MASTERFLEX SE / TOP INNOVATOR 2019

ANNUAL REPORT
2019

CONNECTING VALUES

MASTERFLEX GROUP

VISION
INNOVATION
FUTURE

As an internationally positioned group of companies with German roots, the Masterflex Group specialises in solving connection problems. For decades, we have successfully dedicated ourselves to the development, production and consulting-oriented marketing of high-quality hoses and complete connection systems. With our material and technology expertise, we process sophisticated high-performance plastics into products that set international standards.

Our values determine our actions: as a reliable partner, we provide safety and service. German Engineering is offered worldwide with uniform international quality standards. We strive for above-average and profitable growth. We are pursuing this goal with a sustainable, medium-term growth strategy.

GLOBAL MARKETS IN FOCUS

We strive for value-oriented, dynamic growth in all the markets we address. We want to gradually shift the focus of our revenues, which today is still in Europe, and achieve a larger share of sales on the American and Asian continents. For this purpose, we are represented with our own activities in North and South America, China, Singapore and Europe.

INNOVATION IS OUR DRIVE

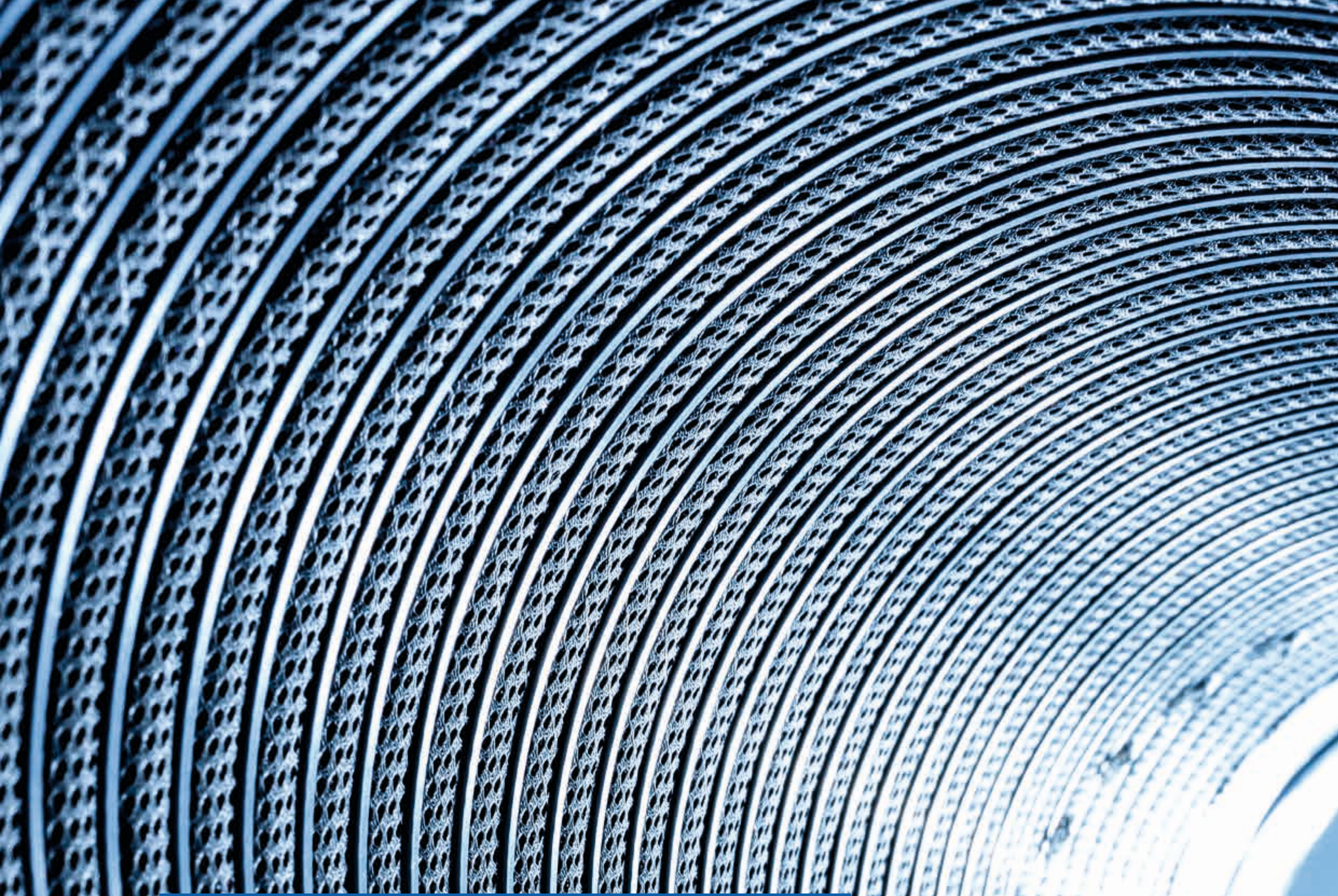
We are continuously developing new hoses and connecting elements. The inspiration for this often results from close customer contact. From the wide variety of high-performance plastics and fabrics, our technicians design, test and manufacture products that can replace conventional connections. For this reason, we have been the technology leader in the market for flexible special connections for years.

OPERATIONAL EXCELLENCE

Thus, we want to continue to make our growth profitable. Measures to scale and increase efficiency in all areas of the Masterflex Group will substantiate this on a sustained basis.

DIGITAL TRANSFORMATION

The focus is on our new digital brand AMPIUS, which enables our customers not only to convey material, but also to record data and use it to control their plant. This also includes our networking and automation activities, which will help us to improve our operations even further.



CONNECTING VALUES

Innovative connection solutions for sophisticated applications in many areas of our lives, for special requirements in industrial production processes and in new future topics and markets.

We estimate the global market for high-tech hoses at a volume of around EUR 2 billion within a hose market worth EUR 21 billion. Masterflex‘s long-term goal is to grow to revenues of EUR 200 million in this specialty segment. This is to be achieved by implementing the corporate strategy with its four dimensions of internationality, innovation, digitisation and operational excellence.

Today, Masterflex is already a globally active company with its own branches in the most important growth markets such as China and the USA. Masterflex has a broad range of materials and thus applications that very few other companies in the world can match. We can tap into a wide range of growth potential through established market access in traditional mechanical engineering and industrial sectors as well as in future-oriented and/or highly regulated markets such as medical technology or the aviation industry.

IN MANY AREAS OF DAILY LIFE, INNOVATIVE SOLUTIONS FROM MASTERFLEX ARE AN IMPORTANT COMPONENT.

Many things that make our lives more pleasant and safer require special hose and connection solutions that meet the highest standards and usually perform their task in secret. Products from Masterflex can be found, for example, in

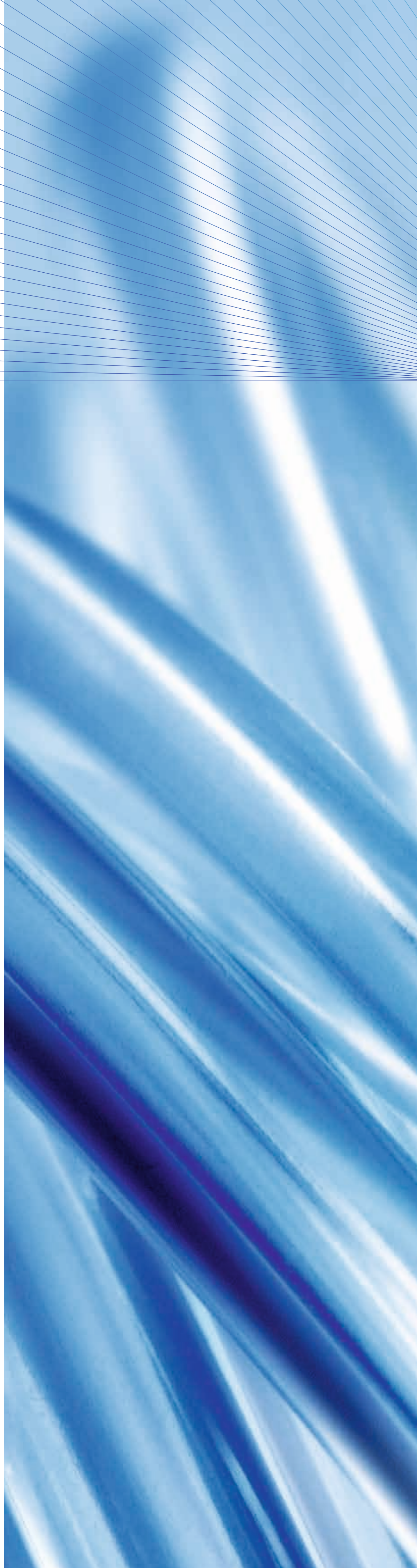
Air conditioning and ventilation systems in buildings: flexible hose systems made of special films and fabrics that must also meet the highest fire protection and noise emission requirements.

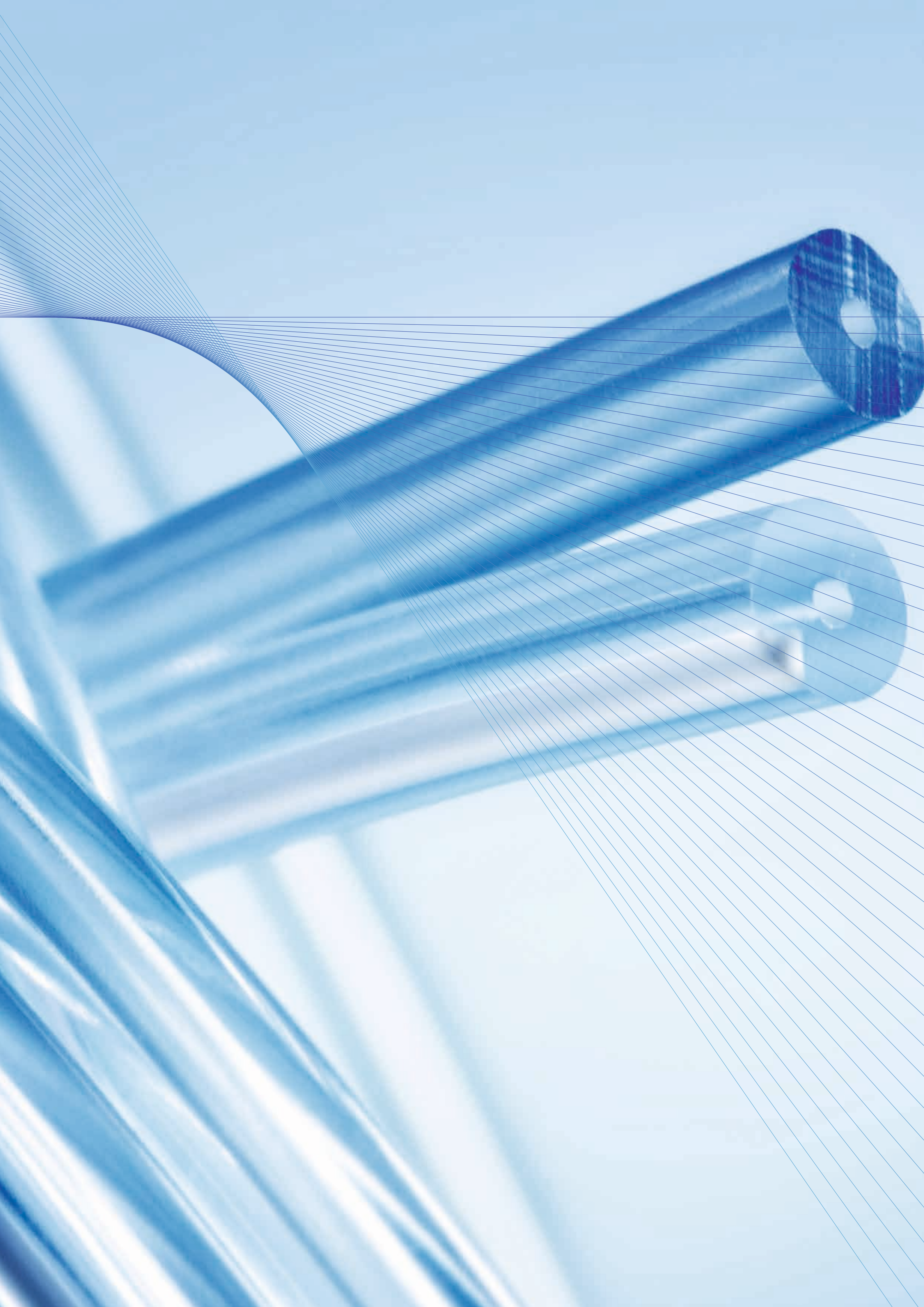
Coffee machines and espresso machines: hoses made of fluoropolymers that can withstand regular chemical cleaning processes.

Ventilation hoses in aircraft and trains: Masterflex equips, for example, many state-of-the-art commercial aircraft and train systems with specially approved hoses and connection systems.

Highly abrasion-resistant and microbe-resistant spiral hoses from our production can be found in street cleaning machines of the world's leading manufacturers.

So-called moulded parts made of smooth hose profiles, manufactured from high-performance polymers and tailored to specific applications, can be found in many car seats or in the hearing aid industry.





KEY FIGURES

MASTERFLEX AT A GLANCE

in EUR thousand	2019	2018	Change
Consolidated revenue	79,969	77,243	3.5%
EBITDA	9,656	9,592	0.7%
EBIT (operative)	5,058	6,251	-19.1%
EBIT	4,542	6,101	-25.6%
EBT	3,251	5,042	-35.5%
Consolidated earnings from continued business units	2,441	3,274	-25.4%
Consolidated earnings from discontinued business units	0	-58	–
Consolidated net income (share of shareholders of Masterflex SE)	2,532	3,373	-24.9%
Consolidated equity	42,015	40,223	4.5%
Consolidated balance sheet total	81,559	75,173	8.5%
Consolidated equiy ratio	51.5%	53.5%	
Employees (number)	676	669	1.0%
EBIT margin (operative)	6.3%	8.1%	
Net return on sales	3.2%	4.4%	
Consolidated earnings per share (EUR)			
from continued business units	0.26	0.36	-27.8%
from discontinued business untis	0.00	-0.01	–
from continued and discontinued business units	0.26	0.35	-25.7%

CONTENT

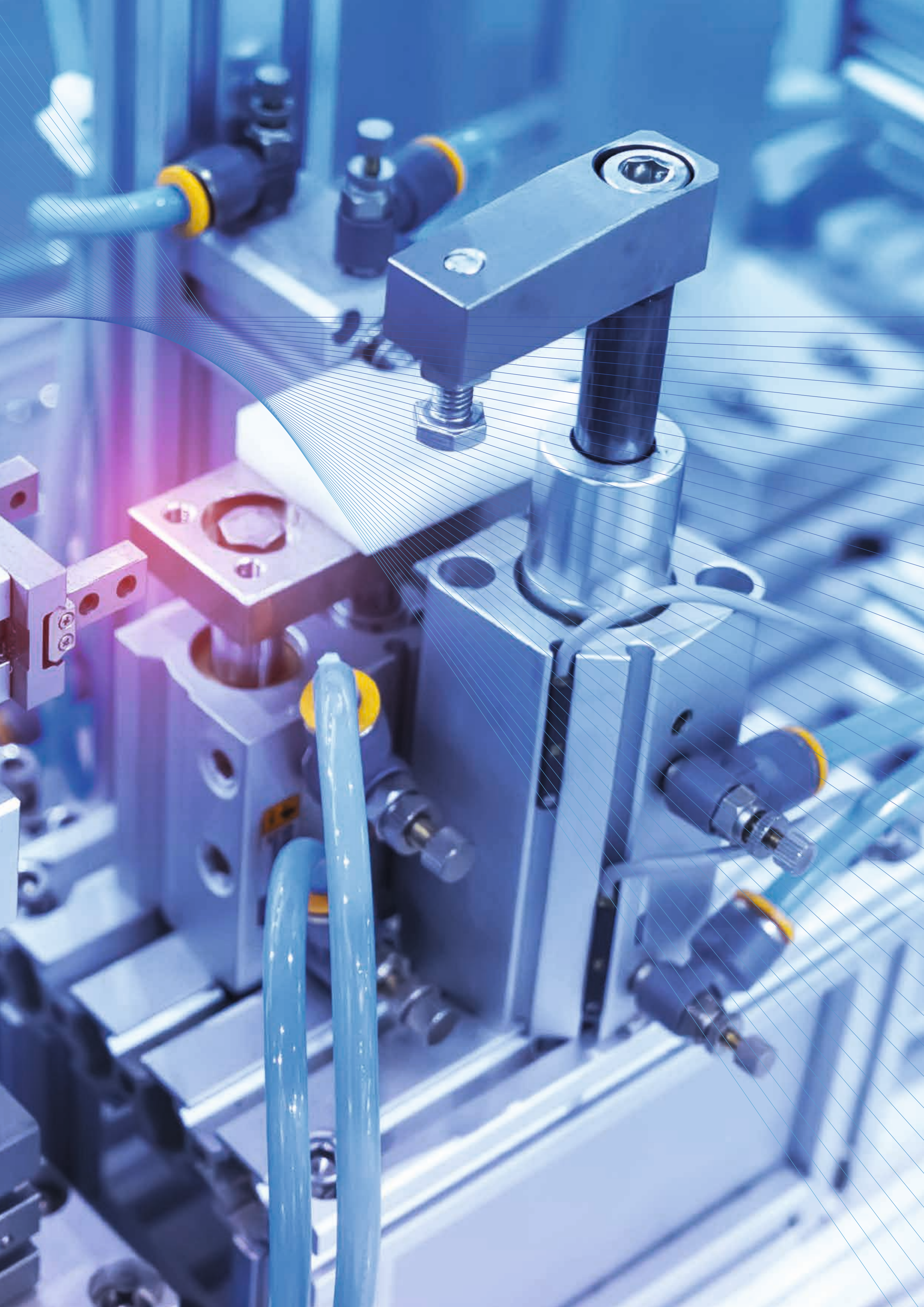
FUNCTIONING MATERIAL FLOWS ARE THE LIFELINES OF INDUSTRIAL PRODUCTION PROCESSES. MASTERFLEX ENSURES SAFE CONNETIONS AND TRANSPORT.

In many areas, industrial production processes depend on a smooth flow of materials and the availability of solid, liquid or gaseous media. Masterflex supplies hose and connection systems for a variety of industries and applications that have to meet highly specialised requirements.

In the processing industry, extremely abrasive solids are often transported by hose systems. Masterflex with its special conveying hoses made of polyurethane or special fabrics is an important system partner for the equipping mechanical engineering industry. Highly flexible, antistatic, flame-retardant, microbe-resistant and vacuum-proof are just some of the characteristics that are required here and are reliably supplied by Masterflex.

Maximum temperature resistance is required in a variety of extraction processes. Whether chemical plants, in the automotive or railway industry: Masterflex offers special hoses that reliably discharge mostly gaseous media at temperatures up to 1,100 degrees Celsius.

In the food, pharmaceutical or medical industry, hoses have to meet different legal and regulatory requirements. Hoses from Masterflex have the relevant permits and approvals in the most important country markets.



FOREWORD BY THE CEO

Dear shareholders,

In 2019, the Masterflex Group achieved revenue growth of 3.5% to EUR 80.0 million. Our operating EBIT reached a figure of EUR 5.1 million. This means that 2019 was the 10th year in a row in which we were able to increase revenue while maintaining a consistently positive profit situation. Nevertheless, we were not satisfied with the overall performance in 2019. The reason for this was the sustained economic slowdown in the automotive and mechanical engineering industries, which had a noticeable impact on our business development from October onwards and meant that we had to adjust our forecast for the year as a whole in November – despite the highly successful growth momentum that lasted until the end of the third quarter.

We have countered the economic downturn with a comprehensive package of measures, the main aim of which is to compensate for the volume effects that have occurred and are expected to occur on the earnings side. This will also help us in 2020 with the expected intensification of the effects of the coronavirus pandemic. Thanks to these measures, we have also succeeded in slightly mitigating the negative impact on our earnings that was expected to be even stronger in autumn. At the same time, our “Back to Double Digit” (B2DD) optimisation programme, which we presented in September, is and remains of far greater importance in the long-term. With these two programmes, we are shouldering measures that should lead to total cost savings of up to EUR 5 million by 2022: on the one hand, these are rather short-term cost-cutting effects in response to the changed demand situation and the resulting negative impact on earnings. This is because the savings are also offset by inflationary effects in personnel and material costs as well as self-initiated costs, for example for IT. On the other hand, these are cost-cutting measures that will enable us to raise the profitability of the Masterflex Group back to a sustainable double-digit EBIT margin again.

The increasing economic headwind in the course of 2019 did not change the targets or the importance and correctness of the B2DD programme. Due to the sustained effect of our measures, we are confirming the timetable for achieving the goals of the B2DD programme, even despite the temporary economic slowdown. We see this programme as a success accelerator for the measures and projects already initiated or pursued, particularly in the course of our strategy expansion in 2017. Accordingly, the planned measures are aimed exclusively at efficiency-enhancing and thus ultimately profitability-enhancing effects – in other words, operational excellence. At the end of 2018, our internal analyses had shown that we needed additional measures to make the individual projects for the years 2016 to 2018 in particular, such as the technological upgrading of our machinery or the expansion and modernisation of the Gelsenkirchen site, a more financially measurable success. Expressed in financial performance indicators: our goals in the B2DD programme are to significantly increase personnel productivity and to substantially improve the efficiency and profitability of capital employed. The specific objective is to achieve a sustained double-digit EBIT margin again from 2022 onwards. In terms of revenue, we want to pass the EUR 100 million mark by 2023/2024.

A concrete forecast for the year 2020 is not validly possible due to the uncertainties in the economic environment, which have again increased significantly in the first weeks, and due to the further effects of the coronavirus. We were still quite optimistic into February and have forecast slight growth for our Group in 2020 in a stable environment. However, we also had to acknowledge that the coronavirus pandemic will have a far greater impact on the global economy, so that on 30 March 2020, we decided that we could no longer maintain our previous internal forecast. At present, we believe that a forecast for the revenue and earnings development in 2020 is only possible to the extent that, due to the corona issue, a significant decline in revenue and EBIT on the one hand represents a realistic scenario if the spread with a strong impact on the global economy cannot be stopped for a longer period of time and there are also interruptions in production. In this case, a double-digit decline in revenue can also be expected.

Dr. Andreas Bastin
CEO

On the other hand, in a scenario in which the spread of the virus is quickly brought under control and the consequences for the economy are limited, a steady revenue trend or – in the case of catch-up effects – even slight revenue growth may be considered conceivable. The current developments in China and Asia show that such a scenario is also conceivable. The decisive factor is therefore how quickly the economies relevant to us will recover. As soon as the effects of the coronavirus pandemic can be better assessed, we will publish an updated forecast.

For the B2DD measures launched in 2019, we can build on the future-proof positioning of our Group. Today, the Masterflex Group is the company with the broadest materials expertise in high-tech plastics on the global market for high-performance hoses. We stand for the highest level of innovative strength, were once again awarded the title of Top Innovator in 2019 and are also a pioneer in digitisation, especially with our digitally equipped AMPIUS hoses. Masterflex is the leading brand in the market for high-performance hoses. Our positioning and reputation as a solution provider for flexible connection systems are the basis for further growth.

We are currently represented on four continents and intend to benefit even more strongly from growth in the USA and China in particular in the future. Investments in the international growth markets are beginning to pay off gradually. As part of the B2DD programme, we have again critically reviewed our international orientation. Our conclusion was that the positioning we have achieved with our own branches in the USA, China, Brazil, Great Britain and the most important EU markets is strategically important for us and, above all, continues to offer sufficient growth potential. We have achieved an international positioning which, despite extensive investments, is already at least cash-neutral in all countries and at the same time still has great development prospects.

CEO Dr. Andreas Bastin with
CFO Mark Becks

Masterflex bases its development on broad industry diversification that no other company in our industry can match worldwide. Mechanical engineering in all its breadth and diversity remains our most important target industry in terms of revenue. Together with this export-driven industry, we hope that the current industrial recession in Germany and the international trade conflicts will end very soon. The aviation industry is also of great importance to us. No Airbus flies without Masterflex products. An important industry of the future such as medical technology already accounts for around 17% of our revenue. Ten years ago, this figure was much lower – but the revenue base was much smaller at that time, as we have since been able to increase our revenue from hoses and connection systems by more than 100%.

We currently do not see this unique positioning in our market reflected in our share price. The development in 2019 was rather disappointing. The uncertainty on the capital markets hit us even harder with the intensification of the coronavirus pandemic in the first quarter of 2020, which led to an unprecedented sell-off. Certainly, our share price performance in 2019 was also due to home-grown factors, such as the fact that our own profit expectations were higher. The performance was also caused by a capital market that clearly neglected small- and mid-cap companies overall in 2019. In developing the B2DD targets, we consistently took into account the requirements of the capital market and our shareholders. On the basis of our established leading market position in the global competitive environment, our innovation leadership, our strong position in future markets and in the global growth regions as well as in combination with our ten-year uninterrupted profitable growth curve, we see significant upside and catch-up potential for our shares.

Continue to accompany the Masterflex Group as the global market leader for hoses and connection systems made of high-tech plastics (award from Wirtschaftswoche 2020) and continue to place your trust in us. The entire team is committed to our common goals. We know that it will not be easy and will demand a lot from our team. However, we are equally aware of the capability and potential of our Group as well as our target industries and regions. Just as our employees have done an excellent job in 2019, which was not an easy year – for which I would like to express my sincere thanks to all our employees – we will continue to approach the tasks of 2020 with the utmost commitment and great confidence.

Yours,

Dr. Andreas Bastin
CEO

When reading this Annual Report, please note that the first-time application of IFRS 16 (Leases) had a significant impact on the consolidated balance sheet total (EUR +2.9 million) and EBITDA (EUR +1.1 million) in the figures for 2019. However, EBIT was hardly affected by this. Adjustments to the previous year's figures were not required either.

FUTURE MARKETS AND APPLICATIONS REQUIRE SOLUTIONS THAT PUSH THE BOUNDARIES OF WHAT HAS BEEN POSSIBLE SO FAR.

Anyone who wants to help shape future markets and applications must be prepared to question and even leave proven paths. We see ourselves as the global innovation leader in the market for high-tech hoses. We want to substantiate this position every day with our ideas, our enthusiasm and our innovation projects.

In medical technology, developments in many areas are moving towards dramatic miniaturisation. Masterflex is also supporting this development with corresponding hose components, for example in hearing aids from different manufacturers.

Under the AMPIUS brand, Masterflex has developed globally unique, networkable and intelligent hoses. This makes it possible to implement additional digital functions that provide customer- and application-specific added value. The first pilot projects are currently being implemented. These digitally equipped hoses are intended to be the nucleus for smart services with the corresponding potential for innovative business models.

COMBINED MANAGEMENT REPORT OF THE MASTERFLEX GROUP AND MASTERFLEX SE FOR THE FISCAL YEAR 2019

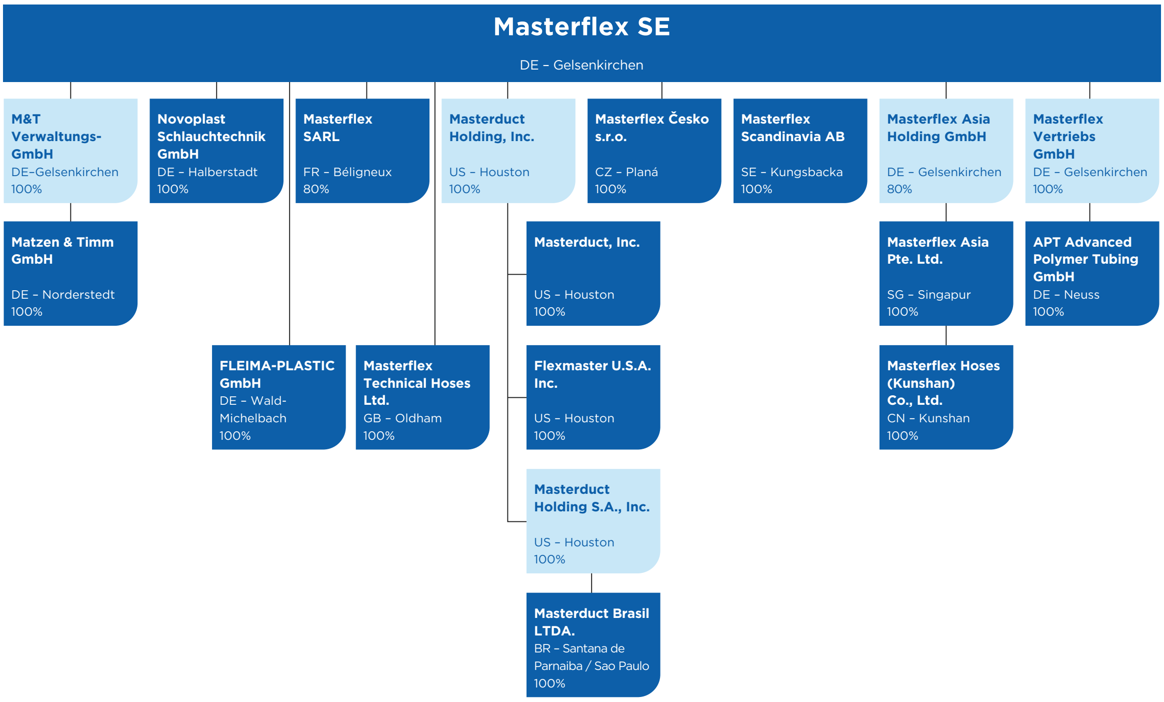
A. FUNDAMENTALS OF THE GROUP

I. BUSINESS MODEL

Masterflex SE, Gelsenkirchen, is the parent company of the Masterflex Group (referred to here as the Masterflex Group). The business activities of Masterflex SE and the Group are focused on the development, production and marketing of high-tech hoses and connection systems for a wide range of applications in industry and manufacturing. In addition, consulting and order-related development of hoses and connection systems for third parties are also marketed as a separate service.

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

The Group structure:



Since 2000, Masterflex SE shares (International Securities Identification Number ISIN: DE0005492938) have been traded on the Frankfurt Stock Exchange in the segment with the highest transparency requirements, the Prime Standard.

II. VISION, OBJECTIVES AND STRATEGIES

We are a supplier of products, systems and consulting know-how for the solution of connection tasks. Our special competence lies in the use of high-quality and particularly high-performance plastics. Our vision is global market leadership in all markets we address.

The development, production and engineering-oriented marketing of high-tech hoses and connection systems, as well as consulting, hold considerable growth potential. We create value through high-quality products and offer our customers reliability, safety and service. This emphasised consulting-oriented special market strategy differentiates us from other hose manufacturers. We pursue the goal of sustained above-average and profitable growth compared to the market.

The business model is characterised by very broad diversification in terms of customers, their industries and the areas of application for Masterflex products. This diversity goes hand in hand with sometimes small batch sizes and therefore the management of high complexity.

— Diversified growth strategy

The Masterflex Group pursues a long-term, value-driven growth strategy based on the four pillars of internationalisation, innovation, operational excellence and digital transformation. The target sectors of medical technology, life sciences and the food industry are of particular relevance to the Group's growth.

— Internationalisation

We strive for value-oriented, long-term growth in all the markets we address. In doing so, we want to gradually broaden our revenue base, which still focuses on Europe today, and achieve a larger revenue share on the American and Asian continents by growing disproportionately strongly there. The focus in North America is on the USA, in South America on Brazil and in Asia on the Chinese market. Furthermore, we are developing a number of markets that border on or are closely related to our core regions through cooperations. In addition, we are strongly focused on offering the entire Masterflex Group product range in all the markets we address.

— Innovation

Our declared goal is to hold and expand our position as a technology leader in the market for high-tech hoses. Our innovation strategy is the supporting pillar for achieving this goal. From the wide variety of high-performance plastics and manufacturing processes, our engineers are continuously designing, testing and manufacturing new products that can replace traditional connection solutions or their materials to the benefit of our customers. In many cases, starting points, ideas and development directions for new products are also initiated by requests from our customers. The market position we have achieved as a leader in technology and innovation supports our own price-setting power, the acceptance of the new products that are continually being launched on the market and the acquisition of new customers and projects.

Details on the implementation and results of the innovation strategy from 2019 can be found in section A IV. Research and development.

— Operational excellence

With the strategic focus on operational excellence, we are meeting the challenge of combining maximum flexibility with the best possible efficiency. We focus on processes in our overall corporate activities with the aim of making them simple, fast and flexible and standardising them so that we can continue to deliver precisely tailored solutions and products with manageable complexity. Important targets and individual measures are reduced lead times for customers, significantly simpler and faster processes in all company divisions, higher revenue per employee and appropriate automation. With the strategic focus on operational excellence, Masterflex aims to secure its own earnings power in the long-term by reducing complexity, while at the same time differentiating itself from the competition through its high degree of individuality. Reducing complexity and managing it efficiently are important challenges for us in the coming years.

In order to permanently raise the company's own profitability to a double-digit EBIT margin by 2022, the "Back to Double Digit" (B2DD) optimisation programme was developed in the fiscal year 2019 and has already been largely implemented. These measures focus on optimising operational excellence. In the fourth quarter of 2019, the B2DD optimisation programme was again specifically expanded in order to respond concretely to the economic slowdown and declining demand in the affected and highly export-oriented automotive and mechanical engineering sectors. Further goals in the B2DD programme were defined as revenue of EUR 100 million in 2023/2024 through purely organic growth and additional growth through acquisitions to revenue of EUR 200 million by 2030. The main measures of the optimisation programme relate to personnel cost savings and the associated increase in personnel productivity, cost optimisation in the use of materials and in other operating expenses as well as in the area of innovation.

— Digital transformation

The fourth thrust of the growth strategy focuses on the digital transformation. One goal is to expand the range of products and services. Under the new AMPIUS brand, intelligent connection systems and hoses are being developed which, thanks to their additional digital functions, offer customer- and application-specific added value. In the mid-term, completely new business models can be created with smart services. Masterflex is working on services that make use of knowledge and up-to-date information on the status of products or systems and facilities and offer customers direct added value through transparency and analysis. At the same time, the strategic thrust of digital transformation is having an impact on all company divisions and the entire corporate culture. The goal is to become faster and more flexible – simply more agile – based on better data and thus a better basis for decision-making. Networked production with industry 4.0-capable machines goes hand in hand with a significant expansion of internal and external networking with our customers, suppliers and partners.

III. CONTROL SYSTEM

Masterflex SE is a European stock corporation, for which German stock corporation law is additionally applied in accordance with the SE Council Regulation.

The basic principle of German stock corporation law is the dual management principle of a Management Board and Supervisory Board, which both have their own competencies.

1. Bodies

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

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

Due to the deliberately small size of the Supervisory Board, there are no Supervisory Board committees. Important topics are also dealt with outside the meetings between the Management Board and the Supervisory Board in conference calls or in meetings convened at short notice. In addition, the Chairman of the Supervisory Board regularly informs himself about the course of business and upcoming projects of the company.

2. Internal corporate control system

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

In the Masterflex Group, the focus is on key figures and their development, which are more strongly oriented towards liquidity and enterprise value and support the corporate strategy. These are in particular:

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

IV. RESEARCH AND DEVELOPMENT

As the global market leader and technology driver for technical hoses and connection solutions, the research and development (R&D) division is a central component of the Masterflex Group's success. By developing innovative products and processes, we are able to offer hoses and individual connection solutions for the most demanding requirements. In addition, the R&D unit is the basis for marketing connection solutions created by engineers, which are also marketed as an independent service – "Engineering Services".

The cooperation between the various product brands and site companies was further intensified in order to optimize the use of resources for seamlessly integrated development. In addition, an intensified exchange with the foreign locations is being maintained.

The implemented and actively practiced innovation process (Stage-Gate process) for shortening the lead times of new products has proven its worth. At regular project and milestone meetings, developments are discussed and reviewed in terms of market, technology and customer requirements as well as their economic relevance. For this purpose, external partners from research institutes or selected suppliers are consulted. Thus, a multipolar view of possible innovations is guaranteed, both from the market side and with regard to new technologies as well as new raw materials.

Due to the high level of innovation competence, Masterflex products cannot easily be substituted by other products. Nevertheless, the high-tech plastics processed by Masterflex offer considerable potential for substitution of conventional materials, particularly steel and rubber. The company does not engage in contract manufacturing; almost all products and services are developed by our engineers and skilled workers and are largely produced in-house – also to safeguard the production and process know-how that has been built up.

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

— Important projects in 2019

Under the AMPIUS brand for intelligent and networkable hoses, so-called lifecycle tracking was successfully launched on the market. Via access to a web portal including an app, orders and products can be viewed, product data can be called up directly on the hose system and stages of the life cycle can be displayed digitally.

At the Gelsenkirchen site, the roll-out of the self-developed data logger adapted to hose lines was completed. In addition, the architecture for a future database was designed and a transmission system independent of the customer network was built.

A hose with railway approval according to the EN 45545 standard was presented for use in the interior and exterior of trains. The approval is valid in Europe as well as in Asia.

In addition, the Master-PUR H Streetmaster Pro was successfully launched on the market. Here, several long-term major customers have already been acquired in the field of street cleaning machines. The novel construction extension forces the hose wall to the outside during bending and thus offers advantages in terms of wear behaviour during the transport of solids.

In 2019, the focus was also on process optimisation and waste reduction through digitisation and assistance systems. To this end, a new production assistance system was developed that is expected to make a significant contribution to increasing overall equipment efficiency (OEE) by enabling robust, fast start-up and ramp-up of the line to target production speed (low start-up scrap), robust line operation with stable operating points, increased production speeds, reduced scrap and an increased degree of automation. As a result, the line operator should be continuously supported to achieve the defined process goals. For this purpose, an intuitive communication (human machine interface) is used to automatically recommend optimal process settings based on a knowledge database, neural networks and live simulation.

In the area of process technology, APT has developed co-extruded high-performance hoses with diameters of up to 22 mm made of PFA with conductive strip for the safe transport of solvents, for example in the chemical and pharmaceutical industries.

APT now also produces new FEP or PFA corrugated tubes with a minimum inner diameter of 12 mm up to a maximum outer diameter of 87 mm, whereby larger nominal diameters are also technically feasible. These hoses are highly flexible, anti-adhesive, chemically inert and temperature-resistant over a wide range of applications from -200 to +260 degrees Celsius. They represent virginal solutions in accordance with product directive 2014/34/EU and the ATEX operating directive 1999/92/EC.

A pressure-resistant and sustainable laser marking solution has been developed for fluoropolymer tubing. This allows fluoropolymers to be printed chemically untreated and customer-specific, thus preventing technical losses of the surface.

For the electrified automotive industry, customer-specific sealing solutions were developed for the production of lightweight components (for example, made of carbon). The multifunctional seal is characterised by high thermal and chemical resistance and an anti-adhesive surface, e.g. to avoid release agents.

At the Halberstadt site, the mechanical characteristics of a new type of polyethylene hose in which linear PE macromolecules are cross-linked three-dimensionally to form PE-X were further developed in 2019. In addition, a competitive edge was achieved in terms of pressure values and the expansion of the hose. In the year under review, several inquiries were already received, and specific application tests are currently being carried out together with customers.

Since 2019, Novoplast is the first supplier in Europe to offer a food-approved polyurethane hose. Due to its high abrasion-resistance, flexibility and temperature-resistance, the Master-Tube PUR 98A Food is particularly used in the field of food technology and food machinery construction as well as in the production of pharmaceuticals.

Also in Halberstadt, a tube suitable for drag chain applications was transferred to series production in 2019. This hose meets high demands on flexibility while maintaining the required operating pressures.

At Matzen & Timm, a clamp protector that can be easily opened and reinstalled using a sewn-in Velcro fastener, as well as clampless hose connections and couplings on standard beads were developed to reduce weight and assembly time.

— External evaluations

Following the award as official world market leader received again in 2018 (awarded for the first time in 2016) and the receipt of the “Innovative through Research” seal of approval from the Stifterverband für die Deutsche Wissenschaft e.V., Masterflex was again awarded TOP Innovator in 2019 after 2016. TOP 100 is the only innovation competition in Germany to honour medium-sized companies for their innovation management and innovation success. Masterflex was particularly convincing in the category “Innovative Processes and Organisation”.

V. THE MARKET FOR HIGH-TECH HOSES

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

Due to the rather inhomogeneous and not easily delimited structure, there is little reliable third-party data on the overall market. For this reason, the Masterflex Group began to establish a systematic data analysis of the global market and its participants as early as 2008. This now extensive knowledge represents know-how that the Masterflex Group uses to differentiate its product portfolio from that of its competitors. In addition, this specialist knowledge is used in the M&A strategy. Based on this internal data pool, we estimate the size of the market in all regions we address at a volume of around EUR 2 billion.

In the future, the potential applications of high-tech hoses will continue to increase. The general trend in the manufacturing industry towards ever more sophisticated industrial production processes will provide the necessary impetus. In particular, three parameters are driving the demand for connection solutions that can meet a wide range of requirements: firstly, the increasing speed of a manufacturing process, secondly, the desire for its high flexibility in terms of small end product volumes with frequent variations in production, and thirdly, the quality requirements of the end product to be manufactured.

The fields of application for high-tech hoses are very broad across industries and applications: flexible connection solutions are increasingly gaining in importance in mechanical engineering, in the aviation and automotive industries, in energy companies or in the production and processing of food, pharmaceutical products as well as in the medical industry. Together with our outstanding know-how in the processing of sophisticated plastics, these different areas of application enable us to develop and produce connection solutions that can only be realised inadequately or not at all with conventional materials.

VI. BRAND IDENTITY AND PRODUCTS

The six corporate brands of the Masterflex Group also represent the most important operating companies with their own production capacities and, with their respective product portfolios, are part of the unified market presence under the umbrella brand MASTERFLEX GROUP. In addition to these brand companies, there are eight other operating subsidiaries in Europe, USA and Asia which sell and sometimes also manufacture products of these brands.

Our slogan “Connecting Values” reflects our core competency: holistic connection systems which are adapted to customer-specific requirements – combined with German engineering, which is used in global production, with a high degree of reliability and security as well as a pronounced customer proximity in consulting and service. In summary, “Connecting Values” means: we connect values with added value for our customers.

MASTERFLEX

The spiral hose business is the core competence of the Masterflex brand with production focus in Gelsenkirchen. In addition to extruded spiral hoses, clip hoses and PU hoses are developed, produced and distributed. Connecting elements like cuffs, flanges, threaded sockets, clamps and other accessories round off the range of solutions for flexible connection tasks or sometimes create unique system solutions.

The extensive range offers products that meet individual requirements and demanding tasks. Regardless of whether very abrasive solids, aggressive chemicals, gaseous media up to +1,100 degrees Celsius or, for example, food has to be transported: the hoses made of high-tech plastics and fibres always constitute an application- and customer-oriented flexible solution.

MATZEN & TIMM

The brand company Matzen & Timm is a renowned, international manufacturer of special hoses, bellows and moulded parts made of high-quality synthetic rubber materials such as silicone. The products are manufactured by industrial handwork to a large extent and are used wherever precision and special resilience are required. In particular, this includes the aerospace industry, the automotive sector and rail transport. Production takes place in Norderstedt near Hamburg and in Plana (Czech Republic). Special hoses can be found, for example, in the air conditioning system of the Airbus A 380 and Airbus A 350, in racing car engines at the DTM (German Touring Car Masters race events) or in modern train systems. As a manufacturer with its own development department, the value chain includes all sub-steps from design, simulation (FEM) as well as evaluation on customer premises, prototype manufacture through to series production. Almost all products are customer-specific custom-made products.

Thanks not least to its adept handling of a wide variety of qualification requirements and its high development expertise for more than 50 years, Matzen & Timm is one of the key suppliers to the aerospace, special vehicle and mechanical engineering industries. Innovative products such as the weight-reduced and/or electrically conductive hose or the protective hose for aircraft fuel lines meet the highest requirements for safety and function.

NOVOPLAST SCHLAUCHTECHNIK

The brand company Novoplast Schlauchtechnik GmbH in Halberstadt specialises in the extrusion of hoses and profiles in the diameter range of 0.5 to 50 mm for industrial and medical-technical applications. These products are sometimes also further processed such as by thermosetting or by other special assembly and moulding processes. Thermosetting can be used to produce moulded hoses with complex geometries and bending radii according to customer requirements and with high precision in 2D or 3D variants. These abilities in particular open up hitherto little-known areas of application, such as the substitution of metal pipes with low-noise or vibration-free plastic compounds.

State-of-the-art equipment is used for hose and profile extrusion. The large range of materials is regularly supplemented with other special materials. For the production of medical technology, clean rooms are equipped according to ISO classes 6, 7 and 8.

Novoplast Schlauchtechnik works closely with the sister company FLEIMA-PLASTIC GmbH, manufacturer of medical precision injection-moulded parts. Using this approach, it is possible to provide customers with the full medical package from one source, consisting of hose and medical components such as Luerlock connectors, drip chambers or roller clamps.

FLEIMA-PLASTIC

The brand company FLEIMA-PLASTIC GmbH from Wald-Michelbach/ Odenwald which was founded in 1974 has been part of the Masterflex Group since 2004. High-quality injection-moulded parts and assembled plastic components are produced mainly for the medical technology, cosmetics and food technology industries. In the modern factory, injection-moulded components (also in multi-component technology) are manufactured, assembled and finished in ISO classes 7 and 8 clean rooms. In addition, there is vast experience in the construction of precision injection-moulded tools in their own mould-making and in the creation of prototypes in all common rapid prototyping methods.

MASTERDUCT

In In North and South America, the Masterflex Group is represented by Masterduct Holding Inc., a wholly-owned subsidiary of Masterflex SE. Masterduct Holding has three operating subsidiaries: Masterduct Inc. and Flexmaster U.S.A. Inc, in Houston, Texas, and Masterduct Brasil Comércio de Dutos LTDA in Sao Paulo, Brazil.

The companies operating in North and South America, Masterduct and Flexmaster U.S.A., also act as brand companies with a corresponding product portfolio.

Flexmaster U.S.A. is a hose specialist for heating, ventilation and air conditioning (HVAC) in the air conditioning and ventilation sector and a leader in public sector construction applications, such as hospitals, school, sports facilities and universities. Flexmaster U.S.A. is a preferred supplier in the healthcare sector because the products do not contain any adhesives or solvents. Further, sound-insulating hoses are used for sound insulation instead of metal compounds, as they are less expensive, more flexible and more sound-absorbing.

Masterduct sells the portfolio of the Masterflex and Novoplast Schlauchtechnik brands to the American market under its brand. Its customers range from the wood industry, mechanical engineering and the plastics industry to the aviation and service industry and the US government.

APT

APT Advanced Polymer Tubing GmbH from Neuss specialises in smooth and shrink tubes from fully or partly fluoridated plastics. APT hoses can be permanently used at temperatures from -200 to +260 degrees Celsius. In addition, they are resistant to many chemicals used in industrial manufacturing processes. APT products owe these skills to the processed raw materials FEP (fluoridated ethylene-propylene), PFA (perfluoralkoxy) and PTFE (polytetrafluoroethylenes). These fluoroplastics require a very special processing know-how and a high-quality machinery designed for this purpose. The Masterflex Group has benefited from this specialised expertise since the acquisition of APT in 2017. On the sales side, medical technology companies will also be increasingly addressed in the future.

AMPIUS

All networkable, intelligent hoses and connection solutions of the Masterflex Group are marketed under the brand name AMPIUS. The digitisation options for hoses and connectors will initially play a significant role particularly in the operational monitoring of industrial production processes. The scope and application of digital data collection and use for hoses will be adapted to individual customer requirements. With these new, so-called “smart products”, the Masterflex Group is taking a pioneering role in the development of digitised connection solutions. The first pilot projects were already implemented in 2018.

B. BUSINESS REPORT

I. MACROECONOMIC FRAMEWORK CONDITIONS

According to the Kiel Institute for the World Economy (IfW), the global economy has further lost momentum in 2019. The economy continued to deteriorate, particularly in the advanced economies, while economic momentum stabilised in many emerging markets. This was supported by an easing of monetary policy, which is again strongly expansionary in the advanced economies, while lower US interest rates allowed the central banks in the emerging markets to cut interest rates across the board. In addition, some countries are experiencing noticeable stimulus from fiscal policy. Global production is expected to have increased by only 3.0% overall in 2019 (2018: 3.7%).

In the euro zone, private consumption has recently been a little more lively, while the unemployment rate has tended to improve further. For the full year 2019, the IfW expects gross domestic product growth in the euro zone to have reached 1.2% (2018: 1.9%).

According to calculations by the Federal Statistical Office (Destatis), Germany's price-adjusted gross domestic product increased by 0.6% in 2019 after 1.5% in the previous year. The German economy thus grew for the tenth year in a row, which represents the longest growth phase in the united Germany, although growth in 2019 lost momentum. The economy was mainly supported by consumption. Private consumer spending rose by 1.6% in price-adjusted terms and government spending by 2.5%. The German economy exported 0.9% more goods and services in real terms than in 2018, while price-adjusted imports rose by 1.9%.

Economic growth in selected countries with own presence of the Masterflex Group

Change of GDP compared to previous year in %

Country	2019 (figure from the Annual Report 2018*)	2018
Euro zone	1.2 (1.7)	1.9
Germany	0.5 (1.7)	1.5
France	1.3 (1.4)	1.7
Great Britain	1.3 (1.0)	1.3
World	2.9 (3.4)	3.6
Brazil	1.2 (2.0)	1.3
China	6.1 (6.1)	6.6
USA	2.3 (2.5)	2.9

Source: IMF

* (in brackets, the expected value 2019 as indicated in the Annual Report 2018)

According to Gesamtverband Kunststoffverarbeitende Industrie e.V. (GKV), industry revenue in 2019 fell by 1.2% from the record figure of EUR 65.7 billion in 2018 to EUR 65.1 billion. Foreign revenue decreased less significantly (EUR 24.9 billion; -0.8%) than domestic revenue (EUR 40.2 billion; -1.7%). The decline in plastics revenue was particularly marked in the technical parts segment. Here, the minus in 2019 was 4.8%. Significantly better, but still negative, was the trend for plastic packaging and consumer products. The only segment with a plus was construction, which grew by 2.0%. The association saw the reasons for the minus in the difficult economic situation of important customer industries of plastics processors, including the automotive industry and mechanical engineering.

In total, approx. 14.6 million tonnes of plastics were processed in Germany, which represents a decrease of 1.2% compared to 2018. The number of employees rose to a new record level of around 336,000 (+0.3%).

II. BUSINESS DEVELOPMENT

In the year under review, business development fluctuated throughout the year. A thoroughly dynamic development in the first three quarters – at the beginning of the year also favoured by catch-up effects from 2018 – was followed by a very challenging fourth quarter. According to the company's own assessment, the market position in the respective target markets addressed in 2019 was confirmed or further expanded. In terms of revenue, with EUR 80.0 million and growth of 3.5%, the Masterflex Group clearly met the forecast adjusted in November of EUR 79.0 to 80.0 million and 2% to 3% respectively. The forecast issued at the beginning of the year with an expected increase of 3% to 6% was thus also achieved at the lower end of the range. A very good performance in medical technology was offset by a significant downturn in business with mechanical engineering and automotive customers, particularly in Europe, later in the year. Overall, however, it should be noted that the market drivers remain intact, which is reflected not least in the sales successes achieved and growth in future-oriented industries. At the same time, however, Masterflex was not able to completely detach itself from the current economic weakness in the key European industrial business.

The difficult business trend in these individual areas of the industrial business and the resulting decline in revenue particularly affected the large production sites in Germany, which have high fixed costs, which is why EBIT was disproportionately affected. In addition, part of the revenue momentum (around 1%) was currency-related. These factors ultimately made it necessary to adjust the original earnings forecast of an EBIT margin of at least 8% to between 5% and 6% in November 2019. The achieved operating EBIT of EUR 5.1 million corresponds to an EBIT margin of 6.3%, which is slightly above the adjusted earnings forecast interval.

The Masterflex Group has made a successful start to implementation in 2019 with the "Back to Double Digit" (B2DD) optimisation programme announced in September, which aims to gradually return the operating EBIT margin to a sustainable double-digit level by 2022. Initial measures and successes have already been implemented or achieved in improving personnel productivity, although the effects will not be visible until 2020. The disposal of the heating hose business and the concentration on the supply of individual components in 2019 also generated further cost effects, which will have an impact from 2020. The challenge remains to implement additional measures within the B2DD programme, depending on the degree of economic slowdown in individual target industries, which were not included in the extent originally planned in 2019. In the fiscal year 2019, there were hardly any one-off cost burdens from the B2DD programme. The total amount of these one-off expenses is estimated at a maximum of EUR 1.0 million, spread over 2019 and 2020.

III. SITUATION

1. Results of operations of the Group

	2019		2018		Change	
	in k€	in %	in k€	in %	in k€	in %
Revenue	79,969	99.5	77,243	97.6	2,726	3.5
Changes in inventories	103	0.1	554	0.7	-451	-81.4
Other own work capitalised	339	0.4	1,325	1.7	-986	-74.4
Total performance	**80,411**	**100.0**	**79,122**	**100.0**	**1,289**	**1.6**
Other operating income	1,156	1.4	625	0.8	531	85.0
Operating performance	**81,567**	**101.4**	**79,747**	**100.8**	**1,820**	**2.3**
Cost of materials	-25,968	-32.3	-25,235	-31.9	-733	2.9
Personnel expenses	-32,683	-40.6	-30,793	-38.9	-1,890	6.1
Depreciation and amortisation	-4,598	-5.7	-3,341	-4.2	-1,257	37.6
Other operating expenses	-12,984	-16.1	-13,852	-17.5	868	-6.3
Other taxes	-276	-0.3	-275	-0.3	-1	0.4
Operating expenses	**-76,509**	**-95.0**	**-73,496**	**-92.8**	**-3,013**	**4.1**
EBIT (operative)	**5,058**	**6.3**	**6,251**	**8.1**	**-1,193**	**-19.1**
Non-operating effects	-516		-150		-366	
EBIT	**4,542**		**6,101**		**-1,559**	
Financial result	-1,291		-1,059		-232	
Earnings before income taxes	**3,251**		**5,042**		**-1,791**	
Income taxes	-810		-1,768		958	
Earnings after taxes from continued business units	2,441		3,274		-833	
Earnings after taxes from discontinued business units	0		-58		58	
Consolidated annual result	**2,441**		**3,216**		**-775**	
Thereof:						
Non-controlling interests	-91		-157		66	
Share of shareholders of Masterflex SE	2,532		3,373		-841	

— 1.1 Revenue development and incoming orders

In fiscal year 2019, the Masterflex Group generated consolidated revenue of EUR 80.0 million (2018: EUR 77.2 million), which corresponds to growth of 3.5%. This was driven in particular by the medical technology activities of the subsidiaries Novoplast Schlauchtechnik GmbH and FLEIMA-PLASTIC GmbH. Activities in the USA likewise showed strong growth, also benefiting from a currency effect of around EUR 0.7 million. Revenue growth was also achieved in Asia as well as in Great Britain. In contrast, revenue of Masterflex SE declined.

The overall still satisfactory revenue development is primarily due to the good revenue momentum in the first nine months. In contrast, the fourth quarter saw a decline in revenue. The main reason was a flattening of demand in the European industrial business due to the economic situation.

As a result of the development in the fourth quarter, incoming orders in 2019 were approximately at the same level as revenue in 2019.

— 1.2 Earnings development

Operating earnings before interest and taxes (EBIT before discontinued business units and non-operating income and expenses) amounted to EUR 5.1 million compared to EUR 6.3 million in 2018, corresponding to an operating EBIT margin of 6.3% (previous year: 8.1%) in relation to revenue.

Changes in inventories amounted to EUR 0.1 million in the year under review after EUR 0.6 million in the previous year. Last year, the high level of inventory build-up was directly related to the high level of incoming orders and orders backlog at that time.

Other own work capitalised fell significantly in the year under review from EUR 1.3 million to EUR 0.3 million. The capitalisation of the ERP project in the previous year was no longer significant in 2019. In 2019, own work capitalised consisted mainly of product and process development projects.

Other operating income increased from EUR 0.6 million to EUR 1.2 million. As in previous years, this includes grants and subsidies. In addition, a warranty provision was reversed and repayments from the employers' liability insurance associations and social security were received. The disposal of the heating hose business also increased other operating income. Contrary effects were reflected accordingly in personnel and material costs and depreciation.

The cost of materials rose slightly from EUR 25.2 million in 2018 to EUR 26.0 million in 2019, meaning that the cost of materials ratio (cost of materials in relation to total performance) at 32.3% was only slightly above the previous year's level of 31.9% – despite the further increase in raw material prices. By contrast, the shortage of materials for individual polymers, which was still prevalent in 2018, has eased. The stable material usage ratio is due on the one hand to price increases resulting from rising raw material prices and effects from material substitution and changes in the product mix. On the other hand, further purchasing successes were achieved through negotiation and bundling.

Personnel expenses rose from EUR 30.8 million to EUR 32.7 million in fiscal year 2019. The main influencing factors were the annual wage and salary increases as well as the increase in headcount, which was mainly implemented at the end of 2018 to compensate for the productivity losses due to illness and to process the high order backlog. Corresponding cost-increasing effects were visible in 2019, while the cost-cutting measures implemented later in 2019 will not take effect until 2020 with a time lag. The personnel deployment ratio rose from 38.9% in the previous year to 40.6% in 2019.

Depreciation and amortisation increased from EUR 3.3 million to EUR 4.6 million. The change in accounting for leases in accordance with IFRS 16 had an increasing effect of EUR 1.1 million. Adjusted for the effects of IFRS 16, depreciation and amortisation followed the normal depreciation and amortisation activities of previous years at a slightly higher level overall, which is due to the completion of important investment projects, especially at the Gelsenkirchen site, in previous years.

Other operating expenses fell from EUR 13.9 million to EUR 13.0 million in the year under review. This is due to cost-cutting measures and the absence of the non-capitalisable costs incurred in 2018 for the introduction of ERP at the Gelsenkirchen site.

Consolidated operating result (EBIT) declined from EUR 6.3 million to EUR 5.1 million. This was due to higher personnel costs in the wake of the 2018/2019 personnel measures as well as cost burdens in the fourth quarter resulting from revenue losses at some locations with high fixed costs.

The non-operating effects increased from EUR -0.2 million to EUR -0.5 million. This mainly includes severance payments, costs in the course of the personnel measures and consulting/lawyer costs in connection with the cost reduction measures.

After deducting the non-operating effects, EBIT amounts to EUR 4.5 million after EUR 6.1 million in the previous year.

The financial result of EUR -1.3 million was slightly down on the previous year's figure of EUR -1.1 million. The reasons for this are a slightly higher credit volume, costs incurred in connection with the conclusion of the new syndicated loan with a simultaneous slight reduction in interest charges and, to a lesser extent, effects from the application of IFRS 16.

Income tax expense fell from EUR 1.8 million to EUR 0.8 million, mainly due to the lower pre-tax result.

Earnings after taxes from continued business units thus amounted to EUR 2.4 million (previous year: EUR 3.3 million). The previous year's result from discontinued business units in the amount of EUR -0.1 million resulted from the difference between provisions recognised in the balance sheet and the actual charge resulting from the termination of a legal dispute that has been ongoing since 2012, as well as legal fees and court costs incurred in this connection.

Consolidated net income amounted to EUR 2.4 million after EUR 3.2 million in the previous year. Taking into account the non-controlling interests in two Group companies, the shareholders of Masterflex SE accounted for EUR 2.5 million (previous year: EUR 3.4 million). Non-controlling interests include ownership interests in the subsidiary in France (Masterflex SE: 80%) and Masterflex Asia Holding GmbH (Masterflex SE: 80%).

Earnings per share declined from EUR 0.35 to EUR 0.26.

— 1.3 Comparison of actual and forecast business performance

We had initially forecast a revenue increase of 3% to 6% for fiscal year 2019. According to the forecasts at the beginning of the year, the operating EBIT margin should be at least 8%. In November 2019, the earnings forecast was adjusted to an EBIT margin of 5% to 6% because of the expected revenue development in the months October to December 2019. The reasons for this were the overall slowdown in revenue development and revenue declines at Group companies with a high portion of fixed costs, where it was correspondingly more difficult to quickly adjust cost structures to the changed demand.

With growth of 3.5% to EUR 80.0 million, we were both within the adjusted and at the lower end of the original revenue forecast. Even adjusted for currency effects, we still met the adjusted forecast. The operating result amounted to EUR 5.1 million, corresponding to an EBIT margin of 6.3%, which was also slightly above the adjusted earnings forecast.

2. Net assets of the Group

— 2.1 Asset structure

	31.12.2019		31.12.2018		Change	
Assets	**in k€**	**in %**	**in k€**	**in %**	**in k€**	**in %**
Intangible assets	13,115	16.1	12,529	16.7	586	4.7
Property, plant and equipment	33,776	41.4	31,892	42.4	1,884	5.9
Financial assets	65	0.1	98	0.1	-33	-33.7
Other assets	27	0.0	29	0.0	-2	-6.9
Deferred tax assets	398	0.5	511	0.7	-113	-22.1
Non-current assets	**47,381**	**58.1**	**45,059**	**59.9**	**2,322**	**5.2**
Inventories	18,623	22.8	16,662	22.2	1,961	11.8
Receivables and other assets	8,647	10.6	9,082	12.1	-435	-4.8
Current assets	**27,270**	**33.4**	**25,744**	**34.3**	**1,526**	**5.9**
Cash and cash equivalents	**6,908**	**8.5**	**4,370**	**5.8**	**2,538**	**58.1**
	81,559	**100.0**	**75,173**	**100.0**	**6,386**	**8.5**

The balance sheet total increased from EUR 75.2 million as of 31 December 2018 to EUR 81.6 million as of 31 December 2019.

Intangible assets rose from EUR 12.5 million in 2018 to EUR 13.1 million in 2019, mainly due to the ERP project, which led to an increase in concessions and industrial property rights.

Property, plant and equipment increased by EUR 1.9 million to EUR 33.8 million. This is related to the investments made and, above all, the effects of the first-time application of IFRS 16 for land and buildings.

Deferred tax assets fell from EUR 0.5 million to EUR 0.4 million. In total, non-current assets rose from EUR 45.1 million to EUR 47.4 million as a result of these factors.

Inventories increased from EUR 16.7 million in 2018 to EUR 18.6 million in 2019. The main reason for this was the strategic build-up of raw materials, consumables and supplies due to the shortage of materials in 2018. Finished goods and products increased only very slightly. This was offset by a reduction in inventories during the year and a slight increase at the end of 2019.

Receivables and other assets fell from EUR 9.1 million to EUR 8.6 million.

Overall, current assets rose by EUR 1.5 million to EUR 27.3 million in 2019 due to these factors. The disproportionately low overall increase is due to the consequent management of working capital, especially in the second half of 2019.

Cash and cash equivalents increased by EUR 2.5 million to EUR 6.9 million (see the comments in section B IV. 3.3 Liquidity situation). This also reflects the effects of the new loan agreement, which was associated with a reduced redemption payment in 2019.

— 2.2 Capital structure

	31.12.2019		31.12.2018		Change	
Equity and liabilities	**in k€**	**in %**	**in k€**	**in %**	**in k€**	**in %**
Consolidated equity	42,633	52.3	40,720	54.2	1,913	4.7
Non-controlling interests	-618	-0.8	-497	-0.7	-121	24.3
Equity	**42,015**	**51.5**	**40,223**	**53.5**	**1,792**	**4.5**
Provisions	164	0.2	209	0.3	-45	-21.5
Financial liabilities	26,304	32.3	18,856	25.1	7,448	39.5
Other liabilities	1,006	1.2	956	1.3	50	5.2
Deferred tax liabilities	926	1.1	861	1.1	65	7.5
Non-current liabilities	**28,400**	**34.8**	**20,882**	**27.8**	**7,518**	**36.0**
Provisions	0	0.0	632	0.8	-632	-100.0
Financial liabilities	4,545	5.6	7,643	10.2	-3,098	-40.5
Other liabilities	6,599	8.1	5,793	7.7	806	13.9
Current liabilities	**11,144**	**13.7**	**14,068**	**18.7**	**-2,924**	**-20.8**
	81,559	**100.0**	**75,173**	**100.0**	**6,386**	**8.5**

Masterflex Group's equity rose from EUR 40.2 million in the previous year to EUR 42.0 million as of 31 December 2019. This corresponds to an equity ratio (equity in relation to the balance sheet total) of 51.5% compared with 53.5% in the previous year. The absolute increase in equity is mainly due to the consolidated net income of EUR 2.4 million and, to a lesser extent, to the change in the foreign currency translation adjustment of EUR 0.1 million. In contrast, the dividend payment of EUR 0.7 million reduced equity.

The Masterflex Group's non-current liabilities rose from EUR 20.9 million to EUR 28.4 million. This is primarily due to the new structure of the loan agreement concluded in 2019 and effects from the first-time application of IFRS 16.

Current liabilities declined by EUR 2.9 million to EUR 11.1 million as of 31 December 2019. Provisions decreased by EUR 0.6 million, partly due to the reversal of the warranty provision. Financial liabilities declined by Euro 3.1 million due to the lower utilisation of the working capital line. In contrast, other liabilities increased by EUR 0.8 million due to the expenses associated with the personnel measures.

3. Financial position of the Group

— 3.1 Principles and objectives of financial management

The short- to medium-term financial management objectives were partially achieved in 2019. These were in particular:

- further strengthening of equity
- improvement in the debt ratio

Equity increased by EUR 1.8 million or 4.5% to EUR 42.0 million as of 31 December 2019. The equity ratio was 51.5% as of 31 December 2019 (previous year: 53.5%) and thus mathematically slightly below the previous year's figure due to the disproportionately high increase in the balance sheet total, particularly as a result of IFRS 16 accounting.

The debt ratio was not improved due to the weaker EBITDA and the slight increase in working capital, and at 2.5 is slightly above the previous year's figure of 2.3.

— 3.2 Financing analysis

As of 31 December 2019, non-current and current financial liabilities amounted to EUR 30.8 million, up EUR 4.4 million on the year-end figure for 2018 of EUR 26.5 million. EUR 2.9 million of this increase was oftributable to effects from the first-time application of IFRS 16.

The Masterflex Group's cash and cash equivalents amounted to EUR 6.9 million at the end of 2019 (previous year: EUR 4.4 million). Net debt thus totalled EUR 23.9 million at the end of 2019 (previous year: EUR 22.1 million). The ratio of net debt to EBITDA was thus 2.5 at the end of the year (previous year: 2.3). This ratio is a measure of the Group's debt ratio and is an indicator of how quickly debt can be repaid.

The structure of the financial liabilities in the amount of EUR 30.8 million consists of the long-term and short-term tranches of the syndicated loan in the amount of EUR 27.9 million and the leasing liabilities in the amount of EUR 2.9 million (previous year: EUR 26.5 million and EUR 0 million, respectively). There were no other bank liabilities at the end of 2019.

The borrowed funds provided are largely collateralised.

There is no significant off-balance sheet financing.

— 3.3 Liquidity situation

Cash and cash equivalents and bank balances rose by EUR 2.5 million year-on-year to EUR 6.9 million.

The main positive effects on cash and cash equivalents were:

- positive earnings before interest, taxes, depreciation and amortisation (EBITDA) of EUR 9.7 million.
- net borrowings of EUR 1.4 million.

The main negative effects on cash and cash equivalents were:

- investments in property, plant and equipment and intangible assets of EUR 3.2 million.
- increase in inventories of EUR 2.0 million.
- interest payments amounting to 0.9 million Euro.
- dividend payment of EUR 0.7 million.
- income tax expenses of EUR 0.8 million.
- release of provisions and corresponding payment of EUR 0.7 million.
- other payments of EUR 0.3 million.

The cash flow statement, which shows the reconciliation of cash and cash equivalents and bank balances in the past fiscal year, can be found on page 75 of the Annual Report 2019.

The Masterflex Group was solvent at all times in 2019. In addition, at the end of 2019, Masterflex SE had access to a free, unutilised credit line – subject to defined covenants – from the syndicated loan agreement in the amount of EUR 6.0 million.

IV. OVERALL STATEMENT ON THE ECONOMIC SITUATION

Overall, Group management assesses the net assets, financial position and results of operations of the Masterflex Group as of the balance sheet date against the background of

- of the revenue growth in combination with a sufficient earnings development,
- Group financing secured in the mid-term,
- the stability of the Group's equity and liabilities, and
- a ratio of net debt to EBITDA of 2.5

as slightly weaker than in the previous year, but still as a good basis for the further development of the Masterflex Group.

V. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION OF MASTERFLEX SE

In addition to the reporting on the Masterflex Group, the following section describes the development of Masterflex SE for fiscal year 2019.

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

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

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

Revenue and earnings of Masterflex SE

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

	2019		2018		Change	
	in k€	in %	in k€	in %	in k€	in %
Revenue	19,405	98.7	21,325	97.3	-1,920	-9.0
Change in inventories	43	0.2	20	0.1	23	115.0
Other own work capitalised	208	1.1	582	2.6	-374	-64.3
Total performance	**19,656**	**100.0**	**21,927**	**100.0**	**-2,271**	**-10.4**
Other operating income	228	1.2	67	0.3	161	240.3
Operating performance	**19,884**	**101.2**	**21,994**	**100.3**	**-2,110**	**-9.6**
Cost of materials	-7,013	-35.7	-7,872	-35.9	859	-10.9
Personnel expenses	-10,152	-51.6	-9,768	-44.5	-384	3.9
Depreciation and amortisation	-986	-5.0	-965	-4.4	-21	2.2
Other operating expenses	-4,325	-22.0	-4,186	-19.1	-139	3.3
Other taxes	-57	-0.3	-59	-0.3	2	-3.4
Operating expenses	**-22,533**	**-114.6**	**-22,850**	**-104.2**	**317**	**-1.4**
Operating result	**-2,649**	**-13.4**	**-856**	**-3.9**	**-1,793**	**209.5**
Financial result	3,763		6,549		-2,786	
Non-operating effects	-3,561		0		-3,561	
Non-operating result	55		36		19	
Earnings before income taxes	**-2,392**		**5,729**		**-8,121**	
Income taxes	-219		-891		672	
Annual result	**-2,611**		**4,838**		**-7,449**	

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

At EUR 19,405 thousand, Masterflex SE's revenue was down 9.0% on the previous year's figure of EUR 21,325 thousand. This is due in particular to subdued demand in the European industrial business, which declined again in the fourth quarter of 2019 in particular. In addition, internal revenue in the Masterflex Group declined slightly.

As in the previous year, inventories of finished and unfinished goods were only built up to a very limited extent. Changes in inventories amounted to EUR 43 thousand (previous year: increase of EUR 20 thousand). These inventories primarily served to maintain the ability to deliver finished goods in stock.

The capitalisation of other own work decreased to EUR 208 thousand (previous year: EUR 582 thousand). This includes the capitalisation of product and process development projects. The difference is explained by the ERP project still included in 2018.

Masterflex SE's total performance (i.e., the sum of revenue, changes in inventories and other own work capitalised) thus fell from EUR 21,927 thousand in 2018 to EUR 19,656 thousand in 2019.

Other operating income (primarily wage replacement benefits such as maternity leave benefits, as well as repayments from the Employers' Liability Insurance Association and the reversal of provisions) amounted to EUR 228 thousand, up on the previous year's figure of EUR 67 thousand. The disposal of the heating hose business also had an impact here. Contrary effects were reflected accordingly in personnel and material costs, other operating income and depreciation. Operating performance (as the sum of total performance plus other operating income) fell by EUR 2,110 thousand to EUR 19,884 thousand in 2019.

The cost of materials decreased by EUR 859 thousand to EUR 7,013 thousand in 2019. At 35.7%, the cost of materials ratio (cost of materials as a percentage of total performance) remained almost unchanged from the previous year's level of 35.9% despite rising raw material prices. Various savings projects had a positive effect here.

Personnel expenses rose by 3.9% to EUR 10,152 thousand, which corresponds to a personnel deployment ratio (personnel expenses as a percentage of total performance) of 51.6% (previous year: 44.5%). The increase is due to collectively agreed wage increases, the return of long-term sick persons as well as the expansion in production and warehousing. The headcount had been increased, particularly at the turn of 2018/2019, in order to work off backlogs from 2018. Due to the flattening revenue trend, measures to significantly reduce personnel costs were then implemented in the second half of 2019, but these will only become visible with a time lag in 2020.

Other operating expenses increased by 5.5% from EUR 4,186 thousand to EUR 4,325 thousand. This was due in particular to legal and consulting expenses and higher expenses for IT licenses.

The expansion investments made in previous years at the Gelsenkirchen site were reflected in the depreciation and amortisation of EUR 986 thousand in the fiscal year 2019, which was almost at the level of the previous year.

In summary, this results in an operating result of EUR -2,649 thousand (previous year: EUR -856 thousand).

Compared to 2018, the financial result decreased significantly from EUR 6,549 thousand to EUR 3,763 thousand and thus approximately to the level before 2018. In 2018, significantly higher investment income from the subsidiaries or profit transfer had been incurred, especially from the US subsidiary Flexmaster.

The non-operating effects amounting to EUR 3,561 thousand mainly include value adjustments on receivables from affiliated companies of the Asian sub-group. Even though business development is increasingly positive there, this value adjustment was necessary for reasons of caution.

Due in particular to the high non-operating effects and the unsatisfactory development of operating earnings, earnings before income taxes fell from EUR 5,729 thousand to EUR -2,392 thousand.

After deduction of income taxes, which fell from EUR 891 thousand to EUR 219 thousand, Masterflex SE's annual result amounted to EUR -2,611 thousand (previous year: EUR 4,838 thousand).

Due to the decline in revenue, Masterflex SE did not meet its forecast of increasing revenue by 3% to 6% in 2019. Similarly, earnings (EBIT) did not increase as planned due to the decline in revenue and the significant increase in personnel expenses.

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

	31.12.2019		31.12.2018		Change	
Asset structure	in k€	%	in k€	%	in k€	in %
Intangible assets	3,052	3.6	2,573	3.0	479	18.6
Property, plant and equipment	14,174	16.7	14,286	16.6	-112	-0.8
Financial assets	55,285	65.0	54,306	63.1	979	1.8
Non-current assets	**72,511**	**85.3**	**71,165**	**82.7**	**1,346**	**1.9**
Inventories	3,593	4.1	3,669	4.2	-76	-2.1
Receivables and other assets	7,734	9.1	9,781	11.4	-2,047	-20.9
Prepaid expenses	327	0.4	250	0.3	77	30.8
Current assets	**11,654**	**13.6**	**13,700**	**15.9**	**-2,046**	**-14.9**
Cash and cash equivalents	**906**	**1.1**	**1,223**	**1.4**	**-317**	**-25.9**
Total assets	**85,071**	**100.0**	**86,088**	**100.0**	**-1,017**	**-1.2**

As of 31 December 2019, the balance sheet total of Masterflex SE amounted to EUR 85,071 thousand, down EUR 1,017 thousand on the previous year's figure of EUR 86,088 thousand.

Intangible assets increased by EUR 479 thousand to EUR 3,052 thousand. The rise is composed of capitalised own work and external services, including for the ERP project and for the development of recipes and processes.

At EUR 14,174 thousand, property, plant and equipment remained almost at the previous year's level of EUR 14,286 thousand.

Financial assets increased from EUR 54,306 thousand to EUR 55,285 thousand. Here, loans to subsidiaries rose in particular.

In total, non-current assets climbed by EUR 1,346 thousand to EUR 72,511 thousand in 2019 due to these effects.

With regard to current assets, inventories decreased slightly by EUR 76 thousand to EUR 3,593 thousand in 2019.

Receivables and other assets decreased significantly by EUR 2,047 thousand to EUR 7,734 thousand. This was offset by an increase in receivables from affiliated companies and an adjustment in the value of receivables from the Asian subsidiaries.

At EUR 327 thousand, prepaid expenses were slightly above the previous year's figure of EUR 250 thousand. In total, current assets fell by EUR 2,046 thousand to EUR 11,654 thousand due to the effects described above.

Cash and cash equivalents declined by EUR 317 thousand to EUR 906 thousand (see also the comments on Masterflex SE's financial position).

Capital structure	31.12.2019 in k€	31.12.2019 %	31.12.2018 in k€	31.12.2018 %	Change in k€	Change in %
Issued capital	9,618	11.3	9,618	11.2	0	0.0
Capital reserve	26,120	30.7	26,120	30.3	0	0.0
Retained earnings	4,115	4.8	4,115	4.8	0	0.0
Balance sheet profit	10,564	12.4	13,848	16.1	-3,284	-23.7
Equity	**50,417**	**59.2**	**53,701**	**62.4**	**-3,284**	**-6.1**
Liabilities to banks	24,537	28.8	19,036	22.1	5,501	28.9
Other liabilities	164	0.2	209	0.3	-45	-21.5
Deferred tax liabilities	247	0.3	70	0.1	177	252.9
Non-current liabilities	**24,948**	**29.3**	**19,315**	**22.5**	**5,633**	**29.2**
Tax provisions	99	0.1	197	0.2	-98	-49.7
Other provisions	908	1.1	973	1.1	-65	-6.7
Liabilities to banks	3,675	4.3	7,669	8.9	-3,994	-52.1
Trade payables	519	0.6	505	0.6	14	2.8
Liabilities to affiliated companies	4,272	5.1	3,526	4.1	746	21.2
Other liabilities	233	0.3	202	0.2	31	15.3
Current liabilities	**9,706**	**11.5**	**13,072**	**15.1**	**-3,366**	**-25.7**
Total equity and liabilities	**85,071**	**100.0**	**86,088**	**100.0**	**-1,017**	**-1.2**

Masterflex SE's equity fell to EUR 50,417 thousand (previous year: EUR 53,701 thousand) due to the negative annual result. The equity ratio thus amounts to 59.2% (previous year: 62.4%).

The balance sheet profit fell by a total of EUR 3,284 thousand due to the annual result and the dividend payment in May 2019 of EUR 0.07 per share or EUR 673 thousand.

As of 31 December 2019, there are amounts that are not availabe for distribution totalling EUR 1,134 thousand, of which EUR 185 thousand is attributable to deferred tax assets and EUR 949 thousand to the capitalisation of development costs (less related deferred tax liabilities).

Non-current liabilities increased by EUR 5,633 thousand to EUR 24,948 thousand. This is due in particular to the new syndicated loan concluded in 2019 and the correspondingly higher utilisation in the long-term area.

At the same time, current liabilities decreased by EUR 3,366 thousand to EUR 9,706 thousand. Within the scope of the new syndicated loan, previously short-term liabilities to banks were now utilised in the long-term area.

— Financial position of Masterflex SE

Cash and cash equivalents decreased from EUR 1,223 thousand to EUR 906 thousand in the year under review. No liquid funds are currently pledged.

in k€		2019	2018
	Adjusted net profit for the year	950	4,838
-	Non-operating expenses	-3,561	0
=	Net loss/profit for the year	-2,611	4,838
+	Depreciation of property, plant and equipment	854	831
+	Amortisation of intangible assets	131	135
+ / -	Write-downs/write-ups on financial assets	33	-20
-	Decrease in long-term provisions	-45	0
-	Other non-cash income	110	416
=	**Cash flow according to DVFA/SG**	**-1,528**	**6,200**
+	Loss from the disposal of non-current assets	0	14
+	Decrease in mid- and short-term provisions	-65	-949
-	Increase in inventories, trade receivables and other assets	-2,650	-6,822
+ / -	Increase/decrease in trade payables and other liabilities	217	-32
-	Income from loans from financial assets	-600	-567
+	Interest expenses	1,257	1,226
-	Other investment income	-239	-3,253
+	Income tax expense	219	891
-	Income tax payments	-299	-296
		-2,160	-9,788
=	**Cash flow from operating activities**	**-3,688**	**-3,588**
+	Proceeds from the disposal of non-current assets	0	3
-	Payments for investments in intangible assets	-711	-1,341
-	Payments for investments in property, plant and equipment	-743	-789
+	Proceeds from the repayment of financial assets	3,664	3,910
+ / -	Proceeds from/payments for investments in financial assets	106	-159
+	Dividends received	239	3,253
=	**Cash flow from investing activities**	**2,555**	**4,877**
-	Payments to company owners	-673	-673
+	Proceeds from bond issues and the borrowing of (financial) loans	4,090	3,500
-	Payments for the repayment of bonds and (financial) loans	-2,558	-2,800
+	Proceeds from the repayment/issue of loans to affiliated companies (net)	751	52
-	Interest paid	-794	-1,051
=	**Cash flow from financing activities**	**816**	**-972**
	Cash-effective changes in cash and cash equivalents	-317	317
+	Cash and cash equivalents at the beginning of the fiscal year	1,223	906
=	**Cash and cash equivalents at the end of the fiscal year**	**906**	**1,223**
	Composition of cash and cash equivalents at the end of the fiscal year		
+	Cash and cash equivalents	906	1,223

— Composition of cash and cash equivalents

The company does not have any bank liabilities or cash equivalents that are due immediately.

— Proposal for the appropriation of profits

The Management Board and Supervisory Board propose to the Annual General Meeting that an amount of EUR 673,283.38 of Masterflex SE's balance sheet profit as of 31 December 2019 of EUR 10,563,694.43 be distributed to shareholders as a dividend on the 9,618,334 shares of the share capital as of 31 December 2019 and that the remaining amount of EUR 9,890,411.05 be carried forward to new account. This corresponds to a dividend of EUR 0.07 per share.

The distribution will be made on the basis of the shares entitled to dividend at the time of the Annual General Meeting on the banking day following the Annual General Meeting.

VI. NON-FINANCIAL STATEMENT

The combined non-financial report and non-financial Group report in accordance with the CSR Directive Implementation Act are presented in a separate sustainability report 2019, which is published on the company's website at www.masterflexgroup.com/en/investor-relations/financial-reports/2019.

C. CORPORATE GOVERNANCE REPORT

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

I. DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTIONS 289F, 315D HGB (UNAUDITED)

1. Declaration of conformity on corporate governance pursuant to section 161 AktG

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

Pursuant to section 161 AktG, the Management Board and Supervisory Board are obliged to declare annually that the recommendations of the "Government Commission German Corporate Governance Code" published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been and are being complied with or which recommendations have not been or are not being applied and why not. This declaration of conformity must be made permanently available to the shareholders. The current declaration of conformity was adopted by the Management Board and Supervisory Board in December 2019 and has since been available for inspection on the Internet at www.MasterflexGroup.com. A review of the content of the declaration of conformity by the auditor is not required by law and has therefore not been performed.

The vast majority of the principles and recommendations of the German Corporate Governance Code (in short: Code or GCGC) have long been part of Masterflex's corporate culture. The company follows the recommendations of the Code. The version of the Code dated 7 February 2017 in effect when the declaration was issued is authoritative. Any deviations from the Code are explained below.

The declaration of conformity of December 2019 has the following wording:

Declaration of conformity on corporate governance pursuant to section 161 AktG
The Management Board and Supervisory Board of Masterflex SE declare that the recommendations of the Code in the authoritative version dated 7 February 2017 have been complied with since the last declaration of conformity dated December 2018, with the exceptions stated here, and will continue to be complied with. The declaration is permanently available to Masterflex SE shareholders on the company's website. All previously published declarations of conformity can also be found there.

Exceptions:

4.2.2 External compensation expert
Should an external compensation expert be deemed necessary to assess the appropriateness of the Management Board's compensation, the independence of such an expert will also be ensured. However, against the background of the expertise available within the Supervisory Board and the qualified support provided by the company's legal advisors, it has not yet been deemed necessary to additionally consult a separate independent compensation expert.

5.3. Supervisory Board – committees
With three members, the Supervisory Board of Masterflex SE is deliberately kept small in order to be able to pass resolutions efficiently, quickly and flexibly – as in the Group as a whole – thanks to its lean structures. The fact that the Supervisory Board is made up of recognised experts is an important basis for Masterflex SE to jointly develop key decisions for successful corporate development in an ongoing dialogue. Against this background, it does not make sense to set up committees that would also have to include at least three members of the Supervisory Board.

In Mr. van Hall, we have a proven financial expert as Chairman of the Supervisory Board. If necessary, the Supervisory Board also draws on qualified external support to assess difficult issues.

Gelsenkirchen, in December 2019
The Management Board and Supervisory Board

A central compliance officer supports the implementation of the code of conduct within the Group and reports regularly to the Management and Supervisory Boards. As part of good corporate governance, the Group-wide compliance management system is also developed further under his leadership. He is supported in this by decentralised and appropriately oriented compliance officers, who are represented at all Masterflex Group locations.

2. Relevant disclosures on corporate governance practices

The structures for the management and supervision of Masterflex SE are regulated in the articles of association and the rules of procedure of the Management Board and Supervisory Board. The company's articles of association can be viewed on the Internet at www.MasterflexGroup.com under Investor Relations/Annual General Meeting.

3. Description of the working methods of the Management Board and Supervisory Board

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

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

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

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

The Supervisory Board advises and monitors the Management Board. With three members, this body at Masterflex SE is deliberately kept small in order to be able to make decisions efficiently, quickly and flexibly – as in the Group – thanks to lean structures. The Supervisory Board also has its own rules of procedure. In accordance with section 11 (5) of the articles of association, Supervisory Board members may not yet be over 70 years of age when they are appointed. In addition, the resolution on the Supervisory Board's declaration of objectives set a rule limit of 15 years of membership in the Supervisory Board.

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

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

The fact that the Supervisory Board is composed of recognised experts is an important basis for Masterflex SE to jointly work out the key parameters for successful corporate development in an ongoing dialogue. Where necessary, the Supervisory Board makes use of qualified external assistance to assess difficult issues.

The Supervisory Board regularly discusses business development, planning, strategy and its implementation as well as the risk situation, risk management and compliance issues with the Management Board. Significant business decisions, such as the determination of the annual budget and investment plan, the acquisition or sale of investments, the conclusion of company agreements and major financial measures, are subject to its approval. The Supervisory Board may determine other transactions requiring its approval. It is also responsible for the adoption or approval of the annual financial statements and the consolidated financial statements as well as the combined management report, including the non-financial statement, presented by the Management Board, unless this is left to the Annual General Meeting.

All members of the Supervisory Board meet the criteria of independence within the meaning of the adopted definition of objectives as well as the requirements of the Corporate Governance Code communicated in this regard.

The Chairman of the Supervisory Board explains the activities of the Supervisory Board each year both in the Annual Report ("Supervisory Board report") and at the Annual General Meeting. The compensation system for the Management Board is also explained.

Diversity

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

For this reason, the Supervisory Board had already defined goals for its composition several years ago, which are intended to meet the requirement of diversity and take into account both an appropriate participation of women and of persons with an international background. In doing so, it had specified the following goals for the composition of the Supervisory Board, which were last updated in 2015:

- consideration of the international activities of the company.
- availability and commitment: a maximum of three additional supervisory board mandates in stock exchange listed companies.
- consideration of technical expertise and industry knowledge, in particular with regard to the consideration of knowledge of the company and its subsidiaries.
- consideration of special knowledge and experience in the application of accounting and auditing as well as internal control procedures.
- significant and not just temporary conflicts of interest should be avoided, for example, by board functions or advisory tasks for important competitors of the company. In case of doubt, they are to be reported to the Chairman of the Supervisory Board or the Vice Chairman as an alternative. The Supervisory Board should always include a large number of independent shareholder representatives.

- consideration of the age limit of 70 years at the time of election as well as a regular membership of the Supervisory Board of 15 years.
- proposal and inclusion, if possible, of a woman with suitable qualifications to the Supervisory Board at the next regular election of the shareholder representatives.

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

In 2019, the Supervisory Board decided a target figure of zero for the participation of women in this Board until 30 June 2022, in accordance with the Act on Equal Participation of Women and Men in Management Positions in the Private and Public Sectors. This is because for Masterflex SE, there is the peculiarity that the Supervisory Board consists of only three people and thus has a size which would exceed the legal target figure of 30% in the event that only one female participated. This also illustrates why the selection has to be made with care and consideration. The Chairman of the Supervisory Board, who has been a member of the Board since 2009, as an auditor, in particular, has the qualifications of a “financial expert”. The two other Supervisory Board members each have extensive experience in the field of corporate governance, some of them in niche markets with small batch production and some of them in larger international industrial companies. In addition, with Mr. van der Zouw, an internationally and professionally experienced member of Dutch descent has been won, which underlines the diversity targets and their representation in the Supervisory Board. Against this background, it is to be assumed for the current appointment period of the acting Supervisory Board that no participation of a woman in the Supervisory Board will take place. Nevertheless, it is expressly stated that the fundamental objective is to propose, if possible, a woman as a member of the Supervisory Board in future Supervisory Board elections.

Similarly, a target value of zero for the participation of women until 31 March 2022 has also been decided for the Management Board because the Management Board is considered to be sufficiently staffed with currently two members. Both Management Board members have ongoing terms of appointment until then and have corresponding Management Board contracts. In addition, both Management Board members hold significant amounts of share capital in the company which not only exhibits their high sense of loyalty to the company but from the point of view of the Supervisory Board is also a recognised factor in the assessment.

Moreover, the company exhibits a defining characteristic of flat hierarchies throughout the Group. Therefore, there is only one management level below the Management Board, not two. Within this management level immediately below the Management Board, the proportion of women already accounts for over 30% and hence the legal guideline has already been met unlike with most companies. The Masterflex Group is committed at all times and over the entire structure to its claim to an appropriate participation of women in management positions and has also demonstrated this through appropriate implementations compatible with the structures.

Shareholders and the Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting. The company’s Annual General Meeting takes place within the first six months of the fiscal year in the context of the statutory requirements of section 54 (1) of the SE Regulation. The Chairman of the Supervisory Board chairs the Annual General Meeting. The Annual General Meeting makes decisions on all tasks assigned to it by law (including granting discharge to the management, appropriation of net profit, electing Supervisory Board members, appointing the auditor, amendments to the articles of association, capital measures).

Stock options plans

According to section 7.1.3 of the German Corporate Governance Code, the corporate governance report must also contain specific disclosures on stock option plans and similar securities-based incentive schemes of the company. There are still no stock option plans or similar securities-based incentive schemes in place at the company.

Transparency
Providing standardised, comprehensive and timely information is a high priority at Masterflex SE. Reports on the development of the company are issued via the internet, in annual and interim reports and statements, at analysts' conferences, press conferences and general capital market conferences as well as via ad hoc and press releases.

All information can be assessed on the website at www.MasterflexGroup.com under Investor Relations.

Masterflex SE keeps an insider list in accordance with section 18 (1) of the market abuse regulation. The persons listed there have been informed about legal obligations and sanctions.

Conflicts of interest are, should any exist, discussed in depth and disclosed if necessary and taken into account for the assessment of the independence of each individual Supervisory Board member. In the past, conflicts of interest have not been identified or communicated.

Accounting and auditing
The consolidated financial statements are prepared in accordance with the International. Financial Reporting Standards (IFRS). After preparation by the Management Board, the consolidated financial statements are audited by the auditor, then, in turn, audited and approved by the Supervisory Board. The separate financial statements are prepared in accordance with the German Commercial Code (HGB/AktG). After preparation by the Management Board, the separate financial statements are audited by the auditor, then, in turn, audited and approved by the Supervisory Board. Interim reports are not reviewed by an auditor. In addition, a monthly report is issued in accordance with International Financial Reporting Standards (IFRS). For competitive reasons, all details except individualised profit figures are disclosed for the associated companies in the consolidated financial statements.

It was agreed with the auditor that he will inform the Chairman of the Supervisory Board – who as an auditor is also the financial expert on the Supervisory Board – immediately of any significant findings or events during the audit.

Control parameters and control system
The internal corporate control systems have been continually improved in recent years in order to detect undesirable developments at an early stage and initiate countermeasures. To this end, new methods of business and action planning were developed and the internal reporting system was considerably expanded.

Corporate management focuses on earnings and liquidity ratios. With regard to the key figures used for corporate management, we refer to the comments in the combined management report 2019 under section A III. Control system.

Risk management
Masterflex SE has set up a group-wide risk management system which is being continuously refined in order to in order to be able to rely on an always efficient, group-wide internal control system. We view risk management as the central responsibility of the Management Board members, the managers and all employees. Risks can thus be identified, monitored and controlled at an early stage without having to forego entrepreneurial opportunities. Risk management is described in detail in the combined management report 2019, section D Opportunity and risk report.

To avoid legal risks, Masterflex SE maintains a compliance management system which controls and monitors the required activities. Details on the group-wide, centrally-managed compliance management system can be found in the risk report (section D) of the combined management report.

Furthermore, the Management Board and the Chairman of the Supervisory Board continually exchange views on the establishment of and status of risk management, of compliance as well as of the measures required for this in the company. In addition, the Supervisory Board informs itself externally about the contents of proper compliance and its implementation.

4. Code of conduct

The code of conduct of the Masterflex Group forms the basis of the compliance management system and, on the one hand, provides an overview of the legal topics that are relevant to the Masterflex Group. On the other hand, it sets (minimum) standards for ethical and law-abiding conduct. It is available for download in German and English at any time. With this code of conduct, we illustrate the claim that we make regarding the conduct of our employees and Management Board members as well as our business partners and at the same time reveal the essential principles of our business conduct. We see the code of conduct principles as a minimum benchmark for the collaboration and interaction with customers, suppliers, competitors, shareholders and authorities. At the same time, with the implementation of this code into our day-to-day business activities, we demonstrate our commitment against any form of unfair competition, corruption and deception.

Managers bear a special responsibility to avoid legal violations. All managers of the Masterflex Group commit to it in a written declaration and pledge to inform their employees about the contents and meaning of the code of conduct and make them aware of the legal risks. On their own initiative, managers have to regularly verify compliance to the principles of conduct and seek dialogue on this issue with their employees.

Managers and employees are systematically trained on the basics of compliance. In addition to the basic training, target group-specific training measures are carried out on certain compliance topics. We see the ongoing development and group-wide establishment of an effective compliance management system as a significant contribution not only to risk avoidance within the Group, but also as an expression of the self-image of Masterflex SE and its commitment to fair, responsible and lawful trading on a global level.

II. COMPENSATION REPORT

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

1. Management Board compensation

For the company, giving a transparent and comprehensible presentation of the Management Board compensation has been a key element of good corporate governance for years. The Supervisory Board plenum is responsible for determining the individual Management Board compensation in accordance with legal requirements and a regulation in the rules of procedure that was established long before the law came into force.

In principle, the compensation of the Management Board members 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 an immediately effective 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 determined by the Supervisory Board. The second, longer term part of the bonus, comprising around one third of the total variable compensation is held by the company for a further two years and is only paid if the parameters for success are regularly achieved over the entire three-year period. In contrast, if these parameters are not fulfilled over this period, this component will be forfeited accordingly in whole or in part. Contrary to the usual practice in comparable companies, the members of the Management Board do not receive any pension commitments. A review of the total amount and the parameters takes place regularly every two years.

The current compensation system was adopted by the Supervisory Board in April 2010 and last approved by resolution of the Annual General Meeting in 2016 in accordance with section 120 (4) AktG. In 2019, there were no changes in the compensation system.

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

The total compensation of the Management Board in 2019 and its breakdown into fixed and variable compensation can be found in the following tables recommended by the Corporate Governance Code (version of 7 February 2017).

COMPENSATION OF THE MANAGEMENT BOARD (GRANT CONSIDERATION)

	Dr. Andreas Bastin CEO since 1 April 2008				Mark Becks CFO since 1 June 2009			
	2018	2019	2019	2019	2018	2019	2019	2019
in EUR thousand	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	378	378	378	378	262	262	262	262
Fringe benefits	41	42	42	42	37	39	39	39
Total	**419**	**420**	**420**	**420**	**299**	**301**	**301**	**301**
One-year variable compensation								
Bonus	108	100	0	158	72	67	0	106
Multi-year variable compensation								
Bonus 2019 - 2021		51	0	82		34	0	54
Bonus 2018 - 2020	56		0		37		0	
Total compensation	**583**	**571**	**420**	**660**	**408**	**402**	**301**	**461**

COMPENSATION OF THE MANAGEMENT BOARD (INFLOW CONSIDERATION)

	Dr. Andreas Bastin CEO since 1 April 2008				Mark Becks CFO since 1 June 2009			
	2018	2019	2019	2019	2018	2019	2019	2019
in EUR thousand	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	378	378	378	378	262	262	262	262
Fringe benefits	41	42	42	42	37	39	39	39
Total	**419**	**420**	**420**	**420**	**299**	**301**	**301**	**301**
One-year variable compensation								
Bonus	140	118	0	158	93	79	0	106
Multi-year variable compensation								
Bonus 2016 - 2018		69	0	82		37	0	54
Bonus 2015 - 2017	57		0		31		0	
Total compensation	**616**	**607**	**420**	**660**	**423**	**417**	**301**	**461**

In the fiscal year 2019, fixed and performance-related compensation was granted to the Management Board. The variable compensation components were determined by the Supervisory Board on the basis of the bonus regulations agreed with the members of the Management Board at the beginning of the past fiscal year. In the past fiscal year, not all the objectives were achieved according to the contractual agreement and the variable compensation was taken into account in accordance with the degree of target achievement.

The Management Board members also receive fringe benefits in the form of benefits in kind. These primarily consist of insurance premiums for occupational disability insurance, a life insurance and private use of a company car.

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

2. Supervisory Board compensation

The Supervisory Board's compensation system, which was last amended in 2015, takes account of the requirements of the German Corporate Governance Code. In accordance with the articles of association, the compensation for the Supervisory Board members since that time includes fixed compensation which is staggered according to function. This structure complies with the recommendations of the Corporate Governance Code.

Each member of the Supervisory Board receives an annual fixed compensation in addition to the reimbursement of his expenses, payable at the end of a fiscal year. The fixed compensation of the Chairman amounts to EUR 30,000 per year, that of the Vice Chairman of the Supervisory Board to EUR 25,000 and that of an ordinary member of the Supervisory Board to EUR 20,000 per year. Supervisory Board members who are only members for part of the fiscal year will receive compensation prorated to the duration of their Board activity. Members of the Supervisory Board are also paid attendance fees of EUR 500 per meeting. The total compensation of the Supervisory Board in 2019 and its breakdown can be found in the following table.

The members of the Supervisory Board were compensated as follows:

	Fixum		Attendance fee		Total disbursement-relevant compensation	
in EUR thousand	2018	2019	2018	2019	2018	2019
Chairman of the Supervisory Board, Georg van Hall (since 14.06.2016)	30	30	2	3	32	33
Deputy Chairman of the Supervisory Board, Dr. Gerson Link, (since 14.06.2016)	25	25	2	3	27	28
Member of the Supervisory Board, Jan van der Zouw (since 14.06.2016)	20	20	2	3	22	23
Total compensation	**75**	**75**	**6**	**9**	**81**	**84**

III. OTHER DISCLOSURES IN ACCORDANCE WITH SECTIONS 289 AND 315 HGB

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

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

The company is aware of three cases of direct or indirect equity investment in the capital exceeding 10% of the voting shares as of 31 December 2019:

- Grondbach GmbH is a long-term oriented investor from Germany who holds 17.2% of the shares of Masterflex SE according to the company‘s most recent knowledge.
- According to the latest information, J.F. Müller & Sohn AG hold 15.0% of the shares. This investor is a 6th generation family-led investment holding with broadly diversified investments primarily in established medium-sized companies in Europe.
- SVB GmbH & Co. KG/the Schmidt Family is a long-term strategic investor who holds 12.2% of the shares in Masterflex SE according to the company‘s most recent knowledge.

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

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

Any amendment to the articles of association requires a resolution by the Annual General Meeting. In accordance with section 179 AktG, a resolution by the Annual General Meeting requires a majority of at least three quarters of the share capital represented when the resolution is passed. The articles of association can stipulate a different majority, although only a larger majority for a change to the purpose of the company. In accordance with section 18 of the articles of association, resolutions of the Annual General Meeting are passed by a simple majority, unless mandatory statutory provisions preclude it. If the law also requires a majority of the share capital represented at the passing of the resolution, the simple majority of the capital represented is sufficient, if permitted by law. This also applies to amendments to the articles of association. In accordance with section 14 (5) of the articles of association, the Supervisory Board is authorised to make changes to the articles of association that effect only the wording.

— Purchase of treasury shares

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

a) with the approval of the Supervisory Board, to acquire treasury shares of up to 10% of the company’s share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with sections 71d and 71e AktG, may not exceed 10% of the company’s share capital at any time. The authorisation came into force on 15 June 2016 and is valid until 14 June 2021. This authorisation may not be used for the purpose of trading in treasury shares.

b) Modalities of the purchase

The acquisition is to be made (1) via the stock exchange or (2) via a public offer to buy directed at all shareholders of the company or via invitation to all shareholders to submit offers to sell (“public offer”).

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

b. If treasury shares are acquired via a public offer to buy to all company shareholders, the purchase price offered or the limits of the purchase price range offered per share (not including incidental acquisition costs) may not deviate from the market price of the company shares by more than 10%. The relevant market price for the purposes of this section (2) is the unweighted arithmetic average price for the company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last three to six trading days prior to the publication of the public offer.

Purchase volumes can be restricted. If, in the case of a public offer, the volume of the offered shares exceeds the designated purchase volume, the offer may take place in proportion to the respective shares offered (tender quota) instead of according to the proportion of the company's tendering shareholders (participation quota) (i). Small lots of shares offered and tendered for purchase (up to 100 per shareholder) may be preferred (ii), and the number of shares may be rounded in accordance with commercial principles in order to avoid fractional shares (iii). Any further right of tender of the shareholders in cases (i) to (iii) is excluded.

c) Use of treasury shares

The Management Board can sell the acquired treasury shares subject to compliance with the principle of equal treatment (section 53a AktG). In particular, sale via the stock exchange or by means of an invitation to all shareholders in proportion to their participation quota is sufficient.

The Management Board is also authorised with the approval of the Supervisory Board to offer or grant the acquired treasury shares to third parties, with exclusion of shareholders' subscription rights, in the following cases:

a. In exchange for cash or cash contributions if the agreed price is not significantly lower than the market price of the company shares at the time of the sale.

b. In the context of company mergers or in the context of (also direct) acquisition of companies, parts of companies or equity interests in companies including the increase of existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company.

c. To fulfil conversion or option rights which were granted by the company or a direct or indirect majority shareholder upon the issuance of bonds, or to fulfil conversion obligations from the bonds issued by the company or by an indirect or direct majority shareholder.

d. As employee shares in the context of agreed compensation or of special programmes to employees of the company or associated companies (including members of its executive bodies); if treasury shares are to be offered, granted or transferred to members of the Management Board of the company, this authorisation also applies to the Supervisory Board of the company.

e. To carry out a so-called share dividend (scrip dividend) through the sale of the transfer of dividend claims from shareholders in whole or in part.

d) The authorisation in accordance with section (1) above applies with the proviso that the treasury shares sold with exclusion of subscription rights may not exceed 10% of the share capital, which means 10% of the share capital as of the date the authorisation was given, as well as 10% of the share capital as of the date the authorisation with exclusion of shareholders' subscription rights is exercised. Shares are to be included in the above 10% limit that were sold or issued during the term of this authorisation as a result of other authorisations in direct or analogous application of section 186 (3) sentence 4 AktG under exemption of subscription rights ("allocation"). If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right with the direct or analogous application of section 186 (3) sentence 4 AktG.

In accordance with section (1) above, the shares may only be sold to third parties at a price that is not significantly below the market price of company shares at the time of the sale. The relevant market price for the purposes of the authorisation is the unweighted arithmetic average price for the company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last five trading days prior to the sale of the treasury shares.

Moreover, the Management Board is authorised, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders in the case of the sale of treasury shares in the context of an offer made to the shareholders for fractional amounts.

Furthermore, the Management Board is also authorised, with the approval of the Supervisory Board, to withdraw the treasury shares without a further Annual General Meeting resolution. 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 section 8 (3) AktG. In this case, the Management Board is also authorised to adjust the number of shares of the company in the articles of association (section 237 (3) no. 3 AktG).

e) Further details

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

Neither the Management Board nor the Supervisory Board exercised any of these authorisations in 2019.

The company currently holds 134,126 treasury shares. The notional interest in the share capital of the acquired treasury shares amounting to EUR 134,126.00 which corresponds to a share of 1.38% of the share capital was deducted from the share capital.

The shares were acquired between September 2004 and July 2005 based on the corresponding Annual General Meeting resolutions in accordance with section 71 (1) no 8 AktG. The Annual General Meeting resolutions from 9 June 2004 and 8 June 2005 authorised the company to acquire treasury shares with a notional interest in the company's share capital of up to EUR 450,000. At the date of the Annual General Meeting, this was 10% of the company's total share capital of EUR 4,500,000. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with section 71 a ff. AktG, could not exceed 10% of the company's share capital at any time. This authorisation could not be used for the purpose of trading in treasury shares.

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

— Authorised capital

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

a) for fractional amounts;

b) for capital increases in exchange for non-cash contributions, particularly

- **I.** for granting shares for the acquisition of companies, parts of companies or equity interests in companies including existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company,
- **II.** for the acquisition of other assets or entitlements to the purchase of assets as well as
- **III.** to carry out a so-called stock dividend in which the shareholders are offered dividends due to them either, in whole or in part, as non-cash contributions against the provision of new shares in the company;

c) for cash contributions provided that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the company at the date the issue price is finalised;

d) in order to grant the holders or creditors to new shares in the company with option or conversion rights to shares in the company and/or with the associated option or conversion obligations which are or were issued by the company or to an indirect or direct major shareholder to the extent that they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder.

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions must not exceed 20% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised. The exclusion of the subscription right for fractional amounts is not taken into account in this 20% limit. Shares are included in this 20% limit that were issued or sold during the term of this authorisation on the basis of other authorisations which fall under exclusion of the subscription right ("allocation"). The issuance of shares in this sense also applies to the issuance or justification of option or conversion rights or obligations of company shares from the bonds issued by the company or its direct or indirect majority shareholders, if the bonds are issued on the basis of a corresponding authorisation during the term of this authorisation, under exclusion of the subscription right. If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right.

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions in accordance with subsection c) must not exceed 10% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised.

Shares are included in this 10% limit that were issued or sold during the term of this authorisation which fall under exclusion of the subscription right ("allocation"). Furthermore, those shares that have been or will be issued in order to service bonds with conversion or options rights or an option or conversion obligation are to count towards this limit, provided that these bonds are issued during the term of this authorisation under exclusion of subscription rights by the company or an indirect or direct majority shareholding in accordance with section 186 (3) sentence 4 AktG. If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right with the direct or analogous application of section 186 (3) sentence 4 AktG.

On 15 March 2017, the Management Board was authorised, with the approval of the Supervisory Board, to partially exercise the authorised capital 2016 and to increase the company's share capital under exclusion of the subscription right of the shareholders in accordance with sections 203 (2), 186 (3) sentence 4 AktG by EUR 886,586 from EUR 8,865,874 to EUR 9,752,460 through the issuance of 886,586 new no-par value bearer shares with a dividend entitlement from 1 January 2016, in exchange for cash and cash contributions. This corresponds to an increase in the company's existing share capital of 10% at the time the proposed authorisation took effect and also at the time the authorised capital 2016 was exercised. The capital increase was entered into the company's commercial register on 21 March 2017 with the result that since this date, the company's share capital totals EUR 9,752,460. The authorised capital 2016 currently consists of EUR 3,546,351 owing to the partial utilisation illustrated. No use was made of this authorisation in 2019.

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

a) for fractional amounts;

b) for capital increases in exchange for non-cash contributions, particularly

  I. for granting shares for the acquisition of companies, parts of companies or equity interests in companies including existing shareholdings or from other contributable assets associated with such acquisition projects including receivables from the company,

  II. for the acquisition of other assets or entitlements to the purchase of assets as well as

  III. to carry out a so-called stock dividend in which the shareholders are offered dividends due to them either, in whole or in part, as non-cash contributions against the provision of new shares in the company;

c) for cash contributions provided that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the company at the date the issue price is finalised;

d) in order to grant the holders or creditors to new shares in the company with option or conversion rights to shares in the company and/or with the associated option or conversion obligations which are or were issued by the company or to an indirect or direct major shareholder to the extent that they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder;

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions must not exceed 20% of the share capital at the time the proposed authorisation took effect or if this value is less, then at the time that this authorisation of existing share capital is exercised. The exclusion of the subscription right for fractional amounts is not taken into account in this 20% limit. Shares are included in this 20% limit that were issued or sold during the term of this authorisation on the basis of other authorisations which fall under exclusion of the subscription right (“allocation”). The issuance of shares in this sense also applies to the issuance or justification of option or conversion rights or obligations of company shares from the bonds issued by the company or its direct or indirect majority shareholders, if the bonds are issued on the basis of a corresponding authorisation during the term of this authorisation, under exclusion of the subscription right. If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right.

The total shares issued under the exclusion of the subscription right in exchange for cash and cash contributions in accordance with subsection c) must not exceed 10% of the share capital at the time the proposed authorisation took effect or, if this value is less, then at the time that this authorisation of existing share capital is exercised.

Shares are to be included in the above 10% limit that were sold or issued during the term of this authorisation as a result of other authorisations in direct or analogous application of section 186 (3) sentence 4 AktG under exemption of subscription rights (“allocation”). Furthermore, those shares that have been or will be issued in order to service bonds with conversion or options rights or an option or conversion obligation are to count towards this limit, provided that these bonds are issued during the term of this authorisation under exclusion of subscription rights by the company or an indirect or direct majority shareholding in accordance with section 186 (3) sentence 4 AktG. If another authorisation is renewed during the term of this authorisation by the Annual General Meeting, the allocation shall be waived to the extent that that the renewed authorisation permits the issue of shares under exclusion of the subscription right with the direct or analogous application of section 186 (3) sentence 4 AktG.

The Management Board is authorised to amend the wording of section 4 of the articles of association following the full or partial implementation of the share capital increase to reflect the extent to which the authorised capital 2017 has been utilised and, if the authorised capital 2017 is not fully utilised by 14 June 2021, after the authorisation period expires.

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

— Contingent capital

At the company’s Annual General Meeting on 28 May 2019, the Management Board was authorised, with agreement of the Supervisory Board, to once or repeatedly issue convertible or option bonds in bearer or registered form up to 27 May 2024 in the total nominal value of up to EUR 60,000,000.00 with a term of 20 years. The shareholders have a legal right to bonds and debentures. However, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders’ subscription rights in the following cases:

(i) for fractional amounts resulting from the subscription right ratio;

(ii) if the bonds are issued against cash payment and the issue price is not significantly lower than the theoretical market value of the bonds determined in accordance with recognised principles of financial mathematics. However, this authorisation to exclude subscription rights shall only apply to bonds with rights to shares representing a proportionate amount of the share capital totalling no more than 10% of the share capital, neither at the time of this authorisation coming into effect nor at the time of its exercise. The sale of own shares shall be counted towards this limit if it takes place during the term of this authorisation under exclusion of the subscription right in accordance with section 186 (3) sentence 4 AktG. Furthermore, this limitation shall include those shares that are issued during the term of this authorisation from authorised capital under exclusion of the subscription right in accordance with section 186 (3) sentence 4 AktG;

(iii) insofar as the bonds are issued against contributions in kind and the value of the contribution in kind is not unreasonably low compared with the theoretical market value of the bonds determined in accordance with recognised principles of financial mathematics.

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

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

To date, the Management Board has not made use of the authorisation granted on 28 May 2019 to issue bonds with warrants and/or convertible bonds.

The company has not set up an employee participation programme. To the extent that employees of the company have participated in other ways in the company‘s share capital, the Management Board is not aware that, like other shareholders, they cannot exercise the control rights they are entitled to, in accordance with the statutory regulations and the provisions of the articles of association.

In the event of a change of control, the existing syndicated loan agreement, as part of good corporate governance, contains a customary right to cancel by the participating credit institutions.

D. OPPORTUNITY AND RISK REPORT

I. OPPORTUNITY AND RISK MANAGEMENT SYSTEM FOR VALUE-ORIENTED CORPORATE MANAGEMENT

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

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

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.

Our opportunity and risk management is firmly anchored in the Group-wide communications, management and planning structures and is therefore an important component of corporate management. In our regular management meetings, the opportunities and risks are discussed with the management of the operating units. Tracking of relevant issues is documented via checklist. The individual risks of the companies are resolutely examined in annual planning meetings. The basis for this is our risk manual which is the guideline for how risks are identified, assessed and monitored.

II. OPPORTUNITY MANAGEMENT

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

III. INDIVIDUAL OPPORTUNITIES

1. Opportunities through positive market development

In our planning assumptions, we assume weak growth of the world economy (see outlook section in the management report). Should the world economy develop more sustainably and evolve more dynamically than we anticipate, this will have a positive impact on our sales and operating results (EBIT) over the next few years.

2. Opportunities through research and development

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

We 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 net assets, financial position and results of operations.

3. Opportunities through increased efficiency

We are continually working on the optimisation of our procedures and processes at an accelerated rate in order to improve the efficiency of our global organisation. In addition to personnel changes, last year also saw the disposal of the heating hose business and the concentration on the supply of individual components. For optimisation, we use recognised methods to continue the improvement of our processes. These methods make use of the know-how and experience of all the staff involved from the areas concerned in order to continuously improve business processes in terms of corporate goals. In part, we also cooperate with external partners for this. Measures for optimisation and implementation are identified in regular workshops aimed at improving effectiveness, avoiding inefficiencies and continuously increasing our efficiency.

4. Opportunities through internationalisation

The focus of our revenue distribution remains in the euro zone, where we expect stronger growth than in the global economy as a whole. In the global target markets we address, such as China and North America, we anticipate slightly weaker growth than this year.

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

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

5. Opportunities through digitisation

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

Essential for the success of the digital transformation for us will be recognising the right applications (products, processes, business models) for ourselves or our customers in good time and to measurably improve our flexibility and agility based on the accelerating pace of technological changes (particularly in information technology).

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

6. Opportunities through personnel management

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

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

IV. THE RISK MANAGEMENT SYSTEM

The Masterflex Group has implemented an integrated risk management system in order to ensure the continuity and future targets of the Group through early identification, assessment and management of risks. Universal standards, methods and tools are available to the Management Board which guarantee prompt reporting.

As part of the comprehensive risk management system, Masterflex has an internal control system based on the (Group) financial reporting system. The aim is to ensure orderly and effective accounting and financial reporting.

The risks of financial reporting lie in the fact that our annual, consolidated and interim financial statements could contain misrepresentations that could potentially have a significant influence on the decisions of recipients. We have therefore developed an internal control system (ICS) for accounting which aims to identify potential sources of error and to limit risks arising from them. This internal control system extends to the entire Masterflex Group and is constantly being refined. The major foundations of accounting are documented in a Group 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 Management Board of Masterflex SE form the starting point. Rolling medium-term plans are drawn up on the basis of these and our monthly forecast plans for operating development. The ICS (in particular the risk early warning system) is reviewed thoroughly at least once a year to ensure that it is effective and efficient.

We identify risks in financial reporting at the level of the individual areas using quantitative, qualitative and process criteria. Our generally binding guidelines and ethical values form the basis of the ICS. In an annual control process, we verify whether the necessary control measures have in fact taken place and been correctly implemented. This is carried out by the auditor, an internal risk manager and the Managing Directors or heads of department responsible for implementing the checks.

The accounting-related internal control system and its effectiveness are a regular feature of Supervisory Board meetings.

On this basis, risk management at Masterflex Group stands for the targeted safeguarding of existing and future earnings potential as well as the specific management of known risks. Our risk management system comprises the identification, assessment, monitoring and control of risks. Moreover, we have set up communication channels for the principal opportunities and risks in the central departments and the operating units. This controlled approach is intended to safeguard the net assets, financial position and results of operations of the Group. The Masterflex Group's risk management is integrated into existing structures and is therefore an inextricable component of corporate management and business processes. Strategic corporate planning, internal reporting and the internal control system are the core elements of the risk management system together with the risk manual.

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

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

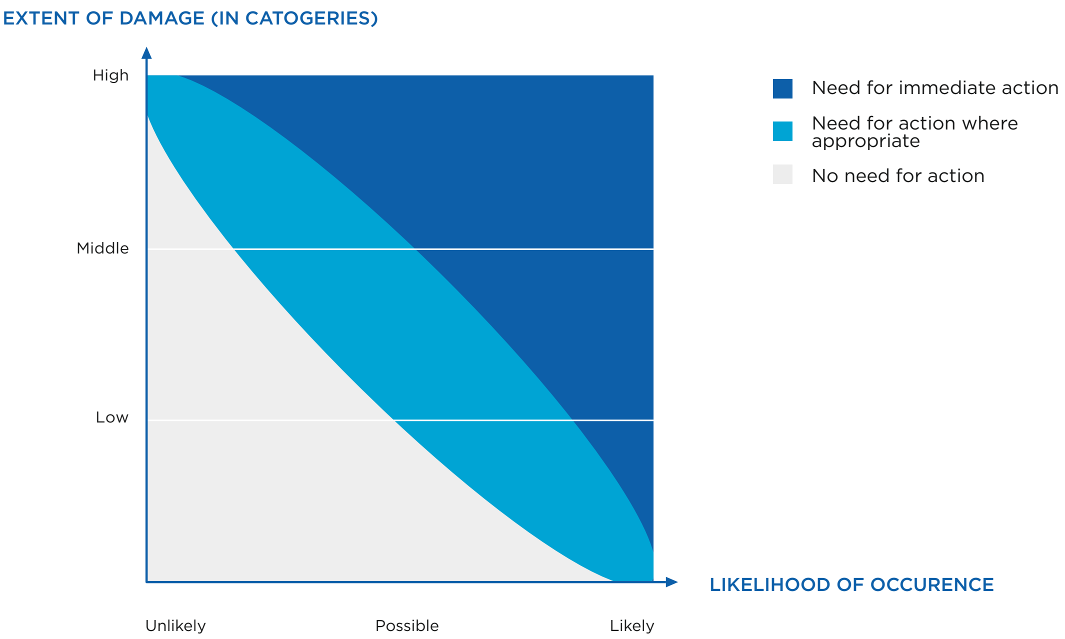
With the likelihood of occurrence of a risk, we distinguish between the categories 'unlikely' (less than 30% probability), 'possible' (probability between 30% and 60%) and 'probable' (probability of 60% or more).

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

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 need for action

The following diagram illustrates these relationships.



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

V. INDIVIDUAL RISKS

1. Economic, political and social risks

The global economic outlook is still characterised by increasing uncertainty. The reasons for this are, on the one hand, the continuing political tensions between the USA and Turkey as well as Iran and, on the other hand, the protracted exit negotiations between Great Britain and the EU as well as developments in individual member states critical of Europe. A further escalation of the US-Chinese trade conflict into a full-scale global trade war with a significant deterioration in global growth represents the main risk for the global economic cycle. The economic influences and effects of the coronavirus epidemic cannot be estimated so far either. Increased political risks in the euro zone, further debates on independence or a sustained success of protectionist, anti-European and anti-business parties and politics could give a new impetus to the euro crisis or even jeopardise the future of the euro zone entirely. Events such as a global economic crisis, a recession in our target countries, an unsustainable increase in government debt, as well as significant tax increases and natural disasters may have a negative impact on our business activities. A further risk could result from a sudden slowdown in Chinese economic growth. Growing nationalism, trend-setting elections and terrorist threats also mean increasing political and economic risks. An instability of the economic and political situation could therefore have a negative impact on our results of operations, net assets and financial position. The Management Board takes measures to mitigate the potential adverse effects of these risks occurring. These primarily involve concentration on independent economic sectors, internationalisation with regard to sales and procurement markets, flexibility of costs associated with ongoing cost management, simplification of processes and organisational structures, production in the respective continents and ensuring long term financing.

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

2. Personnel risks

Committed and qualified employees and managers are of the utmost importance for the economic success and future development of the Masterflex Group. We counter the intensive competition for qualified technical and management staff, and the associated risks in the form of a loss of expertise caused by employee turnover, with attractive opportunities for acquiring additional qualifications, family-friendly working time models and a compensation system that rewards performance. 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 present.

The Masterflex Group's ability to attract, integrate, develop and retain young specialists and managers in the long-term is becoming increasingly important. The necessary personnel recruitment and development steps have already been introduced. They include performance-related pay, conducting annual assessment meetings, providing employees with further qualifications, developing future prospects, cooperating with technical colleges and research institutions as well as early information for interested young people about career opportunities in the Masterflex Group. These efforts will be further intensified in future due to the demographic development. Women, people of other nationalities, older people and help in improving their qualifications will all be targeted to lend even more impetus to the above measures and widen the pool of potential new technical and management staff for the Masterflex Group. As a medium-sized company, we see a chance in the already noticeable shortage of technical and management staff to balance out possible competitive disadvantages against large-scale enterprises on the human resources market.

3. IT risks

The continuous availability of IT systems is a vital factor in ensuring operations at the Group's individual sites and offices. Internal and external experts are therefore constantly working on optimising the central and decentralised information systems, their availability and security. Differentiated backup and recovery strategies are used to prevent data loss. Accordingly, internal and external experts work continuously to optimise the Group's central and decentralised information security systems, their availability and reliability. Among others, 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 external computer centres in order to fulfil these service requirements.

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

4. Production risks

We counteract possible production downtime, e.g. due to disasters or fire damage, by performing preventive maintenance work and maintaining adequate inventories of key replacement parts, as well as through fire prevention measures, employee training and the establishment of a network of suppliers both external to and within the Masterflex Group. 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.

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

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

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, the Masterflex Group 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 and the exclusion of suppliers to be at medium level, with potential impact on the net assets, financial position and results of operations of medium probability.

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

6. 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 net assets, financial position and results of operations. Moreover, there is the risk that considerable costs may be incurred as a result of such measures. Company 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. There are also risks associated with the internal transfer of knowledge. The relevant knowledge of new employees must be transferred within the Masterflex Group and secured in the long-term, so that the ability to innovate is encouraged by newly acquired valuable knowledge.

Acquisitions are always a significant risk. We meet this through a variety of methodical and organisational measures. So, we generally carry out technical, operational, financial and legal due diligence of potential acquisition targets. With regard to the process control, we expect a low risk. An acquisition has a considerable impact on the results of operations, nets assets and financial position. Thus, we consider such a potential future event as a medium risk.

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

7. Risks associated with deteriorating efficiency

Through a series of efficiency measures and the optimisation programme “Back to Double Digit” (B2DD) presented in the second half of the year, savings were able to be achieved in the reporting year reflected particularly in terms of staff productivity, the material costs with the maximisation of synergy effects in purchasing and design-to-cost measures as well as in other operating expenses. However, increases in personnel costs (especially in the production areas) to improve delivery capabilities have also occurred at different sites. Should we fail to sustainably develop and implement these efficiency measures, the general cost increases will once again negate the effects of the measures already implemented.

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

8. Regulatory risks

Masterflex Group‘s strategy is based on the four pillars of innovation, internationalisation, digital transformation and operational excellence. This means that the Group will continue to operate with its own employees and companies in many parts of the world in the future. In each country in which we operate, we must comply with the applicable legal regulations. The large number and increasing complexity of the relevant national and international regulations increase the risk that non-compliance with them could result in significant legal and economic risks, such as fines, profit absorption or claims for damages. Even the mere allegation of a breach of the law could already have a negative impact on our reputation and our share price.

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

The Masterflex SE code of conduct provides the ethical and legal framework for our business activities. Our compliance management system is designed to ensure that our business activities worldwide comply with law and regulations applicable to us as well as with our internal implementation regulations. We pursue this goal through targeted employee training, among other things. We are continuously working to further develop our compliance management system within the Group and to reduce compliance risks.

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

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. In the Masterflex Group, we optimise and monitor centrally managed Group financing, thereby limiting financial risks.

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

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

Business and financing activities in foreign currencies do not exist to any noteworthy degree, with the exception of individual customers. With individual customers and individual components, the Masterflex Group evaluates the potential exchange rate risks taking into account all the major variables (such as the size of the transaction, term, exchange rate trend) and, if necessary, hedges against these risks by employing conservative hedging instruments. Only one such case currently exists within the Masterflex Group. Cross-currency financing within the Group which naturally leads to foreign exchange situations in the Group, does not exist to any noteworthy degree. Translation risks arising from the conversion of 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.

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

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

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

Based on current and planned business development, we anticipate being in compliance with these covenants. The upper limit for the key figure ‘debt ratio’ (calculated in accordance with the syndicated loan agreement) in 2019 was initially 3.0. However, Masterflex SE achieved a debt ratio of 2.3 at the beginning of 2019, compared with 2.5 at the 2019 balance sheet date.

The lower limit of the second key figure ‘equity ratio’ (calculated according to the credit agreement, which fixes the balance sheet equity to certain assets), reached a value of 37.5% in 2019. In contrast, Masterflex SE initially achieved an equity ratio of 50.5% until the balance sheet date 2019 of 48.7% and thus was also always considerably above the prescribed lower minimum. Thus, the covenants would only be breached by a dramatic deterioration of future results.

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

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. 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. In this way, we are counteracting dependencies on weak economic sectors such as mechanical engineering and the automotive industry, which are currently experiencing a downturn.

We will counteract the potential increase in competitive pressure in our product groups, amongst other things, due to increasing market transparency, by continuously improving our products, services and business processes. Our pricing may suffer as a result of the aggressive behaviour of our competitors and increasing market transparency. We mitigate this by constantly reviewing our cost structures and also by developing new one-of-a-kind products with unique selling points.

Due to our broad customer and industry diversification we see this risk as low, because the exclusion of individual customers would have only a limited impact on our net assets, financial position and results of operations. Due to increasing market transparency, it is possible, however, that this risk will have to be weighted higher in the future.

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 as well as loss of expertise. In order to avoid this, we are accelerating a permanent research and development process in order to meet the demanding requirements of customers. With corresponding agreements regarding privacy and protection of inventions as well as making employees aware of their dealing with confidential information, we counteract the risk of losing expertise. Furthermore, confidential data will only be made accessible to selected and limited group of people. In order to guarantee this also in the future, an innovation management process has been put into place which has been optimised over the last year. 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 A 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 our development activity, intensively examining the entire process chain and maintaining permanent contact with suppliers, quality-specific risks within the Group are limited in a systematic manner.

Due to the diversity of products and thus the independence 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 net assets, financial position and results of operations as low.

12. Tax risks

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

13. Legal risks

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

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

Overall, we see a low probability of these risks occurring here, coupled with possible high impacts, so that we assume a low overall risk.

VI. OTHER INDIVIDUAL RISKS

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

VII. SUMMARY AND OVERALL STATEMENT OF THE GROUP'S CURRENT RISK SITUATION

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

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.

In addition, our results of operations, net assets and financial position could be considerably impacted in the future if the Masterflex Group does not satisfactorily manage to increase the efficiency in its internal processes. The same applies if the Masterflex Group does not sufficiently adapt to changes in the market, in particular, if no new, high-quality products are developed, manufactured and sold. An undesirable development of this kind could lead to extraordinary write-downs on internally-created assets and intangible assets.

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

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

VIII. THE ORGANISATION OF THE COMPLIANCE SYSTEM

Compliance is paramount to the Management Board and Supervisory Board of the Masterflex Group and one of the prerequisites for its lasting success. In simple terms, compliance means first of all adherence to all applicable legal provisions and internal rules. The compliance management system (CMS) of Masterflex describes the measures, structures and processes that are intended to ensure that the Management Board and Supervisory Board, as well as all management and employees of the Masterflex Group, act in accordance with the law.

As an internationally oriented Group of companies, the Masterflex Group is subject to a variety of laws, guidelines, provisions and regulations. At the beginning of 2015, the mission statement was supplemented by a code of conduct which is valid group-wide for all employees and managers and encompasses all areas and sites. These codes of conduct set a minimum standard for ethical and law-abiding behaviour.

With regard to shareholders, employees, business partners, competitors and society in general, the Masterflex Group is committed to comply with the highest ethical and legal standards. They are embedded as an essential component of the corporate structure and are increasingly integrated into the operating processes.

Compliance is one of the basic requirements for sustainable management and the success of the Masterflex Group. The company management team expressly shares this view. Every employee of the Masterflex Group receives its personal copy, is trained regarding the conduct of conduct and instructed to make the code’s principles a binding framework for its own actions.

The Management Board, Supervisory Board and management team act as role models and continually help their employees to comply with the relevant regulations. Even the merest appearance of incorrect behaviour by the company management or employees should be avoided over the entire business activities of the Masterflex Group.

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

The compliance organisation is headed by the Chief Compliance Officer (CCO) who reports directly and regularly on all compliance-relevant issues to the Management Board of Masterflex SE. In particular, on the steps towards further development of the Masterflex Group CMS and about violations that have come to light, their sanctions as well as the corrective and preventative measures. The Management Board reports to the Supervisory Board regularly and, when necessary, on an ad-hoc basis, about the current status of compliance activities in the Masterflex Group.

In the reporting year, training sessions on compliance and the code of conduct, anti-corruption, data protection and data security as well as other relevant compliance issues took place which aimed to ensure lawful and ethnically sound, autonomous actions. In addition, special measures were conducted for employees who are particularly vulnerable to risks as well as training sessions for all new management employees on the code of conduct of the Masterflex Group.

By communicating compliance-related topics to relevant employees in the individual Group companies, compliance also provides support, offers guidance, raises awareness and informs. Thus, compliance in the Masterflex Group is an integral part of operational processes and a prerequisite for sustainable economic activity.

E. FORECAST REPORT

The following statements on the future business development of the Masterflex Group and on the key underlying assumptions concerning the economic development of markets and industries are based on our estimates which we currently regard as realistic according to information we have available. However, these are subject to significantly greater uncertainties than in previous years as a result of the current economic environment and thus carry the unavoidable risk that forecast developments will not actually occur, either in terms of general trends or to the extent predicted.

I. OUTLOOK

1. Expected macroeconomic development

— Economy 2020

After the global economy had weakened in the past two years, there was agreement among economic institutes until the start of 2020 or until the global corona epidemic worsened in March 2020 that the global economy should slowly stabilise again over a two-year period. In its forecast, the Kiel Institute for the World Economy (IfW) predicted growth rates of 3.1% for 2020 and 3.4% for 2021. A similar picture was painted by the International Monetary Fund with a forecast growth rate of 3.3% in 2020.[1]

However, in its latest economic update in March 2020, the OECD described the coronavirus as the greatest threat to the global economy since the global financial crisis.[2] The OECD Interim Economic Outlook examines two scenarios: The first assumes the most favourable development imaginable with the virus largely contained. The second scenario describes a domino effect with strong further spread of the virus. According to the OECD, even in the best-case scenario of only weak virus spread beyond China, global economic growth is likely to decline sharply in the first half of the year as a result of interrupted supply chains, a decline in tourism and a deterioration in the business climate. Accordingly, global economic growth is expected to slow by 0.5 percentage points from an already weak 2.9% in 2019 to 2.4% in 2020. In 2021, growth could rise again to a modest 3.3%. The OECD has significantly lowered the growth outlook for China to below 5% in 2020 – compared to 6.1% in 2019. According to the OECD, a broader wave of contagion in the Asia-Pacific region and in the industrialised countries, such as China now, could reduce global growth to 1.5% – the global economy would then only grow half as fast in 2020 as assumed in the OECD outlook of November 2019. The measures to contain the virus and the loss of confidence would have such an impact on production and consumption that some countries could slide into recession, including Japan and the euro zone.

Forecast economic growth in selected countries with a presence of the Masterflex Group
(change compared to previous year in %)

Country	2019	2020
Euro zone	1.2	0.8
Germany	0.6	0.3
France	1.3	0.9
Great Britain	1.4	0.8
World	2.9	2.4
Brazil	1.1	1.7
China	6.1	4.9
USA	2.3	1.9

Source: OECD, status: March 2020

1 https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2019/KKB_61_2019-Q4_Welt_DE.pdf / https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020
2 https://www.oecd-ilibrary.org/deliver/7969896b-en.pdf?itemId=%2Fcontent%2Fpublication%2F7969896b-en&mimeType=pdf

2. Expected development of the Masterflex Group

On the basis of its diversified growth strategy, as well as the continuing intact market drivers and existing market potential, the Masterflex Group remains committed to its general goal of return-oriented growth above economic growth – as well as achieving its medium-term target of an EBIT margin of over 10%. Even the high level of economic uncertainty for 2020 and the resulting difficulty in making our own forecasts for 2020 do not change this. We consider a sustained double-digit EBIT margin to be achievable by 2022.

Measures and effects from the comprehensive “B2DD” optimisation programme launched in 2019 will be equally implemented and visible in 2020. Significant expected positive contributions to earnings, which will also become partially visible as early as 2020, should result from personnel cost savings or an increase in personnel productivity, from cost optimisation in the use of materials and other operating expenses as well as from planned measures in the area of innovation. Negative one-off effects from the optimisation programme will be incurred in 2020 in the maximum amount of EUR 0.5 million. While the measures from the B2DD programme are more medium-term and very sustainable in nature and are expected to take full effect by 2022, the Masterflex Group has already initiated further measures in the fourth quarter of 2019. In the short-term, we are concentrating our significantly expanded catalogue of measures on compensating as much as possible for negative volume effects caused by the economic situation on the cost side. The aim is to restore our usual level of productivity in order to gradually develop and sustainably increase our existing earnings power. The trigger for the additional measures was the economic headwind in the automotive sector and in the export-oriented mechanical engineering sector, which increased during the course of 2019 and which could no longer be absorbed by the Group in the fourth quarter of 2019. In addition, the economic and industry-related developments in the first quarter of 2020 due to the coronavirus epidemic means that Masterflex has now increased its efforts once again. The aim for 2020 is to further reduce fixed costs, particularly in the subsidiaries that are more dependent on the economy. The Masterflex Group will use the full range of possible measures here in 2020, such as short-time working in some areas of the Group, significant temporary restrictions on trade fair participation and travel activities, strict cost discipline, possibly further staff reductions and the option for some employees to take unpaid leave.

At the same time, despite the increasing economic uncertainties and the further intensified catalogue of measures, the Group‘s goal for 2020 remains to maintain its growth opportunities in the respective, broadly diversified target markets – whether regionally or by target and customer industries – without restriction. In addition, growth through acquisitions will remain an option in the future. The focus here is not on pure volume and revenue growth. Rather, it should also be possible to acquire new technologies and expertise from external sources in addition to the know-how already available internally.

We see good opportunities and additional momentum in the coming years in the market for medical technology. The importance of this target market has already grown in recent years. In the future, we expect further increasing dynamics.

In summary, we expect our long-term growth path to continue over the next three years. It is difficult to make a concrete growth and financial forecast for the fiscal year 2020 itself due to the daily increase in uncertainty regarding the effects of the coronavirus pandemic. At the very beginning of the spread of the coronavirus in Europe in February 2020, we expected revenue development for 2020 to be in the range of a possible decline of a maximum of 4% to a continuation of the long-term growth trend with an increase of up to 4%. This would correspond to a revenue range in 2020 of EUR 76.8 million to EUR 83.2 million. On the earnings side, we considered it possible in February 2020 to repeat the EBIT margin from 2019 for the year as a whole. Depending on the revenue development, we forecast operating EBIT for 2020 in the range of EUR 3.5 million to EUR 6.5 million. On 30 March 2020, as the spread of the coronavirus became increasingly dynamic, the Management Board decided that this forecast could no longer be maintained. At present, the Management Board believes that a forecast for the revenue and earnings development in 2020 is only possible to the extent that, due to the corona issue, on the one hand, a significant decline in revenue and EBIT is a realistic scenario if the spread with a strong impact on the global economy cannot be stopped for a longer period of time and there are also interruptions in production. In this case, a double-digit drop in revenue and a corresponding decline in EBIT can also be expected. On the other hand, in a scenario in which the spread of the virus is quickly brought under control and the consequences for the economy are limited, a steady revenue trend or – in the case of catch-up effects – even slight revenue growth may be considered conceivable. The current developments in China and Asia show that such a scenario is also possible. The decisive factor is therefore how quickly the economies relevant to us will recover. As soon as the effects of the coronavirus pandemic can be better assessed, the Masterflex Group will publish an updated forecast.

3. Expected development of Masterflex SE

The potential effects of the coronavirus pandemic also make it difficult to provide a concrete growth and financial forecast for the fiscal year 2020 at Masterflex SE level. Against this background, we originally assumed revenue development in the range of a possible decline of no more than 5% up to an increase of 3%. Depending on revenue development, we expected EBIT for 2020 to be at the previous year's level or to improve slightly. This original forecast for Masterflex SE for 2020 was slightly more cautious compared to the Group as a whole. The reason is that Masterflex SE has a relatively high proportion of fixed costs within the Masterflex Group. Nevertheless, we have already made very good progress at Masterflex SE within the framework of the B2DD programme to date, which will also effectively help to overcome the coronavirus crisis. However, we will also have to make further very strong efforts in 2020 – not least because of the worsening coronavirus crisis.

On 30 March 2020, the Management Board also withdrew its original forecast for Masterflex SE as a result of the increasing dynamics of the pandemic. With strong effects on the global economy, a double-digit decline in revenue is currently also to be expected. In this case, EBIT would remain below the level of the previous year. If the economic impact of the pandemic is limited and there are potential catch-up effects, revenue and EBIT could reach a more positive level.

II. SUMMARY STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

In summary, the Management Board believes that the Masterflex Group is on the right track in its long-term growth strategy. Although the corona crisis could lead to a decline in revenue and EBIT in 2020 in an unfavourable scenario, the Management Board has taken the necessary measures, in particular to reduce costs, and believes that the Group is well equipped to meet this challenge. This is because the potential for our innovative connection systems is largely excellent in our markets. Especially with the active digitisation of our solutions under the AMPIUS brand, we will – looking beyond the corona crisis – expand or intensify our technological leadership and the loyalty to strategic customers. For some time now, we have been pushing ahead with the necessary structural and process changes in order to prepare the Masterflex Group for a scenario of continued significant growth. This was not least the motivation behind the significant expansion of our strategy in 2017 and the further acceleration of our B2DD optimisation programme in 2019. In this way, we aim to achieve sustained good operating earnings and rising consolidated net income for the year. This will provide long-term support for the possibility of a steady dividend payment in the canon of goals of declining debt, financing further growth and financing possible new company acquisitions.

Gelsenkirchen, 30 March 2020

Dr. Andreas Bastin
CEO

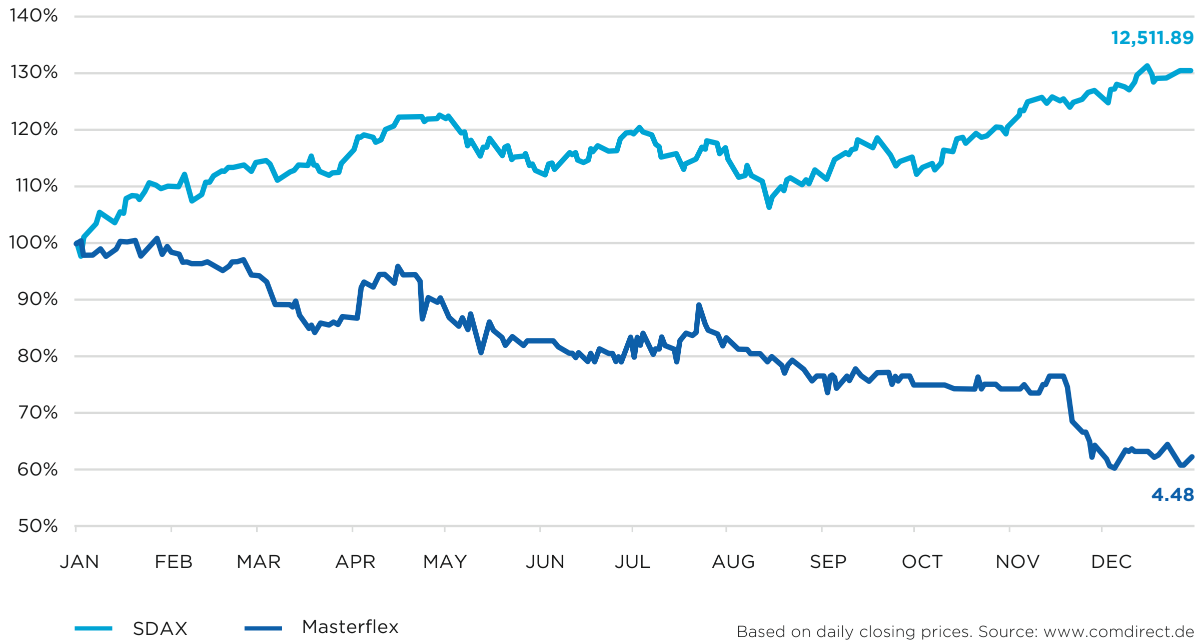
Mark Becks
CFO

MASTERFLEX SHARE

SHARE INFORMATION

ISIN code	DE0005492938
Securities identification number	549 293
Class of shares	No-par value bearer shares
Stock-exchange symbol	MZX
Bloomberg symbol	MZX GR
Reuters symbol	MZXG.DE
Market segment	Prime Standard
Member of the following indices	CDAX Prime All Share Index Classic All Share Index Prime Industrial Index
Designated Sponsor	Lang & Schwarz Broker GmbH, DZ Bank AG
Number of shares (31.12.)	9,752,460
Notional interest in share capital	EUR 1.00

— Masterflex share price performance 2019 compared with the SDAX



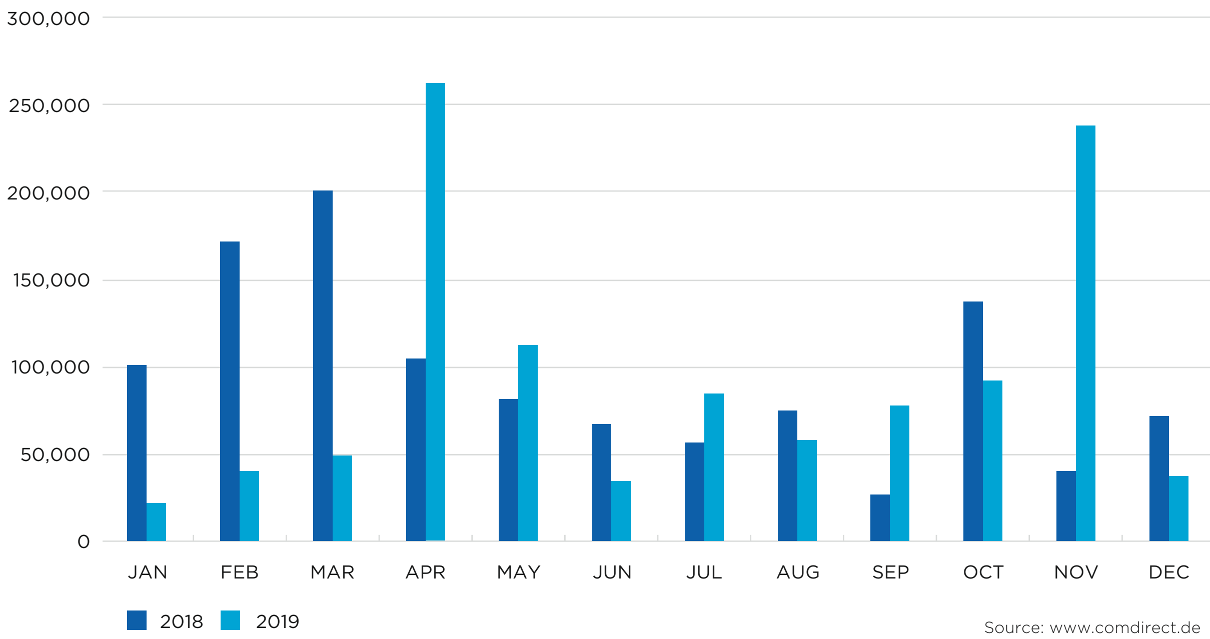
Based on daily closing prices. Source: www.comdirect.de

THE STOCK MARKET YEAR 2019

The Masterflex share opened the stock market year 2019 with a Xetra price of EUR 7.00. The high for the year was reached on 28 January at EUR 7.26 and the low for the year on 5 December at EUR 4.34. The Xetra closing price of EUR 4.48 on 30 December ultimately meant a price development of -37.6%. The SDAX achieved a performance of +30.8% in 2019.

LIQUIDITY OF THE MASTERFLEX SHARE

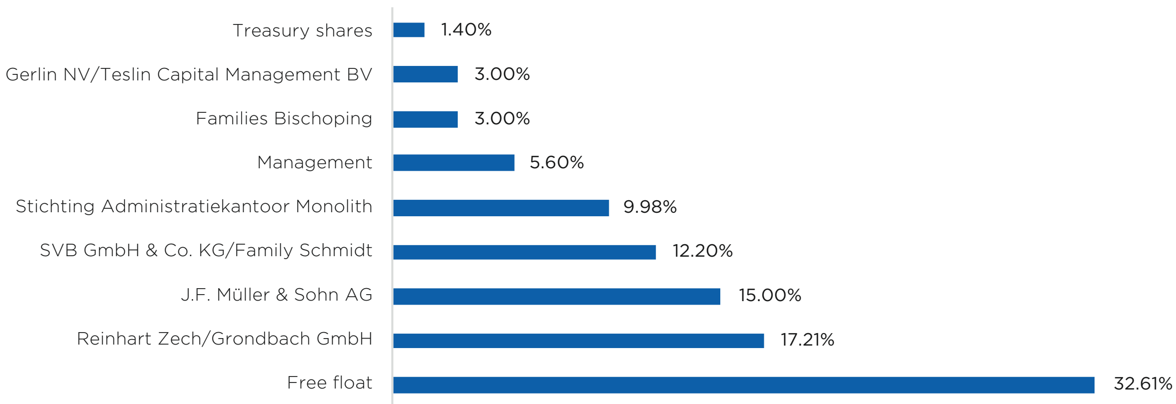
— Order book turnover



The liquidity of the Masterflex share has increased year-on-year. Xetra trading volume totalled 1.2 million shares (2018: 1.1 million shares), which corresponds to a daily trading volume of 4,924 shares (2018: 4,547 shares).

— Shareholder structure

There have been smaller shifts among the larger shareholders compared with the previous year. However, the characteristic of a shareholder base influenced by family offices remains dominant. While Stichting Administratiekantoor Monolith reduced its shareholding from 10.1% to below 10%, Grondbach GmbH increased its shareholding from 10.0% to 17.21%. The free float currently stands at 32.61% (31 December 2018: 39.7%).



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

Xetra stock exchange prices, capitalisation and free float of the last five years

		2019	2018	2017	2016	2015
Xetra						
Hightest price	EUR	7.260	9.560	9.500	6.990	7.410
Lowest price	EUR	4.340	7.000	6.575	5.453	5.600
Opening price	EUR	7.000	8.920	6.631	5.806	7.000
Closing price	EUR	4.480	7.060	8.751	6.575	5.950
Share performance		-37.6%	-20.9%	+32.0%	+13.2%	-15.0%
Earnings per share	EUR	0.26	0.35	0.45	0.34	0.22
Number of shares (31.12.)	Number	9,752,460	9,752,460	9,752,460	8,865,874	8,865,874
Number of treasury shares	Number	134,126	134,126	134,126	134,126	134,126
Market capitalisation (31.12.)	EUR mn	43.7	68.9	85.3	58.3	52.8
Free float		32.6%	41.8%	48.7%	51.9%	56.7%

Analyst research

The Masterflex share was continuously monitored by several analysts and research teams throughout 2019: most of these reports can be downloaded from www.MasterflexGroup.com in the Investor Relations/ Analyst Recommendations section.

In an update dated 26 November 2019, DZ Bank AG gave the Masterflex share the investment recommendation “hold” and a price target of EUR 5.00.

SMC Research, which specialises in small cap shares, has been covering the Masterflex share for several years. Most recently, the experts recommended the share as a buy on 3 December 2019 with a target of EUR 7.00.

Bankhaus Lampe updated its research on 17 September 2019, recommending the share as a “Hold” with a price target of EUR 7.00.

Annual General Meeting 2019

The Annual General Meeting took place on 28 May 2019 at the traditional venue of Schloss Horst in Gelsenkirchen. The attendance rate was 67.5% of the share capital (2018: 62.1%). The agenda items on which resolutions were to be passed were all passed with a corresponding majority. These included the appropriation of the balance sheet profit, the ratification of the actions of the Management Board and Supervisory Board members, the appointment of Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft as auditors for the fiscal year 2019 and the authorisation to issue option and convertible bonds. In addition, the existing Supervisory Board with its members Georg van Hall (Chairman), Dr. Gerson Link and Jan van der Zouw was confirmed in office and elected for a further six years.

Dividend

A dividend of EUR 0.07 per share was paid from the balance sheet profit 2018 of EUR 13.9 million on 3 June 2019. The remaining balance sheet profit of EUR 13.2 million were carried forward to new account.

— Capital market communication

The Masterflex Group maintains an open information policy towards all capital market participants, with the same timing and content. Concerns of investors or analysts are met promptly. As far as the competitive position of the Masterflex Group as one of the few listed hose manufacturers allows, data that is as detailed as possible is also made available. The opportunity to present at capital market conferences is also actively used.

The aim of our capital market communications is to contribute to a fair valuation of our shares by ensuring a high degree of transparency and regular awareness on the capital market. Masterflex Group‘s goal is to achieve market leadership in all addressed markets. Sustained growth is also to be reflected in the valuation of the share, particularly when the profitability-enhancing measures from the B2DD programme take full effect.

FINANCIAL CALENDAR 2020

31 March	Publication of the Annual Report 2019
13 May	Statement on Q1/2020
18 to 20 May	Analysts’ conference at the Spring Conference, Frankfurt/Main
23 June	Annual General Meeting in Gelsenkirchen
12 August	Half-year report 2020
11 November	Statement on Q3/2020

The financial calendar is published and regularly updated on the company‘s website (www.Masterflexgroup.com/en/investor-relations/financial-calendar).

CONSOLIDATED FINANCIAL STATEMENTS

I. CONSOLIDATED BALANCE SHEET

Assets in EUR thousand	Notes	31.12.2019	31.12.2018
NON-CURRENT ASSETS			
Intangible assets	**3, 24**	**13,115**	**12,529**
Concessions, industrial property rights	3	2,209	887
Development services	3	1,381	947
Goodwill	3, 24	9,187	9,187
Advance payments	3	338	1,508
Property, plant and equipment	**3**	**33,776**	**31,892**
Land and buildings		18,318	16,542
Technical equipment and machinery		12,227	11,782
Other equipment, operating and office equipment		3,029	2,787
Advance payments and assets under construction		202	781
Financial assets	**3**	**65**	**98**
Investment securities		65	98
Other assets	**5**	**27**	**29**
Deferred taxes	**26**	**398**	**511**
		47,381	**45,059**
CURRENT ASSETS			
Inventories	**4**	**18,623**	**16,662**
Raw materials, consumables and supplies		9,757	8,050
Unfinished goods and services		630	581
Finished goods and products		8,218	8,025
Advance payments		18	6
Receivables and other assets	**5, 6**	**8,127**	**8,217**
Trade receivables	6	7,359	7,490
Other assets	5	768	725
Other financial assets	5, 16	0	2
Income tax assets	**7**	**520**	**865**
Cash in hand and bank balances	**8**	**6,908**	**4,370**
		34,178	**30,114**
Total assets		**81,559**	**75,173**

Equity and liabilities in EUR thousand	Notes	31.12.2019	31.12.2018
EQUITY			
Consolidated equity	**9**	**42,633**	**40,720**
Issued capital		9,618	9,618
Capital reserve		31,306	31,306
Retained earnings		3,048	1,189
Reserve for the market valuation of financial instruments		-642	-609
Hedging instruments		-90	-31
Currency differences		-607	-753
Non-controlling interests	**10**	**-618**	**-497**
Total equity		**42,015**	**40,223**
NON-CURRENT LIABILITIES			
Provisions	**11**	**164**	**209**
Financial liabilities	**12**	**26,304**	**18,856**
Other liabilities	**14**	**1,006**	**956**
Deferred tax liabilities	**26**	**926**	**861**
		28,400	**20,882**
CURRENT LIABILITIES			
Provisions	**11**	**0**	**632**
Financial liabilities	**12**	**4,545**	**7,643**
Income tax liabilities	**13**	**185**	**249**
Other liabilities	**14, 15**	**6,414**	**5,544**
Trade payables	15	2,249	2,101
Other liabilities	14	4,165	3,443
		11,144	**14,068**
Total equity and liabilities		**81,559**	**75,173**

II. CONSOLIDATED INCOME STATEMENT

Continued business units in EUR thousand	Notes	2019	2018
1. **Revenue**	18	79,969	77,243
2. Increase or decrease in finished and unfinished goods		103	554
3. Other own work capitalised		339	1,325
4. Other income	19	1,156	625
Operating performance		**81,567**	**79,747**
5. Cost of materials	20	-25,968	-25,235
6. Personnel expenses	23	-32,683	-30,793
7. Depreciation and amortisation		-4,598	-3,341
8. Other expenses	21	-13,776	-14,277
9. Financial result	25		
Financial expenses		-1,317	-1,062
Other financial result		26	3
10. Earnings before taxes		**3,251**	**5,042**
11. Income taxes	26	-810	-1,768
12. Earnings after taxes from continued business units		**2,441**	**3,274**
Discontinued business units in EUR thousand			
13. Earnings after taxes from discontinued business units		**0**	**-58**
14. Consolidated result		**2,441**	**3,216**
thereof: non-controlling interests		-91	-157
thereof: share of shareholders of Masterflex SE		**2,532**	**3,373**
Earnings per share (undiluted and diluted)			
from continued business units	27	0.26	0.36
from discontinued business units	27	0.00	-0.01
from continued and discontinued business units	27	0.26	0.35

III. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	Notes	2019	2018
Consolidated result		**2,441**	**3,216**
Other income			
Items which are subsequently reclassified into profit or loss if certain conditions are fulfilled			
1. Foreign exchange gains/losses from the translation of foreign financial statements	9	128	285
2. Changes in the fair value of financial instruments		-33	20
3. Hedging transactions		-59	-31
4. Income taxes		18	10
5. Other income after taxes		**54**	**284**
6. Comprehensive income		**2,495**	**3,500**
Comprehensive income:		**2,495**	**3,500**
thereof: non-controlling interests		-91	-157
thereof: share of shareholders of Masterflex SE		**2,586**	**3,657**

IV. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR thousand	Sub-scribed capital	Capital reserve	Retained earnings	Reserve for the market valuation of financial instruments	Reserve for hedging trans-actions	Exchange rate differen-ces	Shares of Masterflex SE share-holders	Non-controlling interests	Equity
Notes	**9**	**9**	**9**	**9**	**9**	**9**		**10**	
Equity as of 01.01.2018	**9,618**	**31,306**	**-1,511**	**-629**	**0**	**-1,048**	**37,736**	**-340**	**37,396**
Distributions	0	0	-673	0	0	0	-673	0	-673
Comprehensive income	**0**	**0**	**3,373**	**20**	**-31**	**295**	**3,657**	**-157**	**3,500**
Consolidated result	0	0	3,373	0	0	0	3,373	-157	3,216
Other income after income taxes	0	0	0	20	-31	295	284	0	284
Changes in the fair value of financial instruments	0	0	0	20	-31	0	-11	0	-11
Currency gains/ losses from the translation of foreign financial statements	0	0	0	0	0	285	285	0	285
Income taxes attribu-table to other com-prehensive income	0	0	0	0	0	10	10	0	10
Equity as of 31.12.2018	**9,618**	**31,306**	**1,189**	**-609**	**-31**	**-753**	**40,720**	**-497**	**40,223**
Distributions	0	0	-673	0	0	0	-673	-30	-703
Other changes	0	0	0	0	0	0	0	0	0
Comprehensive income	**0**	**0**	**2,532**	**-33**	**-59**	**146**	**2,586**	**-91**	**2,495**
Consolidated result	0	0	2,532	0	0	0	2,532	-91	2,441
Other income after income taxes	0	0	0	-33	-59	146	54	0	54
Changes in the fair value of financial instruments	0	0	0	-33	-59	0	-92	0	-92
Currency gains/ losses from the translation of foreign financial statements	0	0	0	0	0	128	128	0	128
Income taxes attribu-table to other com-prehensive income	0	0	0	0	0	18	18	0	18
Equity as of 31.12.2019	**9,618**	**31,306**	**3,048**	**-642**	**-90**	**-607**	**42,633**	**-618**	**42,015**

V. CONSOLIDATED CASH FLOW STATEMENT

in EUR thousand	2019	2018
Result for the period before taxes, interest expenses and financial income	4,633	6,242
Income tax expenses	-765	-764
Amortisation on intangible assets	280	279
Depreciation on property, plant and equipment	4,320	3,062
Decrease of provisions	-677	-1,013
Other non-cash expenses/income and profit/loss from the disposal of non-current assets	-417	-1,428
Increase of inventories	-1,961	-1,426
Decrease in trade receivables and other assets not attributable to investment or financing activities	424	34
Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	823	-308
Cash flow from operating activities	**6,660**	**4,678**
Proceeds from the disposal of non-current assets	0	6
Payments for investments in intangible assets	-979	-1,626
Payments for investments in property, plant and equipment	-2,206	-3,560
Cash flow from investing activities	**-3,185**	**-5,180**
Payments to company owners and minority shareholders (dividends, purchase of treasury shares)	-703	-673
Interest and dividend income	23	2
Interest payments	-867	-757
Proceeds from borrowings	4,090	3,500
Payments for the repayment of loans	-3,567	-2,800
Cash flow from financing activities	**-1,024**	**-728**
Cash-effective changes in cash and cash equivalents	**2,451**	**-1,230**
Changes in cash and cash equivalents due to exchange rates and other changes in value	87	264
Cash and cash equivalents at the beginning of the period	**4,370**	**5,336**
Cash and cash equivalents at the end of the period	**6,908**	**4,370**

VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of financial reporting

Principles of presentation

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

The present consolidated financial statements have been prepared in accordance with section 315e HGB ("consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB), as applicable within the EU as of 31 December 2019, in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

The balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement are shown. Segment reporting is also included in the notes.

Various items in the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income are combined to provide more clarity and are explained accordingly in the notes to the consolidated financial statements. Assets and liabilities are classified as current and non-current. The consolidated income statement is prepared using the nature of expense method.

The consolidated financial statements are prepared in euro (EUR). All amounts, including prior period amounts, are stated in thousands of euro (EUR thousand). All amounts are rounded in accordance with standard commercial practice. In some cases, this can result in negligible differences between the sum of the individual amounts and the stated total. The annual financial statements of the companies included in consolidation are prepared to the same reporting date as the consolidated financial statements.

The Management Board of Masterflex SE released this financial statement for publication on 30 March 2020. The approval by the Supervisory Board took place on 30 March 2020.

2. Accounting principles

Scope of consolidation

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

As of 31 December 2019, a total of 8 domestic (previous year: 8) and 11 foreign subsidiaries (previous year: 11) were consolidated in addition to Masterflex SE. The table below shows the subsidiaries that were fully consolidated as of 31 December 2018:

Company name	Headquarter		Share of Masterflex in %
Masterflex SARL	France	Béligneux	80
Masterflex Technical Hoses Ltd.	Great Britain	Oldham	100
Masterduct Holding, Inc.*	USA	Houston	100
· Flexmaster USA, Inc.	USA	Houston	100*
· Masterduct, Inc.	USA	Houston	100*
· Masterduct Holding S.A., Inc.	USA	Houston	100*
· Masterduct Brasil LTDA.	Brazil	Santana de Parnaiba	100*
Novoplast Schlauchtechnik GmbH	Germany	Halberstadt	100
FLEIMA-PLASTIC GmbH	Germany	Wald-Michelbach	100
Masterflex Handelsgesellschaft mbH	Germany	Gelsenkirchen	100
Masterflex Česko s.r.o.	Czech Republic	Plana	100
M & T Verwaltungs GmbH*	Germany	Gelsenkirchen	100
· Matzen & Timm GmbH	Germany	Norderstedt	100*
Masterflex Scandinavia AB	Sweden	Kungsbacka	100
Masterflex Vertriebs GmbH*	Germany	Gelsenkirchen	100
· APT Advanced Polymer Tubing GmbH	Germany	Neuss	100*
Masterflex Asia Holding GmbH*	Germany	Gelsenkirchen	80
· Masterflex Asia Pte. Ltd.	Singapore	Singapore	100*
· Masterflex Hoses (Kunshan) Co., Ltd.	People's Republic of China	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.

Some of the subsidiaries included in the consolidated financial statements make use of partial use of the exemption clause of section 264 (3) HGB. A list of the exemption clauses made use of by these companies can be found in note 37.

Consolidation

With the exception of income and expense items between continued and discontinued operations, all intragroup receivables, liabilities, profits and losses are eliminated.

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

Currency conversion

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

Foreign-currency transactions by consolidated companies are converted into the functional currency using the exchange rate 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 converted into the reporting currency of Masterflex's consolidated financial statements. The assets and liabilities of the consolidated companies are translated using the middle rates prevailing 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 reconverted at each balance sheet date. On 31 December 2019, these differences amounted to EUR -607 thousand (previous year: EUR -753 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 converted as assets of the respective companies by using the prevailing exchange rate at the balance sheet date.

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

in EUR	Balance sheet date 31.12.2019	Income and expenses 2019
1 English pound (GBP)	1.1754	1.1399
1 US dollar (USD)	0.8902	0.8932
1 Brazilian real (BRL)	0.2214	0.2266
1 Czech Koruna (CZK)	0.0394	0.0390
1 Swedish Krona (SEK)	0.0957	0.0945
1 Singapore dollar (SGD)	0.6618	0.6548
1 Renminbi (CNY)	0.1279	0.1293

Intangible assets

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. 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. 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.

Goodwill
Goodwill arising from company mergers is recognised as an intangible asset.

Goodwill is tested for impairment at the level of the respective cash-generating units ("cash-generating unit") at least once a year at the end of the fiscal year and whenever there is evidence of impairment. Here, the recoverable amount of the individual cash-generating units is contrasted with the carrying amount including the goodwill. The recoverable amount of a cash-generating unit is the higher of its internal value in use and its fair value less disposal costs. If the carrying amount of the assets attributable to an individual cash-generating unit exceeds the recoverable amount, a write-down is 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 fiscal 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.

Property, plant and equipment
Property, plant and equipment encompasses all tangible assets that are held for use in the production or supply of goods or services, for rental to others or administrative purposes and that are expected to be used during more than one period.

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

The carrying amounts of items of property, plant and equipment are reviewed if there is evidence to suggest that they may be impaired as a result of events or changes in circumstances. Impairment is assessed by comparing the carrying amount of an asset with its recoverable amount (impairment testing). If the carrying amount is higher than the recoverable amount, it is written down to the lower amount. In order to assess impairment, assets are grouped at the lowest level for which the respective cash flows can be separately identified. If the reason for an impairment loss subsequently ceases to apply, a reversal of the impairment loss is made up to a maximum of the amortised historical costs of acquisition or production.

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

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

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

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

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

Derivative financial instruments are used exclusively for hedging purposes, in particular to reduce the risk of interest rate fluctuations arising from financing transactions and to hedge currency risks and price changes. They are always carried at fair value unless hedging relationships are explicitly allocated in the balance sheet. Fluctuations in fair value are recognised in the income statement.

The settlement date is relevant both for the initial recognition of financial assets in the balance sheet and for their derecognition in the balance sheet. However, financial derivatives are recognised on the contract date. Similarly, normal market purchases or sales of securities are already recognised on the trade date. They are derecognised as soon as the right to receive cash or another financial asset expires through payment, remission, statute of limitations, set-off or other means, or the right is transferred to another person, with the risks being transferred to the acquirer.

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 IFRS, amounts relating solely to tax law are not recognised in the consolidated financial statements.

Inventories

Inventories are carried at the lower of cost and net realcyclle 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. Impairment testing is performed in the same way as for property, plant and equipment. The corresponding write-down must be reversed up to a maximum of the amortised cost of the respective asset.

Receivables and other assets

Receivables and other assets are accounted for on the basis of the amortised costs which represent a reasonable estimate of the market value in view of the short maturities. If there is substantial objective evidence for a write-down then an impairment loss is recorded. Such evidence of the existence of a write-down is, for example, a deterioration of creditworthiness of a debtor and the associated payment obligations, or an imminent insolvency. The necessary value adjustments are oriented towards the actual credit risk. Receivables are comprised of financial receivables, trade receivables and other receivables.

Cash in hand and bank balances

Cash in hand and bank balances are primarily composed of bank balances, cash in hand and uncredited cheques, and are carried at their nominal amount which corresponds to the market value. Cash and cash equivalents denominated in foreign currencies are translated at the exchange rate as of the balance sheet date.

Subscribed capital/issued capital

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

Provisions

Provisions are 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.

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.

Liabilities

Liabilities are recognised at amortised cost. The determination of these amortised costs takes place using the effective interest method. Liabilities from finance lease agreements are carried as liabilities at the amount at the fair value beginning of the lease agreement or the present value of the minimum lease instalment if this value is lower. Liabilities are comprised of financial liabilities, trade liabilities and other liabilities.

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

Financial instruments

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

Primary financial instruments are accounted for on the settlement date in the case of purchases or sales at arm's length. Receivables and liabilities denominated in foreign currencies are measured at the respective closing rates.

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

For accounting and measurement purposes, financial assets are grouped into the following categories:

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

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

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

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

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

Financial liabilities are derecognised if the contractual obligations have been fulfilled, cancelled or have expired.

Value adjustments to financial assets measured at amortised cost and to contractual assets from agreements with customers are made according to a forward-looking model taking into account expected credit defaults.

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

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

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

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

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

Interest income and expenses from the application of the effective interest method are recognised in the income statement under interest income or interest expense from financial instruments.

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

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

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

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

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

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

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

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

Derivative financial instruments

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

Derivatives are initially measured at fair value. Derivatives are subsequently measured at fair value. Any resulting changes are generally recognized in profit or loss.

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

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

Cash flow hedging

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

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

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

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

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

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

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

Revenue recognition

Revenue is recognised when the Group meets its obligations to customers by transferring an agreed good or service. Revenues from the transfer of a promised good are recognised on a time-related basis, as the criteria of IFRS 15.35 are not met. They are realised when the promised goods have been delivered to customers in accordance with the delivery terms, as most of the indicators from IFRS 15.38 are met at this point in time that the customer will gain control of the transferred goods.

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

Revenues from development services are recognised on a time and period basis. Revenues are realised on a time-related basis either in the ratio of the costs incurred in the period to the estimated total costs or in the amount that the company is permitted to charge.

Interest income is recognised in financing income on a time proportion basis over the remaining term, taking into account the effective interest rate and the amount of the residual receivable.

Borrowing costs

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

Research and development

Research costs are expensed when they are incurred. Development costs relating to the significant 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. Development costs

In order to calculate the goodwill of amounts capitalised, the management must make assumptions on the amount of future-expected cash flow from assets, the time period of the inflow of the future-expected cash flow generated by the assets, and the interest rates to be applied. Best possible estimates were calculated at the balance sheet date (see note 2).

b. Goodwill

The Group checks annually whether a write-down of goodwill is available. The recoverable amount of cash-generating units is determined on the basis of the value in use, which in turn is calculated on the basis of assumptions by the Group's Management Board (see note 24).

c. Deferred taxes

When estimating the 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 considers the timing of the reversal of deferred tax liabilities and the future expected taxable income. Based on Masterflex's expected future business development, the Group's management assumes that the deferred tax assets recognised will be realisable (see note 26).

d. Provisions and contingent liabilities

Changes in the estimated probability of a current obligation or an outflow of economic resources may lead to the reclassification as provisions of items that were previously classified as contingent liabilities, or to changes in the amounts recognised as provisions (see note 11).

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.

New accounting standards

The option regarding the early application of new standards, revisions of standards and interpretations already approved as of 31 December 2019 and adopted by the European Union by the time the consolidated financial statements were approved, was not exercised.

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

• **IFRS 16**	Leases
• **IFRIC 23**	Uncertainty over income tax treatments
• **IAS 28**	Amendments regarding long-term interests
• **IFRS 9**	Amendments regarding prepayment features
• **IAS 19**	Amendments regarding plan amendment, curtailment or settlement

as well as the change relating to the annual "improvement" project cycle 2015-2017.

IFRS 16 "Leases" is applied for the first time as of 1 January 2019. IFRS 16 abolishes the previous classification of leases as operating and finance leases for lessees. Instead, IFRS 16 introduces a uniform accounting model under which lessees are obliged to recognise an asset for the usage right and a lease liability for the outstanding lease payments for all lease agreements. As a result, all leases must in future be recognised in the consolidated balance sheet.

IFRS 16 provides an option to waive recognition of the usage right and lease liability for leases with a term of up to twelve months (short-term leases) and for leases of low-value assets. These options have been exercised. The lease payments associated with these leases are recognised as expenses either on a straight-line basis over the term of the lease or on another systematic basis.

The usage rights reported under property, plant and equipment are carried at acquisition cost less accumulated amortisation and any necessary impairment losses. The cost of the usage right is calculated as the present value of all future lease payments plus lease payments made at or before the commencement of the lease term, plus the costs of entering into the lease and the estimated costs of dismantling or restoring the leased asset. All leasing incentives received are deducted. In this context, the option is exercised to generally recognise payments for non-leasing components as lease payments. If the lease payments to be taken into account also include the transfer of ownership of the underlying asset at the end of the lease term, including the exercise of a purchase option, depreciation is charged over the economic life of the asset. Otherwise, the usage right is amortised over the term of the lease.

The initial recognition of lease liabilities allocated to financing liabilities is determined as the present value of the lease payments to be made. In subsequent measurement, the carrying amount of the lease liabilities is discounted and reduced by the lease payments made.

The amortisation of the usage right is allocated to amortisation in accordance with IFRS 16. The interest on the lease liabilities is included in interest expenses. The leasing expenses of leasing contracts classified as operating leases were previously fully recognised under other expenses in accordance with IAS 17.

In line with the modified retrospective approach, the previous year's figures have not been adjusted in the context of first-time application. The non-essential transition effects are reported cumulatively in retained earnings.

In the transition to the new standard, the following lessee relief provisions granted by IFRS 16 are applied:

- For leases previously classified as operating leases under IAS 17, the lease liability is recognised at the present value of the outstanding lease payments, discounted at the marginal interest rate as of 1 January 2019. The associated usage right is generally recognised in the amount of the lease liability. Where leases had the same features, these were combined for discounting purposes.
- An impairment test is not performed. Instead, for reasons of simplification, the usage right is reduced at the time of first-time application by the amount recognised as a provision for onerous leases as of 31 December 2018.

- Leases that end no later than 31 December 2019 are accounted for as short-term leases, irrespective of the original term of the lease.
- Initial direct costs are not taken into account in the measurement of the usage right at the time of initial application.
- Current knowledge is taken into account when determining the term of agreements with extension or termination options.

As part of the conversion to IFRS 16, assets for the usage rights to the leased assets of EUR 3,920 thousand and leasing liabilities of the same amount were recorded as of 1 January 2019. The weighted average marginal borrowing rate was 2.5%.

Reconciliation to leasing liabilities according to IFRS 16:

in EUR thousand	2019
Nominal amount of future lease payments under operating leases as of 31 December 2018	**364**
Nominal amount of future payments due to rental agreements as of 31 December 2018	**3,472**
Other financial obligations from rental, leasehold and leasing agreements in accordance with IAS 17 as of 31 December 2019	**3,836**
Facilitation of application for short-term leases	25
Facilitation of application for leases of low-value assets	383
Obligations from operating leases (undiscounted)	**4,244**
Effect from discounting	-324
Obligations from operating leases (discounted)	**3,920**
Carrying amount of finance lease liabilities under IAS 17 as of 31 December 2018	0
Carrying amount of lease liabilities under IFRS 16 as of 1 January 2019	**3,920**

In addition to IFRS 16, the following amendments were also applied as of 1 January 2019, which did not have a material impact on the net assets, financial position and results of operations:

The IASB issued IFRIC 23, developed by the IFRS Interpretations Committee, to clarify the accounting treatment of uncertainty in income taxes.

The amendments to IAS 28 clarify that an entity is required to apply IFRS 9 Financial Instruments, including its impairment provisions, to non-current investments in associated companies or joint ventures that represent a substantial portion of the net investment in the associated company or joint venture and are not accounted for using the equity method.

The application of IFRS 9 therefore takes precedence over the application of IAS 28.

Minor amendment to IFRS 9 for financial assets with so-called symmetrical termination rights to allow their measurement at amortised cost or at fair value through other comprehensive income. In addition, clarification is provided on the modification of financial liabilities that do not result in derecognition.

The amendments to IAS 19 will require in future that, in the event of a change, curtailment or settlement of a defined benefit plan, the current service cost and net interest for the remaining fiscal year must be recalculated using the current actuarial assumptions used for the required revaluation of the net liability (asset). The IASB has also included additions to IAS 19 to clarify how a plan amendment, curtailment or settlement affects the asset ceiling requirements.

With the exception of IFRS 16, the first-time application of these provisions has no material effect on the financial statements of Masterflex SE.

The following accounting standards and interpretations as well as amendments to existing standards had already been published for the preparation of the IFRS consolidated financial statements as of 31 December 2019, but their application was not yet mandatory:

Standard/ interpretation		Obligation to apply from
• IAS 1/IAS 8	Framework concept	01.01.2020
	Amendments regarding the definition of material	01.01.2020
• IFRS 9/ IAS 39/ IFRS 7	Amendments in the context of the IBOR reform	01.01.2020

The new framework includes revised definitions of assets and liabilities and new guidance on valuation and derecognition, presentation and disclosures. The new framework does not constitute a fundamental revision of the document as originally intended when the project was launched in 2004. Rather, the IASB has limited itself to those issues which were previously unregulated or which showed discernible shortcomings that needed to be addressed. The revised framework is not subject to the endorsement process.

Together with the revised framework, the IASB has also issued amendments to the references to the framework in some standards. These include changes to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. The amendments to the standards resulting from the publication of the new framework are subject to the endorsement process.

The International Accounting Standards Board (IASB) has published "Definition of material (amendments to IAS 1 and IAS 8)" to sharpen the definition of "material" and to harmonise the various definitions in the framework and in the standards themselves.

In order to consider the possible effects of the reform of reference interest rates (so-called IBOR reform) on financial reporting, the IASB had included the IBOR project in its standard-setting programme in December 2018 and divided it into the following two phases:

- Phase 1: financial reporting issues in the period prior to the replacement of an existing reference interest rate by an alternative interest rate
- Phase 2: issues relating to financial reporting at the time of replacement of an existing reference interest rate by an alternative interest rate

The amendments to the standard represent the result of the first phase and deal with the effects on certain hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement and related disclosures in the notes to IFRS 7 Financial Instruments: disclosures arising from the uncertainties surrounding alternative interest rates per se and their introduction.

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

Standard/ interpretation		Obligation to apply from
• IFRS 3	Amendments to clarify the definition of a business	01.01.2020
• IFRS 17	Accounting for insurance contracts	01.01.2021
• IAS 1	Amendments regarding the classification of liabilities	01.01.2020
• IFRS 10, IAS 28	Amendments regarding the sale or contribution of assets between an investor and an associated company or joint ventures*	

* The originally planned first-time application period was postponed indefinitely and has to be redefined by the IASB.

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 annex). Liabilities to banks are secured by way of entries in the land register in the amount of EUR 14,943 thousand (previous year: EUR 15,495 thousand) and transfers of title to production facilities totalling EUR 10,239 thousand (previous year: EUR 9,782 thousand).

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

a) Intangible assets

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

The acquisition costs and the additions, disposals and reclassifications are made up as follows:

in EUR thousand	Internally generated intangible assets	Acquired intangible assets	Goodwill	Total
As of 01.01.2018	**1,112**	**3,146**	**15,090**	**19,348**
Additions	368	1,258	0	1,626
Disposals	18	122	0	140
Reclassifications	-35	2	0	-33
As of 31.12.2018	**1,427**	**4,284**	**15,090**	**20,801**
Additions	419	560	0	979
Disposals	69	309	0	378
Reclassifications	132	-132	0	0
As of 31.12.2019	**1,909**	**4,403**	**15,090**	**21,402**

Current and accumulated amortisation is broken down as follows:

in EUR thousand	Internally generated intangible assets	Acquired intangible assets	Goodwill	Total
As of 01.01.2018	**356**	**1,856**	**5,903**	**8,115**
Amortisation fiscal year	52	227	0	279
Disposals	0	122	0	122
As of 31.12.2018	**408**	**1,961**	**5,903**	**8,272**
Amortisation fiscal year	67	211	0	278
Disposals	11	253	0	264
Exchange rate differences	0	1	0	1
As of 31.12.2019	**464**	**1,920**	**5,903**	**8,287**

The carrying amounts break down as follows:

in EUR thousand	Internally generated intangible assets	Acquired intangible assets	Goodwill	Total
As of 31.12.2018	**1,019**	**2,323**	**9,187**	**12,529**
As of 31.12.2019	**1,445**	**2,483**	**9,187**	**13,115**

b) Financial assets

Financial assets are composed as follows:

in EUR thousand	31.12.2019	31.12.2018
Investment securities	**65**	**98**

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

In the fiscal year 2019, impairments amounting to EUR 33 thousand were recognised directly in equity (see note 9).

Acquisition costs, unrealised gains, unrealised losses and market values of securities available for sale as of 31 December 2019 are as follows:

in EUR thousand	Acquisition cost	Unrealised losses	Market value
	707	**642**	**65**

Income from securities totalled EUR 2 thousand (previous year: EUR 3 thousand).

4. Inventories

Inventories are composed of the following items:

in EUR thousand	31.12.2019	31.12.2018
Raw materials, consumables and supplies	9,757	8,050
Unfinished goods	630	581
Finished goods and products	8,218	8,025
Advance payments	18	6
Total inventories	**18,623**	**16,662**

Inventories in the amount of EUR 25.595 thousand (previous year: EUR 24,930 thousand) were recorded under cost of materials (see note 20).

Raw materials, consumables and supplies rose by EUR 1,707 thousand to EUR 9,757 thousand. Unfinished goods increased by EUR 49 thousand to EUR 630 thousand. Finished goods and products increased by EUR 193 thousand to EUR 8,218 thousand and advance payments made grew by EUR 12 thousand to EUR 18 thousand.

Depreciation of inventories to the net realisable value amounted to EUR 136 thousand (previous year: EUR 92 thousand).

5. Receivables and other assets

Receivables and other assets break down as follows:

in EUR thousand	31.12.2019	31.12.2018
Trade receivables	7,359	7,490
Other assets	795	754
Other financial assets	0	2
Total receivables and other assets	**8,154**	**8,246**

Other assets of EUR 27 thousand (previous year: EUR 29 thousand) have a residual maturity of more than 1 year.

Other assets break down as follows:

in EUR thousand	31.12.2019	31.12.2018
Prepaid expenses	345	370
Receivables from health insurance companies	78	44
Security deposits	60	52
Creditors with debit balances	55	21
Receivables from tax authorities	25	131
Receivables from personnel	24	43
Bonus receivables	0	14
Other	208	79
Total other assets	**795**	**754**

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

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

Receivables from tax authorities primarily relate to VAT receivables.

“Other financial assets” are discussed in note 16.

6. Trade receivables

Trade receivables are valued as follows:

in EUR thousand	31.12.2019	31.12.2018
Nominal amount of trade receivables	7,409	7,541
Impairments	-50	-51
Trade receivables	**7,359**	**7,490**

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

The total write-downs from trade receivables for individual risks amount to EUR 50 thousand (previous year: EUR 51 thousand).

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

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

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

2018 in EUR thousand		
Carrying amount		**7,490**
1. thereof: neither impaired nor overdue on the balance sheet date		**5,120**
2. thereof: not impaired but overdue on the balance sheet date		**2,370**
Less than 30 days	1,323	
30 to 59 days	546	
60 to 89 days	231	
90 to 119 days	125	
120 days or more	145	

7. Income tax assets

Income tax assets amounted to EUR 520 thousand at the balance sheet date (previous year: EUR 865 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:

in EUR thousand	31.12.2019	31.12.2018
Cash in hand and bank balances	6,908	4,370

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

NOTES TO THE CONSOLIDATED BALANCE SHEET: LIABILITIES

9. Total equity

— Capital management

The Masterflex Group 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 equity can be seen in the statement of changes in equity.

— Subscribed capital/issued capital

The subscribed capital of Masterflex SE increased by EUR 886,586.00 from EUR 8,885,874.00 to EUR 9,752,460.00 through a capital increase on 21 March 2017 and is fully paid up.

No treasury shares were sold or newly acquired in the fiscal year 2019. 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 EUR 134,126. They represent 1.38% of the share capital. The shares were acquired between September 2004 and July 2005. The relevant Annual General Meeting resolutions from 2004 and 2005 authorised the company to acquire treasury shares with a notional interest in the company's share capital of up to EUR 450,000. At the date of the Annual General Meeting, this was 10% of the company's share capital of EUR 4,500,000. The acquired shares, together with the other treasury shares held by the company or attributable to it in accordance with section 71a et seq AktG, could not exceed 10% 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 subscribed capital of EUR 9,752,460 and issued capital of EUR 9,618,334.00.

— Authorisation to buy treasury shares

The Annual General Meeting on 14 June 2016 authorised the Management Board with the approval of the Supervisory Board from 15 June 2016 to 14 June 2021 to acquire treasury shares of up to 10% of the company's share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised.

In this connection, we refer to our comments in section C III "Other disclosures in accordance with sections 289 and 315 HGB" in the combined management report.

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

— Authorised capital

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

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

The Management Board is authorised to amend the wording of section 4 of the articles of association following the full or partial implementation of the share capital increase to reflect the extent to which 2017 authorised capital has been utilised and, if the 2017 authorised capital is not fully utilised by 14 June 2021, after the authorisation period expires.

We also refer to our comments on authorised capital in section C III "Other disclosures in accordance with sections 289 and 315 HGB" in the combined management report.

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

— Contingent capital

At the company annual general meeting on 28 May 2019 the Management Board of the company authorised, with agreement of the supervisory board, once or repeatedly the issue of convertible or option bonds in bearer or registered form up to 27 May 2024 in the total nominal value of up to EUR 60,000,000.00.

We also refer to our comments on contingent capital in section C III "Other disclosures in accordance with sections 289 and 315 HGB" in the combined management report.

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

— Capital reserve

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

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

— Retained earnings

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

— Reserve for the market valuation of financial instruments

In accordance with IFRS 9, the company's investment securities are classified as FVOCI (fair value through other comprehensive income). 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 recognised directly in equity and reported in the item "reserve for the market valuation of financial instruments".

— Exchange differences

The exchange differences recognised in equity are composed as follows:

in EUR thousand	Exchange differences from the translation of foreign financial statements	Exchange differences according to IAS 21.17	Exchange differences according to IAS 21.19	Exchange differences according to IAS 21.32	Total
As of 31.12.2017	-738	-246	95	-159	-1,048
Change 2018	329	-38	0	4	295
As of 31.12.2018	-409	-284	95	-155	-753
Change 2019	112	-22	0	56	146
As of 31.12.2019	-297	-306	95	-99	-607

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 EUR 35 thousand (previous year: EUR -34 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. Non-controlling interests

There were non-controlling interests in Masterflex Group companies totalling EUR -618 thousand (previous year: EUR -497 thousand).

11. Provisions

The provisions are made up as follows:

in EUR thousand	As of 01.01.2019	Utilisation	Reversal	Additions	As of 31.12.2019
Bonuses	482	404	0	86	164
Warranties	359	129	230	0	0
Total	**841**	**533**	**230**	**86**	**164**

a) Non-current provisions

Non-current provisions relate to the performance-related components of Management Board compensation amounting to EUR 164 thousand (previous year: EUR 209 thousand) which are only to be paid out in the third year following the base year.

b) Current provisions

Warranty provisions related to warranty and goodwill costs incurred in relation to the sales generated in the year under review. As of fiscal year 2019, warranty obligations are reported under other liabilities.

12. Financial liabilities

Financial liabilities as of 31 December 2019 consisted of:

in EUR thousand	31.12.2019	31.12.2018
Liabilities to banks	24,325	18,856
Leasing liabilities	1,979	0
Non-current financial liabilities	**26,304**	**18,856**
Liabilities to banks	3,609	7,643
Leasing liabilities	936	0
Current financial liabilities	**4,545**	**7,643**
Total financial liabilities	**30,849**	**26,499**

— Liabilities to banks

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

in EUR thousand	31.12.2019	31.12.2018
Liabilities with a residual term of up to 1 year	3,609	7,643
Liabilities with a residual term of between 1 and 5 years	24,325	18,856
Total liabilities to banks	**27,934**	**26,499**

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

The syndicated loan agreement concluded in August 2019 has a volume of EUR 34.9 million and an expiry date of September 2024. The exercise price was EUR 28.2 million on the balance sheet date. Owing to the use of effective interest methods, a difference arose between the credit amount used of EUR 28,210 thousand and the liabilities to banks reported at amortised cost of EUR 27,934 thousand as of 31 December 2019 amounting to EUR 276 thousand.

The syndicated loan agreement was reduced in the balance sheet by the directly attributable transaction costs of EUR 292 thousand at initial recognition. The subsequent measurement is carried out at 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 companies by assets with a book value of EUR 40,106 thousand (previous year: EUR 39,478 thousand).

Of this, EUR 14,934 thousand is attributable to land charges, EUR 10,239 thousand to other non-current assets, EUR 10,958 thousand to inventories, EUR 3,967 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 1.40% and 2.0% depending on the maturity and purpose of the respective liabilities (previous year: 1.40% and 2.5%).

As of 31 December 2019, the company had cash advance facilities totalling EUR 8,579 thousand. Of this, credit lines totalling EUR 6,579 thousand were not utilised.

— Leasing liabilities

The outstanding lease payments have the following maturities:

in EUR thousand	31.12.2019	31.12.2018
Liabilities with a residual term of up to 1 year	1,979	0
Liabilities with a residual term of between 1 and 5 years	936	0
Total leasing liabilities	**2,915**	**0**

The first-time recognition of lease liabilities in 2019 is primarily due to the change in accounting for leases as a result of the first-time application of IFRS 16. More detailed information on lease liabilities is provided in note 17.

13. Income tax liabilities

Income tax liabilities relate to current taxes and totalled EUR 185 thousand at the balance sheet date (previous year: EUR 249 thousand).

14. Other liabilities

The details of other liabilities are shown in the following table:

in EUR thousand	31.12.2019	31.12.2018
Trade payables	2,249	2,101
Advance payments on orders received	476	485
Miscellaneous liabilities	4,695	3,914
Total other liabilities	**7,420**	**6,500**

Miscellaneous liabilities include the following items:

in EUR thousand	31.12.2019	31.12.2018
Premiums, severance payments, commissions	1,388	877
Deferred income	847	910
Tax liabilities	662	482
Bonuses to customers	356	112
Outstanding invoices	270	323
Acquisition costs	231	195
Holiday	207	193
Social security	169	141
Liabilities to employees	167	189
Employer's Liability Insurance Association	95	174
Debtors with credit balances	31	89
Miscellaneous	272	229
Total	**4,695**	**3,914**

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

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

in EUR thousand	31.12.2019	31.12.2018
Grants	544	578
Subsidies	303	332
Total	**847**	**910**

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

in EUR thousand	31.12.2019	31.12.2018
Release of grants	34	37
Release of subsidies	29	30
Total	**63**	**67**

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 EUR 1,006 thousand (previous year: EUR 956 thousand), which do not fall due until one year after the balance sheet date.

15. Trade payables

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

in EUR thousand	31.12.2019	31.12.2018
Trade payables	2,249	2,101

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to EUR 2,249 thousand (previous year: EUR 2,101 thousand) are due within one year.

16. Financial instruments

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

The following overview summarises the carrying amounts of the financial instruments included in the consolidated financial statements according to the IAS/IFRS measurement categories:

in EUR thousand	31.12.2019	31.12.2018
Financial assets		
Measured at amortised cost	15,062	12,614
Measured at fair value through profit or loss	0	2
Measured at fair value through other comprehensive income	65	98
Financial liabilities		
Measured at amortised cost	37,332	33,058
Measured at fair value through other comprehensive income	90	31

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

	31.12.2019						
	Total	AC		FVPL		FVOCI	
in EUR thousand	CA*	CA*	FV*	CA*	FV*	CA*	FV*
ASSETS							
Financial assets	65	0	0	0	0	65	65
Cash and cash equivalents	6,908	6,908	6,908	0	0	0	0
Trade receivables	7,359	7,359	7,359	0	0	0	0
Other assets	450	450	450	0	0	0	0
Total assets	**14,782**	**14,717**	**14,717**	**0**	**0**	**65**	**65**
EQUITY AND LIABILITIES							
Liabilities to banks	27,934	27,934	27,934	0	0		
Leasing liabilities	2,915	2,915	2,915	0	0		
Trade payables	2,249	2,249	2,249	0	0		
Other liabilities	4,324	4,234	4,234	0	0	90	90
Total equity and liabilities	**37,422**	**37,332**	**37,332**	**0**	**0**	**90**	**90**

* CA = Carrying amount, FV = Fair value

	31.12.2018						
	Total	AC		FVPL		FVOCI	
in EUR thousand	CA*	CA*	FV*	CA*	FV*	CA*	FV*
ASSETS							
Financial assets	98	0	0	0	0	98	98
Cash and cash equivalents	4,370	4,370	4,370	0	0	0	0
Trade receivables	7,490	7,490	7,490	0	0	0	0
Other assets	384	382	382	2	2	0	0
Total assets	**12,342**	**12,242**	**12,242**	**2**	**2**	**98**	**98**
EQUITY AND LIABILITIES							
Liabilities to banks	26,499	26,499	26,499	0	0		
Trade payables	2,101	2,101	2,101	0	0		
Other liabilities	4,489	4,458	4,458	0	0	31	31
Total equity and liabilities	**33,089**	**33,058**	**33,058**	**0**	**0**	**31**	**31**

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

The Masterflex Group has pledged financial assets in the amount of EUR 3,967 thousand (current receivables) as collateral for financial liabilities. The Masterflex Group has no collateral with respect to financial assets.

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

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

31.12.2019 in EUR thousand	Credit quality	Treatment	Gross carrying amount	Value adjustment	Net carrying amount
Other assets	recoverable	12-month ECL*	795	0	0
	non-performing	lifetime ECL*	0	0	0
			795	**0**	**0**
Trade payables	recoverable	lifetime ECL* simplified approach	7,359	0	7,359
	non-performing	lifetime ECL*	50	50	0
			7,409	**50**	**7,359**
Cash and cash equivalents	recoverable	12-month ECL*	6,908	0	6,908
	non-performing	lifetime ECL*	0	0	0
			6,908	**0**	**6,908**

* ECL = Expected Credit Loss

31.12.2018 in EUR thousand	Credit quality	Treatment	Gross carrying amount	Value adjustment	Net carrying amount
Other assets	recoverable	12-month ECL	756	0	0
	non-performing	lifetime ECL	0	0	0
			756	**0**	**0**
Trade receivables	recoverable	lifetime ECL simplified approach	7,490	0	7,490
	non-performing	lifetime ECL	51	51	0
			7,541	**51**	**7,490**
Cash and cash equivalents	recoverable	12-month ECL	4,370	0	4,370
	non-performing	lifetime ECL	0	0	0
			4,370	**0**	**4,370**

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

The balance of value adjustments has developed as follows:

in EUR thousand		
01.01.2019		51
Adjustments due to changes in credit rating parameters	Increase from revaluation of receivables	0
	Reduction due to reversal of impairment losses	0
Adjustments due to changes in the gross amount of assets	Reduction due to the derecognition of assets	1
	Increase due to the capitalisation of assets	0
31.12.2019		50

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

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

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

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

— Net income from financial instruments

Net results 2019 broken down by valuation category:

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

Net results 2018 broken down by valuation category:

in EUR thousand	Interest result	Operating result	Other result	Net results 2018
Financial assets				
Measured at amortised cost	0	-16	0	-16
Measured at fair value through profit or loss	-16	0	0	-16
Measured at fair value through other comprehensive income	0	0	20	20
Financial liabilities				
Measured at amortised cost	-1,062	0	0	-1,062
Measured at fair value through profit or loss (hedging relationship)	0	0	31	31
Total	**-1,078**	**-16**	**51**	**-1,043**

— Derivative financial instruments

The Group has entered into a contract for fixed forward exchange transactions to hedge highly probable transactions (sales of products) and is accounted for as a hedging relationship. The agreement has a term until 15 March 2022. The market value of the derivative concluded for a total of USD 2,700 thousand amounted to EUR -129 thousand on the balance sheet date and was recorded under other liabilities. As the hedging relationship was essentially classified as fully effective, EUR 44 thousand was recognised in other comprehensive income as changes in the value of the hedging instrument.

As of 31 December 2019, the amount recognised in the reserve for hedging instruments was EUR 129 thousand less the related deferred taxes.

The fair value of the forward exchange transactions was determined on the basis of a Black-Scholes valuation.

The recognition of forward exchange transactions and options includes the fair value of EUR 0 thousand (previous year: EUR 2 thousand). The derivative financial instrument was concluded to hedge against varying interest payments from variable-interest loans (interest cap) in the amount of EUR 32 thousand.

Recognition was made under other financial assets on the basis of current market conditions at the balance sheet date. The financial instrument is assigned to Level 2 as input factors that are either directly or indirectly observable for assets or liabilities.

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

The interest cap is not accounted for as a hedging relationship. The change in the fair value of EUR 2 thousand (previous year: EUR 16 thousand) is recognised through profit or loss in interest income.

		Fair value	
Derivative financial instruments	Historical acquisition costs EUR thousand	31.12.2019 EUR thousand	31.12.2018 EUR thousand
Derivatives without hedging relationship	58	0	2

17. Leases

The conversion effects of the change in accounting for leases at the time of first-time application of IFRS 16 and the use of options are presented in section 2.

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

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

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

Please refer to sections 12 and 29 for details on leasing liabilities.

In connection with leases, the following amounts were also recognised in the income statement in 2019:

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

The cash outflows in connection with activities as lessee amounted to EUR 1,489 thousand in 2019.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

18. Revenue

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

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

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

Revenues from development services for customers, which are recognised either for a specific period or point in time, did not arise in the fiscal year 2018 and 2019.

Revenues include sales of high-tech hoses and connecting systems less sales deductions and were all recognised in the fiscal year 2019 on a time basis.

As of 31 December 2019, trade receivables amounted to EUR 7,359 thousand (previous year: EUR 7,490 thousand). Assets from customer contracts did not exist either as of 31 December 2018 or as of 31 December 2019.

In the fiscal year 2019, impairment losses of EUR 50 thousand were recognised on receivables from contracts with customers.

19. Other income

Other income breaks down as follows:

in EUR thousand	2019	2018
Income from non-typical ancillary sales	381	299
Income from the release of provisions	230	20
Other income relating to other periods	176	23
Exchange rate gains from currency conversions	149	86
Subsidies	63	67
Rental income	36	0
Compensation	30	62
Income from the reversal of value adjustments on receivables	8	0
Grants	0	10
Miscellaneous	83	58
Total	**1,156**	**625**

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

20. Cost of materials

The cost of materials is made up as follows:

in EUR thousand	2019	2018
Cost of raw materials, consumables and supplies	25,595	24,930
Cost of purchased services	372	305
Total	**25,967**	**25,235**

21. Other expenses

Other expenses break down as follows:

in EUR thousand	2019	2018
Selling expenses	6,121	6,184
Operating costs	2,449	2,523
Administrative expenses	2,083	2,013
Premises costs	2,006	2,529
Insurances	433	436
Expenses from exchange rate differences	254	104
Expenses for value adjustments	41	80
Other	113	133
Other taxes	276	275
Total	**13,776**	**14,277**

22. Research and development costs

Capitalisable development costs are reported under “Intangible assets”. Research costs and non-capitalisable development costs are expensed as incurred. In the fiscal year 2019, research and development costs totalled EUR 447 thousand (previous year: EUR 378 thousand).

23. Personnel expenses

In 2019, personnel expenses increased by EUR 1,890 thousand to EUR 32.683 thousand (previous year: EUR 30,793 thousand). Personnel expenses include wages and salaries in the amount of EUR 27,007 thousand (previous year: EUR 25,475 thousand) and social security, post-employment and other employee benefit costs totalling EUR 5,677 thousand (previous year: EUR 5,318 thousand).

Defined contribution plans exist for the company pension scheme. With defined contribution plans, the company makes no further commitments regarding the payment of contributions to the fund. Expenses are posted in current personnel expenses; no provision is recognised. Expenses amounted to EUR 393 thousand (previous year: EUR 283 thousand). Employer contributions to the pension insurance scheme are not included in these expenses.

24. Impairment of assets

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

Goodwill and internally generated intangible assets which have not yet been produced are reviewed for impairment annually. If events or changes in circumstances suggest that an asset may be impaired, impairment testing must be performed more frequently.

In the course of impairment testing within the Masterflex Group residual carrying amounts of the individual cash-generating units are compared with their recoverable amounts, i.e. the higher of the fair value less costs to sell and the value in use.

If the carrying amount of a cash-generating unit is higher than its recoverable amount, an impairment loss is 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 4.48% and 6.19% (previous year: 3.28% and 4.97%).

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

in EUR thousand	
APT Advanced Polymer Tubing GmbH	5,929
Flexmaster USA, Inc.	1,488
FLEIMA-PLASTIC GmbH	1,075
Novoplast Schlauchtechnik GmbH	462
Matzen & Timm GmbH	233
Total	**9,187**

No impairment requirement arose in the impairment test of the business or goodwill in the fiscal years 2018 and 2019. An increase in the discounting interest rate by 1 percentage point would not have led to an extraordinary write-down of the business or goodwill.

25. Financial result

The financial result breaks down as follows:

in EUR thousand	2019	2018
Other interest and similar income	26	3
Interest and similar expenses	-1,317	-1,062
Total	**-1,291**	**-1,059**

Interest income relates to current items.

26. Income tax expense

The income tax expense in the income statement is made up as follows:

in EUR thousand	2019	2018
Income tax expense	-612	-785
Deferred taxes		
from temporal differences	-108	-3
from loss carryforwards	-90	-980
Total deferred taxes	-198	-983
Total income tax expense	**-810**	**-1,768**

The following reconciliation of income taxes for the fiscal year 2019 is based on the total tax rate of 30.0% (previous year: 30.0%) and reconciles to the effective tax rate of 24.9% (previous year: 35.1%):

in EUR thousand	2019	2018
Earnings before income taxes	3,251	5,042
Anticipated tax expense 30.0%	-975	-1,513
Change in deferred tax assets on losses carried forward or use of losses carried forward in the fiscal year/unused losses	-74	-421
Tax refunds/payments of arrears from previous years	40	23
Effects of non-deductible expenses and tax-free income	17	-43
Tax effect on tax rate differences	163	197
Other	19	-11
Total tax expense	**-810**	**-1,768**

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

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

	31.12.2019		31.12.2018	
in EUR thousand	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards	524	0	614	0
Non-current assets	326	1,546	337	1,454
Inventories	7	0	9	0
Receivables	19	68	28	37
Other assets	74	26	53	17
Provisions	21	0	31	0
Liabilities	224	83	174	88
Before netting	**1,195**	**1,723**	**1,246**	**1,596**
thereof non-current	516	1,492	479	1,405
Netting	-797	-797	-735	-735
Consolidated balance sheet	**398**	**926**	**511**	**861**

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 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 2019, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of EUR 524 thousand (previous year: EUR 614 thousand).

For foreign companies, the applicable tax rates vary between 19.0% and 34.4%.

No deferred tax assets were recognised for tax loss carryforwards in the amount of EUR 8,971 thousand (previous year: EUR 8,729 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 EUR 0 thousand (previous year: EUR -14 thousand) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognised directly in equity.

27. Earnings per share

Earnings per share are calculated as follows:

	Continued business units	Discontinued business units	Continued and discontinued business units
Profit for the fiscal year 2019 (EUR thousand)	2,532	0	2,532
Weighted average of outstanding shares	9,618,334	9,618,334	9,618,334
Earnings per share (EUR)	**0.26**	**0.00**	**0.26**

	Continued business units	Discontinued business units	Continued and discontinued business units
Profit for the fiscal year 2018 (EUR thousand)	3,431	-58	3,373
Weighted average of outstanding shares	9,618,334	9,618,334	9,618,334
Earnings per share (EUR)	**0.36**	**-0.01**	**0.35**

There were no dilutive effects in the fiscal year 2019 or the previous year.

28. Appropriation of results

The annual financial statements of Masterflex SE prepared in accordance with the German Commercial Code show a balance sheet profit of EUR 10,564 thousand as of 31 December 2019.

The Management Board and Supervisory Board propose to the Annual General Meeting that an amount of EUR 673,283.38 of Masterflex SE‘s balance sheet profit as of 31 December 2019 of EUR 10,563,694.43 be distributed to shareholders as a dividend on the 9,618,334 shares of share capital as of 31 December 2019 and that the remaining amount of EUR 9,890,411.05 be carried forward to new account. This corresponds to a dividend of EUR 0.07 per share.

As of 31 December 2019, Masterflex SE has amounts of EUR 1,134 thousand in total that are not available for distribution, of which EUR 185 thousand relates to deferred tax assets and EUR 949 thousand to the capitalisation of development costs.

29. Financial risk management

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

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

— Exchange rate risk management

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

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

As of 31 December 2019, the Group held the following instruments to hedge against changes in exchange rates and interest rates:

	Maturity		
	1-6 months	7-12 months	More than one year
Exchange rate risk			
Forward exchange transactions			
Net risk in USD thousand	600	600	1,500
Average EUR:USD forward rate	1.2165	1.2165	1.2165

— 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 EUR 251 thousand.

— Default risk management

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

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

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

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

— Liquidity risk management

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

The table shows the contractually agreed repayments of financial liabilities:

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

2018 in EUR thousand	Carrying amount	2019	2020	2021	2022	2023	≥ 2024
Trade payables	2,101	2,101	0	0	0	0	0
Liabilities to banks	26,499	7,643	3,643	15,213	0	0	0
Other liabilities	3,004	3,004	0	0	0	0	0
Total	**31,604**	**12,748**	**3,643**	**15,213**	**0**	**0**	**0**

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 EUR 847 thousand (previous year: EUR 910 thousand) does not have a cash impact. Its reversal is therefore not presented in this table.

30. Other financial obligations

As of the balance sheet date, there were no contingent liabilities from warranty agreements, guarantees and other contingent liabilities.

31. Segment reporting

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

As a result of the implementation of the Group strategy and associated concentration on the core business unit of High-Tech Hose Systems (HTHS), business transactions relating to the discontinued business unit are presented under this category. In this way, Masterflex SE has one operating segment, its core business unit (HTHS).

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

The segments are controlled both in terms of revenue and earnings. EBIT serves as an earnings indicator in the Masterflex Group.

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.

Segment information by business units:

2019 in EUR thousand	HTHS	Total of continued business units	Discontinued business units	Group
Revenue from non-Group third parties	79,969	**79,969**	0	79,969
EBIT	4,542	**4,542**	0	4,542
Investments in property, plant and equipment and intangible assets	3,190	**3,190**	0	3,190
Scheduled depreciation and amortisation	4,598	**4,598**	0	4,598
Assets	81,559	**81,559**	0	81,559

2018 in EUR thousand	HTHS	Total of continued business units	Discontinued business units	Group
Revenue from non-Group third parties	77,243	**77,243**	0	77,243
EBIT	6,101	**6,101**	-16	6,085
Investments in property, plant and equipment and intangible assets	5,186	**5,186**	0	5,186
Scheduled depreciation and amortisation	3,341	**3,341**	0	3,341
Assets	75,173	**75,173**	0	75,173

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

2019 in EUR thousand	Revenue from non-Group third parties	Thereof continued business units
Germany	36,560	36,560
Rest of Europe	20,143	20,143
Third countries	23,266	23,266
Total	**79,969**	**79,969**

2018 in EUR thousand	Revenue from non-Group third parties	Thereof continued business units
Germany	37,800	37,800
Rest of Europe	18,861	18,861
Third countries	20,582	20,582
Total	**77,243**	**77,243**

In the fiscal year 2019, revenue equalling more than 10% of consolidated revenue was not generated with any customers from the continued business units.

The reconciliation of EBIT from continued business units to earnings after taxes is as follows:

Reconciliation to consolidated earnings after taxes in EUR thousand	2019	2018
EBIT from continued business units	**4,542**	**6,101**
Interest income/income from investments	26	3
Interest expense and the like	-1,317	-1,062
EBT from continued business units	**3,251**	**5,042**
Taxes on income and earnings	-612	-785
Deferred taxes	-198	-983
Earnings after taxes from continued business units	**2,441**	**3,274**

Rounding differences possible

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

Non-current assets in EUR thousand	2019	2018
Germany	40,457	38,630
Rest of Europe	1,168	1,139
Third countries	5,293	4,681
Total	**46,918**	**44,450**

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

Reconciliation to Group assets in EUR thousand	2019	2018
Total assets of continued segments	80,576	73,698
Deferred tax assets	398	512
Tax receivables	520	865
Financial assets	65	98
Total Group assets	**81,559**	**75,173**

32. Cash flow statement

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

The consolidated cash flow statement is prepared using the indirect method for cash flows from operating activities and the direct method for cash flows from investing and financing activities.

The first-time application of IFRS 16 had a positive effect on the operating cash flow, as lease expenses are no longer recognised in the operating result.

From 1 January to 31 December 2019, liabilities from financing activities developed as follows:

in EUR thousand	As of 31.12.2018	Cash-effective	Non-cash (accrued interest)	New contracts IFRS 16	As of 31.12.2019
Current financial liabilities	7,643	-4,035	1	936	4,545
Non-current financial liabilities	18,856	5,469	0	1,979	26,304
Total liabilities from financing activities	**26,499**	**1,434**	**1**	**2,915**	**30,849**

33. 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.

The reportable compensation of the key management positions in the Group in accordance with IAS 24 comprises the compensation of the Management Board and the Supervisory Board.

The compensation of the Management Board is performance-related in its entirety and consisted of three components in the fiscal year: non-performance-related compensation, performance-related compensation and components with long-term incentive effect.

Disclosure of the compensation for the Chairman takes place in individualised form as is recommended in the German Corporate Governance Code and the standardised reference tables (as amended). The essential characteristic of these reference tables is the separate classification of the granted subsidies (Table 1) and the actual inflow (Table 2). For grants, the target values will also be specified (payment with 100% achievement of objectives) as well as the achievable minimum and maximum values.

The compensation of the Management Board for its services is shown below:

Table 1: compensation of the Management Board (grant consideration)

	Dr. Andreas Bastin CEO since 1 April 2008				Mark Becks CFO since 1 June 2009			
	2018	2019	2019	2019	2018	2019	2019	2019
in EUR thousand	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	378	378	378	378	262	262	262	262
Fringe benefits	41	42	42	42	37	39	39	39
Total	**419**	**420**	**420**	**420**	**299**	**301**	**301**	**301**
One-year variable compensation								
Bonus	108	100	0	158	72	67	0	106
Multi-year variable compensation								
Bonus 2019 - 2021		51	0	82		34	0	54
Bonus 2018 - 2020	56		0		37		0	
Total compensation	**583**	**571**	**420**	**660**	**408**	**402**	**301**	**461**

Table 2: compensation of the Management Board (inflow consideration)

	Dr. Andreas Bastin CEO since 1 April 2008				Mark Becks CFO since 1 June 2009			
	2018	2019	2019	2019	2018	2019	2019	2019
in EUR thousand	Initial value	Initial value	Minimum	Maximum	Initial value	Initial value	Minimum	Maximum
Fixed compensation	378	378	378	378	262	262	262	262
Fringe benefits	41	42	42	42	37	39	39	39
Total	**419**	**420**	**420**	**420**	**299**	**301**	**301**	**301**
One-year variable compensation								
Bonus	140	118	0	158	76	93	0	106
Multi-year variable compensation								
Bonus 2016 - 2018		69	0	82		37	0	54
Bonus 2015- 2017	57		0		31		0	
Total compensation	**616**	**607**	**420**	**660**	**423**	**417**	**301**	**461**

Table 3: compensation of the Management Board

	Dr. Andreas Bastin CEO since 1 April 2008		Mark Becks CFO since 1 June 2009	
	2018	2019	2018	2019
in EUR thousand	Granted	Granted	Granted	Granted
Fixed compensation	378	378	262	262
Fringe benefits	41	42	37	39
Total	**419**	**420**	**299**	**301**
One-year variable compensation				
Bonus	118	100	79	67
Multi-year variable compensation				
Bonus 2017 - 2019		54		36
Bonus 2016 - 2018	69		37	
Total compensation	**606**	**574**	**415**	**404**

The members of the Supervisory Board were compensated as follows:

	Fixum		Attendance fee		Total disbursement-relevant compensation	
in EUR thousand	2018	2019	2018	2019	2018	2019
Chairman of the Supervisory Board, Georg van Hall (since 14.06.2016)	30	30	2	3	32	33
Deputy Chairman of the Supervisory Board, Dr. Gerson Link (since 14.06.2016)	25	25	2	3	27	28
Supervisory Board member, Jan van der Zouw (since 14.06.2016)	20	20	2	3	22	23
Total compensation	**75**	**75**	**6**	**9**	**81**	**84**

Members of the Supervisory Board have not received any additional compensation in the reporting year and/or benefits for services provided personally, in particular, consulting and brokerage services. No credit or advances were granted to Supervisory Board members over the past year nor were any contingent liabilities in their favour entered into.

34. Declaration of conformity with the German Corporate Governance Code

In December 2019, the declaration of conformity in accordance with section 161 AktG was again submitted by the Management Board and Supervisory Board of Masterflex SE and made permanently available to shareholders via the company's website, www.MasterflexGroup.com/Investor Relations/Corporate_Governance.

35. Number of employees

The number of employees in the period under review can be broken down by operational functional areas as follows:

	2019	2018
Production	447	455
Sales department	102	104
Administration	90	77
Technology	37	33
Group employees	**676**	**669**
thereof trainees	18	19

36. Audit and advisory fees

The fees expensed (provision) in the fiscal year 2019 for the auditors of the consolidated financial statements, Baker Tilly GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, amounted to EUR 150 thousand and consisted of fees for the audit of the consolidated financial statements and the statutory separate financial statements of Masterflex SE and its domestic subsidiaries.

37. Exemption from publication

In accordance with section 264 (3) HGB, the following companies included in the consolidated financial statements are exempt from the requirement to publish their annual financial statements:

- Novoplast Schlauchtechnik GmbH
- Matzen & Timm GmbH
- M&T Verwaltungs GmbH
- FLEIMA-PLASTIC GmbH

38. Events after the balance sheet date

— Economic effects of the spread of the coronavirus SARS-CoV-2

The global spread of the coronavirus has increased exponentially in the first two and a half months of 2020. The Management Board therefore prepared an updated forecast as of 30 March 2020. There are considerable uncertainties as to how the negative economic effects will turn out in the course of the year. The Management Board believes that the spread of the coronavirus could lead to significant negative effects on the global economy, the industry economy and the revenue and earnings performance of the Masterflex Group. For this reason, the Management Board does not believe that it is currently possible to make a quantitative forecast for 2020. The targets for 2020 given in the forecast report will be updated as soon as the effects of the coronavirus pandemic can be better estimated. In addition, we refer to the relevant presentations in the risk and forecast report of the combined management report.

39. Publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Management Board on 30 March 2020 and published on 31 March 2020.

40. Equity investments

The complete list of equity investments of Masterflex AG is published in the Federal Gazette.

Gelsenkirchen, 30 March 2020

The Management Board

Dr. Andreas Bastin
CEO

Mark Becks
CFO

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2019

in EUR thousand	AC/PC 01.01.2019	Recognition of usage rights from first-time application of IFRS 16	Additions	Disposals	Reclassifi-cation	Exchange rate differences	AC/PC 31.12.2019
Intangible assets							
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	3,116	0	369	305	1,225	0	4,405
Development services	1,087	0	419	69	132	0	1,569
Goodwill	15,090	0	0	0	0	0	15,090
Advance payments	1,508	0	191	4	-1,357	0	338
Total	**20,801**	**0**	**979**	**378**	**0**	**0**	**21,402**
Property, plant and equipment							
Land, land rights and buildings, including buildings on third-party land	26,237	3,252	78	0	0	40	29,607
- *thereof usage rights under IFRS 16*	0	3,252	0	0	0	-4	3,248
Technical equipment and machinery	32,632	0	491	17	1,662	120	34,888
Other equipment, operating and office equipment	10,458	673	523	351	39	38	11,380
- *thereof usage rights under IFRS 16*	0	673	0	0	0	1	674
Advance payments and assets under construction	781	0	1,119	1	-1,701	4	202
Total	**70,108**	**3,925**	**2,211**	**369**	**0**	**202**	**76,077**
Financial assets							
Investment securities	733	0	0	0	0	0	733
Other loans	0	0	0	0	0	0	0
Total	**733**	**0**	**0**	**0**	**0**	**0**	**733**
	91,642	**3,925**	**3,190**	**747**	**0**	**202**	**98,212**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2019

in EUR thousand	Accumulated depreciation 01.01.2019	Depreciation fiscal year	Disposals	Market value changes with no effect on income	Exchange rate differences	Accumulated depreciation 31.12.2019	As of 31.12.2019	As of 31.12.2018
Intangible assets								
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,229	219	253	0	1	2,196	2,209	887
Development services	140	59	11	0	0	188	1,381	947
Goodwill	5,903	0	0	0	0	5,903	9,187	9,187
Advance payments	0	0	0	0	0	0	338	1,508
Total	**8,272**	**278**	**264**	**0**	**1**	**8,287**	**13,115**	**12,529**
Property, plant and equipment								
Land, land rights and buildings, including buildings on third-party land	9,695	1,568	0	0	26	11,289	18,318	16,542
- thereof usage rights under IFRS 16	0	805	0	0	0	805	2,443	0
Technical equipment and machinery	20,850	1,748	23	0	86	22,661	12,227	11,782
Other equipment, operating and office equipment	7,671	1,004	358	0	34	8,351	3,029	2,787
- thereof usage rights under IFRS 16	0	262	0	0	0	262	412	0
Advance payments and assets under construction	0	0	0	0	0	0	202	781
Total	**38,216**	**4,320**	**381**	**0**	**146**	**42,301**	**33,776**	**31,892**
Financial assets								
Investment securities	635	0	0	33	0	668	65	98
Other loans	0	0	0	0	0	0	0	0
Total	**635**	**0**	**0**	**33**	**0**	**668**	**65**	**98**
	47,123	**4,598**	**645**	**33**	**147**	**51,256**	**46,956**	**44,519**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2018

in EUR thousand	AC/PC 01.01.2018	Additions	Disposals	Reclassi-fications	Exchange rate differences	AC/PC 31.12.2018
Intangible assets						
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,963	253	122	22	0	3,116
Development services	772	368	18	-35	0	1,087
Goodwill	15,090	0	0	0	0	15,090
Advance payments	523	1,005	0	-20	0	1,508
Total	**19,348**	**1,626**	**140**	**-33**	**0**	**20,801**
Property, plant and equipment						
Land, land rights and buil-dings, including buildings on third-party land	25,945	58	0	170	64	26,237
Technical equipment and machinery	29,863	1,109	153	1,614	199	32,632
Other equipment, operating and office equipment	9,661	831	79	-9	54	10,458
Advance payments and assets under construction	1,061	1,562	106	-1,742	6	781
Total	**66,530**	**3,560**	**338**	**33**	**323**	**70,108**
Financial assets						
Investment securities	733	0	0	0	0	733
Other loans	0	0	0	0	0	0
Total	**733**	**0**	**0**	**0**	**0**	**733**
	86,611	**5,186**	**478**	**0**	**323**	**91,642**

CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2018

in EUR thousand	Accumulated depreciation 01.01.2018	Depreciation fiscal year	Disposals	Market value changes with no effect on income	Exchange rate differences	Accumulated depreciation 31.12.2018	As of 31.12.2018	As of 31.12.2017
Intangible assets								
Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	2,117	234	122	0	0	2,229	887	846
Development services	95	45	0	0	0	140	947	677
Goodwill	5,903	0	0	0	0	5,903	9,187	9,187
Advance payments	0	0	0	0	0	0	1,508	523
Total	**8,115**	**279**	**122**	**0**	**0**	**8,272**	**12,529**	**11,233**
Property, plant and equipment								
Land, land rights and buildings, including buildings on third-party land	8,898	755	0	0	42	9,695	16,542	17,047
Technical equipment and machinery	19,279	1,562	144	0	153	20,850	11,782	10,584
Other equipment, operating and office equipment	6,940	745	52	0	38	7,671	2,787	2,721
Advance payments and assets under construction	0	0	0	0	0	0	781	1,061
Total	**35,117**	**3,062**	**196**	**0**	**233**	**38,216**	**31,892**	**31,413**
Financial assets								
Investment securities	655	0	0	-20	0	635	98	78
Other loans	0	0	0	0	0	0	0	0
Total	**655**	**0**	**0**	**-20**	**0**	**635**	**98**	**78**
	43,887	**3,341**	**318**	**-20**	**233**	**47,123**	**44,519**	**42,724**

RESPONSIBILITY STATEMENT

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

Gelsenkirchen, 30 March 2020

The Management Board

Dr. Andreas Bastin
CEO

Mark Becks
CFO

INDEPENDENT AUDITOR'S REPORT

to Masterflex SE, Gelsenkirchen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

— Audit opinions

We have audited the consolidated financial statements of Masterflex SE and its subsidiaries (the Group) – comprising the balance sheet as of 31 December 2019, consolidated profit and loss statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year from 1 January to 31 December 2019 and the notes to the consolidated financial statements including a summary of the significant accounting methods. We have also audited the combined management report for the fiscal year from 1 January to 31 December 2019.

In our opinion, based on the findings obtained during the audit,

- the attached consolidated financial statements correspond to the IFRS in all material aspects as applicable in the EU and to the German statutory provisions which are to be applied in accordance with section 315e (1) HGB and in compliance of these provisions gives a true and fair view of the financial position and results of the Group as of 31 December 2019 and its results of operations for the fiscal year from 1 January to 31 December 2019 and
- gives an accurate picture of the position of the Group in the attached combined management report. In all material aspects, this combined management report is consistent with the consolidated financial statements, corresponds to the German statutory regulations and accurately represents the opportunities and risks of future development. Our audit opinion on the combined management report and Group management report does not extend to the content of the declaration on corporate governance in accordance with sections 289f, 315d HGB (section C. I in the management report).

In accordance with section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the combined management report.

— Basis for the audit report

We have carried out our audit of the consolidated financial statements and the combined management report in compliance with section 317 HGB and the EU regulations on statutory auditing (no. 537/2014; hereinafter "EU-APrVO") in observance of the German principles governing the proper conduct of audit promulgated by the Institute of Auditors (IDW). Our responsibility according to these regulations and principles is described in more detail in the "Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report" section of our audit remarks. We are independent from the Group in accordance with the provisions under European Law and German commercial and professional law and have fulfilled our other German professional duties pursuant to these requirements. Moreover, in accordance with section 10 (2) letter f) of the EU-APrVO, we declare that we have not provided any non-audit services in accordance with section 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions of the consolidated financial statements and combined management report.

— Key audit matters in auditing the consolidated financial statements

Key audit matters are such matters which, to the best of our knowledge, were the most significant in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2019. These matters were taken into consideration in the context of our audit of the consolidated financial statements as a whole and in the formation of our audit report; we will not issue a separate audit report on these matters

Below, we present the key audit matters from our perspective.

I. Impairment of goodwill

II. Accounting for leases in accordance with IFRS 16

We have structured our presentation of these particularly key audit matters as follows:

1. Facts and discussion
2. Audit procedure and findings
3. Reference to other information

I. Impairment of goodwill

1. In the consolidated financial statements of Masterflex SE under the balance sheet item "Goodwill", goodwill of EUR 9,187 thousand (previous year: EUR 9,187 thousand) is recognised which is subject to an impairment test and reported by the company on 31 December of each fiscal year. The calculation of fair value takes place by means of a valuation model according to the discounted cash flow method. The result of this valuation depends to a large extent on the assessment of future cash flows by the legal representative and the discount rate used and therefore has considerable uncertainty. Against this background, the assessment of impairment of goodwill in the context of our audit was of particular significance.

2. We first satisfied ourselves of the appropriateness of the planning process for the cash-generating units to which goodwill has been allocated by evaluating how the planning is prepared and approved. To this end, we held discussions with the persons responsible for planning and assessed the planning and the assumptions underlying the respective planning for cash-generating units to which significant goodwill has been allocated in terms of comprehensibility and consistency with our knowledge of the unit and other audit findings. We also reviewed and assessed the valuation method (discounted cash flow method) used to determine the recoverable amount of the cash-generating units – and in particular the discount rates used. In addition, we gained an understanding of the activities of the expert engaged by the management and assessed his competence, skills and independence and whether his work is suitable as evidence in an audit. In addition, we have independently estimated the respective values in use for cash-generating units to which significant goodwill has been allocated on the basis of the detailed plans approved for these units using our own valuation models. Our independent estimates are consistent with management's findings regarding the recoverability of goodwill.

3. The company's information on goodwill is contained in note 24 of the consolidated financial statements.

II. Accounting for leases in accordance with IFRS 16

1. For fiscal years beginning on or after 1 January 2019, the new standard IFRS 16 "Leases" is to be applied to leases, which fundamentally changes the rules for the accounting treatment of leases by the lessee. Against this background, the proper application of the new accounting standard is of particular importance. As a result of the new accounting standard, the consolidated financial statements of Masterflex SE as of 31 December 2019 include usage rights of EUR 2.8 million and lease liabilities of EUR 2.9 million. The amortisation of usage rights recognised in the consolidated financial statements amounts to EUR 1.1 million and interest expenses of EUR 0.1 million were recognised for lease liabilities.

2. We first assessed the process of recording and measuring the leases. We also reconciled the data recorded for the main leasing agreements and for a random sample with the contractual basis. We also critically assessed other relevant valuation parameters such as the discount rate and, in the case of termination rights, the estimated term of the contract. With regard to the valuation, we have verified the valuation model used by means of an independent post-calculation. We also checked whether the required disclosures for leases are included in the notes to the consolidated financial statements. We were able to verify the contract data and valuation parameters used by the legal representatives as well as the valuations made.

3. The company's disclosures on leases are contained in the notes to the consolidated financial statements in section "accounting principles" and in note 17.

— Other information

The legal representatives are responsible for other information. The other information includes:

- The unaudited parts of the combined management report mentioned in the section "audit opinions"
- the responsibility statement by the legal representatives for the consolidated financial statements and the combined management and group management report in accordance with section 297 (2) sentence 4 HGB and section 315 (1) sentence 5 HGB,
- the remaining parts of the Annual Report of Masterflex SE, Gelsenkirchen, for the fiscal year ended 31 December 2019, with the exception of the audited annual financial statements and combined management report and our audit opinion.

Our audit opinion on the consolidated financial statements and the combined management report does not extend to the other information, and accordingly, we do not issue an audit opinion or any other form of audit conclusion in this regard.

In connection with our audit, we have a responsibility to read the other information and to evaluate whether the other information

- contain material inconsistencies with the consolidated financial statements, the combined management report or the knowledge gained from our audit, or
- appear to be substantially misrepresented elsewhere.

If, based on the work we have performed, we conclude that there is a material misstatement of such other information, we are required to report that fact. We have nothing to report in this regard.

— Responsibility of the legal representative and the Supervisory Board for the consolidated financial statements and combined management report

The legal representatives are responsible for the preparation of the consolidated financial statements which comply with the IFRS, as it applies in the EU and German statutory provisions applicable in accordance with section 315e (1) HGB in all material respects, and to ensure that the consolidated financial statements provide a true and fair view of the Group‘s assets, financial position and results of operations in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls which they have identified as necessary in order to enable the preparation of a consolidated financial statements which are free of intentional or unintentional, material misrepresentations.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group‘s ability to continue the business activity. In addition, they have the responsibility to indicate facts in connection with the continuation of the business activity, if relevant. In addition, they are responsible for recognising the continuation of business activities on the basis of the accounting principle, unless there is an intention to liquidate the group or cease business operations or there is no realistic alternative.

Furthermore, the legal representatives are responsible for compiling the combined management report, which provides a true picture of the Group‘s situation as a whole and is in line with the consolidated financial statements in all material respects, German statutory provisions and the opportunities and risks of future development. Moreover, the legal representatives are responsible for the provisions and measures (systems) which they deem necessary to enable the creation of a combined management report in accordance with German statutory provisions and to provide sufficient appropriate evidence for the statements in the consolidated management report.

The Supervisory Board is responsible for monitoring the Group’s accounting process used for the preparation of the consolidated financial statements and the combined and Group management report.

— Responsibility of the auditor for auditing the consolidated financial statements and the combined management report

Our objective is to obtain sufficient certainty as to whether the consolidated financial statements as a whole are free of material – intentional or unintentional – misrepresentations and whether the combined management report as a whole gives a true picture of the Group’s position and corresponds with the consolidated financial statements as well as the findings obtained during the audit, in accordance with German statutory provisions and the opportunities and risks of future development, and to issue a report which contains our audit opinions on the consolidated financial statements and the combined management report.

Sufficient certainty provides a high level of certainty, but no guarantee that an audit carried out in accordance with section 317 HGB and the EU-APrVO, in compliance with the German principles established by the Institute of Auditors (IDW), will always reveal a material misrepresentation. Misrepresentations may result from violations or inaccuracies and are considered material if it could be reasonably expected that they could individually or collectively influence the economic decisions taken by the addressees on the basis of this consolidated financial statement and the combined management report.

During the audit, we exercise our professional judgement and maintain a critical stance. In addition, we

- identify and audit the risks of material – intentional or non-intentional – misrepresentations in the consolidated financial statements and in the combined management report; plan and conduct audit activities, in response to these risks and the auditing evidence obtained, which are sufficient and appropriate in order to serve as the basis for our audit opinions. The risk that material misrepresentations are not revealed is higher for violations than for inaccuracies, as violations may include fraudulent interaction, falsifications, intended incompleteness, misleading representations, or derogation of internal controls.
- gain an understanding of the internal control system for auditing the consolidated financial statements and the relevant precautions and measures for auditing the combined management report in order to plan auditing activities which are appropriate under the given circumstances, but not with the aim of giving an audit opinion on the effectiveness of these systems.
- assess the appropriateness of the accounting methods applied by the legal representatives and the viability of the estimated values and related information presented by the legal representatives.
- draw conclusions on the appropriateness of the accounting principle applied by the legal representatives for the continuation of the business activity and, on the basis of the audit evidence, of whether there is significant uncertainty in connection with events or circumstances which may raise significant doubts about the Group's ability to continue its business. If we come to the conclusion that there is a significant uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the combined management report in the audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the evidence that has been obtained up until the date of our auditor's report. However, future events or circumstances may cause the Group to no longer be able to continue its business activities.
- assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and determine whether the consolidated financial statements represent the underlying business transactions and events in such a way that the consolidated financial statements, in compliance with IFRS, as it applies in the EU and to German statutory provisions applicable in accordance with section 315 e (1) HGB, provide an accurate picture of the actual circumstances of the Group's assets, financial position and results of operations.
- collect adequate audit evidence for the accounting information of the company or business activities within the Group in order to make audit opinions on the consolidated financial statements and the combined management report. We are responsible for the guidance, monitoring and execution of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- assess the conformity of the combined management report with the consolidated financial statements, its legal equivalent and the picture it has given of the Group's position.
- conduct audits on the forward-looking statements presented by the legal representatives in the combined management report. On the basis of sufficient suitable audit evidence, we take into consideration in particular the important assumptions based on the future-oriented statements from the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not give a stand-alone examination of the future-oriented statements and the underlying assumptions. There is a significant unavoidable risk that future events will be substantially different from the future-oriented statements.

We will discuss with the person responsible for monitoring, amongst other things, the planned scope and schedule of the audit as well as significant audit findings including any deficiencies in the internal control system which we determine during our audit.

We will issue a statement to the person responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other issues that can reasonably be assumed to have an impact on our independence and the protective measures to this end.

We will determine from the issues that we have discussed with those responsible for monitoring, those aspects that were the most significant in the audit of the consolidated financial statements for the current reporting period and therefore the most important matters to audit. We will describe these matters in the audit report, unless laws or other legal regulations exclude the public disclosure of said matters.

OTHER STATUTORY AND REGULATORY REQUIREMENTS

Other disclosures in accordance with section 10 EU-APrVO

We were chosen as auditors by the Annual General Meeting on 28 May 2019 and appointed by the Supervisory Board on 25 November 2019. We have been acting continuously as auditors of Masterflex SE since the fiscal year 2010.

We declare that the audit opinions in this audit report are consistent with the additional report to the Supervisory Board in accordance with section 11 EU-APrVO (audit report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Dr. Tobias Brembt.

Dusseldorf, 30 March 2020

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Dusseldorf)

Stephan Martens	**Dr. Tobias Brembt**
Auditor	Auditor

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In 2019, the Masterflex Group operated in a very challenging environment. For a long time, the Group was able to successfully defy challenges such as the negative exceptional economic situation for the German automotive sector and the difficulties that the US-Chinese trade war created for heavily export-driven companies. However, the additional weakness in demand in the mechanical engineering sector finally took its toll in the fourth quarter of 2019 and the Group's own forecast had to be revised. Management reacted immediately and, in addition to the "Back to Double Digit" (B2DD) optimisation programme launched in 2019, implemented an additional cost-cutting program on a similar scale. The Management Board and the Supervisory Board are equally committed to implementing sustainable measures in particular, in addition to cost-cutting measures, in response to the lower demand volumes. The goal is to achieve a double-digit operating EBIT margin again by 2022.

— Reports and meetings

In fiscal year 2019, the Supervisory Board of Masterflex SE fully performed the duties incumbent on it under the German Stock Corporation Act and the company's articles of association and regularly monitored and advised the Management Board. This was based on the regular written and verbal reports provided by the Management Board on all planning, business development, risk position and risk management issues relevant to the company and the Group. The Supervisory Board was and is closely involved at all times in the procedures and measures of the Management Board and was informed by the Management Board in an appropriate manner.

A total of six Supervisory Board meetings were held in the fiscal year 2019, each of which was oftended by all Supervisory Board and Management Board members. In addition, several conference calls were held in addition to the regular face-to-face meetings for the purpose of a close exchange of information and possible adoption of resolutions. The Supervisory Board also discussed the documents submitted by the Management Board and Management Board matters in separate conference calls and, if necessary, without the Management Board.

In the meetings and conference calls, the Supervisory Board was comprehensively informed by the Management Board about the business and financial situation, the further development of the compliance system, personnel or organisational changes, including in the subsidiaries, and the status of corporate planning. The reports and draft resolutions of the Management Board were discussed in detail and assessed after thorough examination and consultation. In addition, various meetings of individual members of the Supervisory Board with the Management Board took place to provide factual support for its activities.

— Main topics 2019

The first Supervisory Board meeting of the fiscal year 2019 was held in Gelsenkirchen on 22 January. The main focus was on medium-term planning and the discussion of additional measures to achieve targets.

The Supervisory Board meeting to approve the financial statements took place on 13 March 2019 at the Gelsenkirchen location. The Supervisory Board discussed in detail the annual financial statements and the consolidated financial statements for the fiscal year 2018. The declaration on corporate governance and the corporate governance report were adopted and later published together with the annual report 2018. In addition, resolutions were passed on the report of the Supervisory Board and risk management in the Group was discussed in detail with the Management Board. With regard to the compensation of the Management Board, resolutions were passed to determine the achievement of targets for the fiscal year 2018, to set the targets for the bonus agreements with the Management Board members for the fiscal year 2019, and to review and redefine the compensation of the Management Board.

Masterflex SE's third Supervisory Board meeting was held following the Annual General Meeting on 28 May 2019. At this meeting, Mr. van Hall was elected Chairman of the Supervisory Board and Dr. Link was elected as his Deputy. After a brief follow-up to the Annual General Meeting and an exchange of views on the Supervisory Board Chairman's discussions with shareholders, the Supervisory Board was informed by the Management Board about the current economic development of the Masterflex Group and the status of its refinancing. A further focus was on analyses and the status of preparations for the planned "B2DD" optimisation programme.

At its meeting on 21 August 2019, the Supervisory Board again dealt with the status of refinancing. To this end, it resolved to conclude a new loan agreement, which will lead to an improvement in the financial result of at least EUR 0.1 million per year from 2020 and, above all, to a further significant increase in the Masterflex Group's overall financial leeway for future growth, as the annual redemption payments have been reduced or have been agreed to be partially payable at maturity. The status and next steps of the B2DD optimisation programme and current market developments were also discussed.

At the Supervisory Board meeting held in Gelsenkirchen on 12 September 2019, the current development and status of the B2DD program were discussed in detail, the dates for the Supervisory Board meetings and the Annual General Meeting 2020 as well as the selection process for the election of the auditor from the fiscal year 2020 onwards were determined.

At the last Supervisory Board meeting of the year on 10 December 2019, the Management Board reported on the additional cost-cutting measures 2019/2020 as well as the current status of the five-year plan and the business development, especially short- and medium-term financing. Another focus of this meeting was corporate governance.

Jan van der Zouw
Supervisory Board member

Dr. Gerson Link
Supervisory Board member

Georg van Hall
Chairman of the Supervisory Board

The Supervisory Board received regular information on the development of revenue and earnings, in particular the implementation of the cost-cutting measures, as well as changes in key balance sheet items. The Supervisory Board also received detailed information from the Management Board on current developments at the individual subsidiaries. The Management Board reported in writing and verbally in the meetings and discussions during the year as well as in conference calls on the preparation and content of the financial reports to be published quarterly and discussed these in detail with the Supervisory Board. In the fiscal year 2019, the Supervisory Board approved all transactions requiring its approval after they had been examined in detail and discussed with the Management Board.

— Trusting cooperation with the Management Board

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

There were no changes to the Management Board in the past fiscal year. The members of the Supervisory Board were confirmed in office in an unchanged composition by election at the Annual General Meeting 2019.

— Supervisory Board committees

With three members, the Supervisory Board of Masterflex SE is deliberately kept small in order to be able to pass resolutions efficiently, quickly and flexibly, as is the case in the Group, thanks to lean structures. Therefore, no separate committees were formed.

— Corporate governance

An integral part of the Supervisory Board meetings of Masterflex SE is the implementation of the German Corporate Governance Code. In 2019, the Supervisory Board and the Management Board again discussed the Code‘s recommendations and suggestions in detail. In accordance with section 5.6. of the Code, the Supervisory Board continuously reviewed its own work for efficiency. In view of the tasks and contents performed and the fact that the Supervisory Board has the minimum legal size with three members, both the cooperation and the performance of tasks were assessed as efficient and very good.

In December 2019, the Management Board and the Supervisory Board resolved and issued a new declaration of conformity in accordance with section 161 AktG. This declaration, which refers to the Code in the version dated 7 February 2017, was made permanently available to shareholders on the company‘s website.

The company continues to feel committed to the principles of the German Corporate Governance Code. The current declaration of conformity and the previous declarations are available on the Internet at any time at www.MasterflexGroup.com. The Management Board also reports on corporate governance on behalf of the Supervisory Board in the corporate governance report and in the declaration on corporate governance in accordance with section 3.10 of the Code.

On 18 February 2019, the Supervisory Board participated in a training session held by a specialist law firm. The members were informed about and trained in the forthcoming changes in the context of ARUG II and the new version of the German Corporate Governance Code and the resulting future obligations for the Supervisory Board, insofar as this was possible from the draft versions still existing at that time.

— Adoption of the annual financial statements and approval of the consolidated financial statements

The annual financial statements of Masterflex SE, the consolidated financial statements and the combined management report for the Group and Masterflex SE for fiscal year 2019 prepared by the Management Board, including the accounting, were audited by Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, which was appointed as the auditors by the Annual General Meeting on 28 May 2019, and issued an unqualified audit opinion. This auditing company - then known as Rölfs WP Partner AG - was first mandated in 2010 to audit the financial statements for the fiscal year 2010; lead auditor Dr. Tobias Brembt was first assigned this task for this fiscal year. The auditor issued the requested declaration of independence to the Supervisory Board prior to the commencement of the audit. The documents to be examined and the audit reports of the auditor were available to each member of the Supervisory Board at the balance sheet meeting on 24 March 2020 and were submitted to each member of the Supervisory Board in good time for preparation. The auditor took part in the discussion of the annual financial statements and the consolidated financial statements. He reported on the main results of the audits and was available to provide additional information. After a detailed review of the documents and taking into account the audit reports, the Supervisory Board adopted the annual financial statements and approved the consolidated financial statements in a circular resolution on 30 March 2020.

The Supervisory Board also reviewed the planning documents, the risk situation and the risk management system of Masterflex SE. All risk areas that were identified by the Management Board and the Supervisory Board were discussed. The risk management system was reviewed in detail by the auditors. The auditors confirmed that the company's Management Board had taken the measures required in accordance with section 91 (2) AktG, in particular those relating to the establishment of a monitoring system, in an appropriate manner and that the monitoring system is fundamentally suitable for the early identification of developments that could jeopardise the continued existence of the company and for taking any undesirable developments into account. Finally, the Supervisory Board performed its audit duty pursuant to section 171 (1) sentence 4 AktG with regard to the company's non-financial statement on corporate social responsibility and had no objections.

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

Dr. Link was a member of the following statutory supervisory boards in 2019: at Rodenberg Türsysteme AG, Porta Westfalica, (Chairman of the Supervisory Board) and at Waag & Zübert Value AG, Nuremberg.

In 2019, Mr. van der Zouw held the following notifiable mandates pursuant to section 125 (1) sentence 5 AktG:

- Chairman of the Supervisory Board of Den Helder Airport CV, Den Helder, Netherlands,
- Member of the Supervisory Board of Aalberts Industries NV, Langebroek/Netherlands,
- Chairman of the Supervisory Board of Van Wijnen Holding NV, Baarn/Netherlands,
- Chairman of the Supervisory Board of HGG Group BV, Wieringerwerf/Netherlands,
- Chairman of the Advisory Board of VIBA NV, Zoetermeer/Netherlands, and
- Chairman of the Supervisory Board of LievenseCSO Intra BV, Breda/Netherlands.

Mr. van Hall did not hold any notifiable mandates in 2019.

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

Gelsenkirchen, 30 March 2020

For the Supervisory Board

G. van Hall

Georg van Hall
Chairman of the Supervisory Board

GLOSSARY

Gross domestic product (GDP)	The total value of all goods and services produced by an economy for the market within a reporting period.
Cash flow	The flow of financial resources generated from the current period, adjusted for non-cash expenses and income. It shows the company‘s self-financing capability or earning power.
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
Extrusion	Procedure for the processing of plastics. The raw materials in granular form are crushed and heated in a so-called extruder until they are plasticised – i.e. moldable – so that they can be processed further.
FEP	Fluorinated ethylene propylene: fully fluorinated plastics with very high chemical resistance.
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
PFA, PTFE	Perfluoroalkoxy (PFA) and polytetrafluoroethylene (PTFE): two fluorinated plastics with very high chemical resistance.
Stage-Gate process	Model for the optimisation of innovation and development processes. Thus, objectives that were not or insufficiently included in such processes should also be taken into account. These could be about: focusing and prioritising, parallel developments at a faster pace, using cross-divisional teams or market orientation.
Working capital	Current assets less current liabilities.

IMPRINT

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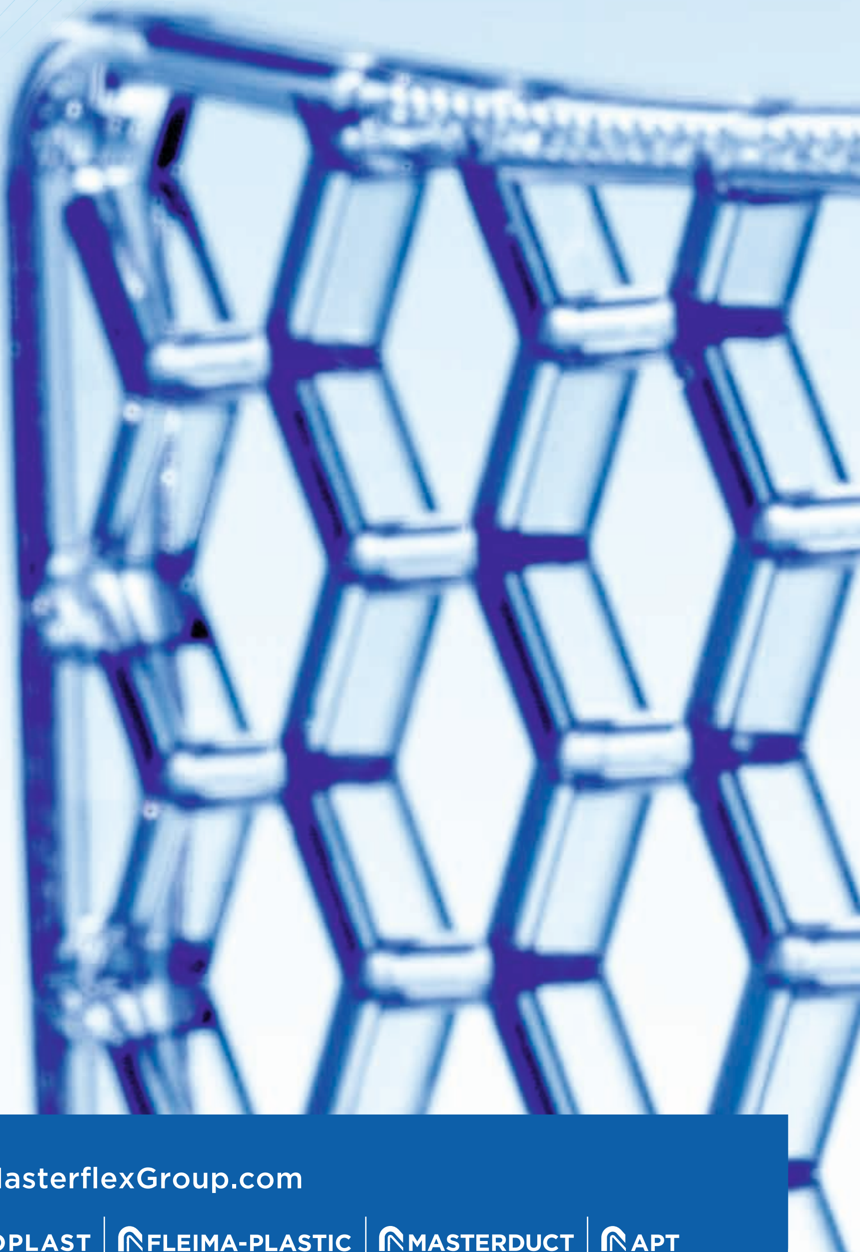
FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These statements are based on the current expectations, presumptions and forecasts of the Management Board and the information currently available to it. The forward-looking statements are not to be understood as guarantees of the future developments and results mentioned therein. Rather, the future developments and results are dependent on a large number of factors; they involve various risks and imponderables and are based on assumptions that may prove to be incorrect. We assume no obligation to update the forward-looking statements made in this report.

REMARK

Only the German version of this Annual Report is legally binding.



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