses	–9,760	-16.6	–9,396	-16.3	-364	3.9
Other taxes	–242	–0.4	–238	–0.4	–4	1.7
Total operating expenses	–52,607	-89.5	–50,116	-86.9	–2,491	5.0
Adjusted EBIT	**6,114**	**10.5**	**7,556**	**13.1**	**–1,442**	**–19.1**
Financial result	–1,577		–1,567		–10	
Non-operating result-Group	0		–187		187	
Earnings before taxes	4,537		5,802		–1,265	
Income tax expense	–1,382		–898		–484	
Earnings after taxes from continued acitivities	3,155		4,904		–1,749	
Earnings after taxes from discontinued activities	–80		–262		182	
Non-operating result from discontinued activities	0		0		0	
Consolidated net income/loss	**3,075**		**4,642**		**–1,567**	
thereof minority interests	191		199		-8	
thereof attributable to shareholders of Masterflex SE	2,884		4,443		–1,559	

1.1 Sales trend
Compared to 2012 sales increased by € 2.9 million or 5.3 percent to € 57.9 million (previous year € 55.0 million). Especially after the weak start in the first quarter of 2013, this is a more welcome and increasingly dynamic progression over the course of the year that lies within our projected development.

Revenue was increased in most of the subsidiaries. The largest sales market for the Masterflex Group was and still is Germany. However, we achieved the highest growth rates with our international activities in South America and Asia. Business also developed particularly favourably with our Novoplast Schlauchtechnik brand which, based on our investment measures in clean-room technology, can be increasingly positioned as a premium provider of medical technology in the marketplace. In addition, the activities in Russia and northern and eastern regions of Europe contributed to our disproportionately positive economic growth. On the other hand, business has again declined for us in France. Assuming this was not due to the weak economy there, last year we took a number of measures particularly in sales and management to improve our market position.

The growth regions of the world do not lie in Europe for the foreseeable future. This has again been impressively confirmed in 2013. Thereby a European company is well advised to the meet the challenges of globalisation – although not always immediately profitable. Even if this involves higher run-up costs, the engine for growth for us lies in the non-European markets. We expect a continued shift in our business activities for the next few years towards Asia and America.

1.2 Earnings development
Our operating EBIT (EBIT before discontinued business units and non-operating income and expenses) fell by 19.1 percent from € 7.6 million to € 6.1 million. This corresponds to an EBIT margin of 10.6 percent (previous year 13.7 percent) and is in line with our expectations of a double-digit margin.

The lower EBIT can be attributable to the upfront costs of our internationalisation, which, predominantly as personnel expenses and not amortised investment, immediately impacts on the income statement. Since the increase in resources for the first stage of internationalisation was, for the most part, completed in 2013, we have begun to optimise our structures and processes.

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

The income from changes in inventories of finished and unfinished products decreased due to destocking by € 0.5 million to € 0.3 million.

Income from own work capitalised fell to less than € 0.1 million (previous year € 0.3 million) due to the decrease of development activities.

Other operating income decreased by € 1.2 million to € 0.4 million compared with the previous year (€ 1.6 million). The one-off effects from the previous year are primarily the cause for this, in particular from reversals of write-downs from properties.

The cost of materials ratio (material costs in relation to sales and changes in inventories) at 31.1 percent once again remained under the previous year‘s level (31.9 percent). The reasons for this, above all, are the stable commodity prices as well as design and cost optimisation.

However, the staff-cost ratio (personnel costs in relation to sales and changes in inventories) increased to 37.5 percent (previous year 36.0 percent). The recruitment of personnel for internationalisation as well as the expansion of sales and technology since the turn of the 2012/2013 year are reflected here. Process optimisation and no longer the increase in personnel is now the focus of internationalisation measures, so this ratio should once again decline.

In 2013, there was an average of 550 employees employed in the Masterflex Group (501 in the 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.

The increase in other operating expenses (including other taxes) could be kept comparatively low despite increased sales and the strong pace of energy costs at +3.8 percent to € 10.0 million.

Write-downs remain roughly the same at € 2.7 million (previous year € 2.6 million).

Thus, the consolidated operating result decreased around 19.1 percent to € 6.1 million. The EBIT margin (EBIT in relation to revenue) therefore stands at 10.6 percent (previous year 13.7 percent).

The financial result at –€ 1.6 million has remained virtually unchanged compared to the previous year. The expenses for the conclusion of the loan agreement are an obstacle to the positive effect from the general trend of interest rates, which has been included in our new syndicated loan agreement. We expect that the favourable conditions of the new syndicated loan agreement in the 2014 financial year will be more clearly reflected in the financial result.

The improvement in income from non-operating income and expenses from continuing operations of € 0.2 million is attributable to a one-off income statement effect from the previous year (costs for the change of legal form in 2012).

Income tax expenses increased significantly from € 0.9 million to € 1.4 million. The background for this development of expenditure is the adjustment of our business planning to the expected growth rate for the next five years and thus the reduction in deferred taxes. Current income tax was incurred mainly by the foreign subsidiaries and within the context of minimum taxation at Masterflex SE. The income tax burden as a result of the loss carryforwards of Masterflex SE was able to be optimised through three profit and loss transfer agreements with subsidiaries in Germany.

The income from discontinued operations amounts to € –0.1 million (previous year € –0.3 million). The reduction compared to the previous year is due in particular to the formation of a provision in 2012 for a legal dispute in connection with the sale of the mobility company.

The consolidated net income at € 3.1 million lies around 33.8 percent below that of last year (€ 4.6 million). € 2.9 million of the net profit (€ 4.4 million the previous year) was allotted to Masterflex SE shareholders.

Other companies' minority interests reflect the ownership ratios of the subsidiary in France (Masterflex SE: 80 percent), the Russian subsidiary (Masterflex SE: 51 percent) and Masterflex Asia Holding GmbH (Masterflex SE: 80 percent).

The earnings per share from continued and discontinued operations is € 0.32 compared to a previous year's figure of € 0.50.

2. Financial position

2.1 Principles and objectives of financial management

The following main short and medium-term objectives regarding finance management:

- further strengthening equity
- reducing interest expense
- further reduction in the Group's debt

were largely able to be achieved in 2013.

Our current medium-term objectives in financial management are a further gradual moderate reduction in liabilities to banks and the associated gradual reduction of interest expense. This is related to our long-term growth strategy and the associated higher liquidity needs through the internationalisation strategy, as well as potential acquisitions.

2.2 Financial analysis

Long and short term financial liabilities amounted to € 22.7 million as at 31 December 2013, down € 0.5 million on the previous year. The cash and cash equivalents amounted to € 4.7 million (previous year € 2.8 million) This meant the net debt stood at € 18 million at the end of the year. Net debt in relation to EBITDA (one of the group management variables) was at 2.1 percent. 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 € 22.7 million are structured as follows

- € 18.2 million especially from the long-term tranche of the syndicated loan
- € 4.4 million, mainly from the short-term credit lines of the syndicated loan and the amortisation payments due in 2014
- € 0.1 million other financial liabilities incl. leasing liabilities.

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

2.3 Liquidity position
At the end of 2013, the cash and cash equivalents had risen from € 2.8 million to € 4.7 million.

The increase of cash and cash equivalents by € 1.9 million can be attributed to the following

- positive earnings before depreciation (EBITDA, € +8.8 million)
- a reduction in inventories, trade receivables and other short-term current assets (€ +0.7 million)
- capital expenditure on property, plant and equipment and intangible assets (€ –3.8 million)
- income taxes paid (€ –0.9 million)
- interest expenses (€ –1.5 million).
- cost of re-financing (€ –0.8 million)
- reducing financial liabilities (€ –0.5 million)
- other (€ –0.1 million).

The cash flow statement condensed to the main line entries, showing the increase of cash and cash equivalents in 2013, appears in financial statements (consolidated cash flow statement).

The Masterflex Group was solvent at all times throughout 2013. Also, Masterflex SE has a free, non-utilised credit facility available from the syndicated loan agreement: the amount of the agreed but non-utilised credit facility was € 17.25 million at the 2013 balance sheet date.

The exhaust gas hose Carflex from the MASTERFLEX brand for the extraction of engine exhaust fumes

3. Net assets

3.1 Asset structure

Assets	31.12.2013 T€	%	31.12.2012 T€	%	+/- T€	%
Intangible assets	4,245	8.0	4,187	8.1	58	1.4
Property, plant and equipment	21,759	40.5	21,232	40.5	527	2.5
Non-current financial assets	342	0.6	445	0.8	-103	-23.1
Other assets	84	0.2	26	0.0	58	223.1
Deferred taxes	5,441	10.1	5,932	11.3	-491	-8.3
Non-current assets	**31,871**	**59.4**	**31,822**	**60.7**	**49**	**0.2**
Inventories	10,699	19.9	11,119	21.2	-420	-3.8
Receivables and other assets	6,371	11.9	6,671	12.7	-300	-4.5
Current assets	**17,070**	**31.8**	**17,790**	**33.9**	**-720**	**-4.0**
Cash	**4,749**	**8.8**	**2,823**	**5.4**	**1,926**	**68.2**
	53,690	**100.0**	**52,435**	**100.0**	**1,255**	**2.4**

In comparison to the previous year, total assets increased by € 1.3 million to € 53.7 million.

At the same time, net non-current assets rose by less than € 0.1 million to € 31.9 million. First and foremost this can be attributed to the increase of fixed assets of € 0.5 million and on the other to the reduction in deferred tax of € 0.5 million.

Intangible assets and property, plant and equipment increased by € 0.6 million to € 26.0 million (previous year € 25.4 million). Major investments involved the expansion of clean-room technology at Novoplast Schlauchtechnik, investments in expansion at Fleima-Plastic as well as equipment for our companies in Russia and China.

The current assets and the cash and cash equivalents increased at the balance sheet date by € 1.2 million to € 21.8 million (previous year € 20.6 million). The greatest impacts involved

- an increase of cash and cash equivalents by € 1.9 million
- a slight drop in receivables and other assets by € 0.3 million
- a slight reduction of inventories in the context of optimisation of the working capital by € 0.4 million.

3.2 Capital structure

Equity and liabilities	31.12.2013 T€	%	31.12.2012 T€	%	+/- T€	%
Consolidated equity	22,447	41.8	19,988	38.1	2,459	12.3
Minority interest	576	1.1	536	1.0	40	7.5
Total equity	**23,023**	**42.9**	**20,524**	**39.1**	**2,499**	**12.2**
Provisions	194	0.4	191	0.4	3	1.6
Financial liabilities	18,250	34.0	17,126	32.7	1,124	6.6
Other non-current liabilities	1,388	2.6	1,489	2.8	–101	–6.8
Deferred tax liabilities	594	1.1	838	1.6	–244	–29.1
Non-current liabilities	**20,426**	**38.1**	**19,644**	**37.5**	**782**	**4.0**
Provisions	2,485	4.6	2,600	5.0	–115	–4.4
Financial liabilities	4,407	8.2	6,056	11.5	–1,649	–27.2
Other current liabilities	3,349	6.2	3,611	6.9	–262	–7.3
Current liabilities	**10,241**	**19.0**	**12,267**	**23.4**	**–2,026**	**–16.5**
	53,690	**100.0**	**52,435**	**100.0**	**1,255**	**2.4**

On the basis of the Group's net income, the Group's equity rose from € 20.5 million to € 23.0 million.

At 2013 the balance sheet date, the equity ratio (equity as compared to the balance sheet total) thus amounted to 42.9 percent (previous year 39.1 percent). Due to existing distribution restrictions at Masterflex SE at 31 December 2013 balance sheet date, no dividend can be distributed for the 2013 financial year.

The Board took the decision on 18 March 2014 to withdraw an amount of € 9.0 million out of the capital reserve recorded in the financial statements of Masterflex SE to cover the remaining loss carryforward of € 9.0 million after settlement of the annual profit for 2013. On this basis, the Masterflex SE net loss at the balance sheet date was settled to 0 Euro. Thus, Masterflex SE is exempt from distribution restrictions earlier, arising from the active deferred taxes on loss carryforwards and development services underway amounting to € 5.5 million.

Non-current liabilities increased by € 0.8 million to € 20.4 million. The main reason for this is the agreement of the new syndicated loan whereby short-term liabilities to banks have been converted into long-term amortisable loans.

Short-term debt fell by € 2.0 million from nearly € 12.3 million to more than € 10.2 million. This is primarily due to the decline in short-term bank liabilities of € 1.6 million in favour of long-term amortisable loans.

IV. Overall statement on the financial position

Overall, the group management declares the asset, financial and earnings 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
- the ratio of net debt to EBITDA of 2.1

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

V. Non-financial performance indicators

1. Employees and Social Commitment

Satisfied and committed employees are enormously important for our success. Thanks in particular to our motivated staff we can implement our strategic development. This applies both for internationalisation and for Research and Development to continuously launch product innovations on the market. The satisfaction of our employees is reflected in a low turnover rate for several years.

The basis of our personnel policy is a targeted personnel development which focuses on the individual employees. In the context of this continuous personnel development, managers and employees get together to assess their performance during the annual staff appraisal interview. Personal targets are agreed for the year to come, which, in addition to the general corporate targets, form the basis for compensation of various types. At the same time, these meetings provide the basis for specific employee development. We regularly offer our employees both individual further education opportunities and courses in foreign languages. We also support vocational study programmes.

We are aware of our social responsibility towards young people. For this reason, we have trained apprentices in the industrial and commercial sector within the framework of dual training since 1997. In Germany, we currently employ 12 apprentices in different commercial and administrative functions. We also work with various educational establishments and offer places to apprentices so that they can complete the practical part of their training with us. Moreover we support the social skills and team spirit ethos of our apprentices through targeted project work. At the end of 2013, we organised a self-initiated appeal by the commercial and industrial apprentices from the Gelsenkirchen site. In support of the Gelsenkirchener Tafel e. V. (Gelsenkirchen Foundation), the young people collected clothes and small gifts for Christmas celebrations, wrapped and distributed them under the direction of the foundation. These projects should be continued so that social skills as well as teamwork can be assimilated.

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 amongst 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 with flexible hours. In this way, we retain the skills of these experienced employees.

As part of our employee development and promotion programme, 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 women applicants in the areas of technology and technical sales/project sales. The recruitment and 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.

2. 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 from each other and resold.

Masterflex SE goes further still as an ‚Eco-profit‘ company by pursuing a policy to sustainably save resources and make an important contribution to protecting the environment by means of ecologically worthwhile measures.

The EC Regulation REACH (registration, evaluation, authorisation and restriction of chemicals) obliges manufacturers and importers to determine dangerous properties of substances, as well as to assess the effects on health and the environment. In the REACH supply chain, Masterflex, as a commodity supplier, 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**.

C. Report on post balance sheet date events

No events of particular significance relating to our asset, financial and earnings position took place after the balance sheet date.

D. Corporate Governance Report

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

I. Corporate Governance Statement in accordance with § 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 both required to submit an annual declaration stating that the company has complied with, and will comply with the recommendations of the Government commission on the German Corporate Governance Code published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette, or stating which recommendations have not been or will not be applied and why not. This declaration of conformity is to be made permanently available to shareholders. The current declaration of conformity was submitted in December 2013 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 SE are set out in the company‘s Articles of Association as well as the Rules of Procedure for the Executive Board and Supervisory Board. The company‘s Articles of Association can be examined 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 SE-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, is held by the company for a further two years and is only paid if the parameters for success are regularly achieved 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 applicable 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 2013 and its division into fixed and variable components is presented in the following table:

All disclosures in T€	Fixed	Performance-based compensation based on sustainable targets Short-term focus	Performance-related remuneration in 2013 Long-term focus[1]	Fringe benefits (Remuneration in kind)	Total compensation relevant to payment[2] 2013
Chief Executive Officer Dr. Andreas Bastin	285	127	65	31	443
(Previous year)	(285)	(79)	(41)	(32)	(396)
Executive Board member Mark Becks	200	69	35	34	303
(Previous year)	(200)	(43)	(22)	(34)	(277)
Total	485	196	100	65	746
(Previous year)	(485)	(122)	(63)	(66)	(673)

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 2013 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. As stated in the Management Report, the Company's targets were almost all achieved in 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.

The total compensation paid to the Supervisory Board in 2013 and its distribution is presented in the following table:

All disclosures in T€	Fixed	Performance-related compensation[1]	Total attendance allowance	Total compensation relevant to payment 2013
Chairman of the Supervisory Board, Mr Friedrich W. Bischoping	14	5	2	21
(Previous year[2])	(14)	(5)	(2)	(21)
Deputy Chairman of the Supervisory Board, Mr Georg van Hall	14	5	2	21
(Previous year[2])	(14)	(5)	(2)	(21)
Supervisory Board Member, Mr Axel Klomp	14	5	2	21
(Previous year[2])	(14)	(5)	(2)	(21)
Total compensation	42	15	6	63
(Previous year[2])	(42)	(15)	(6)	(63)

1 The proportion of variable compensation acquired in 2012 but not yet paid, which is paid with the financial statements of the 2013 financial year in consequence of the success criteria for fixed compensation in line with § 15 of the Articles of Association.

2 Supervisory Board remuneration approved for the period of the fourth quarter of 2012 was included in the previous year's figures on the basis of the resolution of the shareholders' meeting of 11 June 2013.

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 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 served 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 see 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.

Selection of High Efficiency HVAC Sheet Metal Products by MASTERDUCT

E. Opportunities and risks report

I. Opportunities and risk management system for value-orientated corporate management

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

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

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

II. Opportunities

1. Opportunities through positive market development

In our planning assumptions, we assume stable economic conditions (see Outlook in the management report. Should the world economy develop more sustainably and evolve more dynamically than anticipated by us, this will have a positive impact on our sales and cash flows over the next few years.

2. Opportunities through internationalisation

The focus of our sales is currently in Germany and Europe. These regions have forecast growth rates of around one percent. Our internationalisation strategy assumed higher growth rates in the global target markets of Brazil, Russia, China and North America that we addressed.

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

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

3. Opportunities through Research and Development

Our strategic planning is based on the two strategic cornerstones: innovation and internationalisation. The continuation of our growth crucially depends on continuously launching innovative solutions in the marketplace in order to create added value for our customers.

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

4. Opportunities through personnel management

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

A focus over the next year will be to improve the efficiency of the global organisation. Should we succeed faster than anticipated, this will have a particularly positive impact on the EBIT margin and cash flow.

III. Efficient risk management organisation

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 internal control system extends to the entire Masterflex Group and is constantly being refined. The major foundations of accounting are documented in an accounting manual which is also being developed on an ongoing basis and adapted to new legal requirements.

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

We identify risks in financial reporting at the level of the 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 CEO and Chairman of the Supervisory Board continually exchange ideas on the establishment and the level of compliance and the 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 Group stands for the targeted safeguarding of existing and future earnings potential as well as the specific management of known risks. Our risk management system comprises the identification, assessment, monitoring and control of risks. This controlled approach is intended to safeguard the net assets, financial position and results of the group. The Masterflex Group's risk management is integrated into existing structures and is therefore an inextricable component of corporate management and business processes. Strategic corporate planning, internal reporting and the internal control system are the core elements of the risk management together with the risk manual.

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

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

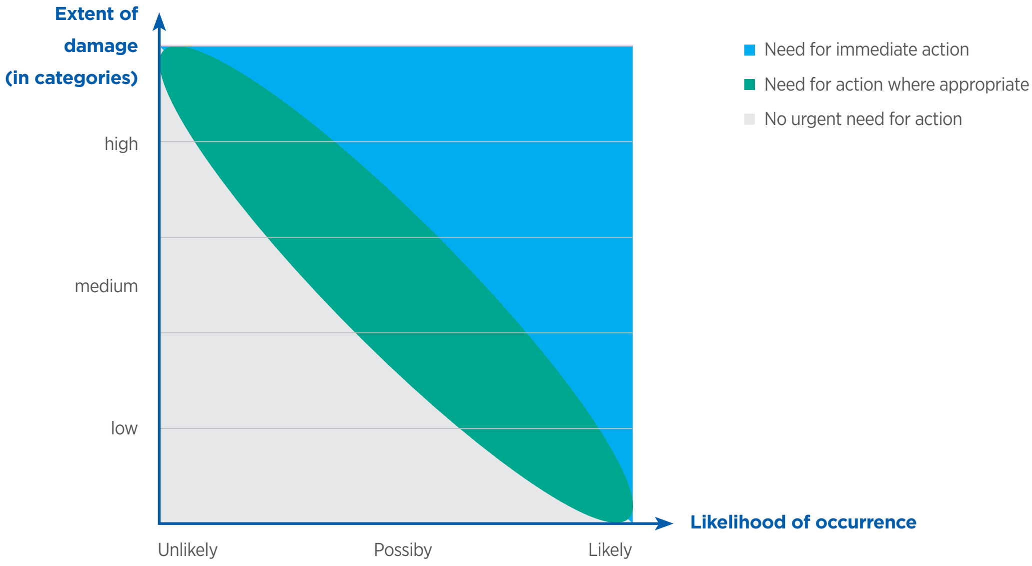
With the likelihood of occurrence of a risk, we distinguish between the categories 'unlikely' (less than 30 percent probability), 'possible' (probability greater than or equal to 30 per cent and lower than 60 percent) and 'probable' (probability of 60 percent or above).

With the extent of damage, we distinguish between ‚low', ‚medium' or ‚serious' impact on our cash flow and asset, financial and earnings position.

With the combination of both components, we distinguish between

- high risk → need for immediate action
- medium risk → need for action where appropriate
- low risk → no urgent need for action

The following diagram illustrates these relationships



The following section contains information on the key risk areas potentially affecting our business development and asset, financial and earnings 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 the group in the event of a change in circumstances.

IV. Individual risks

1. 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.

The ability of the Masterflex Group 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 technical colleges 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 approached 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.

2. Economic, political and social risks

The global economy, financial markets, as well as the broader political framework are characterised by a high level of uncertainty around the world. Events such as a global financial crisis, collapse of the euro zone, a recession in our target countries, an unsustainable increase in public debt as well as significant tax increases, political instability by terrorist attacks and natural disasters can all affect our business negatively. An instability of the economic and political situation could thus have a negative impact on our asset, financial and earnings position.

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

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

3. IT risks

The continuous availability of IT systems is a vital factor in ensuring operations at the group's individual sites and offices. Accordingly, internal and external experts work continuously to optimise the group's central and decentralised information security systems, their availability and reliability. 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

However, IT outages or even attacks from the outside cannot be ruled out. We see the likelihood of this against the background of the general discussion held in 2013 on issues of data security and espionage or external attacks as entirely possible. This would have serious impacts on the asset, financial and earnings position so we view this as a high risk.

4. Acquisitions and divestments

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

Despite careful planning, company mergers and acquisitions are exposed to risks which can negatively impact our asset, financial and earnings 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. The Masterflex Group has already strengthened its workforce with the skills necessary to handle this process in a structured and professional manner.

Acquisitions are always a significant risk. We meet this through a variety of methodical and organisational measures. So we will be carrying out technical, operational, financial and legal due diligence of acquisition targets. With regard to the process control, we expect a low risk. Since an acquisition has significant impact on the asset, financial and earnings position, we classify this as a high risk.

5. Procurement market risks

On the procurement side, the availability of raw materials and of intermediate products as well as changes in purchase prices constitute a risk for our companies. We strive to reduce these price and availability risk through international purchasing, the conclusion of long term supply agreements and the continuous optimisation of our supplier portfolio. When selecting suppliers, 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 a very early stage. This cooperative approach means that the Masterflex Group is also exposed to the risk of dependence on specific suppliers. However, in order to limit this risk, we pursue a second-source strategy to avoid dependence on one supplier.

We estimate the risk as to the availability of raw materials, the exclusion of suppliers as well as an unfavourable development of purchase prices to be of medium risk, with potential impact on the asset, financial and earnings position of medium probability.

6. 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.

We see the probability in terms of catastrophe based on past experience as low. The impact would be severe when entering a transition phase, so we classified the risk as a medium risk.

7. Legal risks

We only know of one case of legal proceedings that could have a tangible effect on the asset, financial and earnings position of the Masterflex Group.

This is based on the buyer of the two companies which belonged to the former Mobility Group, Clean Air Bike GmbH and Velodrive GmbH, suing Masterflex SE primarily for rescission of the trade sale agreement. As an alternative, additional claims for breach of warranty were filed. Based on the information available, we have adopted a different but perfectly justifiable stance seen from our point of view. As a precautionary measure thereby, a provision of € 200 thousand was made under discontinued operations. However, it cannot be totally excluded that there will be another process output which could involve a – possibly considerable – further financial burden over and above this provision.

However, the likelihood that such risks will arise from legal proceedings in future cannot be fully excluded. Appropriate and sufficient provisions were set up for pending or imminent legal proceedings. Nevertheless, it also cannot be ruled out that balance sheet provisions are insufficient. In order to avoid new legal risks, contracts of economic significance for the Masterflex Group are reviewed by external lawyers before they are concluded.

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

8. Tax risks

Due to future audits or audits not yet completed, there is a risk of tax back-payments or nonrecognition of loss carryforwards. It may be the case that it will not be possible to apply § 8c para 1a of the German Corporation Tax Act and that the requirements for the restructuring privilege will not be met, meaning that tax loss carryforwards cannot be used. Tax back-payments would negatively affect the group's liquidity. A reduction of loss carryforwards would lead to a reversal of deferred tax assets.

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

9. Financial risks

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

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

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

Business and financing activities in foreign currencies 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 situations in the group, does not exist to any noteworthy degree. 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 financial risks in the Masterflex Group are viewed as low through the use of the new syndicated loan agreement which was concluded in 2013 with a remaining term of four and a half years plus fewer foreign currency transactions as well as the relatively small-scale of our business.

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

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

Based on current and planned business development, we anticipate being in compliance with these covenants. The upper limit for the key figure ‘debt-to-equity ratio’ (calculated in accordance with the syndicated loan agreement) in 2013 was 2.75. As of the 2013 balance sheet date, this key figure was 2.1. The lower limit of the second key figure (calculated according to the credit agreement, which fixes the balance sheet equity capital to certain assets), reached a value of 20 percent in 2013. In contrast the group achieved an equity ratio of 33.0 percent as of the 2013 balance sheet date. The lower limit of the third key figure ‘interest-cover ratio’ (calculated in accordance with the guidelines from the syndicated loan agreement in which the adjusted EBITDA is divided by the adjusted net interest expense) was initially 5.0 in 2013 and at the end of the year was 6.0. In contrast Masterflex SE achieved an equity ratio of 7.9 as of the 2013 balance sheet date. Thus, the covenants would only be breached by a dramatic deterioration of future results.

10. Sales market risks

On the sales market side, long-standing existing customers can fall away. However, since the Masterflex Group is involved in many sectors and markets and also supplies many different customers, it is not dependent on one sector or one individual customer.

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

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.

Due to our broad customer and industry diversification we see this risk as low, because the exclusion of individual customers would have only a limited impact on our asset, financial and earnings position.

11. Technology and quality risks

As a technology leader offering internationally competitive products and services, the Masterflex Group is at risk of losing this position due to decreasing innovative power or even human errors. In order to avoid this, we are accelerating a permanent innovation and development process in order to meet the demanding requirements of customers. In order to secure this in the future, an innovation management process was introduced. A panel of internal experts will decide further developments according to clear process and assessment requirements (so-called stage-gate process). In particular, the members make decisions on the basis of market analyses and considerations of economic viability. The Group also aims to maintain close cooperation with its customers in order to help it to develop new applications and leverage new markets at an early stage. Further details on this process can be found in section IV, Research and Development.

The recognised quality of our products and high delivery capacity are important requirements for our success. In order to control such risks relating to our goods and services, we give a high degree of priority to quality assurance. By setting ambitious quality standards for 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.

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

12. Regulatory risks

The strategy of the Masterflex Group is based on the pillars of innovation and internationalisation. This means that the group will be active in more countries in the future and is working with its own employees and companies in many places of the world.

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

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

Our compliance management system should ensure compliance with policy as well as to our code of conduct in the realm of staff training. The measures needed to reduce risks will be implemented and tracked.

Despite the comprehensive compliance programmes and existing internal controls, it is however impossible to entirely prevent employees from bypassing control mechanisms, infringing laws or acting fraudulently for their personal gain.

Even if we classify this risk as low, we cannot completely exclude it. An occurrence could have a significant impact on our asset, financial and earnings position, as well as on the reputation of the company. We regard this risk as low, although an exact assessment is difficult because of the amount of relevant statutory provisions and a wide variety of possible violations.

13. 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

The assessment of all risks takes place on the balance sheet date.

In addition to global risk factors, the expected positive development of the asset, financial and earnings position of the Masterflex Group may be notably jeopardised by negative or even recessive business trends in individual sectors or economies.

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

Our asset, financial and earnings 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.

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

Lightweights for all temperatures:
This special hose by MATZEN & TIMM is reinforced with steel rings and used for the compensation of movements in the aviation industry.

F. Report on expected developments

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

I. Outlook

1. Expected economic development

After a steady increase in the economic climate over the course of the year and very positive early indicators, the financial experts at Commerzbank take an improving economy as the starting point (see table of forecasted economic growth).

According to the financial experts at Commerzbank, the German economy will develop more dynamically in 2014 than in the previous year (+0.4 percent). The mood and position have also continued to increase in both large and small to medium sized companies over the course of 2013 and at the beginning of 2014 they are no longer at the position they were in roughly at the middle of 2011. One reason for this, according to experts, is the low interest rates. Overall, bank economists expect growth of 2.0 percent.

After overcoming the recession, the euro-zone economy will revive again in 2014 as a result of gradual profound corrections in the weaker countries of the euro zone. However, the expected growth at +1.0 percent is significantly lower than in Germany. At the same time, the experts assume that Monetary Union has survived the sovereign debt crisis in the short term.

Outside Europe, the dynamics of economic growth have also seen a marginal fall whereby, compared to Europe, bank economists expect stimulation – to some extent, strong – of economic activities to remain unchanged. In states where the Masterflex Group has a presence overall higher growth rates are predicted.

In particular, economists for the United States expect a noticeable growth of 2.8 percent, after fiscal policy had clearly bogged down the economy in the previous year. However, the emerging economy of Brazil has suffered somewhat from less interest being shown by the capital markets in the emerging economies as a whole since the middle of 2013, which is the result of changed monetary policy of the US Federal Reserve Bank. However, the upcoming major events in Brazil – the football World Cup this year, Olympic Games in 2016 – are a positive momentum for the economy for which bank economists forecast a moderate growth of +1.6. percent. For China, experts expect a slightly lower growth due to a more conservative economic policy with a less expansive lending policy.

All in all, the prospects in these countries with growth rates of 1.6 to 7.3 percent compared to Europe continue to be rated as good. Thus, we feel vindicated once more with our internationalisation strategy. Today, it is all the more important for us to vigorously promote further internationalisation.

Forecasted economic growth in states where the Masterflex Group is present
(change compared to previous year, in percent)

Country	2014	2015
Euro zone	**1.0**	**1.1**
Germany	2.0	2.0
France	0.5	0.7
EU		
Great Britain	2.5	2.5
Sweden	2.3	2.8
Czech Republic	2.0	2.3
World	**3.5**	**3.6**
Brazil	1.6	2.2
China	7.3	6.8
Russia	2.2	2.5
Singapore	4.2	4.5
USA	2.8	3.0

Source: Commerzbank, EU.

2. Projected development of the Masterflex Group

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

The Masterflex Group accesses international markets.

After conducting extensive market research and developing a comprehensive internationalisation strategy, implementation 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 have been covered through the establishment of companies in Brazil and Russia in 2010 and two years later with the launch of the two operating companies in Singapore and China. 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 cannot be ruled out in the future.

The Masterflex Group grows through innovations

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 partly also with our suppliers – we realise 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.

The economic forecasts for 2014 once again differ quite significantly for the regions in which the Masterflex Group is active. The dynamism in Asia as well as in the Americas faces subdued economic development in Europe. Thus, our business development is influenced to a greater extent by the successful implementation of our internationalisation measures .

In 2014, we once again expect to increase our level of growth over that of the world economy, which forecasts an annual rate of 3.5 percent. Thanks to our internationalisation strategy and our innovative power, we are confident that we will achieve this objective under the assumption that the economy will not develop contrary to our expectations in the regions where we have a presence. As a publicly listed medium-sized company, we also know that in terms of internationalisation delays can never be completely ruled out. The same applies to the measures which are required in order to prepare the company for long-term and permanently above-average growth. But we cannot allow ourselves to get distracted: the strategic goal is correct and the success over the last few years has proven us right.

As to operating results, we expect a double-digit EBIT margin and an operating result whose rate of increase should again be over the expected sales growth of at least 3.5 percent for 2014. In turn, we expect a substantial profit in the annual group net results.

II. Summarising overall statement of the forecast

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

"Each customer has different requirements – solving these is always an exciting challenge."

Sergio Alvarez Giorgis,
Technical Field Sales Consultant
of Novoplast Schlauchtechnik

Customised preformed hoses from the Novoplast Schlauchtechnik brand are designed to fit any application. This enables quick and easy installation in even the trickiest of locations (left). Right: Even when sparks fly – Xflame® flame-retardent hoses withstand any test. The hoses are mostly applied in welding plants and installations.

The Masterflex Share

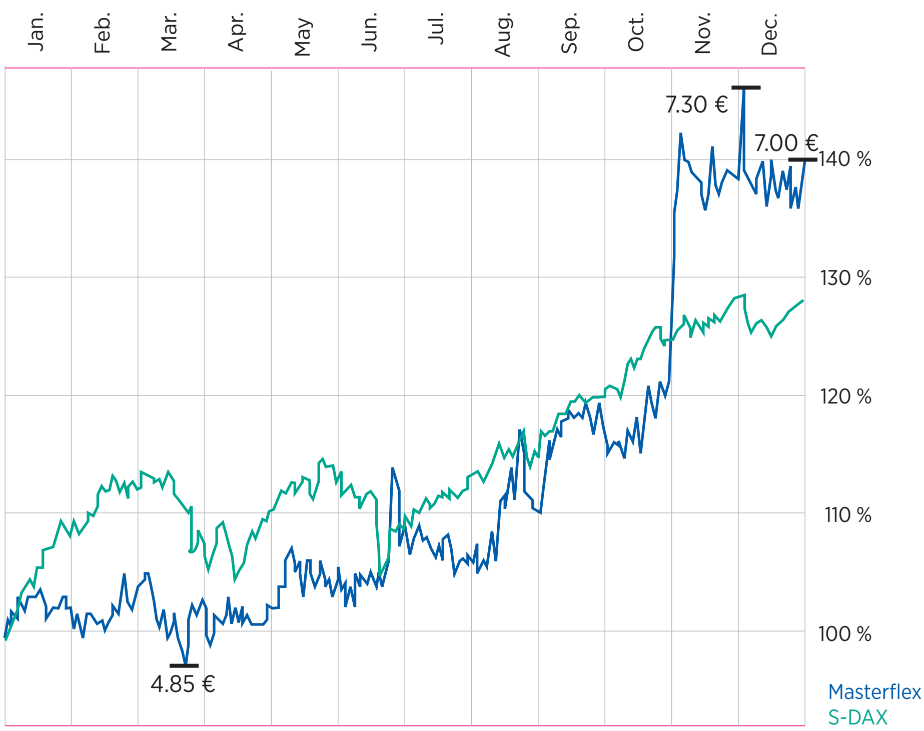
Share information	
ISIN-Code	DE0005492938
German Securities Code Number (WKN)	549 293
Class of shares	No-par value bearer shares
Stock Ticker Symbol	MZX
Bloomberg symbol	MZX GR
Reuter code	MZXG.DE
Market segment	Prime Standard
Member of the following indices	CDAX Prime All Share Index Classic All Share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

The stock market year

On the whole, the Masterflex stock performed very well in 2013: compared to the closing price at the beginning of the year of € 4.99, at the end of the year the stock closed at € 7.00; this corresponds to an increase in value of 40 percent. Thus, the stock also outperformed the benchmark index D-DAX which climbed around 28 percent to a closing level of 6,789 points.

Masterflex share price compared with SDAX

January until December 2013

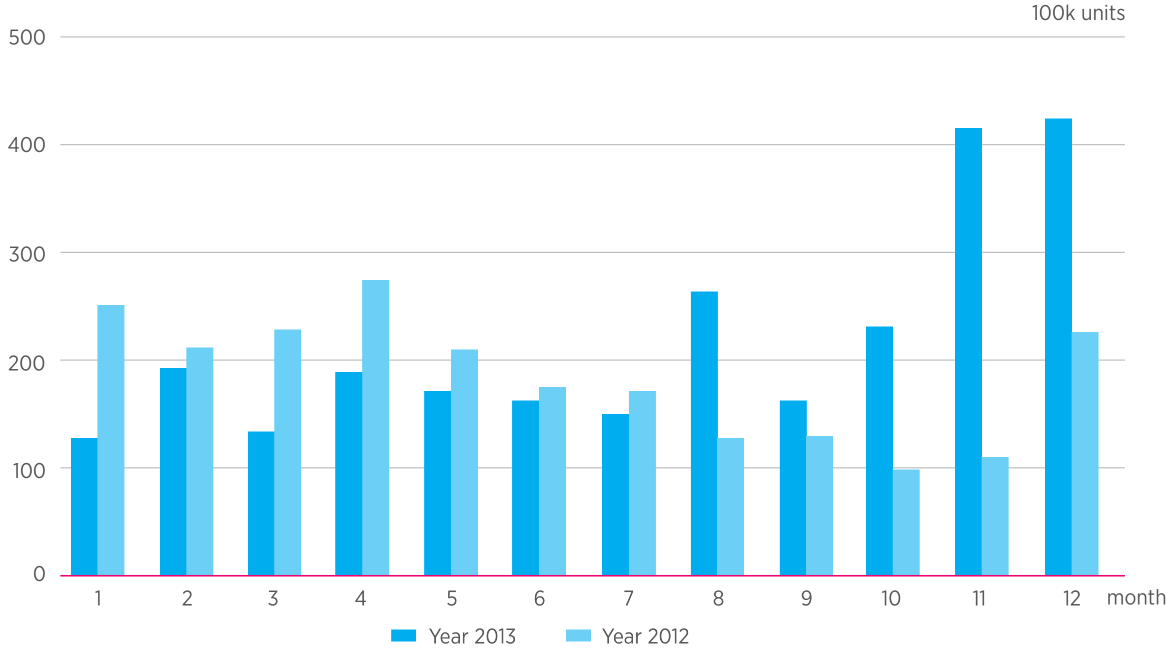


based on daily closing prices

But certainly price developments were not always continuous. In the first quarter of 2013, the share price traded sideways to slightly weaker with prices around € 5. After the Easter holiday, the share price gradually stabilised over € 5. After again announcing buoyant sales of high-tech hoses over the course of 2013 (+6.4 percent in Q2), on 12 August the stock then followed an increasingly fixed trend. This positive business development was clearly confirmed in the nine-month figures presented on 11 November to the extent that interest in the share price increasingly became the focus of attention for investors as well as for the media. By the end of the year, the stock was showing lively trading with prices between € 6.75 and € 7.30. The stock has then been able to maintain a level of around € 7 in 2014 until stock markets overall came under pressure in Spring due to politically triggered turbulences.

Liquidity of the Masterflex share

Order book sales



The good performance of the shares was accompanied by much stronger trading revenues. Trading in the Masterflex share on Xetra and Frankfurt last year amounted to € 15.5 million; this corresponds to an increase of over 37 percent compared to the previous year (€ 11.3 million). This growth is not only attributed to the higher price of the stock, for which reason in 2013 10,610 shares or 19.7 percent more was traded on average per trading day than the previous year (8,867 shares). The start of 2013 was certainly restrained; interest remained behind the previous year's sales in the first half of the year (see diagram). From August, sales measured by the number of shares rose every month more than the previous year. Here, this also reflects the generally increasing interest in the capital market in German Small Caps in addition to the positive development of the Masterflex Group.

The large margins in daily trading in Masterflex shares however remain unchanged: several tens of thousands of shares are traded on busy days – 12 December tops the list with around 80,000 trading volume in shares. In between, there are always days where only very small quantities are traded and so the stock market prices are of comparably little relevance.

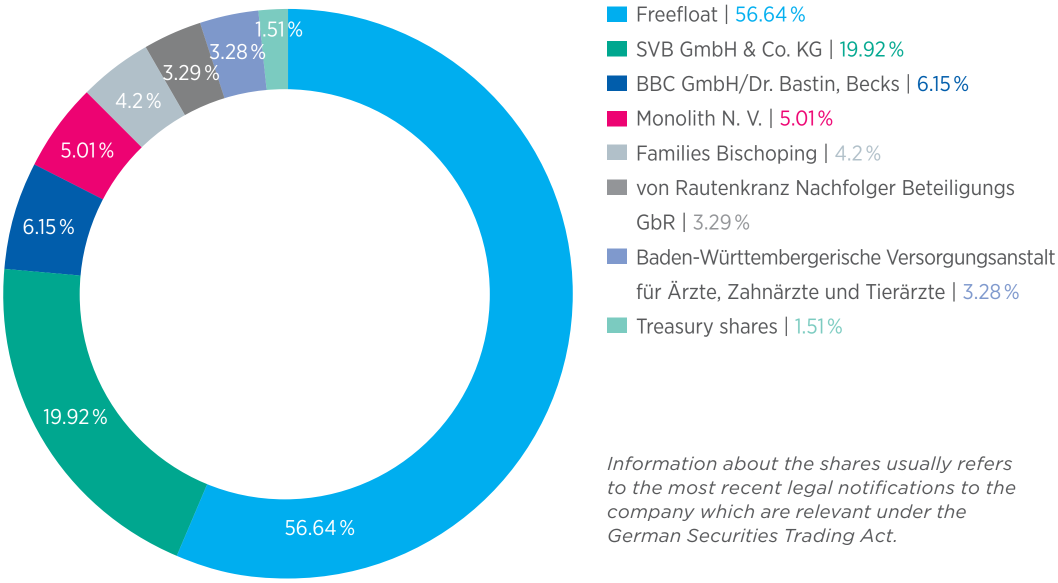
Since the stock market listing in 2000, Masterflex has supported the liquidity of their shares with a designated sponsor. This function was taken on by the Close Brothers Seydler Bank AG in 2013. In April 2013, WGZ Bank in Düsseldorf joined as Designated Sponsor; HSBC Trinkhaus & Burkhardt AG also temporarily performed this function in September and October. Since the beginning of 2014, WGZ Bank have exclusively looked after the stock.

Shareholder structure

The shareholder structure of the company has basically remained stable in 2013; however, some rather significant changes have occurred on the capital market side.

The largest investor is still SVB Holding GmbH & Co KG, backed by the Schmidt family, a Family Office, whose percentage of voting shares amounts to 19.92 percent. The second largest shareholder is BBC GmbH, whose company shares are held by the two Executive Board members of Masterflex SE, which increased its stake through acquisitions in June 2013 so that it now stands at 6.15 percent. New amongst the collection of mayor shareholders is Monolith N.V., a Dutch fund which had exceeded the reporting threshold relevant under the German Securities Trading Act of three and five percent in the second half of December and whose share amounted to 5.01 percent. The founder of the Masterflex Group, Friedrich Wilhelm Bischoping, has now moved down to fourth place and, together with other family members, collectively holds a 4.2 percent stake. In addition, two institutional investors possess packages above the statutory reporting threshold: 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 the Executive Board and institutional investors, the free float reduced slightly to 57 percent.

Masterflex shareholder structure (as of December 2013)



Information about the shares usually refers to the most recent legal notifications to the company which are relevant under the German Securities Trading Act.

Share price statistics

Xetra*		2013	2012	2011	2010	2009
Highest price	€	**7.30**	5.74	6.84	4.50	7.06
Lowest price	€	**4.80**	4.47	3.77[1]	2.84	3.41
Opening price	€	**4.999**	5.15	4.00	3.50	6.00
Closing share price	€	**7.00**	4.84	5.18	4.00	3.50
Performance		**+40.0%**	-6.0%	+29.5%	+14.3%	-41.7%

* *All based on the closing price*

Analyst research

Close Brother Seydler Research AG (CBS Research), who in previous years have regularly covered the shares, have updated their share research in 2013, most recently for the Q1 figures in April 2013. WGZ Bank took notice of the title in spring 2013 with a detailed "Initial Coverage Report". The most recent report from WGZ Bank dated 25 November 2013 covered the nine month figures. The recommendation named therein is "Buy"; a share price of € 8.20 is mentioned as a target price. In addition, First Berlin Equity Research GmbH (First Berlin) have also analysed the share potential since 2011. The most recent update from First Berlin of 13 December 2013 suggests "Adding" with a target price of € 7.80.

The continuous interest of analysts is very welcome from the Masterflex Group's point of view. Thus, analysts, portfolio managers and private shareholders have a professional analysis of the business model and the financial figures. This analyst coverage is self-evident and thus freely available for large index titles; with fewer high-turnover small caps the attractiveness of continuous research for a financial institution is often not overly evident, which may lead to reduced attractiveness of this equity segment for investors.

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

Performance in 2013

		31.12.2013	31.12.2012
Share key figures	Unit	8,865,874	8,865,874
Number of shares	Unit	134,126	134,126
Closing share price	€	7.00	4.84
Market capitalisation	€ million	62.1	42.9
Market capitalisation – not including treasury shares	€ million	61.1	42.3
Free Float	%	56.7	62.1
Earnings per share	€	0.32	0.50

Annual General Meeting 2013

The Annual General Meeting took place on Tuesday 11 June 2013 at the traditional site of Schloss Horst in Gelsenkirchen. Around 200 shareholders representing over 42 percent of the share capital attended the AGM and closely followed the remarks of the Executive Board and the Supervisory Board. After the discussion, the members of the Executive Board and Supervisory Board were formally approved with a large majority. Rölfs RP AG Wirtschaftsprüfungsgesellschaft (since 1 October 2013 'Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft') was appointed as the group's auditor for the 2013 financial year.

Following the change of legal form in 2012 to an 'SE', the remuneration of the Supervisory Board was set in accordance with European law in conjunction with the German Stock Corporation Act by the first general meeting. In addition, in accordance with its Articles of Association, the period of office of the first Supervisory Board of Masterflex SE ended with this general meeting. Therefore, the remuneration of the Supervisory Board and the election of its members were also on the agenda of the shareholders' meeting. The remuneration suggested by the management and the members nominated for the Supervisory Board in the annual meeting invitation were approved with a large majority.

All voting results are published on the **www.MasterflexGroup.com** website under Investor Relations>Annual General Meeting.

Capital market communications

The foundation of successful capital market communications is an information policy that is open, simultaneous and identical in content for all financial market participants. The Investor Relations team is happy to receive questions or comments from shareholders or anybody who wishes to become a shareholder. In addition, important dates or financial figures are promptly published on the website (**www.MasterflexGroup.com/Investors-relations**).

In 2013, dialogue with institutional investors and private investigators continued. On the occasion of the presentation of the 2012 annual results, the Analysts‘ Conference at the home of Commerzbank AG in Frankfurt took place in March. At this well-attended event, Sell and Buyside analysts discussed the financial statements and the outlook in detail with the Chief Financial Officer. In April and May, the Masterflex Group formed the basis of a company presentation led by the CEO at the Small Cap Conference of the WGZ Bank in Dusseldorf and at the spring conference of the German Stock Exchange in Frankfurt; interest in the Masterflex Group was very strong, particularly in Frankfurt. In August a telephone conference for analysts on the occasion of the publication of the half-year figures was offered for the first time in a long time, which met with good response. In September, the company formed the basis of a presentation led by the CFO to institutional investors in Luxembourg. The Masterflex Group took part in the Equity Forum of the German Stock Exchange in November and enjoyed huge interest. At the end of the year, the Masterflex Group participated in two conferences of the German Society for the Protection of Securities Holders for private investors (DSW); the presentations in Bremen and Bonn attracted lively interest in the company and its stock by private investors. In addition, several discussions were held throughout 2013 with institutional investors at the Gelsenkirchen location on the financials and the perspectives of the business model.

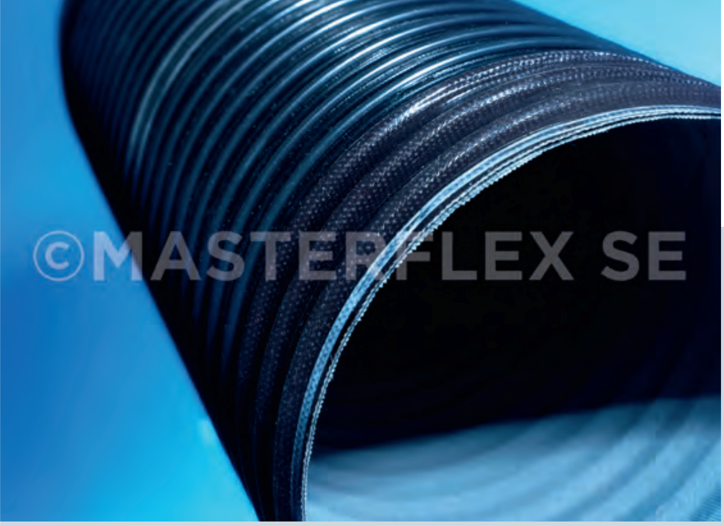
Intensive dialogue with the capital market will continue into the future. The objective of Investor Relations is to explain the business model and products in details and to regularly publish capital market reports to all interested capital market participants and thus show the shares to their best advantage on the capital market. The long term aim of the Masterflex Group is to become a global leader in all the addressed markets. 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. And we would like to take our shareholders with us on the journey!

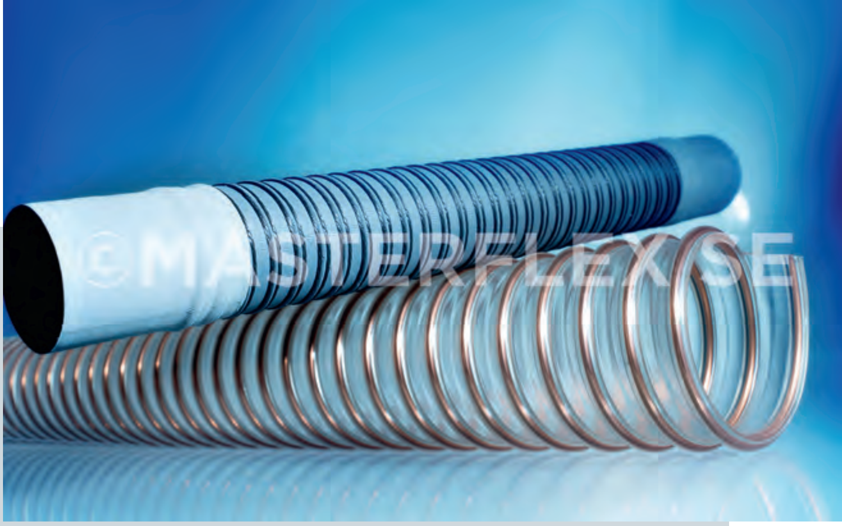
Financial calendar 2014	
28 March	Financial press conference, presentation of the 2013 annual report, Düsseldorf
28 March	Analysts’ conference, Frankfurt
12 May	Q1 report 2014
24 June	Annual general meeting, Gelsenkirchen
14 August	Q2 report 2014
14 November	Q3 report 2014
24 – 26 November	German equity forum, Frankfurt


Surface-structured, multi-layered hoses from the
NOVOPLAST SCHLAUCHTECHNIK brand for infusion & intravenous applications

"My task is quite simple: to give my best every single day!"

Kennedy Okwarah,
an employee of the Flexafit hose production from the Matzen & Timm brand





When heavy loads are to be moved from A to B, the vacuum lift hoses from the Matzen & Timm brand are the perfect solution (photo left). To the right, also from Matzen & Timm, a lightweight hose made of Hypalon© (top), which is used in the air-supply systems in aircraft, and a PU hose from Matzen & Timm (below) used for drainage in rail vehicles.

Consolidated Financial Statements

Consolidated balance sheet

Assets	Notes	31.12.2013 T€	31.12.2012 T€
NON-CURRENT ASSETS			
Intangible assets	3, 23	**4,245**	**4,187**
Concessions, industrial and similar rights	3	639	678
Development costs	3	142	93
Goodwill	3, 23	3,258	3,258
Advance payments	3	206	158
Property, plant, and equipment	3	**21,759**	**21,232**
Land, land rights and buildings		11,256	11,674
Technical equipment and machinery		8,280	7,259
Other equipment, operating and office equipment		2,008	1,963
Advance payments and assets under development		215	336
Non-current financial assets	3	**342**	**445**
Non-current financial instruments		117	59
Other loans		225	386
Other assets	5	**1**	**26**
Other financial assets	5, 16	**83**	**0**
Deferred taxes	26	**5,441**	**5,932**
		31,871	**31,822**
CURRENT ASSETS			
Inventories	4	**10,699**	**11,119**
Raw materials and consumables used		5,719	6,507
Work in progress		546	244
Finished products and goods purchased and held for sale		4,367	4,365
Advance payments		67	3
Receivables and other assets	5, 6	**6,173**	**6,291**
Trade receivables	6	5,103	5,464
Other assets	5	1,045	825
Other financial assets	5, 16	25	2
Income tax assets	7	**192**	**364**
Cash in hand and bank balances	8	**4,749**	**2,823**
		21,813	**20,597**
Assets held for sale	5	**6**	**16**
		21,819	**20,613**
Total Assets		**53,690**	**52,435**

Equity and liabilities	Notes	31.12.2013 T€	31.12.2012 T€
SHAREHOLDERS' EQUITY			
Consolidated equity	9	**22,447**	19,988
Subscribed capital		8,732	8,732
Capital reserve		26,252	26,252
Retained earnings		–10,757	–13,642
Revaluation reserve		–591	–733
Exchange differences		–1,189	–621
Minority interest	10	**576**	**536**
Total equity		**23,023**	**20,524**
NON-CURRENT LIABILITIES			
Provisions	11	**194**	**191**
Financial liabilities	12	**18,162**	**16,987**
Other financial liabilities	12	**88**	**139**
Other liabilities	14	**1,388**	**1,489**
Deferred taxes	26	**594**	**838**
		20,426	**19,644**
CURRENT LIABILITIES			
Provisions	11	**2,485**	**2,600**
Financial liabilities	12	**4,362**	**6,012**
Other financial liabilities	12	**45**	**44**
Income tax liabilities	13	**430**	**409**
Other liabilities	14, 15	**2,670**	**2,755**
Trade payables	15	1,588	1,717
Other liabilities	14	1,082	1,038
		9,992	**11,820**
Liabilities directly connected with assets held for sale	14	**249**	**447**
		10,241	**12,267**
Total Equity and liabilities		**53,690**	**52,435**

Consolidated income statement

	Continued business units	Notes	2013 T€	2012 T€
1.	Revenue	17	57,904	54,984
2.	Changes in inventories of finished goods and work in progress		319	772
3.	Work performed by the enterprise and capitalised		49	290
4.	Other operating income	18	449	1,626
	Gross profit		**58,721**	**57,672**
5.	Cost of materials	19	–18,101	–17,798
6.	Staff costs	22	–21,849	–20,069
7.	Depreciations		–2,655	–2,615
8.	Other expenses	20	–10,002	–9,634
9.	Financial result	24		
	Financial expenses		–1,521	–1,602
	Other financial result		–56	35
10.	**Earnings before taxes and non-operating expenses**		**4,537**	**5,989**
11.	Non-operating result	25	0	–187
12.	**Earnings before taxes**		**4,537**	**5,802**
13.	Income tax expense	26	–1,382	–898
14.	Earnings after taxes from continued business units		3,155	4,904
	Discontinued business units			
15.	**Earnings after taxes from discontinued business units and before non-operating income**	**27**	**–80**	**–262**
16.	Non-operating result		0	0
17.	**Consolidated net income/loss**		**3,075**	**4,642**
	thereof minority interests		191	199
	thereof attributable to shareholders of Masterflex SE		**2,884**	**4,443**
	Earnings per share (diluted and non-diluted)			
	from continued business units	28	0.33	0.53
	from discontinued business units	28	–0.01	–0.03
	from continued and discontinued business units	28	0.32	0.50

Consolidated statement of comprehensive income

		Notes	2013 T€	2012 T€
	Consolidated net income/loss		**3,075**	**4,642**
	Other result			
1.	Currency translation differences from the translation of foreign operations	9	–568	–141
2.	Net result from "available-for-sale" financial assets		142	14
3.	**Other result for the period under review, after taxes**		**–426**	**–127**
4.	**Overall result**		**2,649**	**4,515**
	Overall result:		**2,649**	**4,515**
	thereof minority interests		191	199
	thereof attributable to shareholders of Masterflex SE		**2,458**	**4,316**

Consolidated statement of changes in equity

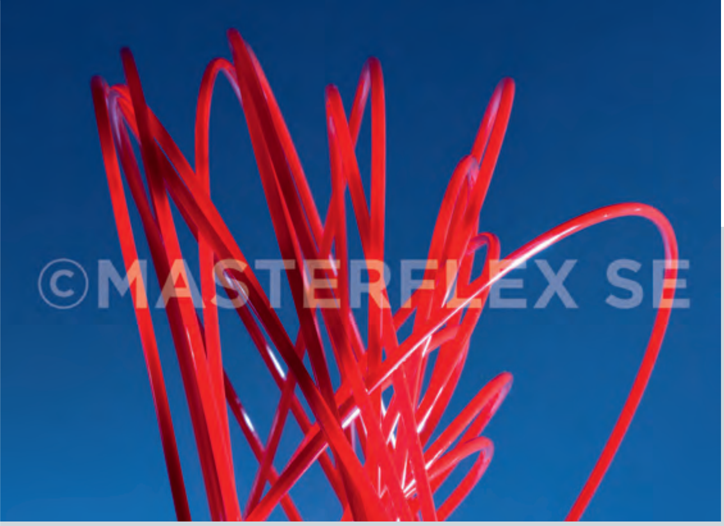
		Sub-scribed capital T€	Capital reserve T€	Retained earnings (retained profits brought forward) T€	Reval-uation reserve T€	Ex-change differ-ences T€	Minority interest T€	Total T€
	Note	9	9	9	9	9	10	
Equity at 31.12.2011		**8,732**	**26,252**	**-18,075**	**-747**	**-480**	**557**	**16,239**
Consolidated 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 31.12.2012		**8,732**	**26,252**	**-13,642**	**-733**	**-621**	**536**	**20,524**
Consolidated net income/ Minority interests		0	0	2,884	0	0	191	3,075
Changes in fair values of financial instruments		0	0	0	142	0	0	142
Currency translation gains/ losses from translation of foreign financial statements		0	0	0	0	-568	0	-568
Overall result for the financial year		**0**	**0**	**2,884**	**142**	**-568**	**191**	**2,649**
Dividend distributions		0	0	0	0	0	-151	-151
Other changes		0	0	1	0	0	0	1
Equity at 31.12.2013		**8,732**	**26,252**	**-10,757**	**-591**	**-1,189**	**576**	**23,023**

Consolidated cash flow statement

	2013 T€	2012 T€
Result for the accounting period before taxes, interest expenses and financial result	5,843	7,018
Income taxes paid	–895	–1,805
Depreciation of intangible assets	301	315
Write-ups on real properties	0	–558
Depreciation expense for property, plant and equipment	2,354	2,300
Write-downs of non-current financial assets	84	139
Change in provisions	–83	–828
Other non-cash expenses/income and gains/losses from the disposal of non-current assets	132	–80
Changes in inventories	421	–1,825
Changes in trade receivables and other assets that cannot be allocated to investment or financing activities	429	–32
Changes in trade payables and other equity and liabilities that cannot be allocated to investment or financing activities	–635	–1,042
Net cash from operating activities	**7,951**	**3,602**
Proceeds from the disposal of non-current assets	301	37
Payments to acquire intangible assets	–359	–427
Payments to acquire property, plant and equipment	–3,399	–2,149
Changes in cash and cash equivalents due to the sale of consoli-dated subsidiaries	0	40
Changes in cash and cash equivalents due to the repayment of financial assets	161	180
Payments to acquire financial assets	0	–135
Net cash from/used in investing activities	**–3,296**	**–2,454**
Payments to owners and minority interests (dividends, purchase of own shares)	–151	–320
Interest and dividend receipts	47	91
Interest expenditure	–1,539	–1,589
Proceeds from the sale of term deposits/securities	0	5
Proceeds from raising loans	25,500	612
Payments for the repayment of loans	–26,024	–1,532
Net cash from/used in financing activities	**–2,167**	**–2,733**
Net change in cash and cash equivalents	**2,488**	**–1,585**
Changes in cash and cash equivalents due to exchange rates and other factors	–568	–141
Cash and cash equivalents at start of period	**2,835**	**4,561**
Cash and cash equivalents at the end of period	**4,755**	**2,835**

"With my accuracy in what I do, I can do my bit in making our medical customers happy"

Alexander Münch,
a machine installer in the department medical technology from Novoplast Schlauchtechnik



PUR catheter hoses from the Novoplast Schlauchtechnik brand can be found in a wide range of medical technology applications, such as the endoscope (left) or urology (right).

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 (IFRSs) and the interpretations issued by the International Accounting Standards Board (IASB) as applicable within the EU in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. These comprise the obligatory IASs, IFRSs and the relevant interpretations (SIC/IFRIC) as of the balance sheet date 31 December 2013. 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 31 December 2013 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 31 December 2013.

- IFRS 10, 12, IAS 27 Amendments regarding investment companies
- IAS 32 Amendments to improve disclosures on offsetting financial assets and financial liabilities
- IAS 36 Amendments regarding the recoverable amount of non-financial assets
- IAS 39 Novation of derivatives and continuation of hedge accounting

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 the EU in preparing the IFRS consolidated financial statements for the year ending 31 December 2013.

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 10,11,12 Clarify and facilitate respect to the adoption of these standards for the first time
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures

The following changes standards and interpretations published by the IASB are yet to be adopted into European law by the European Union and are currently not being used:

- IFRS 9 Financial Instruments: Classification and Measurement, accounting for financial liabilities and derecognition
- IFRS 9, 7 Mandatory date of the initial application and information on the transition
- IFRS 9, 7, IAS 39 Reporting of hedging activities
- IAS 19 Defined benefit plans: Employee contributions
- IFRIC 21 Contributions

As part of the annual “improvement” project of December 2013, various IFRSs were amended. Adoption in European Law is still pending.

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 on offsetting financial assets and financial liabilities
- 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
- IFRIC 20 — Stripping Costs in the Production Phase of a Surface Mine

As part of the annual “improvement” project, various IFRSs were amended.

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 of Euro (€ thousand or T€). 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 2013, a total of 9 domestic subsidiaries (previous year: 9) and 12 foreign subsidiaries (previous year: 12) were consolidated in addition to Masterflex SE. The table below shows the subsidiaries that were fully consolidated as of 31 December 2013:

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 Brasil LTDA.	BR	Santana de Parnaiba	100*
Novoplast Schlauchtechnik GmbH	GER	Halberstadt	100
FLEIMA-PLASTIC GmbH	GER	Wald-Michelbach	100
Masterflex Handelsgesellschaft mbH	GER	Gelsenkirchen	100
Masterflex Česko s.r.o.	CZ	Planá	100
M & T Verwaltungs GmbH*	GER	Gelsenkirchen	100
· Matzen & Timm GmbH	GER	Norderstedt	100*
000 Masterflex RUS	RUS	St. Petersburg	51
Masterflex Scandinavia AB	S	Kungsbacka	100
SURPRO Verwaltungsgesellschaft mbH	GER	Gelsenkirchen	100
Masterflex Entwicklungs GmbH*	GER	Gelsenkirchen	100
· Masterflex Vertriebs GmbH	GER	Gelsenkirchen	100*
Masterflex Asia Holding GmbH*	GER	Gelsenkirchen	80
· Masterflex Asia Pte. Ltd.	SG	Singapur	100*
· Masterflex Hoses (Kunshan) Co., Ltd.	CN	Kunshan	100*

**) = Partially consolidated*

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 continuing and discontinued operations, all intragroup receivables, liabilities, profits and losses are eliminated.

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

Currency 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 2013, these differences amounted to € –1,189 thousand (previous year € –621 thousand).

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

The following exchange rates were applied for currency translation purposes:

	31.12.2013 €
1 pound sterling (£)	1.1995
1 US dollar ($)	0.7251
1 Russian rouble (RUB)	0.0221
1 Brazilian real (BRL)	0.3070
1 Czech koruna (CZK)	0.0365
1 Swedish krona (SEK)	0.1129
1 Singapore dollar (SGD)	0.5743
1 Chinese Renminbi (CNY)	0.1198

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

	31.12.2013 €
1 pound sterling (£)	1.1775
1 US dollar ($)	0.7529
1 Russian rouble (RUB)	0.0236
1 Brazilian real (BRL)	0.3488
1 Czech koruna (CZK)	0.0385
1 Swedish krona (SEK)	0.1156
1 Singapore dollar (SGD)	0.6018
1 Chinese Renminbi (CNY)	0.1225

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 writedowns, 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 ('Cash Generating Unit'). 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. Intangible assets whose useful lives can be determined are amortised on a straight-line basis over this period.

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 lease	straight-line method
Buildings/parts of buildings	10–50 years	straight-line method
Technical equipment	2–18 years	straight-line method
Other assets, 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 tax loss carryforwards to the extent that future taxable income is expected to be available.

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

Stocks on hand

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

Prepaid expenses

Prepaid expenses are recognised for items that constitute expenses in future periods and are reported under Other Assets.

Other receivables and other assets

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

Trade receivables

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

Cash in hand and bank balances

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

Subscribed capital

Ordinary shares are classified as shareholders' equity. Treasury shares are deducted from the shareholders' equity attributable to the shareholders of Masterflex 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. The recoverable amount of cash-generating units is determined on the basis of the value in use, which in turn is calculated on the basis of assumptions by the group's management (see Note 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 € 6,103 thousand (previous year € 4,884 thousand) and transfers of title to production facilities totalling € 6,824 thousand (previous year € 5,071 thousand).

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

a) Intangible assets

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

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

	Internally generated intangible assets T€	Acquired tangible assets T€	Goodwill T€	Total T€
As at 01.01.2012	**339**	**2,111**	**9,161**	**11,611**
Additions	93	334	0	427
Disposals	93	2	0	95
Reclassifications	0	–32	0	–32
As at 01.01.2013	**339**	**2,411**	**9,161**	**11,911**
Additions	97	262	0	359
Disposals	0	50	0	50
As at 31.12.2013	**436**	**2,623**	**9,161**	**12,220**

Current and accumulated amortisation are composed as follows:

	Internally generated intangible assets T€	Acquired tangible assets T€	Goodwill T€	Total T€
As at 01.01.2012	**299**	**1,302**	**5,903**	**7,504**
Depreciation and amortisation for fiscal year	30	285	0	315
Disposals	93	2	0	95
As at 01.01.2013	**236**	**1,585**	**5,903**	**7,724**
Depreciation and amortisation for fiscal year	11	290	0	301
Disposals	0	50	0	50
As at 31.12.2013	**247**	**1,825**	**5,903**	**7,975**

The carrying amounts of intangible assets are composed as follows:

	Internally generated intangible assets T€	Acquired tangible assets T€	Goodwill T€	Total T€
As at 31.12.2012	**103**	**826**	**3,258**	**4,187**
As at 31.12.2013	**189**	**798**	**3,258**	**4,245**

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-Vermietungsgesellschaft mbH & Co. Objekt Masterflex KG, Gelsenkirchen, was designed in such a way that all of the risks and rewards incident to ownership of the leased assets were transferred to Masterflex SE. Masterflex SE has a notarised option to purchase the leased assets with effect from 31 July 2014.

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

	Cost T€	Useful life	Carrying amount 31.12.2013 T€	Carrying amount 31.12.2012 T€
Building	4,568	30 years	1,784	1,937
Land	587		587	587
Total	**5,155**		**2,371**	**2,524**

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 € 32 thousand (previous year € 57 thousand).

c) Financial assets

Financial assets are composed as follows:

	31.12.2013 T€	31.12.2012 T€
Non-current financial instruments	117	59
Loans and receivables	225	386
Total financial assets	**342**	**445**

Investment securities relate to income-yielding stock from a European Share Index and available-for-sale financial instruments within the meaning of IAS 39.

The following table shows the cost, unrealised gains and losses and fair values of available-for-sale securities as of 31 December 2013:

Cost T€	Unrealised losses T€	Fair value T€
817	700	117

Income from available-for-sale securities totalled € 0 (previous year € 4 thousand).

Trade receivables in the amount of € 225 thousand are reported as non-current receivables on account of a financing agreement.

4. Stocks on hand

Inventories are composed as follows:

	31.12.2013 T€	31.12.2012 T€
Raw materials and consumables used	5,719	6,507
Work in progress	546	244
Finished products and goods purchased and held for sale	4,367	4,365
Advance payments	67	3
Total inventories	**10,699**	**11,119**

Inventories of the continuing and discontinued business units were expensed in the amount of € 17,679 thousand (previous year € 17,453 thousand).

Depreciation of inventories to the net realisable value amounted to € 235 thousand (previous year € 224 thousand).

5. Receivables and other assets

Receivables and other assets are composed as follows:

	31.12.2013 T€	31.12.2012 T€
Trade receivables	5,103	5,464
Other assets	1,046	851
Other financial assets	108	2
Assets classified as available-for-sale	6	16
Total receivables and other assets	**6,263**	**6,333**

Other assets are composed as follows:

	31.12.2013 T€	31.12.2012 T€
Deferred income	376	525
Loans	189	8
Bonus receivables	102	49
Receivables from legal disputes	91	45
Receivables from tax authorities	79	87
Creditors with debit balances	67	16
Receivables from investment grants and subsidies	54	34
Receivables from employees	22	23
Deposits	19	21
Receivables from health insurance companies	13	11
Other	34	32
Total other assets	**1,046**	**851**

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

“Miscellaneous other financial assets” include receivables totalling € 1 thousand (previous year € 26 thousand), which will not be realised until one year after the balance sheet date.

Receivables from tax authorities primarily relate to VAT receivables.

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

’Other financial assets’ are discussed in Note 16.

‘Assets classified as available-for-sale’ includes the assets of the following discontinued business units:

- 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:

	31.12.2013 T€	31.12.2012 T€
Trade receivables	5,248	5,678
Impairment	–145	–214
Total trade receivables	**5,103**	**5,464**

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

Specific and global valuation allowances on trade receivables totalled € 145 thousand (previous year € 214 thousand).

Individual risks were taken into account on the basis of write-downs totalling € 51 thousand (previous year € 32 thousand).

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

The maturity structure of trade receivables is composed as follows:

2013	T€	T€
Carrying amount (net):		**5,103**
1. of which: non-impaired and non-overdue at the balance sheet date		**3,785**
2. of which: non-impaired, but overdue at the balance sheet date		**1,318**
less than 30 days	539	
30 to 59 days	493	
60 to 89 days	215	
90 to 119 days	12	
120 days or more	59	

2012	T€	T€
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	

7. Income tax assets

Income tax assets amounted to € 192 thousand at the balance sheet date (previous year € 364 thousand). 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:

	31.12.2013 T€	31.12.2012 T€
Cash in hand and bank balances	4,749	2,823

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

Notes to the consolidated balance sheet: 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 2013 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, 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 para 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 para 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 para 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 para 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 para 1 sentence 1 or § 53b para 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 para 1 no. 8 in conjunction with § 186 Para 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 para 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 para 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 € 26,252 thousand at the balance sheet date (previous year € 26,252 thousand). 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 gains for security are taken directly to equity and reported in the reserve for the marking-to-market of financial instruments. For a different security, there are objective conditions for a permanent depreciation. For this reason, the negative portion of the revaluation reserve amounting to € 84 thousand was transferred to expenditure.

Exchange differences

The exchange differences recognised in equity are composed as follows:

	Exchange differences from the translation of foreign financial statements T€	Exchange differences in accordance with IAS 21.17 T€	Exchange differences in accordance with IAS 21.19 T€	Total T€
As of 31.12.2011	–370	–205	95	–480
Change in 2012	–112	–29	0	–141
As of 31.12.2012	–482	–234	95	–621
Change in 2013	–497	–71	0	–568
As of 31.12.2013	–979	–305	95	–1,189

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 € –71 thousand (previous year € –29 thousand) are established when the foreign currency obligation is repaid, in accordance with IAS 21.17/21.19/21.32 in conjunction with IAS 21.37. The exchange differences recognised directly in equity are not reversed in income until the time of disposal of the economically independent unit.

10. Minority interests

Minority interests held in the Masterflex Group total € 576 thousand (previous year € 536 thousand).

11. Provisions

Provisions are composed as follows:

	As of 01.01.2013 T€	Utilisation T€	Reversal T€	Addition T€	As of 31.12.2013 T€
Bonuses	413	350	0	101	164
Year-end closing costs	203	201	2	185	185
Vacation	132	132	0	77	77
Customer bonuses	79	76	3	106	106
Incentive payments, severance payments, commission	1,228	884	110	1,302	1,536
Warranties	53	53	0	67	67
Employers' Liability Insurance Association	130	122	8	126	126
Outstanding invoices	442	425	2	336	351
Other	111	91	2	49	67
Total	**2,791**	**2,334**	**127**	**2,349**	**2,679**

a) Non-current provisions

Non-current provisions concern the performance-related components of Executive Board remuneration amounting to € 164 thousand (previous year € 292 thousand) and the Supervisory Board's compensation totalling € 30 thousand (previous year € 15 thousand), to be paid out only in the third year following the base year.

b) Current provisions

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

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

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

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

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

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

12. Financial liabilities

As of 31 December 2013, financial liabilities were composed as follows:

	31.12.2013 T€	31.12.2012 T€
Liabilities to banks	18,162	16,726
· of which due in > 5 years	0	180
Finance lease liabilities	0	261
· of which due in > 5 years	0	0
Other financial liabilities	88	139
· of which due in > 5 years	0	0
Non-current financial liabilities	**18,250**	**17,126**
Liabilities to banks	4,099	5,564
Finance lease liabilities	263	448
Other financial liabilities	45	44
Current term financial liabilities	**4,407**	**6,056**
Total financial liabilities	**22,657**	**23,182**

Liabilities to banks

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

	31.12.2013 T€	31.12.2012 T€
Liabilities due within 1 year	4,099	5,564
Liabilities due between 1 and 5 years	18,162	16,546
Liabilities due in more than 5 years	0	180
Total liabilities to banks	**22,261**	**22,290**

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

The syndicated loan agreement which was concluded in May has a volume of € 40 million and a maturity date of May 2018. The amount drawn down under the syndicated loan agreement was € 22.75 million at the balance sheet date. Due to use of the effective interest rate method, a difference can be found at the balance sheet date between the amount of credit claimed of € 22,750 thousand and the liabilities to banks shown in the balance sheet of € 22,261 thousand amounting to € 489 thousand.

The syndicated loan agreement was reduced in the balance sheet by the directly attributable transaction costs of € 727 thousand at initial recognition. The subsequent measurement is carried out at amortised cost according to the effective interest rate method. The difference between the disbursed amount (after deduction of transaction costs) and the redemption amount is distributed over the term at a rate consistent with the effective interest rate and recorded under net interest income.

The receivables from the bank consortium from the syndicated loan agreement are secured by the Masterflex Group subsidiaries by assets with a book value of € 22,765 thousand (previous year € 19,956 thousand).

Of this, € 5,992 thousand is attributable to land charges, € 6,824 thousand to other non-current assets, € 6,961 thousand to inventories, € 2,988 thousand to current receivables and other assets.

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

In the euro zone, interest was charged on liabilities to banks at rates of between 2.72 percent and 2.79 percent p.a. depending on the maturity and purpose of the respective liabilities (previous year between 2.4 percent and 8.2 percent p.a.). The company also had foreign-currency liabilities in US dollars, on which interest was charged between 3.85 percent and 5.7 percent p.a.

As of 31 December 2013, the company had cash advance facilities totalling € 5,471 thousand. Of this, credit lines totalling € 3,471 thousand were not utilised. Additional guarantee facilities for contractual fulfilment, advance payments and warranties were not utilised in 2013.

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 T€	2–5 years T€	More than 5 years T€
Future financial obligations (including interest)	269	0	0
Present value of future financial obligations (capital element)	263	0	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 € 263 thousand at 31 December 2013 (previous year € 709 thousand).

As the leases entered into by the company are based on constant interest rates, the fair values of lease obligations may be subject to a degree of interest rate risk. All leases include contractually agreed 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 € 430 thousand at the balance sheet date (previous year € 409 thousand).

14. Other liabilities

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

	31.12.2013 T€	31.12.2012 T€
Trade payables	1,588	1,717
Other liabilities	2,391	2,432
Advanced payments received for orders	79	95
Liabilities directly connected with assets held for sale	249	447
Total other liabilities	**4,307**	**4,691**

Miscellaneous other liabilities include the following items:

	31.12.2013 T€	31.12.2012 T€
Deferred income	1,537	1,659
Tax liabilities	433	331
Liabilities to employees	158	116
Social security liabilities	105	127
Debtors with credit balances	54	24
Liabilities from customer bonuses	43	20
Compensatory levy	6	40
Surety fees (syndicated loan agreement)	0	28
Other	55	87
Total	**2,391**	**2,432**

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:

	31.12.2013 T€	31.12.2012 T€
Investment grants	934	1.024
Subsidies	603	635
Total	**1,537**	**1,659**

The following amounts were reversed to income in each year:

	31.12.2013 T€	31.12.2012 T€
Reversal of investment grants	89	95
Reversal of subsidies	86	91
Total	**175**	**186**

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 € 1,388 thousand (previous year € 1,489 thousand), which do not fall due until one year after the balance sheet date.

The “liabilities directly connected with assets held for sale” item includes liabilities for discontinued operations. Other assets are discussed in Note 5.

15. Trade payables

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

	31.12.2013 T€	31.12.2012 T€
Trade payables	1,588	1,717

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 1,588 thousand (previous year € 1,717 thousand) are due within one year.

16. Derivative financial instruments

In 2013, 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 at the balance sheet date. The change in the fair value of € 41 thousand is recognised in net interest income.

Derivative financial instruments	Measurement category in accordance with IAS 39	Historical carrying amount T€	Fair value T€ 31.12.2013	Fair value T€ 31.12.2012
Derivatives without hedging relationship	held-for-trading	149	108	0

Notes to the consolidated income statement

The ‘Income from discontinued operations’ item indicates the expenses incurred in 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:

	2013 T€	2012 T€
Gross revenue	61,741	58,683
Elimination of intragroup revenue	3,837	3,699
Total	**57,904**	**54,984**

18. Other operating income

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

	2013 T€	2012 T€
	449	1,626

Other operating income is composed as follows:

	2013 T€	2012 T€
Income from the reversal of provisions	127	517
Investment grants	89	95
Subsidies	86	91
Compensation	58	68
Income from non-typical incidental sales	55	134
Currency translation gains	14	48
Other prior-period income	11	7
Income from reductions in specific value allowances	4	4
Income from reductions in general bad debt allowances	3	31
Gains on the sale of assets	1	3
Income from write-ups on land and premises	0	558
Refunds and credit notes	0	38
Other	1	32
Total	**449**	**1,626**

The income from write-ups on land and premises in the previous year amounting to € 498 thousand 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:

	2013 T€	2012 T€
Cost of raw materials, consumables and supplies	17,679	17,453
Cost of goods purchased and held for resale	422	345
Total	**18,101**	**17,798**

20. Other expenses

The other expenses incurred by the group were as follows:

	2013 T€	2012 T€
	10,002	9,634

Other expenses are composed as follows:

	2013 T€	2012 T€
Selling costs	4,047	3,792
Administrative expenses	1,937	2,063
Operating costs	1,711	1,588
Incidental premises expenses	1,624	1,481
Insurance costs	302	298
Write-downs of receivables	31	24
Currency translation losses	26	48
Cost of valuation allowances	22	30
Expenses for the sale of assets	18	13
Warranty expenses	16	22
Other	26	37
Other taxes	242	238
Total	**10,002**	**9,634**

21. Research and Development costs

Capitalisable development costs are reported in intangible assets. Research costs and noncapitalisable development costs are expensed as incurred. In the 2013 financial year, research and development costs totalled € 228 thousand (previous year € 197 thousand).

22. Staff costs

In 2013, staff costs increased by € 1,780 thousand to € 21,849 thousand (previous year € 20,069 thousand). Staff costs include wages and salaries in the amount of € 18,095 thousand (previous year € 16,615 thousand) and social security, post-employment and other employee benefit costs totalling € 3,754 thousand (previous year € 3,454 thousand).

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 unit management measures that have already been initiated. The detailed planning period is generally five years.

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

In order to take into account the different yield/risk profile in our areas of activity, we calculate individual capital cost rates for our companies (CGUs). The weighted average costs of capital before taxes that have been applied when discounting cash flow are between 5.86 percent and 9.63 percent.

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:

	T€
Novoplast Schlauchtechnik GmbH	462
Flexmaster USA, 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:

	2013 T€	2012 T€
Other interest and similar income	28	64
Write-downs of non-current financial assets	–84	–29
Interest and similar expenses	–1,521	–1,602
Total	**–1,577**	**–1,567**

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 expenses

Non-operating expenses from the previous year amounted to € –187 thousand include expenses which arose in connection with the change of legal form of Masterflex AG into an 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.

These expenses of approx. € –187 thousand had an effect on cash liquidity in the continuing business units.

26. Income tax expense

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

	2013 T€	2012 T€
Income tax expense	–1,046	–1,212
Deferred taxes		
From time differences	151	142
From loss carryforwards	–487	172
Total deferred taxes	–336	314
Total income tax expense	**–1,382**	**–898**

The following reconciliation of income tax expense for the 2013 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 30.46 percent.

	2013 T€	2012 T€
Net profit before income taxes	4,537	5,802
Expected tax expense 30.0 %	–1,361	–1,741
Changes to deferred tax assets for tax loss carryforwards and the use of loss carryforwards in the financial year/unused losses	–11	963
Tax refunds/tax payments for previous years	91	–149
Effect of non-deductible expenses and tax-exempt income	–35	–26
Other	–66	55
Total income tax expense	**–1,382**	**–898**

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

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

	31.12.2013		31.12.2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	5,350	0	5,837	0
Non-current assets	850	1,682	748	1,925
Inventories	0	0	0	144
Receivables	23	0	52	0
Other assets	144	0	16	0
Liabilities	349	187	510	0
Before offsetting	**6,716**	**1,869**	**7,163**	**2,069**
Of which non-current	5,650	1,682	6,132	1,733
Offsetting	–1,275	–1,275	–1,231	–1,231
Consolidated balance sheet	**5,441**	**594**	**5,932**	**838**

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

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

As of 31 December 2013, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of € 5,350 thousand (previous year € 5,837 thousand).

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

No deferred tax assets were recognised for tax loss carryforwards in the amount of € 4,739 thousand (previous year € 3,988 thousand), as their utilisation is not sufficiently certain. Tax losses at German companies may be carried forward for an unlimited period. By contrast, tax loss carryforwards at foreign companies are generally limited.

Taxes amounting to € –30 thousand (previous year € –13 thousand) 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 components comprising the results from the discontinued business units 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.

	2013 T€	2012 T€
Earnings from discontinued business units		
Other expenses	-80	-262
Earnings after taxes from discontinued business units	**-80**	**-262**
Cash flows from discontinued business units		
Net cash flows from operating activities	-50	-123
Total net cash flows	**-50**	**-123**

28. Earnings per share

Earnings per share are calculated as follows:

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2013 financial year (T€)	2,964	-80	2,884
Weighted average number of shares in circulation	8,865,874	8,865,874	8,865,874
Earnings per share (€)	**0.33**	**-0.01**	**0.32**

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2012 financial year (T€)	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**

There were no dilutive effects in the 2013 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 2013 reported a net profit/loss of € 0.

As of 31 December 2013, the amounts excluded from distribution by Masterflex SE amounted to € 5,492 thousand in total of which € 5,350 thousand was allocated to deferred tax assets and € 142 thousand for capitalisation of development costs. The distribution restriction exists only to that extent of which not freely distributable reserves won’t be available.

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 bp fluctuation in interest rates results in an increased/reduced cash outflow of approximately € 216 thousand.

Counterparty default risk management

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

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

Risks relating to loans to subsidiaries and equity investments are managed via a 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

Groupwide 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:

2013 T€	Carrying amount	2014	2015	2016	2017	2018	≥ 2019
Trade payables	1,588	1,588	0	0	0	0	0
Liabilities to banks	22,261	4,099	3,119	3,899	3,932	7,212	0
Finance lease liabilities	263	263	0	0	0	0	0
Other liabilities	854	854	0	0	0	0	0
Other financial liabilities	133	45	34	37	17	0	0
Total	**25,099**	**6,849**	**3,153**	**3,936**	**3,949**	**7,212**	**0**

2012 T€	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**

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 € 1,537 thousand (previous year € 1,659 thousand) does not have an effect on cash cash liquidity. Its reversal is therefore not presented in this table.

31. Other financial commitments

At 31 December 2013, 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:

	2014 T€	2015–2018 T€	2019 T€
Notional amount of future minimum lease payments	196	136	0

The operating lease liabilities relate primarily to office and operating equipment. Payments recognised as expenses amount to € 601 thousand (previous year € 564 thousand).

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 refers when measuring the performance of operating segments and allocating resources (management approach).

As a result of the implementation of the group strategy and the associated concentration on the core business unit of 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 unit (HTS). To ensure comparability with IFRS 8.28, the "Reconciliation" column is presented for group/holding expenditure as well as extraordinary expenses.

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

The segment is controlled both in terms of revenue and earnings. EBIT serves as an earnings indicator in the Masterflex Group, which was adjusted for restructuring expenses in 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:

2013	HTS T€	Total for continued business units T€	Reconciliation T€	Discontinued business units T€	Group T€
Revenue from non-group third parties	57,904	**57,904**	0	0	57,904
EBIT	7,870	**7,870**	–1,756	–80	6,034
Investments in property, plant and equipment and intangible assets	3,758	**3,758**	0	0	3,758
Scheduled depreciation and amortisation	2,655	**2,655**	0	0	2,655
Assets	47,684	**47,684**	6,000	6	53,690

2012	HTS T€	Total for continued business units T€	Reconciliation T€	Discontinued business units T€	Group T€
Revenue from non-group third parties	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	**2,615**	0	0	2,615
Assets	45,677	**45,677**	6,742	16	52,435

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:

2013	Revenue from non-group third parties T€	Of which continuing business units T€
Germany	28,035	28,035
Rest of Europe	13,704	13,704
Third Countries	16,165	16,165
Total	**57,904**	**57,904**

2012	Revenue from non-group third parties T€	Of which continuing business units T€
Germany	25,707	25,707
Rest of Europe	13,925	13,925
Third Countries	**15,352**	**15,352**
Total	**54,984**	**54,984**

In the 2013 financial year, no customers in continuing business units generated revenue equalling more than 10 percent of consolidated revenue.

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

Reconciliation to consolidated earnings after taxes	2013 T€	2012 T€
Adjusted EBIT from continued business units	7,870	9,511
Extraordinary earnings from continued business units	0	–187
Reconciliation	–1,756	–1,955
EBIT from continued business units	**6,114**	**7,369**
Interest income/income from equity interests	28	64
Interest expense etc.	–1,605	–1,631
EBIT from continued business units	**4,537**	**5,802**
Income taxes	–1,046	–1,212
Deferred taxes	–336	314
Minority interests	–191	–199
Earnings after taxes (EAT) from continued business units	**2,964**	**4,705**
Earnings from discontinued business units	–80	–262
EAT	**2,884**	**4,443**

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 T€	2013	2012
Germany	20,891	19,871
Rest of Europe	1,512	1,765
Third Countries	3,685	3,809
Total	**26,088**	**25,445**

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

Reconciliation to consolidated income statements in T€	2013	2012
Total assets of continued segments	47,684	45,677
Assets of discontinued segments	6	16
Deferred tax assets	5,441	5,932
Tax receivables	192	364
Non-current financial assets	367	446
Total consolidated assets	**53,690**	**52,435**

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:

	2013 T€	2012 T€
Cash and cash equivalents at the end of the period	4,754	2,835
Cash in hand and bank balances included in assets held for sale	5	12
Cash in hand and bank balances	**4,749**	**2,823**

34. Government grants

In the 2013 financial year, government grants related to income were recognised in the amount of € 54 thousand (previous year € 34 thousand). Grants for depreciable assets are recognised over the depreciation period of the respective assets and in proportion to the depreciation recognised in each period.

35. Related Party Disclosures

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

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 2013 financial year, the monthly lease instalment was approximately € 13 thousand.

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 T€	Variable compensation based on sustainable targets Short-term focus T€	Variable compensation originated in the financial year Long-term focus[1] T€	Fringe benefits (remuneration in kind) T€	Total compensation relevant to payment[2] T€
2013	485	196	100	65	746
2012	485	122	63	66	673

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 T€	Fixed	Performance-related compensation[1]	Total attendance allowance	Total compensation relevant to payment 2013
Chairman of the Supervisory Board, Mr Friedrich W. Bischoping	14	5	2	21
(previous year[2])	(14)	(5)	(2)	(21)
Deputy chairman of the Supervisory Board, Mr Georg van Hall	14	5	2	21
(previous year[2])	(14)	(5)	(2)	(21)
Supervisory board member, Mr Axel Klomp	14	5	2	21
(previous year[2])	(14)	(5)	(2)	(21)
Total compensation	42	15	6	63
(previous year[2])	(42)	(15)	(6)	(63)

1 The proportion of variable compensation acquired in 2013 but not yet paid, but which is paid with the financial statements of the 2013 financial year in consequence of the success criteria for fixed compensation in line with article 15 of the Articles of Association.

2 Supervisory Board remuneration approved for the period of the fourth quarter of 2012 was included in the previous year's figures on the basis of the resolution of the shareholders' meeting of 11 June 2013.

36. Declaration of conformity with the German Corporate Governance Code

In December 2013, 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

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

	2013	2012
Production	347	308
Sales	110	106
Administration	70	63
Technology	23	24
Employees in the group	**550**	**501**
thereof trainees	12	14

38. Audit and advisory fees

The fees expensed (provision) in the 2013 financial year for the auditors of the consolidated financial statements, Baker Tilly Roelfs AG, Wirtschaftsprüfungsgesellschaft, amounted to € 134 thousand and consisted of fees for the audit of the consolidated financial statements and the statutory separate financial statements of Masterflex SE and its domestic subsidiaries. An additional € 1 thousand was expensed for tax advisory services.

39. Exemption from publication

In accordance with § 264 paragraph (3) 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
- FLEIMA-PLASTIC GmbH

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 2013.

41. Publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Executive Board on 21 March 2014 and published on 28 March 2014.

42. Significant equity investments

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

Gelsenkirchen, 18 March 2014

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, 18 March 2014

The Executive Board

Dr. Andreas Bastin
(Chief executive officer)

Mark Becks
(Chief Financial Officer)

The templine© heated hose is applied as efficient technology for heating certain types of media, such as grease or adhesives. At the front of the picture: the inner core with the helical heating conductors and the insulating protective shell.

Consolidated statement of changes in non-current assets 2013

2013	Historical cost 01.01.2013 T€	Additions T€	Disposals T€	Reclassifi-cations T€	Currency translation differences T€	Historical cost 31.12.2013 T€
Intangible assets						
Concessions, industrial and similar rights and assets, licenses	2,500	252	50	0	0	2,702
Development costs	92	59	0	0	0	151
Goodwill	9,161	0	0	0	0	9,161
Advance payments	158	48	0	0	0	206
Total	**11,911**	**359**	**50**	**0**	**0**	**12,220**
Property, plant, and equipment						
Land, land rights and buildings on third-party land	17,628	150	316	297	–134	17,625
Technical equipment and machinery	20,215	782	103	1,700	–215	22,379
Other equipment, operating and office equipment	6,808	547	177	38	–61	7,155
Advance payments and assets under development	336	1,920	6	–2,035	0	215
Total	**44,987**	**3,399**	**602**	**0**	**–410**	**47,374**
Non-current financial assets						
Non-current financial instruments	817	0	0	0	0	817
Other loans	931	0	161	0	0	770
Total	**1,748**	**0**	**161**	**0**	**0**	**1,587**
	58,646	**3,758**	**813**	**0**	**–410**	**61,181**

2013	Cumulative depreciation and amortisation 01.01.2013 T€	Depreciation and amortisation for fiscal year T€	Disposals T€	Fair value changes recognised directly in equity T€	Currency translation difference T€	Cumulative depreciation and amortisation 31.12.2013 T€	As of 31.12.2013 T€	As of 31.12.2012 T€
Intangible assets								
Concessions, industrial and similar rights and assets, licenses	1,822	291	50	0	0	2,063	639	678
Development costs	–1	10	0	0	0	9	142	93
Goodwill	5,903	0	0	0	0	5,903	3,258	3,258
Advance payments	0	0	0	0	0	0	206	158
Total	**7,724**	**301**	**50**	**0**	**0**	**7,975**	**4,245**	**4,187**
Property, plant, and equipment								
Land, land rights and buildings on third-party land	5,954	493	36	0	–42	6,369	11,256	11,674
Technical equipment and machinery	12,956	1,337	78	0	–116	14,099	8,280	7,259
Other equipment, operating and office equipment	4,845	524	173	0	–49	5,147	2,008	1,963
Advance payments and assets under development	0	0	0	0	0	0	215	336
Total	**23,755**	**2,354**	**287**	**0**	**–207**	**25,615**	**21,759**	**21,232**
Non-current financial assets								
Non-current financial instruments	758	0	0	–58	0	700	117	59
Other loans	545	0	0	0	0	545	225	386
Total	**1,303**	**0**	**0**	**–58**	**0**	**1,245**	**342**	**445**
	32,782	**2,655**	**337**	**–58**	**–207**	**34,835**	**26,346**	**25,864**

Consolidated statement of changes in non-current assets 2012

2012	Historical cost 01.01.2012 T€	Additions T€	Disposals T€	Reclassifi-cations T€	Currency translation differences T€	Historical cost 31.12.2012 T€
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 01.01.2012 T€	Depreciation and amortisation for fiscal year T€	Disposals T€	Write-ups T€	Fair value changes recognised directly in equity T€	Currency translation difference T€	Cumulative depreciation and amortisation 31.12.2012 T€	As of 31.12.2012 T€	As of 31.12.2011 T€
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**

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 2013. 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 19 March 2014

Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft
(formerly Rölfs RP AG Wirtschaftsprüfungsgesellschaft)

Thomas Gloth
German Public Account

Stefan Kemp
German Public Account

Report of the Supervisory Board

Dear Shareholders

We look back with satisfaction to the 2013 financial year. Once again, growth significantly increased compared to the previous year. Even though the first quarter was very subdued, the growth was all the more impressive in the following quarter.

The supports for this growth were our two strategic pillar of innovation and internationalisation. However, we are still at the beginning of the chosen path. Against the background of the market potential and the strategic direction, we see a sustainable growth course for the future.

Reports and meetings

In the 2013 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 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 2013 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 21 January 2013, in particular, a further Supervisory Board meeting was held in the form of a telephone conference 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.

2013 focus issues

In the telephone meeting of 21 January 2013, the Supervisory Board addressed the strategy for financial year 2013 and the intended investments and steps to implement the planned further internationalisation of the high-tech hose business; this concerned in particular the operations in China and Brazil.

In the Accounting Supervisory Board meeting on 19 March 2013, the Supervisory Board discussed the separate financial statements and the consolidated financial statements for the 2012 financial year in detail. The Corporate Governance Report was adopted and was then published by the company together with the 2012 financial report. The report of the Supervisory Board was also decided upon. With regard to the remuneration of the Executive Board, the decision was taken on establishing the objectives and 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 2013 financial year. In addition, the Executive Board reported on the latest business developments and the status of ongoing refinancing activities.

In its meeting held by telephone on 23 April 2013, the Supervisory Board passed resolutions on the credit agreement and adopted the agenda for the Annual General Meeting on 11 June 2013. The resolutions to the loan agreement concerned in particular the conclusion of a credit agreement of over € 40,000,000, as well as the general intention to interest rate hedge using a hedge transaction (interest rate cap).

Following the annual general meeting on 11 June 2013, the Chairman of the Supervisory Board and his Deputy were elected at the inaugural first meeting of the Supervisory Board. Furthermore, the Supervisory Board were informed in this session by the Executive Board about the current economic development. Subsequently, an explanation on the current developments of the Supervisory Board's work for the purpose of continuous and relevant training took place together with a specialised lawyer.

In the meeting on 23 September 2013, the Executive Board reported on the latest economic developments, about the changes in the global organisation, ideas management introduced in 2013 and about planned new product launches as well as the fixed interest rate hedging that has been bound contractually in the interim.

At its meeting on 11 December 2013, the Supervisory Board was informed about the current economic development and the status of the strategy for 2014, which was then approved outside of this personally attended meeting by circulating the motion. In addition, the Declaration of Conformity to the corporate governance code with a view to the code changing has been updated and the Declarations of Conformity proposed agreed. In addition, the remuneration of the Executive Board of both Board members underwent its two yearly contractually agreed review on schedule and it was amended with effect from 1 January 2014 using various publicly available content development analyses, as well as a benchmark study.

The Supervisory Board received regular information on the company's sales and earnings development, changes to the balance sheet situation and human resources development. The Executive Board has provided the Supervisory Board with extensive information on the current development of the individual companies. The Executive Board reported in writing and verbally in meetings, 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.

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)

In addition, the Supervisory Board examined the planning documents, the risk position and the 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 also remained in contact with the Executive Board between the meetings and was kept informed about significant developments and forthcoming decisions, which were of particular significance for the Company. The CEO informed the Chairman of the Supervisory Board without delay of all major events which were of material significance for assessing the situation and performance as well as 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 2013, the Supervisory Board and Executive Board discussed in depth the recommendations and suggestions of the Code with the amendments that were made in 2013. 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 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. This was made permanently available to shareholders on the Company website. In December 2013, 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 13 May 2013. This declaration was made permanently available to shareholders on the company website.

Taking into account the declaration of conformity published on 13 May 2013, 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 Code made in 2013. 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. 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 2013 as submitted by the Executive Board, together with the bookkeeping system, were audited by Rölfs RP AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (since 1 October 2013 'Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft'), which was appointed as the group's auditor by the Annual General Meeting on 11 June 13, and issued with an unreserved audit certificate. The required declaration of the independence of the accounts auditor to the issuing of the audit mandate was obtained. 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 2014 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 and answered all questions where necessary. The Supervisory Board adopted the separate financial statements and approved the consolidated financial statements on 21 March 2014.

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.

In the 2013 financial year, we largely achieved out ambitious goals. 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 strategic pillar of internationalisation as well as new products contributed in particular to the growth of the Masterflex Group. In addition, we were able to successfully re-finance. The new credit agreement gives us security and also a very good platform to generate future growth.

Our heartfelt appreciation and thanks go to everyone involved for their huge commitment in 2013. 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, 21 March 2014

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.

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.
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 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.
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.
Multi-lumen tubing	Medical hose with multiple chambers.
PE and PU	Polyethylene and Polyurethane: polymer which are used as basic material for many plastic products
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).
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.
Working capital	Current assets minus current liabilities

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