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

To find out more about the Masterflex Group, please log on to:
www.masterflex.de > Company > Locations

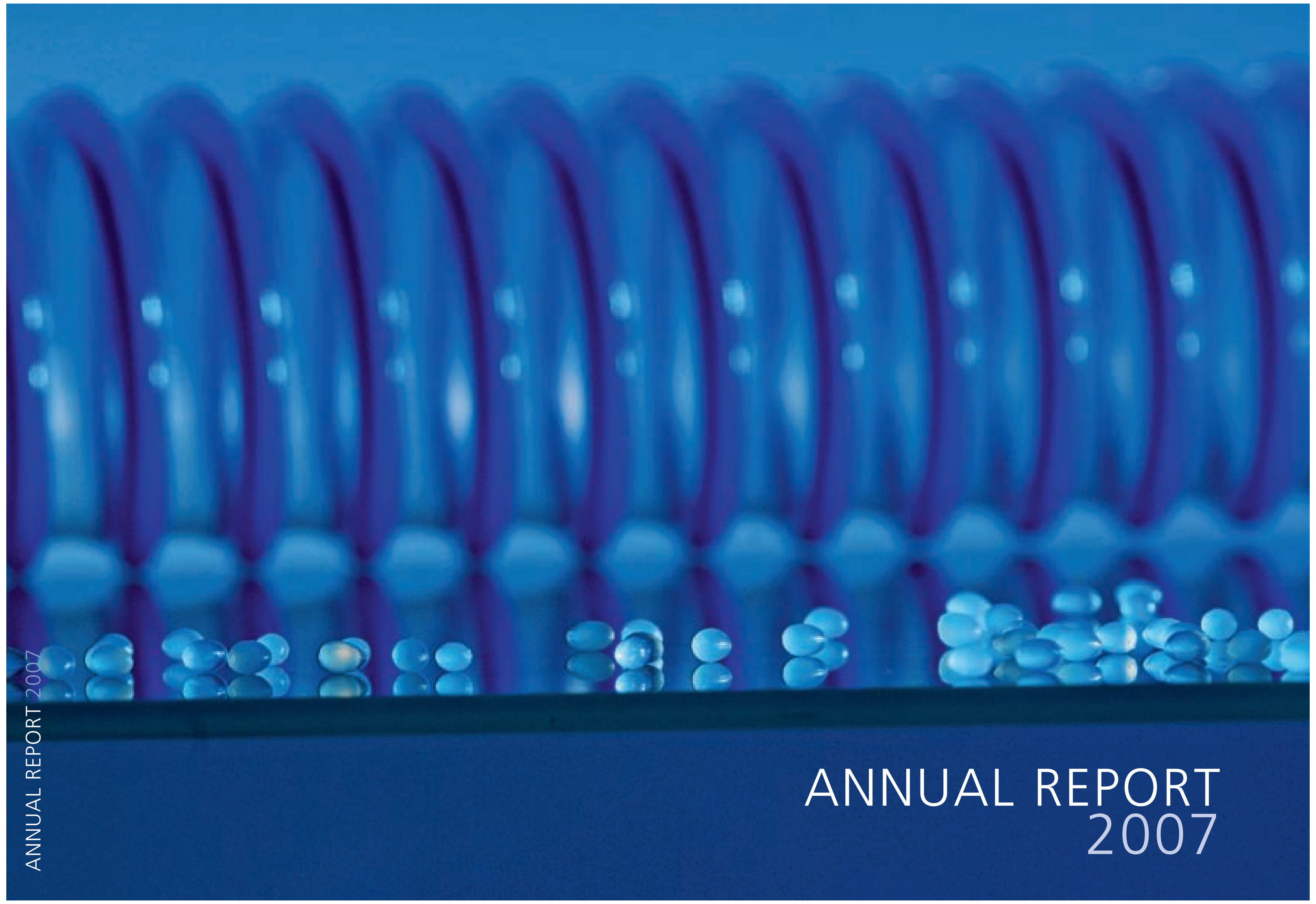
Masterflex AG

Willy-Brandt-Allee 300
D-4589 I Gelsenkirchen

fon +49 209 970770
fax +49 209 9707720
mail info@masterflex.de
www.masterflex.de

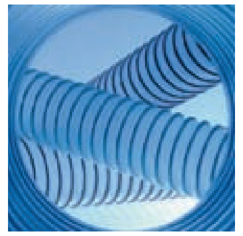
MASTERFLEX AG

Masterflex



one step ahead

Masterflex AG



High-Tech Hose Systems

Thanks to our technical and materials expertise, we set the standard in our core business unit. Using innovative plastics and woven fabrics, we produce high-tech hoses and connecting systems for complex industrial applications. We also offer fuel cells with stable running attributes, offering a mobile power supply in the range between 25 and 1,000 watts; these are designed especially for light mobile vehicles.

Medical Technology

We produce medical technology components (infusion tubes, catheters etc.) made of high-quality special plastics. State-of-the art testing and control facilities ensure maximum product reliability. Our customer-specific diagnosis and operations sets significantly reduce the preparation time required for operations and examinations.

Advanced Material Design

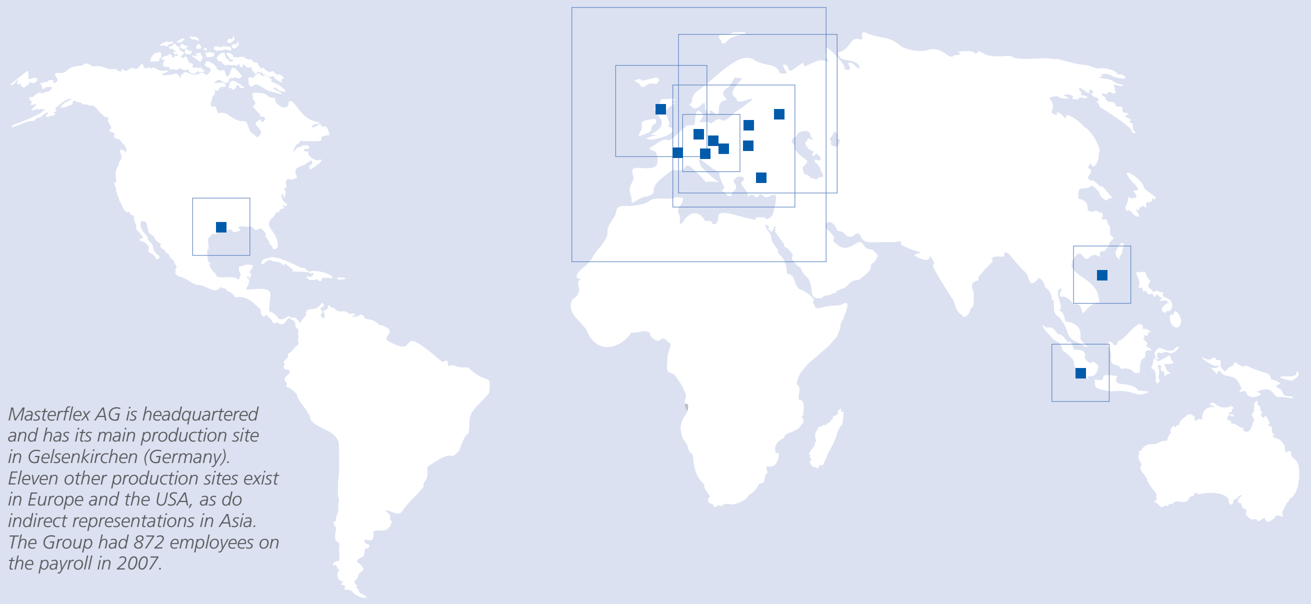
As one of the leading galvanisation, metalworking and fitting enterprises for functional and decorative consumables, we finish materials in such a way that the resulting products combine high levels of functionality with unique quality and design attributes. One of our particular areas of expertise relates to the highly-refined finishing of surfaces using stainless steel and precious metals.

Mobile Office Systems

We are one of the leading suppliers of bags, case solutions and accessories designed for transporting notebooks and office systems. Our aim is to give coherent shape to visions, using innovation to demonstrate tomorrow's reality today. For this reason, we seek close contact with our customers. With companies in seven countries and over 80 partners around the world, we are represented in all important markets.

OUR CREDO

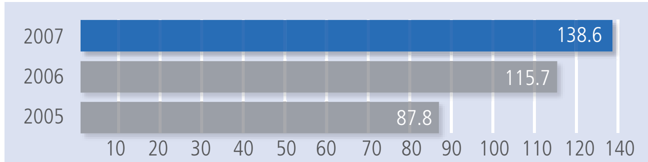
Ideas represent the capital of the future. We have been consistently guided by this motto from the very beginning. Masterflex AG is a highly innovative company which operates internationally in the areas of High-Tech Hose Systems, Fuel Cell Technology, Medical Technology, Advanced Material Design and Mobile Office Systems. A high level of materials expertise – combined with a creative workforce and close collaboration with our customers – has resulted in a constant stream of benchmarking products. Our R&D activities focus on the materials of the future and in particular the special plastic, polyurethane. We consistently seek out niche markets so that – as both market and technological leaders – we can lastingly secure our growth and earnings power, while also achieving a sustainable increase in the value of our company.



Masterflex AG is headquartered and has its main production site in Gelsenkirchen (Germany). Eleven other production sites exist in Europe and the USA, as do indirect representations in Asia. The Group had 872 employees on the payroll in 2007.

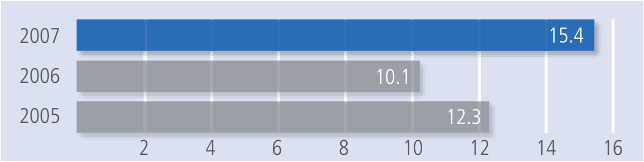
Consolidated revenue

in EUR millions



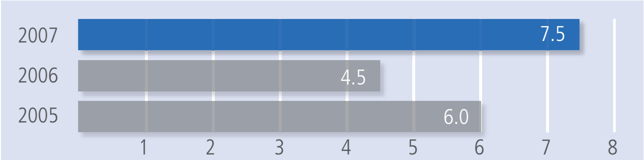
Consolidated EBIT

in EUR millions



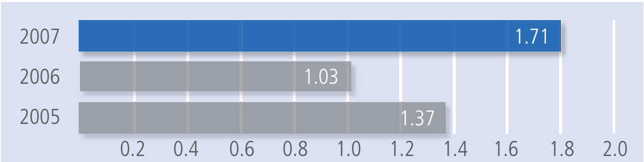
Consolidated net profit

in EUR millions



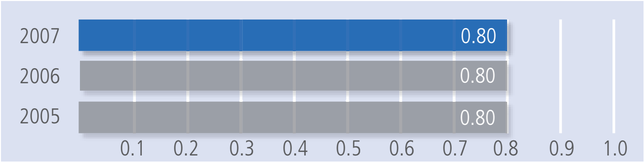
Consolidated earnings per share

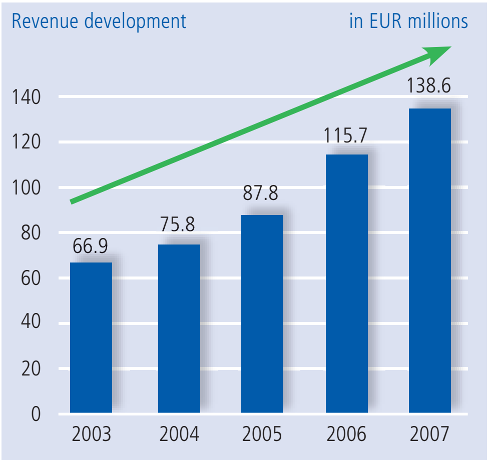
in EUR millions

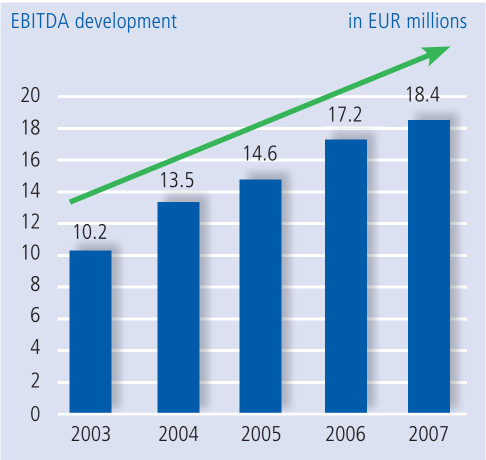


Dividend development

in EUR millions







	December 31, 2007	December 31, 2006	Change
Revenue (EUR thousand)	138,618	115,706	19.8 %
EBITDA (EUR thousand)	18,441	17,239	7.0 %
EBIT (EUR thousand) (before impairment 2006)	15,375	14,198	8.3 %
EBIT (EUR thousand) (after impairment 2006)	15,375	10,143	51.6 %
EBT (EUR thousand)	11,718	7,183	63.1 %
Net profit (EUR thousand)	7,469	4,478	66.8 %
Equity (EUR thousand)	34,772	31,520	10.3 %
Total assets (EUR thousand)	130,087	112,719	15.4 %
Equity ratio %	26.7 %	28.0 %	
Staff	872	778	12.1 %
EBIT-Margin	11.1 %	8.8 %	
Return on sales	5.4 %	3.9 %	
Earnings per share (EUR)	1.71	1.03	66.0 %
Net dividend per share (EUR)	0.80*	0.80	0.0 %
Net dividend yield	4.2 %**	3.5 %**	

* Proposal to the Annual General Meeting on June 4, 2008
** Share price on December 31, 2007: 18.90 EUR

Highlights of 2007

January
Novoplast Schlauchtechnik becomes a member MIMEG, a Medical Technology network: http://www.mimeg.de
February
Masterflex AG successfully exhibits at the World of Industry (WIN) trade fair in Turkey
March
Masterflex AG successfully exhibits at the Powtech trade fair and DICOTA GmbH successfully exhibits at the CeBit
April
Financials press conference and DVFA analysts' conference; international road show
Masterflex AG presents its modified Cargobike at the Hannover Messe trade fair
Matzen & Timm GmbH is represented at the Aircraft Interiors Expo (AIE) and the AMITEC trade fair
May
International road show
Masterflex AG makes a donation to the charity football tournament organised by HeartKick e.V., an organisation that supports people in crisis
Masterflex exhibits at the Mashex industry fair in Moscow
June
Annual General Meeting with more than 300 attendees. Dividend payment for the seventh consecutive year
The DICOTA Group successfully presents its product range at the Computex in Taipei
Masterflex Polska and Masterflex AG exhibit at the "Innovations-Technologies-Machines Poland" (ITM Poland) trade fair
July
Largest order in the Company's history of 14,000 bicycles with battery-powered drive
August
International road show
The Cargobike is used at the IFA consumer electronics trade fair in Berlin
September
The laying of the foundation stone is made for a new production building for Novoplast Schlauchtechnik GmbH
October
Masterflex AG presents hose innovations at the K, the world's largest trade fair for the plastics industry
Establishment of a completely new production line for high-temperature hoses in the USA
DICOTA GmbH acquires 70% of the shares of DICOTA AG, Freienbach, Switzerland
TechnoBochum GmbH is named as a supplier for the largest tunnel project in Germany, the expansion and reconstruction of the Karlsruhe-Basle rail line
November
Hose production is relocated from Bulgaria to the Czech Republic
The City of Bottrop purchases a Cargobike as part of the HyChain project
Masterflex AG participates in the German Equity Forum in Frankfurt
December
International road show
Masterflex AG makes a presentation to shareholders at the forum of Deutsche Schutzgemeinschaft für Wertpapierbesitz e. V.
Masterflex AG supports HeartKick e.V. with a donation and announces its intention to continue its involvement in 2008

Dear Shareholders,

from left to right.: Detlef Herzog, Dr. Andreas Bastin, Ulrich Wantia

for 20 years, Masterflex AG has underlined its expertise as a specialist for high-tech plastics and special coatings in promising niche markets, steadily increasing its consolidated revenue since its formation in 1987. This trend continued with impressive growth of 19.8 % to € 138.6 million in the past financial year.

We are particularly satisfied by the fact that this revenue growth was generated across all of our business units. In our core High-Tech Hose Systems segment, revenue increased by almost 10 %.

The Mobile Office Systems business unit also enjoyed highly dynamic revenue growth of 31.2 % on the back of our increased presence in the high-growth Asian region.

Reflecting this development, consolidated earnings before interest and taxes (EBIT) increased by 51.6 % to €15.4 million, meaning that both earnings and revenue fell within our forecast range. Adjusted for the goodwill impairment recognised in the 2006 financial year, EBIT growth remained consistent with our forecasts at 8.3 %. Consolidated net profit increased by 66.8 % to a record high of € 7.5 million (previous year: € 4.5 million).

The main technological milestone in the 2007 financial year was the new Master PUR Inline hose, with its seamless inner lining and unparalleled durability. This hose type, which will be increasingly marketed in 2008, was recognised as the best product of the year in the "Seals and Connector Technology" category by the trade magazine "P&A – Prozesstechnik & Automation".

A further milestone was the largest order in the Company's history: an initial order for more than 14,000 electric bicycles has helped make us one of the market leaders for light mobility vehicles, as well as allowing us to achieve a strong position in the market for bicycles with Fuel Cell Drive Systems. We also started the small-series production of our Cargobikes in the 2007 financial year. Cargobikes with Fuel Cell Drive Systems are now being used by a number of companies and municipalities.

All in all, we pressed ahead with the globalisation of our business units in the 2007 financial year, with a particular focus on Eastern Europe and Asia. We successfully completed the restructuring of the Medical Technology segment as announced previously, and are now generating positive EBIT contributions from this business unit again.

This year, we would like to invite you, our shareholders, to participate in our Company's successful development once more. Accordingly, the Executive Board and the Supervisory Board will propose the distribution of a dividend of € 0.80 per share for the 2007 financial year.

What are our strategic objectives and focal points for 2008 and beyond? First and foremost, we are committed to reinforcing and further expanding our leading market positions in the areas in which we are currently active, and in particular in our core High-Tech Hose Systems segment. We aim to focus on bundling knowledge and experience within the Group and channelling these benefits into our project work to a greater extent. With this in mind, measures were initiated within the Group in 2007 with a view to further improving Masterflex AG's innovative ability. Priority will also be given to consistent cost management, a reduction in net indebtedness and the optimisation of structures and processes aimed at sustainably improving our competitive strength.

The conditions for Masterflex AG's continued profitable growth are excellent: the growing use of high-performance plastics, the ongoing standardisation process, increased quality awareness in the emerging industrial nations and innovative products for new areas of application all offer significant future potential.

We consider ourselves to be well positioned for further encouraging development in 2008. The Executive Board of Masterflex AG expects the Company to continue on its growth path, with consolidated revenue increasing by 10–15 % and consolidated earnings before interest and taxes (EBIT) by 6–12 %; however, non-recurring effects could influence our forecast earnings.

Ladies and Gentlemen, I would also like to take this opportunity to thank you personally on my departure from the Company. After 20 years of work on behalf of Masterflex AG, I have decided to step down from the Executive Board with effect from April 2008 in order to pursue new activities outside the Company.

On 18 March 2008, Dr. Andreas Bastin was appointed the new Chairman of the Executive Board. I have no doubt that Dr. Bastin and his colleague Ulrich Wantia will succeed in pressing ahead with the success story of Masterflex AG, as the outlook for the future remains extremely positive.

In the name of both the Executive Board and the Supervisory Board, I would like to thank our employees for their excellent work in the past financial year, our business partners for the strong cooperation we have enjoyed, and our shareholders for the confidence they have shown in our Company.

Detlef Herzog
(Chairman of the Board)

Flexibility and problem-solving form the basis for our stable concept for success.

The fiscal year 2007 was again successful for the Masterflex AG.

GROUP MANAGEMENT REPORT

Masterflex AG continued its successful development in the 2007 financial year. Consolidated revenue increased for the 20th year in succession, rising by 19.8 % year-on-year to € 138.6 million and hence falling within our forecast range of 10–20 %. The earnings situation also improved: consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) grew by 7.0 % to € 18.4 million, while consolidated earnings before interest and taxes (EBIT) increased by 51.6 % to € 15.4 million, representing growth of 8.3 % on an operating basis. This also places us within our forecast range of 6–12 % for the 2007 financial year.

I. Business Development and Business Environment

Group structure and business activities

Masterflex AG, Gelsenkirchen, is a materials specialist for polyurethane (PUR), other high-tech materials and precious metals. The core business area of the Company, which was formed in 1987, is the manufacture of High-Tech Hose Systems for the handling and extraction of aggressive materials and media in particular. Thanks to its wide range of innovations, Masterflex AG is now the global market and technology leader.

In addition to the establishment of its own production sites in Germany and abroad, the Company's business activities have been expanded over the years to include Medical Technology, Advanced Material Design (surface finishing) and Mobile Office Systems.

Masterflex AG			
High-Tech Hose Systems incl. Fuel Cell Technology	Medical Technology	Advanced Material Design	Mobile Office Systems

The High-Tech Hose Systems business unit, which includes Masterflex AG especialy with its core activities, manufactures high-quality hose systems primarily on the basis of in-house developments. This segment is also responsible for activities relating to the development and marketing of the new Fuel Cell Technology business line.

The Medical Technology business unit offers technical medical components (known as medical devices), such as infusion tubes, catheters and multi-lumen tubes made from special plastics, some of which are produced using in-house extrusion equipment. The segment also configures and markets angiography sets (for diagnosing blood vessel conditions) and operation sets.

MASTERFLEX AG (D) since 1987					
Matzen & Timm GmbH	SURPRO Verwaltungs GmbH (subgroup)	MASTERFLEX S.A.R.L.	MASTERFLEX Technical Hoses Ltd.	TechnoBochum GmbH	FLEXMASTER USA, Inc. (subgroup)
(D) since 2003 100%	(D) since 2005 100%	(F) since 1991 80%	(GB) since 1996 100%	(D) since 2000 100%	(USA) since 1999 100%

Note: The dates refer to the year of initial consolidation

The Mobile Office Systems business unit, which is not a core business area, consists of the activities of the DICOTA Group. This primarily relates to the sale and distribution of cases and bags for the transportation of notebooks and office systems.

The Group's main production site is in Gelsenkirchen, Germany. In 2007, Masterflex AG was also represented at a further eleven locations in Germany, France, the United Kingdom, Bulgaria, the Czech Republic and the USA, as well as an indirect representation in Asia. Masterflex AG has been listed on the Frankfurt Stock Exchange since 16 June 2000.

Company name	**Company headquarters**		**Equity interest held by MASTERFLEX in percent**
MASTERFLEX S.A.R.L.	F	Béligneux	80
MASTERFLEX Technical Hoses Ltd.	GB	Oldham	100
FLEXMASTER USA, Inc. (subgroup)	USA	Houston	100
TechnoBochum GmbH	D	Bochum	100
MASTERFLEX Bulgaria Eood	BG	Sofia	100
MASTERFLEX Cesko s. r. o.	CZ	Plana	100
ANGIOKARD Medizintechnik GmbH & Co. KG (subgroup)	D	Friedeburg	100
ANGIOKARD Medizintechnik Verwaltungs GmbH	D	Friedeburg	100
SURPRO Verwaltungs-GmbH (subgroup)	D	Wilster	100
DICOTA GmbH (subgroup)	D	Bietigheim-Bissingen	100
Matzen & Timm GmbH	D	Norderstedt	100
MASTERFLEX Brennstoffzellentechnik GmbH (subgroup)	D	Herten	100

MASTERFLEX Bulgaria Eood	**MASTERFLEX Cesko s. r. o.**	**ANGIOKARD Medizintechnik GmbH & Co. KG (subgroup)**	**MASTERFLEX Brennstoffzellen-technik GmbH (subgroup)**	**ANGIOKARD Medizintechnik Verwaltungs GmbH**	**DICOTA GmbH (subgroup)**
(BG) since 2002 100%	(CZ) since 2006 100%	(D) since 2000 100%	(D) since 2005 100%	(D) since 2000 100%	(D) since 2001 100%

Management and control

Until the end of March 2008, Masterflex AG was managed by a three-man Executive Board. The Chairman of the Executive Board was Detlef Herzog, one of the three founders of the company. With effect from 1 April 2008, he was succeeded in this position by Dr.-Ing. Andreas Bastin, who has been with the Group since December 2006. Ulrich Wantia has been the Chief Financial Officer since the end of 2004.

The strategic focus of the Executive Board in the 2007 financial year was the expansion of the core High-Tech Hose Systems segment, the intensification of new innovation projects and the initiation of measures aimed at successfully restructuring of the operation sets business line in the Medical Technology segment.

The Supervisory Board of Masterflex AG has three members. Dipl.-Ing. Friedrich-Wilhelm Bischoping, who is also one of the founders of the Company, has been the Chairman of the Supervisory Board since 2000. The Deputy Chairmen are Prof. Detlef Stolten (since 9 June 2004), Director of the Institute for Materials and Processes in Energy Systems at Forschungszentrum Jülich GmbH, and Prof. Paulus Cornelis Maria van den Berg, an expert in the field of intensive care and anaesthesia.

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

Executive Board compensation

The compensation paid to the members of the Executive Board consists of an annual salary with a fixed and a variable component. The compensation paid to the members of the Executive Board in the 2007 calendar year totalled € 724 thousand (previous year: € 525 thousand).

	Fixed compensation 2007 € thou.	Performance-related compensation 2007 € thou.	Total 2007 € thou.
Chairman of the Executive Board, Mr. Detlef Herzog	272	37	309
Member of the Executive Board, Mr. Ulrich Wantia	179	26	205
Member of the Executive Board, Mr. Dr. Andreas Bastin	210	0	210
Total	**661**	**63**	**724**

Performance-related compensation was paid in the 2007 financial year.

Supervisory Board compensation

The compensation paid to the members of the Supervisory Board consists solely of fixed components. The Annual General Meeting is entitled to resolve the payment of variable compensation, but has yet to exercise this option. The fixed compensation is paid after the end of the respective financial year.

The Chairman of the Supervisory Board receives double the compensation paid to an ordinary member, while the Deputy Chairman receives one-and-a-half times the compensation paid to an ordinary member. Persons who are only members of the Supervisory Board for part of a given financial year receive pro rata compensation on the basis of the length of time served. The publication of payments to members of the Supervisory Board for services provided individually is consistent with the relevant statutory requirements.

All in all, the members of the Supervisory Board received compensation totalling € 32 thousand in 2007.

	2007 € thou.	2006 € thou.
Chairman of the Supervisory Board, Mr. Friedrich-Wilhelm Bischoping	14	14
Deputy Chairman of the Supervisory Board, Mr. Prof. Detlef Stolten	11	11
Member of the Supervisory Board, Mr. Prof. Paulus Cornelis Maria van den Berg	7	7
Total	**32**	**32**

Employee remuneration system

Masterflex AG has a modern remuneration system including both fixed and variable components. The variable component is based on the performance of the respective employee and of the Company as a whole. Payment takes the form of a bonus. Since the end of 2005, the Company has not operated a stock option plan.

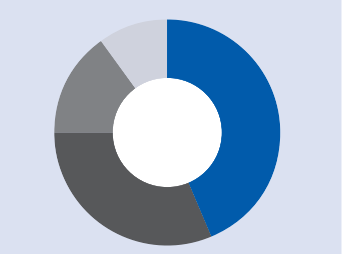
Masterflex AG also offers all of its employees the opportunity to participate in an occupational pension plan. Employees can choose between the so-called Riester pension, a regular pension fund or direct insurance, or a combination of these options.

Market and competition

Masterflex AG is a medium-sized company with a systematic focus on highly specialised niche markets that offer attractive future growth potential and that are driven by technical solutions rather than product prices.

This specialist approach has allowed Masterflex AG and its subsidiaries to establish themselves as the leaders in their respective markets. The Group's competitors in its individual business units are primarily unlisted small and medium-sized companies. Germany is traditionally the most important market, accounting for more than 50 % of total revenue. However, we expect to see a shift in our geographical revenue distribution over the coming years as our business activities become increasingly globalised.

Masterflex AG's range of hose products

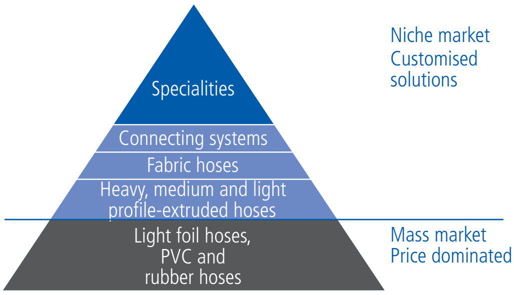


High-Tech Hose Systems: the Group's core business area

Masterflex AG is the recognised market and technology leader in its core business area of High-Tech Hose Systems. Decisive competitive factors include the Company's high degree of materials and processing expertise for special plastics and its extensive innovative ability. Masterflex has been developing groundbreaking new product innovations for more than 20 years. The most important material is polyurethane (PUR), a high-performance plastic whose versatility means that it is increasingly being used instead of traditional materials such as metal, glass and rubber not only in the hose segment, but across a wide range of other applications – as well as helping to make the development of new applications possible in the first place.

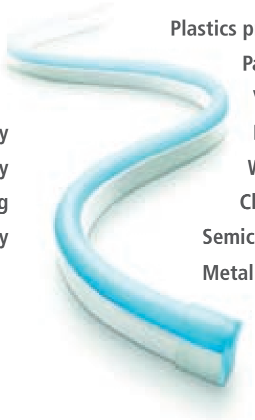
The range of High-Tech Hose Systems offered by Masterflex AG comprises suction and transport hoses, including highly abrasion-resistant extruded PUR hoses, as well as the related connector systems and special fabric suction and blow hoses. A large proportion of these hose solutions are manufactured individually, often in close cooperation with the customer. Whereas the price-dominated mass markets for PVC, rubber and film hoses are home to a wide range of domestic and international providers, the relevant market for Masterflex AG is populated by a very small number of hose manufacturers, the majority of which are unlisted SMEs.

In the 2007 financial year, rising raw material costs continued to put pressure on the margins of mass plastic processors in particular. Thanks to the quality-oriented nature of its individual products, its long delivery terms and its high level of bargaining power as a qualified buyer of high-performance plastics, Masterflex AG is able to comfortably withstand this buyer-side price pressure.



The relevant market for Masterflex AG is a highly specialised niche market for which no official market data is available. As the German Federal Statistical Office publishes combined figures for hoses, profiles and pipes, it is not possible to obtain precise information about the volume and potential of the specific market for hoses. Similarly, no buyer-side distinction can be made: in Germany alone, for example, our hoses are sold to more than 10,000 customers across a wide range of industries.

Areas of application



As experts are forecasting an extremely positive future for plastics and polyurethane, we believe the growth potential for special plastic products in general, and our High-Tech Hose Systems in particular, to be excellent.

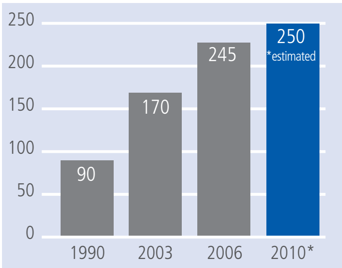
The plastics market

Plastics are the material of choice for the 21st century. There are many good reasons for using plastics. With a view to environmental protection and the conservation of resources, one key point is the fact that plastics production only requires 4–6 % of the crude oil and natural gas consumption. The energy stored in plastics can also be reused through recycling. Furthermore, a large number of innovations would not have been possible without the use of plastics. The outstanding properties of plastics can be further enhanced through the application of new technologies, such as nanotechnology.

In the hose market, polyurethane is particularly highly regarded on account of its abrasion resistance, which is several times superior to that offered by conventional materials such as PVC, rubber and steel. Since 1987, Masterflex AG has established a substitution market for hose systems using polyurethane and other high-tech materials with a wide range of innovations, many of which are patented.

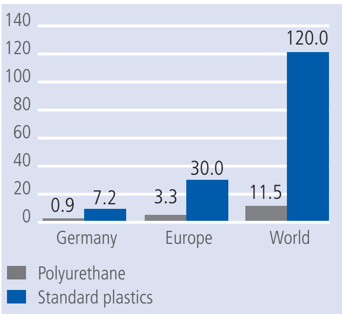
The positive outlook for the segment is based on the fact that Masterflex is active in the growing market for high-quality specialist hoses using innovative polyurethane, a material which enjoyed an above-average global market share of around 6–7 % in 2007.

Global plastic consumption
(millions of tonnes)



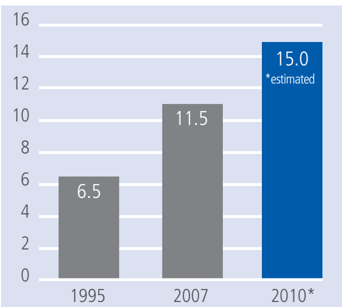
Source: General Association of the Plastics Processing Industry (GKV)

Plastics consumption (millions of tonnes)



Source: GKV, FSK, internal calculations

Polyrethane consumption (millions of tonnes)



Source: FSK

This growth potential is reflected in the figures for the plastics industry in general, and the prospects for polyurethane in particular. 245 million tonnes of plastic materials were produced worldwide in 2006 – around 15 million tonnes more than in 2005. This means that the total plastics production volume has doubled over a period of roughly 15 years. The plastics producing industry in Germany generated revenues of € 22.2 billion (up 6.1 % year-on-year).

With around 284,000 employees, the plastics processing industry – which includes Masterflex AG – is one of the most important industrial sectors in Germany. Plastics processing continued on its growth path in 2007, and its future prospects are no less positive. Plastics consumption in Germany, which has been rising steadily for a number of years, totalled 21.4 million tonnes in 2006.

The polyurethane market

Global polyurethane consumption represents less than one-tenth of the overall consumption of standard plastics. In 2007, a total of 11.5 million tonnes of polyurethane were consumed worldwide. This comparatively low figure is due to the fact that PUR processing – particularly by extrusion – requires a high degree of technical expertise, meaning that the material is primarily used in highly specialised applications rather than the mass markets.

In Europe, more than 30 million tonnes of standard plastics are processed annually, compared with only 3.3 million tonnes of PUR. According to initial estimates, around 1,000 companies in Germany, employing some 45,000 people, processed a total of 920,000 tonnes of PUR in 2007. This meant that the revenues attributable to PUR in Germany exceeded € 5 billion for the first time.

According to the German Plastic Foam Association (FSK), the furniture and mattress industry is the largest buyer of PUR in Germany, accounting for around 65 % of sales, followed by the building and vehicle construction sectors. Hoses fall under the "Other" category, which constituted a mere 3 % of total sales.

The global growth in PUR consumption is due to its versatility as a material, the permanent development of new and existing products, applications and processes, and rising demand from Eastern Europe and Asia. Accordingly, the major plastics manufacturers are forecasting continued stable growth in PUR consumption over the coming years, with annual growth rates of 5–6 %. All in all, global PUR consumption is expected to increase to around 15 million tonnes by 2010 (source: FSK).

The hose market: beyond Germany

Masterflex AG sees its growth potential as the result of permanent product innovations in existing and new markets, as well as foreign expansion. Interesting market potential is offered by the USA, where hoses are traditionally manufactured using PVC or rubber and awareness of the positive characteristics of PUR is extremely low.

Further potential is provided by expansion into Eastern Europe, where the market is currently driven by the growing need to comply with EU environmental and industrial requirements and the expansion of the production capacities of existing customers, who take their standards – and hence Masterflex's products – with them. In general, growth potential will always be offered by markets and countries in which industrial standards and environmental aspects play an important role.

Fuel Cell Technology sub-segment

In its Fuel Cell Technology sub-segment, Masterflex AG focuses on the development of innovative, environmentally-friendly mobility concepts for light mobile vehicles. The Company's Fuel Cell activities are concentrated on cells with an output of between 25 and 1,000 watts. Masterflex uses hydrogen-based PEM (Proton Exchange Membrane) Fuel Cells, which are currently considered to offer the greatest potential as an alternative energy form for the transportation industry.

The market for light mobility vehicles is a growth market with global sales of more than 10 million, including around a million electric bicycles with battery-powered drive systems. The power output of these bicycles, which are known as Pedelecs (derived from "**ped**al **elec**tric"), is automatically coupled with the muscle power of the rider via a force/movement sensor. The engine, which is only active when the bicycle is being pedalled, reinforces the rider's action with additional energy. Pedelecs with accumulators have a range of between 20 and 50 kilometres. Around 50,000 Pedelecs were sold in Germany in 2007. Masterflex AG is a technology leader for innovative drive system concepts, with a product range encompassing various types of light mobility vehicle:

1. Pedelecs with Fuel Cell Drive Systems

The Company has developed Pedelecs with Fuel Cell Drive Systems that offer a significantly larger range than bicycles with accumulators. A fleet of ten bicycles with a range of up to 120km has been in operation since 2006.

2. Cargobikes with Fuel Cell Drive Systems

The Cargobike is an environmentally-friendly solution for the transportation of heavy loads in urban areas. The Cargobike features an integrated Fuel Cell and a modular structure that allows it to be equipped differently for various areas of application. As well as the available motor power, a 250-watt Fuel Cell System provides additional electricity for vehicle lighting, the cooling of the transported goods, etc. The Cargobike includes a solution to the general problem of hydrogen supply: hydrogen is stored in a standard cartridge that can be refilled or easily exchanged. This gives the Cargobike a range of around 250 kilometres.

3. Electric bicycles with battery-powered drive systems

In 2007, Masterflex Brennstoffzellentechnik GmbH received a major order to supply 14,000 electric bicycles with accumulators via its subsidiary CAB, Berlin, thereby helping it to further expand its market position.

The market for renewable energies

Climate change was one of the main talking points of 2007. The UN climate report highlighted the dangers of rising temperatures, triggering a global discussion on measures aimed at preventing further global warming.

The sustained high level of oil and gas prices also increased the public focus on renewable energies. According to a study by Postbank, electricity prices increased by 7 % year-on-year in 2007, while gas and fuel prices rose by 3 % and 2.3 % respectively. The study noted that the average consumer now spends around 50 % more on energy than was the case ten years ago. There is also a need for action because global CO_2 emissions are actually on the rise, rather than decreasing: according to the German Federal Ministry of Economics and Technology in Berlin, CO_2 emissions exceeded 30 billion tonnes for the first time in 2006, compared with 22.7 billion tonnes in 1990. In Germany, CO_2 emissions are being reduced through the promotion of renewable energies, emissions trading and improvements in energy efficiency. Extensive legislative amendments were announced in late 2007.

German industry is the global market leader in the field of renewable energies. In the federal state of North Rhine-Westphalia (NRW) alone, revenues of € 4.8 billion were generated from renewable energies in 2006, up 13 % on the previous year. This means that Masterflex AG operates in a growing market environment with excellent economic conditions.
There is also considerable political support for renewable energies: for example, NRW's state government is aiming to increase revenues from renewable energies to € 15 billion by 2020. In 2007, it launched an energy efficiency campaign, "NRW Saves Energy", with the aim of reducing primary energy consumption throughout Europe by 20 %. The Seventh EU Research Framework Programme (FP7), which will run until 2013, has also been in force since 1 January 2007, with its "Energy" section including subsidy programmes worth at least € 2.35 billion.

The market for niche transportation vehicles
2007 was another positive year for the use of Fuel Cells in niche transportation vehicles. However, the number of new units decreased as against the previous year. The reason for this development is the amount of time required for testing and feasibility studies. According to a study by Fuel Cell Today, although the level of interest and investment in the market for light mobility vehicles remains high, the marketing process will still take some time.

The vast majority of manufacturers use hydrogen-based PEM Fuel Cells, with nearly 100 % of all Fuel Cell projects, including those in the transportation industry, now using this Fuel Cell type. Fuel cells are employed in three main areas: transportation, stationary applications and portable applications. Niche transport applications, light mobility vehicles and buses account for 50 % of the total installed systems.

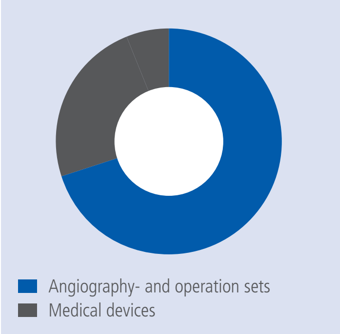
According to the study, it will take some time before light mobility vehicles are ready to be marketed. Masterflex AG is one step ahead of the game, however, as we started miniseries production and active marketing in 2007. Furthermore, our Cargobikes have been in use since the Football World Cup in 2006. Masterflex AG is supported in the development of marketable products by NRW state, which is actively pursuing the evolution of "early markets". Fuel cell projects are promoted by the "Fuel Cell and Hydrogen Network NRW", which was formed in 2000 by the NRW Energy Agency.

The need to develop sustainable, environmentally-friendly mobility concepts is driven by the fact that, in the EU alone, CO_2 emissions will have to be reduced by 30 % by 2020. There is also a growing trend towards the creation of environmental zones from which vehicles exceeding certain emission levels can be banned. Vehicles entering such zones must have a badge showing their emissions rating, with fines being issued to drivers who breach the relevant provisions. These developments serve to underline the potential offered by Masterflex AG's environmentally-friendly light mobility vehicle projects.

Medical Technology

The Masterflex Group offers two different product groups in its Medical Technology business unit.

Medical Technology product groups



Medical components

An expert in the field of extrusion technology, our subsidiary Novoplast Schlauchtechnik GmbH produces individual medical components, known as medical devices. This includes high-quality infusion and multi-lumen tubes and catheters. Developments in this relatively new business area are extremely promising. In the same way as for industrial hoses, we have set new standards in this field in recent years. We also offer connecting elements made of special plastics via Fleima Plastic GmbH, a recognised specialist for the provision of among others plastic components to the pharmaceutical and Medical Technology industries.

Special plastics are among the most innovative materials in the Medical Technology industry on account of their versatility and their hard-wearing properties. For example, our polyurethane materials can be manufactured with anti-bacterial, anti-thrombogenic or biodegradable properties. Unplasticised – and hence safe – materials are increasingly being used in medicine. The future potential of this segment is further underlined by the fact that 45 % of all Medical Technology products worldwide are already manufactured using plastics. In Germany, around 125,000 of plastics were used for medical products in 2005, representing more than 1 % of total consumption. According to estimates by BASF AG, the use of special plastics will continue to grow by between 5–7 % annually.

Medical sets

In the second sub-segment, we offer complete sets for coronary angiographic examinations. Our subsidiary Angiokard Medizintechnik GmbH & Co. KG is one of the German market leaders for the provision of these customised sets (known as customer procedure trays or CPTs), and is also active in Europe and the Middle East in cooperation with leading partners in the area of angiographic sets.

Around 750,000 sets are used in Germany every year, representing approximately 900 procedures per 100,000 inhabitants. Similar figures can be seen in other European countries. We have started to expand the set concept to other areas over recent years and now offer operation sets for surgery, and in particular heart surgery, among other things.

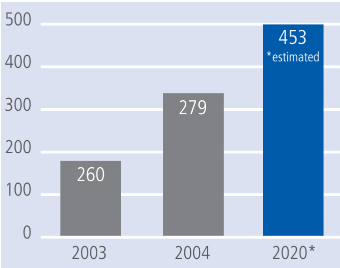
Operation sets meet the requirements of the trend towards cost reductions in the healthcare sector. They significantly reduce the preparation time for operations and examinations, as all of the necessary components are assembled individually in accordance with the needs of the responsible doctors, sterilised, and delivered ready for use. This helps to optimise warehouse logistics, as well as enabling compliance with "flat rate per case" regulations by providing a guaranteed basis of calculation, as sets are sold as disposable products at a fixed price.

Our main competitive advantage is our flexibility, as we can assemble components on a manufacturer-independent basis, whereas many of our competitors are subsidiaries of large corporations and are generally required to use in-house products in their sets.

LaryVent development project

In addition to our two product segments, we have been working on a major development project for a number of years. "LaryVent" is the first respirator mask solution to prevent vocal cord damage, as it removes the need to insert a tube into the patient's windpipe. Although there have been significant delays in the market launch of this globally patented respirator mask, we remain confident that it will be a success on account of its superiority compared with conventional products. A marketing study has shown that the LaryVent would benefit from even greater market potential if it also included a feeding tube. As of the end of 2007, we were still examining whether to continue the project on our own or in cooperation with a partner, with a final decision expected in 2008.

Healthcare spending
(€ billions)



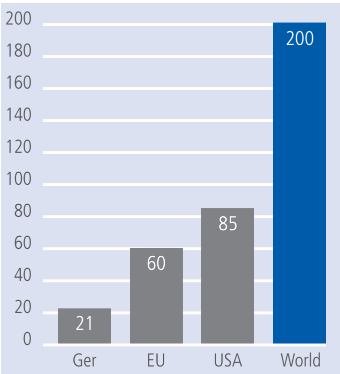
Source: Roland Berger 2005

The Medical Technology industry

Healthcare is one of the most important sectors of the German economy, accounting for almost one in every nine jobs. According to estimates by the German Industry Association for Optical, Medical and Mechatronical Technologies (Spectaris), the global market for Medical Technology is expected to record annual growth of around 4–5 % until 2010. The outlook for the Medical Technology industry is positively impacted by the ever-increasing and ageing world population, the increased professionalisation and commercialisation of healthcare and nursing services, and improved health awareness.

The volume of the German healthcare market is expected to increase to € 453 billion in 2020; however, growth in Germany is likely to be less pronounced than in the other global markets on account of the reform backlog.

Global Medical Technology market
(€ billions)



Source: German Medical Technology Association (BVMed) and others

Medical Technology is a sub-segment of this market. The global market for Medical Technology had a volume of around € 200 billion in 2006. Germany is the third largest individual market after the USA and Japan, with a market volume of € 21 billion. The Medical Technology market offers a significant degree of global potential, particularly in the countries of Central and Eastern Europe, some of which are lagging behind in terms of medical equipment.

For the Masterflex Group, Medical Technology offers significant future potential on account of its growth prospects, particularly in the area of medical devices (infusion tubes, catheters, etc.). The Company benefits from its close cooperation with end users, with 52 % of ideas for medical products coming from this group of consumers.

The German Industry Association for Optical, Medical and Mechatronical Technologies (Spectaris) expects the relevant industries to generate revenue growth of around 9 % to € 47.3 billion in 2007 (previous year: € 43.48 billion) on the back of both domestic and foreign business. Just under 50 % of the member companies of BVMed also expect to record higher earnings than in 2006.

Revenue development in the German Medical Technology market in 2007
(€ billions)

Source: Spectaris

The German Medical Technology sub-segment is expected to record year-on-year revenue growth of 7.3 % to € 17.2 billion (2006: € 16.0 billion). Revenue generated within Germany has recovered following the doctors' strike in the previous year and is forecast to increase by around 7.6 % to € 6.2 billion, while foreign revenue is expected to improve by 7.1 % to € 11.0 billion. This would leave the export ratio unchanged at around 64 %. The final figures will not be released until after the publication of this Annual Report.

Disposable products, intensive care and nursing articles, which represent one of the key segments for Masterflex AG, recorded above-average revenue growth of 5.6 % in 2007, while revenue from disposable surgery materials increased by 3.4 %. According to BvMed, this development was primarily due to higher volumes, while the price pressure that was observed in 2006 became more intensive. This is a trend that Masterflex AG can confirm, particularly in the area of operation sets.

The general outlook for the field of Medical Technology is primarily driven by products that allow cost-effective treatment, as the new "flat rate per case" regulations mean that procurement is increasingly being performed on the basis of economic considerations (e.g. reducing the length of hospital stays).

Further trends include the increased use of keyhole surgery and the intensive employment of coating procedures and new materials that are harder-wearing or that have risk-reducing properties. Experts are also forecasting that, by 2010, only a small proportion of medical products will still be purchased directly by hospitals. This will benefit products that help to reduce costs.

This growth in demand for medical products that are both safe and cost-effective means that significant potential is available to Masterflex AG. As a provider of system solutions and customised products, we are well positioned to benefit from this trend, whereas providers of standard products are increasingly being squeezed out by competitors from low-wage countries. Our medical components and angiography and operation sets offer a high level of value added and are expected to enjoy strong future market development.

In 2007, the Company fundamentally restructured its medical set operations with a view to achieving stable future profitability. Corresponding measures have been initiated and successfully completed. We have achieved our two main aims – a sustainable reduction in costs and the reorientation of our activities for the future – more quickly than initially expected. Accordingly, despite the significant additional non-recurring expenses arising from the restructuring process, our set activities were already making a positive contribution to the Medical Technology segment's EBIT by the end of 2007.

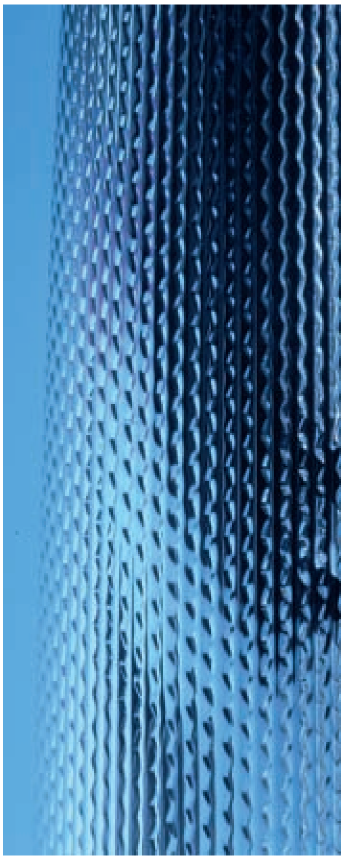
In 2007, developments in the area of medical devices were varied. While infusion tubes and catheters enjoyed healthy business performance, we recorded a temporary drop in revenue from plastic injection moulding parts in mid-2007 as a result of delays to several major projects, and were unable to offset these losses by the end of the year. Although the order situation has now returned to a satisfactory level, we took this as an opportunity to re-examine the strategic development and business model of the plastic injection moulding parts sub-segment. All in all, we believe that our Medical Technology business unit is well positioned to enjoy successful future development with a significantly improved earnings situation, not least thanks to the successful restructuring of our medical set activities.

Advanced Material Design

We have been active in the area of surface finishing since 2005 via the SURPRO Group. The name SURPRO is derived from the phrase "surface protection".

In surface technology, special procedures are applied to change the surface of a basic material in order to create defined properties for a wide range of applications, thereby establishing or improving the quality and usability of a product. Examples include corrosion resistance, abrasion resistance, friction behaviour and electrical, thermal and optical properties, all of which have a decisive impact on a product's quality, usability, functionality and durability. Buyers include almost all segments of the manufacturing industry.

A general distinction can be made between surface treatment and surface coating. Examples include galvanising, hot-dip galvanising and varnishing, or heat treatment and hardening technology.



SURPRO is a provider of galvanisation, metal processing and assembly services for functional and decorative goods. Functional galvanisation is used for the corrosion and abrasion protection of components, the improvement of electrical conductivity or catalysis. Examples include the galvanisation of screws, the production of metallic catalysers for the chemicals industry or Fuel Cells, as well as the gilding and silvering of electrical contacts. Decorative galvanisation is primarily used for the adornment of objects which are required to meet certain minimum technical standards. Examples include plastic galvanisation, the chromium plating of tubular steel furniture and motorbikes, and the gilding of jewellery, writing utensils and cutlery.

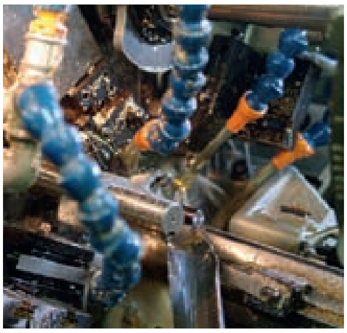
SURPRO is a highly specialised niche provider for the manufacture and finishing of precision surfaces. In our automated turning shop, which is equipped with state-of-the-art, computer-controlled machinery, turned parts are manufactured to the very highest degree of accuracy and precision. SURPRO's core competencies include the manufacture and processing of axially symmetrical parts from stainless steel, brass, silver, gold, aluminium and plastics using a cupping process, and the CNC turning of pipes and rods. Surface coating is performed on the basis of environmentally-oriented processes using a fully automated galvanisation facility. The products that are finished in this manner include decorative components for high-quality consumer goods and technical components for the electronics, dental, medical and aviation industries.

Surface technology – market data

Surface technology is one of the fastest-growing industries in Germany, with its modern procedures enjoying an increasingly wide range of applications.

Sector revenue in 2004 amounted to approximately € 4.5 billion. Applying the wider definition of surface technology, however, revenue totalled almost € 14 billion. This makes Germany one of the two leading countries for surface technology in the EU, the other being Italy. According to a study by Industriekreditbank (IKB) in 2005, the order situation in the surface technology industry is expected to remain stable in future.

Galvanisation is the largest segment of the surface technology industry, accounting for a market share of around 26 % (source: German Federal Statistical Office). Galvanisation is generally performed by a large number of small and medium-sized companies, with total revenue estimated at around € 5.6 billion (2004). The most common coating material is zinc, which accounts for around 40 % of all galvanisation. The growing trend towards the metal coating of plastics is a development that Masterflex AG intends to address via SURPRO in future. According to the IKB, the production value of plastic coating has increased by 350 % over the past decade.



2006 was one of the best years on record for the galvanisation industry. In terms of the number of active companies, surface finishing galvanisation for industrial and trade applications is the largest segment of the galvanisation technology industry. It consists of a total of 1,200 industrial and 480 piecework galvanisers, all of which are small and medium-sized enterprises with between 5 and 400 employees.

In 2006, revenue in the industrial galvanisation segment increased by an average of 15 %, with further growth of 15 % forecast for 2007. The successful 2006 financial year was overshadowed to an extent by the cost explosion in the raw material and energy markets, which put pressure on surface finishers' earnings situation.

The IKB is forecasting nominal revenue growth of 6–7 % p.a. until 2008. Surface finishing is considered to offer an extremely high overall economic benefit.

We expect this positive industrial environment and the proven expertise of the SURPRO Group in its traditional business area to offer additional growth potential. The first joint projects between Masterflex and SURPRO, which are aimed at investigating the metal coating of plastics, have already been initiated.

Mobile Office Systems

We are active in the area of mobile computing equipment via our subsidiary DICOTA GmbH, which we acquired in 2001. This business unit does not form part of our core activities, as we no longer consider the notebook market to be central to our operations in the field of Fuel Cell Technology; instead, we are now focusing on the market for light mobility vehicles.

DICOTA GmbH is one of the leading global full-service providers within the industry. Its business activities primarily focus on the sale and distribution of cases and bags for the transportation of notebooks and office systems. DICOTA's product range also includes a comprehensive selection of accessories (wireless mice, numerical keypads, etc.).

Globally, the company has ten subsidiaries with around 80 employees. In recent years, it has intensified its presence in the rapidly evolving markets of Asia and Eastern Europe in particular. With growth of over 30 %, DICOTA has successfully established itself as a market leader.

In 2007, DICOTA GmbH celebrated its 15th anniversary, during which time it has successfully developed into one of the leading providers for the mobile office. DICOTA's high degree of acceptance and leading global position in the market for Mobile Office Systems is documented by a wide range of product innovations and awards.

Market development

The IT market as a whole is a growth market. Additional growth potential is offered by the EU expansion and the development of emerging economies, particularly in the boom region of Asia. According to forecasts by the market research company IDC, the EU expansion alone is expected to inject more than USD 27 billion into the IT markets of the ten new EU member states between 2004 and 2013.

According to IDC, the volume of the German IT market also grew by 4.2 % to € 60 billion in 2007 on the back of the economic upturn and the positive investment climate. The hardware segment recorded growth of less than 2 %, thereby significantly underperforming the IT market as a whole; this reflects the sustained downturn in hardware prices. However, developments within this segment are far from uniform: in the main area of hardware systems (servers, personal computers and workstations), market research institute IDC is forecasting moderate growth of just over 1 % in 2007. The positive trend in the German IT market is expected to continue into 2008, with growth rates catching up with the European average following comparatively weak performance over recent years.

Notebooks sub-segment

As in the previous year, notebooks were the primary growth driver in the PC market in 2007. The global computer market grew by 14.6 % in 2007, representing sales of 269.8 million PC systems. This development was driven by falling prices and is expected to continue in 2008. In the fourth quarter of 2007, notebooks recorded growth of 37 %, outperforming even the record years of 2003 of 2005. Portable systems now account for 45 % of all computer systems sold, and experts at IDC expect this figure to increase to 50 % in 2008.

The outlook beyond this period is also optimistic, with IDC forecasting growth in notebook sales of 110.3 million units over the next four years to a total of 208.7 million, i.e. almost double the number currently sold. This means that notebooks are expected to account for 53.3 % of the market by 2011. IDC also anticipates a reduction in the market share attributable to Europe (currently 22 %) in favour of the boom regions of Eastern Europe and Asia. Accordingly, the global growth potential for Mobile Office Systems is considered to be extremely positive.

Corporate management, objectives and strategies

Objectives and strategies

Market leadership

We aim to be a market leader in all of our target markets, with a specific focus on technology leadership rather than price leadership. Masterflex AG has already successfully implemented this corporate principle in its High-Tech Hose Systems and Advanced Material Design business units. In the Fuel Cell Technology segment, too, we have become the technology leader for Fuel Cells with an output of between 25 and 1,000 watts over the past five years thanks to our fully functional, stable Fuel Cell solution. We intend to further expand this leading position over the coming years, particularly in the market for light mobility vehicles, with a view to implementing our expertise in the form of marketable products.

In the Mobile Office Systems business unit, our subsidiary DICOTA GmbH is also one of the market leaders. In the Medical Technology segment, our subsidiary Angiokard Medizintechnik GmbH & Co. KG is the German market leader for angiography sets. The intensity of competition in this segment has increased over recent years, with our aim being to defend our leading position while expanding into new segments.

Focus on research and development

Research and development are vital elements in the more than 20-year success story of Masterflex AG. We have established ourselves on the market as a specialist for the development and processing of innovative materials using new technologies. We recognised the potential of polyurethane and other special plastics at an early stage. Since 1987, we have systematically expanded our materials expertise and developed new procedures and formulas with a view to optimising the properties and surface structures of our products.

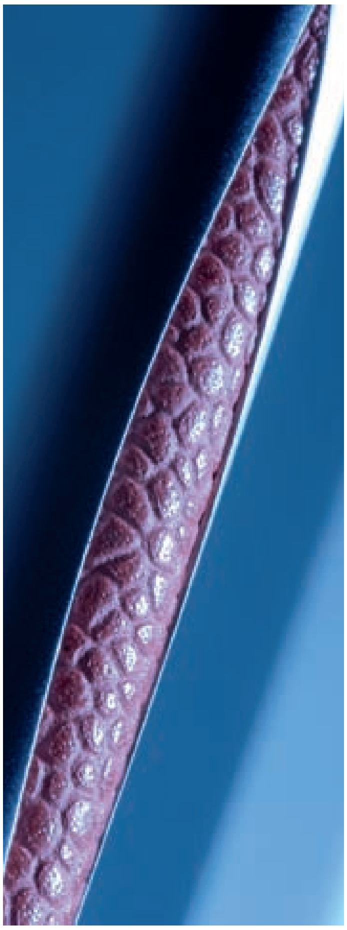
One of the overriding aims of our strategic corporate planning is the safeguarding of our innovative strength. Accordingly, our activities in 2007 focused on the development of new and existing highly abrasion-resistant hose systems, anti-bacterial catheters, heatable and inner-coated hoses.

We have further expanded our cooperation with universities and institutions with a particular focus on the optimisation of material properties and the application of new processes.

In the area of Fuel Cell Technology, we are in close contact with the partners of the Fuel Cell and Hydrogen Network NRW with the aim of accelerating the development of this innovative form of energy production. Our Cargobike activities include cooperation with a number of local companies, as well as at a European level via the HyChain project.

Active in profitable niche markets

Our aim is to become the market leader in profitable, future-oriented niche markets. This means that we develop high-quality products and systems for areas in which technical solutions are considered more important than low prices. Accordingly, we leverage the relevant markets by applying a value-oriented, rather than revenue-oriented, approach. The key performance indicators are earnings before interest and taxes (EBIT) and the EBIT margin, with a double-digit target applied for the latter. However, exceptions may be tolerated with a view to allowing more rapid market penetration.



- In 2007, the EBIT margin was impacted by the implementation of a wide range of measures aimed at the further expansion of our core High-Tech Hose Systems business unit, including investments in research and development, sales and marketing. One-time expenses were incurred as a result of the relocation of production from Bulgaria to the Czech Republic.

- In the USA, we invested in human resources and the optimised expansion of our inventories in order to reflect the size of the market. A double-digit EBIT margin will only be achieved a few years from now, as further investments will be required in order to leverage the available market potential.

- At our subsidiary DICOTA GmbH, revenue growth and rapid market development are currently being prioritised ahead of value-based growth, as DICOTA would otherwise miss out on the opportunity to position itself as one of the leaders in the dynamic Asian growth market for Mobile Office Systems. The success enjoyed in the 2007 financial year justifies our confidence in our ability to pursue this strategy while still generating a satisfactory margin.

- In the Medical Technology business unit, price pressure in the sets segment has intensified over recent years, with a corresponding effect on margins. In 2007, we initiated a programme of measures aimed at returning this business unit to a profitable basis.

Expansion into new markets

Masterflex AG's core High-Tech Hose Systems business unit has achieved an excellent market position in Western Europe. We work to ensure this market leadership by permanently developing new product segments (e.g. food hoses, highly abrasion-resistant hoses with stronger inner coatings) and expanding into new markets. The main target areas are Eastern Europe and the USA. We have established our own production facilities in the USA, whereas our activities in Eastern Europe are based on cooperation with local partners.

Western Europe also continues to offers significant potential. The key tasks of the new High-Tech Hose Systems management team include leveraging this potential and performing a comprehensive market and customer analysis.

In the Fuel Cell Technology segment, our strategy is to initially focus on niche markets in which Fuel Cell Systems and the corresponding logistics offer significant economic benefits despite the higher costs. With our electric bicycles and Cargobikes, we have identified products in which Fuel Cell Systems can generate economic benefits in spite of the significant costs involved. We made further progress towards the commercialisation of electric bicycles in the 2007 financial year, as well as starting the miniseries production of Cargobikes. In addition, the EU-backed HyChain project continued to gain momentum, with our products offering a solution to the problem of hydrogen supply. Our target market is commercial applications. However, bicycle drive systems are just one of the many potential areas of application for our Fuel Cells.

In the Medical Technology segment, we aim to expand our leading market position in the area of angiographic sets to include other surgical fields. Over the past two years, we have successively expanded our leading position in Germany and abroad, enjoying success in foreign markets in particular. By contrast, developments in Germany in recent years have been impacted by the doctors' strike and growing price pressure. We believe that we are well positioned to reinforce our leading position in this area.

In the Advanced Material Design business unit, we intend to expand the areas of application of our products, as well as our customer base.

In the Mobile Office Systems business unit, DICOTA GmbH will press ahead with its global positioning as a provider of high-quality system solutions in Eastern Europe and Asia in particular.

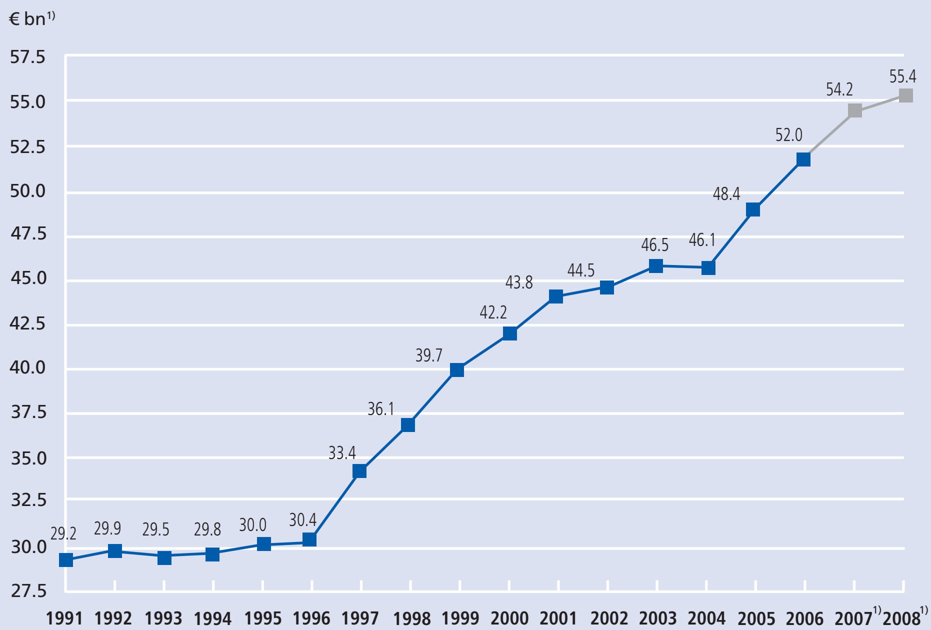
Research and development (R&D)

According to the Official Journal of the European Commission, global expenditure on research and development grew by more than one-tenth in 2007. By contrast, R&D spending in the European Union increased by only 7.4 %. The figures published in the Official Journal are based on the information provided by the 1,000 companies with the highest R&D spend, which were asked to disclose their investments from company funds.

According to the Donors' Association for the Promotion of the Sciences and Humanities, total R&D expenditure in the German economy increased significantly in 2006 after years of stagnation, rising by 7.4 % to € 52.0 billion (2005: € 48.4 billion). According to the most recent estimates, R&D spending grew by a further 4.2 % to € 54.2 billion in 2007. In 2008, companies are expecting to increase their R&D expenditure by 2.2 % to € 55.4 billion.

The growth rates in 2006 and 2007 were considerably higher than price and GDP growth, which increased by 2.5 % and 2.2 % respectively. R&D expenditure as a share of GDP rose to 2.53 % in 2006, the first such increase since 2003. The economic sector accounted for 1.77 % of GDP in 2006 after 1.72 % in the previous year, and this figure is expected to remain unchanged at 1.77 % in 2007.

R&D expenditure in the economic sector 1991–2006, forecast expenditure for 2007 and 2008



[1)] Projected figures based on the 2006 R&D survey

Source: Donors' Association for the Promotion of the Sciences and Humanities, valid as of 15 January 2008

With research and development spending accounting for 2.5 % of GDP, Germany is ranked only ninth in the world, behind the USA, Japan and EU member states such as Sweden and Finland.

R&D expenditure in the rubber and plastics industry increased by 5.5 %, from € 762 million in 2006 to € 804 million in 2007. This below-average growth rate is due to the fact that the sector is dominated by small and medium-sized enterprises, whereas the results of the survey by the Donors' Association show that R&D is primarily the domain of large companies. SMEs (companies with fewer than 500 employees) accounted for a mere 13 % of total R&D spending in Germany. The Donors' Association is forecasting a further increase to € 824 million in 2008.

Research and development are key factors in Masterflex AG's success

One of the overriding aims of our strategic corporate planning is the safeguarding of our innovative strength. The development of innovative new products has always formed the basis for our success, and this will remain the case in future.

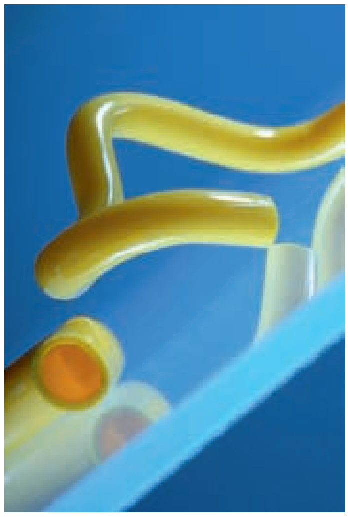
In our research and development activities, we use all available sources of information in order to guarantee our Company's long-term success, harnessing both internal and external expertise with the aim of strengthening and expanding our product range and leveraging new markets. Our employees develop innovative technologies for new products and production processes. Our individual projects are tailored to the needs of operational product development and production, with the results applied throughout the individual business units in order to open up new opportunities for portfolio expansion. Even at the research and development stage, our quality standards are aimed at meeting the demands of the various markets in which we are active, right down to the specific requirements and expectations of individual industrial clients.

The Masterflex Group's expenditure on research and development projects primarily relates to staff costs, as we do not perform a significant amount of asset- and cost-intensive development. In 2007, our research and development expenses totalled € 1,216 thousand (previous year: € 1,125 thousand), corresponding to 1.0 % of consolidated revenue (previous year: 1.0 %). Of this amount, development costs totalling € 814 thousand were capitalised (previous year: € 920 thousand). The majority of the remaining expenditure of € 402 thousand (previous year: € 205 thousand) was attributable to staff costs. The overlap between the areas of technology, production and construction means that R&D expenses cannot be accurately allocated to the employees involved in the respective activities.

In 2007, measures were initiated within the Group with the aim of improving the conditions for effective, synergy-based interdisciplinary development expertise. Structured innovation processes and the refinement of target-oriented project management will help to generate a further improvement in Masterflex AG's innovative ability. Cooperation with universities and institutions has also been further expanded with a particular focus on the optimisation of material properties.

A large number of innovations and groundbreaking new projects were established and presented throughout the Group in the past financial year:

R&D projects: High-Tech Hose Systems



In our core High-Tech Hose Systems business unit, we focused on the development of highly abrasion-resistant hose systems with various diameters. These hoses will allow the development of new applications and are expected to replace the currently dominant rubber hoses in areas requiring the handling and extraction of extremely abrasive materials in the near future.

In August 2007, we entered into a cooperation agreement with the Fraunhofer Institute for Environmental, Safety and Energy Technology UMSICHT (IUSE), Oberhausen, with the aim of performing research into innovative polymer materials for hose applications.

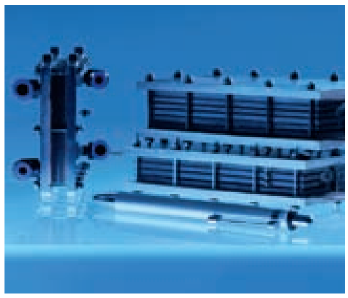
Our research and development activities incorporate the area of nanotechnology. For example, we cooperate with the German nanotechnology centres and other specialist institutions. Nanotechnology allows the optimisation of the structure and properties of our materials and the creation of new property combinations. Particular areas of interest include the targeted adjustment of wearing properties for specialised applications and the behaviour of thermoplastic elastomers at high temperatures.

The projects on which we are currently working include wear-optimised surfaces, anti-microbial hoses, electromagnetic compatibility (EMC) and the use of renewable raw materials. A further project under development is a patented procedure for the interior coating of hoses with metals or ceramics in nanoparticle structures.

In cooperation with the Innovation Centre at the Harz University of Applied Sciences, Halberstadt, we are researching the possibility of transferring data using polymer optic fibres (POF) instead of glass fibres in future. This project requires the application of Novoplast Schlauchtechnik GmbH's extensive expertise in the area of extrusion technology.

Another project relates to the optimisation of ski models, with the hoses produced by Novoplast Schlauchtechnik GmbH being used by a leading ski manufacturer to significantly improve the ski models.

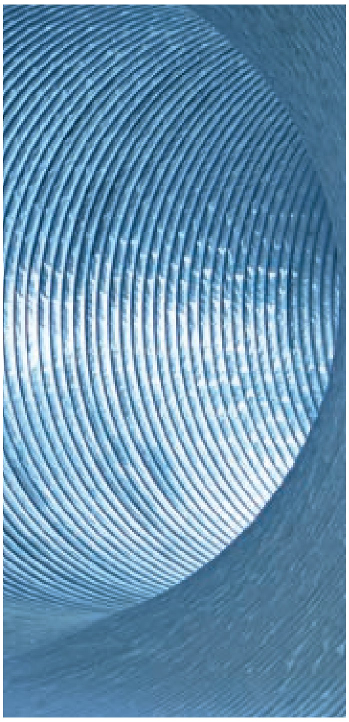
Fuel Cell Technology



The main objective of our R&D activities in the Fuel Cell Technology segment is the development of innovative, environmentally-friendly mobility concepts. Masterflex AG focuses on mobile applications in the 25- to 1,000-watt segment. This primarily relates to light mobility vehicles with Fuel Cell Drive Systems. We are working in close cooperation with the partners of the Fuel Cell and Hydrogen Network NRW with the aim of accelerating the development of this innovative form of energy production. Our Cargobike activities include cooperation with a number of local companies, as well as at a European level via the HyChain project.

Medical Technology

In the Medical Technology business unit, we are focusing on the development of catheters with anti-bacterial properties that will be suitable for use in problematic environments where water and high temperatures provide a good breeding ground for bacteria, for example. The main product innovation is a silver catheter with anti-bacterial properties. The specifications for products with anti-microbial coatings are extremely demanding. Accordingly, we performed extensive functional and stress testing in 2007, the results of which are promising. This project means that we are active in a future-oriented market: according to estimates, silver-based materials are expected to enjoy annual growth of around 10 %.



Environmental protection

External safety experts inform us of changes in environmental legislation and the ways in which these changes can be implemented within our operating activities, as well as regularly monitoring our compliance with the relevant provisions. We use polyurethane and other polymers that do not contain any toxic components and whose production results in lower energy costs than other materials.

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

We are committed to the principles of product responsibility and ensuring the quality of our products. Accordingly, we support the principles of the EU regulation on chemicals and their safe use (REACH), which aims to further improve the safety of all parties involved in the product chain, as well as consumer safety and environmental protection. REACH stands for the registration, evaluation and authorisation of new and existing chemicals that are manufactured in or imported into the EU. With the adoption of this regulation, responsibility for the safety of chemicals has been transferred to the industry. REACH prescribes the pre-registration of the chemicals manufactured and sold above and beyond certain volume thresholds. From the Company's perspective, no additional registration activities are required in the immediate future, as we do not manufacture or import chemicals with an annual volume in excess of one tonne, and polymers are currently exempt from registration. In order to ensure that we are ready for any changes to this legislation, however, a REACH preparation process has been initiated within the Masterflex Group.

Environmental protection and climate change are becoming increasingly important topics at a global level. With the development of our light vehicles with Fuel Cell Drive Systems, we are aiming to make an active contribution to solving traffic problems and the related pollution in the form of CO_2 emissions. The first bicycle fleet went into operation in May 2006, as did the first Cargobikes with Fuel Cell Drive Systems.

Internal corporate management system

We measure the achievement of our objectives using an internal management system. We have established a two-phase, bi-monthly, Group-wide reporting system that reflects the Company's development by way of a target/actual comparison. We receive weekly status updates on the level of incoming orders and liquidity. The revenues, incoming orders, receivables, liabilities and cash position of the previous month of all subsidiaries must be reported by the fifth day of each month. Interim financial statements, a qualitative report on sales, human resources and finances and a market and competitive analysis are then prepared by the middle of the month. Quarterly financial statements are also prepared at Group level in accordance with International Financial Reporting Standards (IFRS).

Value-oriented corporate management using key performance indicators

The Company's corporate management system is value-oriented, meaning that earnings indicators are given priority over revenue targets. Key performance indicators (KPIs) include pre-tax profit, EBIT and the EBIT margin (EBIT/revenue). We have defined targets for the individual segments and the Group as a whole. Another KPI is net profit, which forms the basis for the earnings per share, dividend and dividend yield (dividend per share/share price) figures that are relevant for our shareholders.

In future, this value-oriented KPI system will be expanded to include the return on capital employed (ROCE), which compares the Company's pre-tax profit with the level of capital employed. We also intend to adopt the return on investment (ROI) as a further KPI in order to help us to identify the value drivers of Masterflex AG.

Our main KPI is the cash flow from operating activities, which indicates our internal financial power and reflects the extent to which Masterflex AG generates cash from its core activities, and hence its ability to fund the planned development of the Company from its own operations. The equity ratio is another key element in assessing the Company's ability to finance its activities. Our long-term target is an equity ratio in excess of 30 %. We also strive to guarantee the level of capital employed in the long term in order to ensure that Masterflex AG has a reliable basis of calculation for financial transactions.

Another frequently used performance indicator is CAPEX (capital expenditure). This is less relevant for Masterflex AG, as the importance of our research and development activities and the high proportion of in-house developments mean that investments primarily focus on employee expertise.

Medium-term targets

Key performance indicator	HTS	MT	AMD	MOS	Group
Market leadership	x	x	x	x	x
Revenue growth p. a.	5–10 %	≥20 %	≥20 %	≥20 %	Double-digit
EBIT growth p. a.	≥10 %	≥20 %	≥20 %	≥20 %	Double-digit
EBIT margin	≥20 %	5–10 %	≥10 %	≥10 %	15–18 %
Cash flow from operating activities					positiv
Equity ratio					>30 %
Planned:					
ROCE					x
ROI					x

Achievement of targets in 2007

Key performance indicator	HTS	2007	MT	2007	AMD	2007	MOS	2007	Group	2007
Market leadership	x	✓	x	✓ / –	x	✓	x	✓	x	✓
Revenue growth p. a.	5–10 %	✓	≥20 %	–	≥20 %	✓	≥20 %	✓	Double-digit	✓
EBIT growth p. a.	≥10 %	–	≥20 %	✓	≥20 %	–	≥20 %	✓	Double-digit	– / ✓
EBIT margin	≥20 %	✓	5–10 %	–	≥10 %	–	≥10 %	–	15–18 %	–
Cash flow from operating activities									positiv	✓
Equity ratio									>30 %	–
Planned:										
ROCE									x	
ROI									x	

We are generally satisfied with the extent to which we have achieved our stated targets in 2007. Negative deviations from these targets are expected to be only temporary in nature:

- High-Tech Hose Systems
  In 2007, we failed to achieve our target of EBIT growth of more than 10 % in the High-Tech Hose Systems business unit. This was due to the extensive investments in human resources, R&D and marketing that were made with a view to expanding our core operations. Earnings in this segment are also diluted by Fuel Cell projects, which make a less significant contribution to income. In addition, our activities in the US market are still in the development stage, meaning that margins have yet to reach the expected levels. Furthermore, production activities were relocated from Bulgaria to the Czech Republic in 2007, with EBIT impacted by the corresponding non-recurring expenses. We expect to achieve our EBIT growth target once again in the medium term.

- Medical Technology
  We have already become the market leader in individual sub-markets, such as angiography. In 2007, we again achieved moderately positive EBIT, thereby underlining the effectiveness of our restructuring measures, and we are optimistic about our prospects of returning to a substantially positive EBIT margin in 2008.

- Advanced Material Design
  The revenue development of the SURPRO Group in 2007 was extremely positive. However, we are not satisfied with the corresponding EBIT performance, as we had expected a higher level of EBIT growth. Our aim is to improve the value-based performance of the SURPRO Group in future.

- Mobile Office Systems
  In order to allow the more rapid penetration of new markets, we have chosen to actively tolerate a slower pace of earnings and revenue growth. The extremely successful expansion activities in Asia meant that, as expected, the business unit's EBIT margin fell below our target of 10 % in 2007.

The 2007 financial year

General economic situation

The economic environment continued to improve in 2007, with further growth in the German economy following the upturn in 2006. According to the German Federal Statistical Office, gross domestic product (GDP) increased by 2.5 % in real terms (previous year: 2.9 %). Exports were the main growth driver, rising by 8.3 % and accounting for more than half of the GDP growth. This allowed Germany to defend its global export crown. GDP growth was also driven to a significant extent by investments in equipment and machinery, which increased by 8.4 %. All in all, German industry grew by 5.2 %, while growth in the construction sector declined to 1.7 %.

	2004	2005	2006	2007
	Year-on-year change in %			
Utilisation of gross domestic product				
Price-adjusted, chained				
Private consumer spending	0.2	-0.1	1.0	-0.3
State consumer spending	-1.5	0.5	0.9	2.0
Gross capital expenditure	-0.2	1.0	6.1	4.9
Equipment	4.6	6.0	8.3	8.4
Construction	-3.8	-3.1	4.3	2.0
Other assetts	2.1	4.8	6.7	6.5
Domestic utilisation	-0.2	0.3	1.9	1.1
Exports	10.0	7.1	12.5	8.3
Imports	7.2	6.7	11.2	5.7
Gross domestic product (GDP)	1.1	0.8	2.9	2.5

Source: German Federal Statistical Office

The sustained economic upturn resulted in a total of 39.7 million people in employment, the highest figure since German reunification. Private consumption was negatively impacted by the VAT increase, significant rises in energy and food prices and weak salary development, falling by 0.3 %. Thanks to the increase in tax receipts, Germany recorded a balanced budget for the first time since 1969. By contrast, inflation exceeded the 2 % mark for the first time since 1994, climbing to 2.2 %.

2007 was a year of high volatility and extreme developments on the stock markets as a result of the real estate and financial crisis in the USA. While the German indices recorded growth in the first half of 2007, there were significant variations in their performance throughout the rest of the year. The DAX closed the year up 23 % at 8,067.32 points. The MDAX rose by only 4.9 %, while the TecDAX enjoyed the best performance of all in 2007, recording gains of more than 30 %. By contrast, the SDAX fell by 8.4 % to close the year at 5,191.56 points. The market for IPOs remained positive in 2007, with the number of initial public offerings again increasing year-on-year to total 230 (previous year: 210), of which 33 (previous year: 40) were in the Prime Standard.

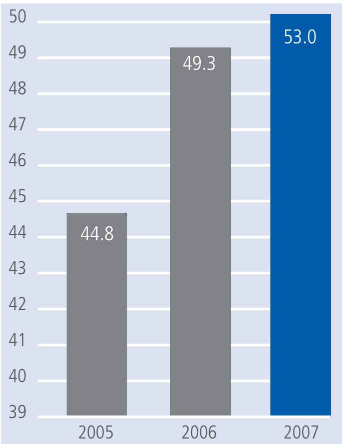
In 2007, the number of insolvencies increased by 7.8 % to 167,000. Company insolvencies fell by 10.4 % to 27,490 cases, while consumer insolvencies reached a new high, breaking through the 100,000 barrier for the first time since the adoption of the German Insolvency Statute to total 109,330.

The German economy lost significant momentum towards the end of 2007. At 2.5 %, growth in Germany only just fell below the level recorded in the euro zone (2.6 %); however, growth in the EU as a whole was substantially higher at 2.9 %. All in all, the gross domestic product totalled € 2.4 billion.

The volume of world trade increased by 7.5 % in 2007, with further growth of 7 % expected in 2008. The growth recorded in 2007 varied significantly from region to region. In particular, China again proved to be a key growth driver for the global economy, with experts forecasting further growth of around 10 % in 2008. India is also expected to record growth of some 8 %. Investment activity in both countries is buoyant, with private consumption also developing well. This is expected to have a positive impact on the order situation for companies in industrialised European nations.

In the USA, real GDP grew by 1.8 % in 2007 despite the crisis on the real estate and financial markets, with real GDP growth of a good 2 % forecast for 2008. However, this will depend on the extent to which the real estate crisis affects private consumption, traditionally one of the key drivers of the US economy. A recession in the USA could have a significant impact on the global economy.

Total revenue of plasics processor
(€ billions)



Source: GKV

Plastics industry

The plastics processing industry continued on its growth path in 2007, recording revenue growth of 7.5 % to € 53.0 billion (2006: € 49.3 million). This meant that plastics processing companies again made an extremely positive contribution to overall economic development. In 2007, the industry employed around 284,000 people across 2,780 companies, up 3 % on the previous year.

More than one-third of the plastics manufactured in Germany were exported, with exports again enjoying above-average growth. However, the order situation at German companies remained difficult on account of the significant rise in energy and raw material prices.

At 9.5 %, suppliers to the automotive and electronics industries recorded the highest level of revenue growth, followed by packaging producers (9 %) and consumer goods manufacturers (6.6 %). Following a strong 2006, revenue growth in the construction industry fell to 4.7 % (1.7 % in real terms) due to the downturn in construction spending. Exports rose by 9.8 %, thereby again outstripping domestic demand (6.4 %). The export ratio increased to a record level of 36.6 %.

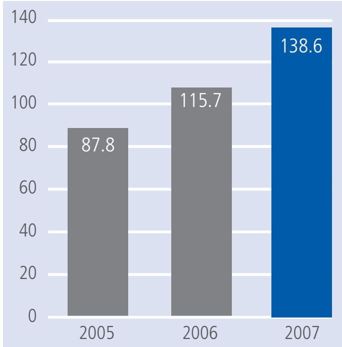
As an economic sector that is dominated by small and medium-sized companies and sandwiched between multinational raw materials corporations on the supply side and industrial buyers on the demand side, pressure on margins in the plastics processing industry has increased. Rising raw material, energy and transport costs have led to a deterioration in the earnings situation at a number of companies. The sector is also exposed to increasingly stringent supply conditions on the part of raw material producers.

Capacity utilisation among the member companies of the General Association of the German Plastics Processing Industry (GKV) currently amounts to 82 %. Two-thirds of the companies surveyed expect demand to continue to increase in 2008. Accordingly, the GKV expects the sector to record growth of between 3.5 % and 4 % in the current financial year. Experts from the specialist magazine Plastverarbeiter expect growth to slow down in 2008, with the overall production volume increasing by around 2.7 %.

Masterflex AG

The anniversary year of 2007 was another successful year for Masterflex AG, with the Group's development significantly outperforming that of the industry as a whole. Consolidated revenue increased for the 20th year in succession, with dynamic growth of 19.8 % to € 138.6 million (2006: € 115.7 million). This means that we are the upper end of our forecast range of 10–20 % and again outperformed the industry as a whole.

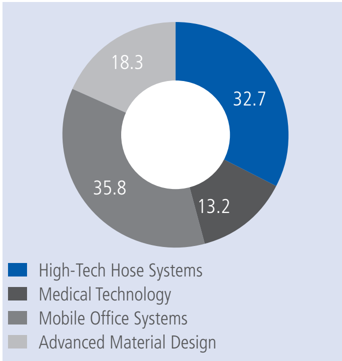
Consolidated revenue (€ billions)



Revenue increased across all business units, with particularly strong development in the Advanced Material Design and Mobile Office Systems segments.

In our core High-Tech Hose Systems business unit, activities in 2007 focused on leveraging new customer segments and pressing ahead with our expansion into Eastern Europe. Segment revenue increased by 9.5 % to € 45.3 million (2006: € 41.4 million), representing 32.7 % of total consolidated revenue (2006: 35.8 %).

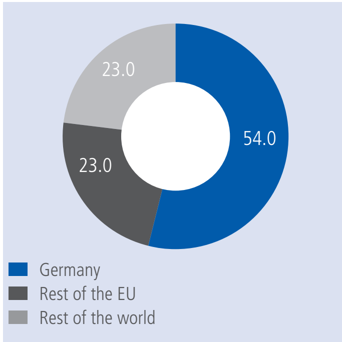
Revenue by segment in 2007 in %



Medical Technology recorded below-average growth of 2.1 % to € 18.3 million (2006: € 17.9 million). This corresponds to 13.2 % of consolidated revenue (2006: 15.5 %). The lower level of revenue growth is due to the restructuring measures initiated in 2007. We have discontinued our operations in certain product and customer segments with a view to improving our qualitative growth. These measures have been successful to date, and we are satisfied with the development of the Medical Technology segment.

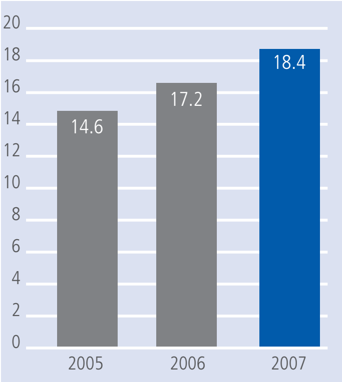
In the Advanced Material Design business unit, revenue increased dynamically by 36.5 % to € 25.4 million (2006: € 18.6 million), corresponding to 18.3 % of consolidated revenue (2006: 16.1 %). The Mobile Office Systems business unit also enjoyed highly dynamic development in 2007 on the back of the intensive globalisation of its activities. Segment revenue increased by an impressive 31.2 % to € 49.7 million (2006: € 37.9 million), representing 35.8 % of total revenue (2006: 32.7 %).

Revenue by region in 2007 in %



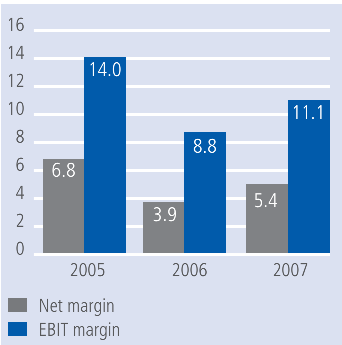
In regional terms, Germany remains the most important sales market for the Group. The economic upturn had a tangible impact in 2007, allowing us to increase our revenue in Germany by 15.9 % to € 74.9 million (2006: € 64.6 million). This corresponds to 54.0 % of total consolidated revenue (2006: 55.9 %). Revenue generated with other EU member states increased by 15.6 % to € 31.9 million (2006: € 27.6 million), or 23.0 % of consolidated revenue (2006: 23.9 %). At 35.5 %, the rest of the world again accounted for the highest proportion of our revenue growth. This was primarily attributable to the pace of the Group's expansion in Eastern Europe and Asia. Revenue increased from € 23.4 million in the previous year to € 31.8 million in the 2007 financial year, corresponding to 23.0 % of total consolidated revenue (2006: 20.3 %). Due to the further globalisation of our activities, we expect to see a continued shift from Germany to other regions over the coming years.

Consolidated EBITDA
(€ millions)



Development of consolidated net profit
(€ millions)

Margin development
(in per cent)



Consolidated earnings development

In 2006, consolidated EBIT was impacted by a non-cash goodwill impairment of € 4.1 million at our subsidiary Angiokard Medizintechnik GmbH & Co. KG. This was due to new information on the outlook for the company, including uncertainty over the impact of the German healthcare reform on sales of its angiography and operation sets.

There was no such burden on the Group's earnings performance in the 2007 financial year. All of the business units made a positive contribution to earnings, with the core High-Tech Hose Systems business unit accounting for the largest share.

Consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 7.0 % to € 18.4 million in the 2007 financial year (2006: € 17.2 million), while consolidated earnings before interest and taxes (EBIT) rose by 51.6 % to € 15.4 million (2006: € 10.1 million), representing growth of 8.3 % on an operating basis. This places us in our forecast range of 6–12 % for the past financial year.

Consolidated earnings before taxes (EBT) increased by 63.1 % to € 11.7 million (previous year: € 7.2 million). Consolidated net profit also developed dynamically, improving by 66.8 % year-on-year to € 7.5 million (previous year: € 4.5 million). On an operating basis, consolidated net profit remained essentially unchanged year-on-year. This corresponds to earnings per share of € 1.71 (previous year: € 1.03). The Group tax rate was 33.0 % (previous year: 31.3 %).

In 2007, our value-based performance again failed to reflect the increase in consolidated revenue. This was primarily due to the intensive internationalisation of DICOTA GmbH's activities, which required a high level of up-front expenditure, as well as investments in the expansion of our core High-Tech Hose Systems business unit and restructuring costs in the Medical Technology segment. The Group's profit margin recovered to 11.1 % in 2007, but was still lower than the level recorded in 2005 as a result of the aforementioned effects.

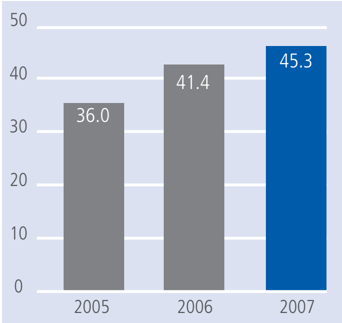
Based on the positive development of consolidated net profit, we will recommend to the Annual General Meeting on 4 June 2008 that a dividend be distributed in the amount of € 0.80 per share, the same level as in the previous year. This represents a dividend yield of 4.8 % based on the XETRA closing price of € 16.74 on 14 March 2008.

We expect to see a further improvement in our earnings situation in the 2008 financial year, as we intend to continue to expand our position in our core High-Tech Hose Systems business unit with a targeted product and marketing campaign. We also anticipate a significantly improved contribution to earnings from the Medical Technology business unit, while the Mobile Office Systems segment is expected to continue to develop positively.

High-Tech Hose Systems

Our High-Tech Hose Systems business unit generated revenue of € 45.3 million in 2007 (2006: € 41.4 million), representing year-on-year growth of 9.5 %. This means that, as in the previous years, growth in both consolidated and segment revenue was higher than in the plastics processing industry as a whole (+7.5 %), as well as significantly outperforming German GDP growth.

Segment revenue
High-Tech Hose Systems (€ millions)

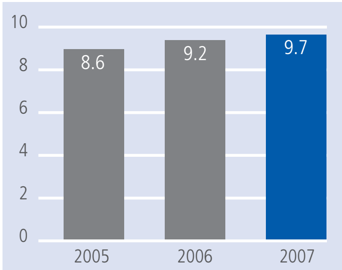


The key market for High-Tech Hose Systems remains Germany, where the economic upturn was reflected in substantial revenue growth of 15.9 %.

We have reinforced our market position with a range of innovations, as well as leveraging new customer segments with our master PUR inline product. Further product innovations include hoses for office applications, new ski models and coupling lines, while a hose for outdoor applications (camping) is currently in the project phase.

We also made further progress in our internationalisation process in 2007, increasing revenue and gaining new customers in Eastern Europe. In the USA, new legislation has been introduced that should result in higher demand for our exhaust extraction hoses. Under this legislation, the engines of fire vehicles must be started at certain intervals in order to ensure that they are ready for operation in an emergency situation, and the exhaust gases produced in the process must be collected and extracted. Our sales in the USA have not been negatively affected by the crisis in the mortgage market. At our production site in Houston, a new industrial belt stretching as far as the Mexican border is being created, resulting in a number of new companies moving to the region.

Segment EBIT:
High-Tech Hose Systems (€ millions)

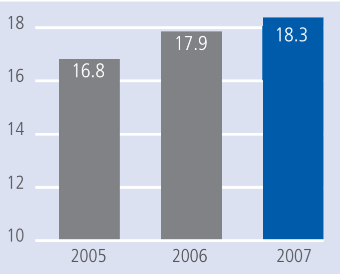


The Fuel Cell Technology sub-segment generated seven-figure revenue. This development was driven by the sale of additional Cargobikes, including as part of the HyChain project. Additional revenue was generated via PERM Motor GmbH, which was acquired in September 2006. The major order for 14,000 electric bicycles that was received in the past financial year – the largest in Masterflex AG's history – will be implemented in 2008. The Executive Board is confident that this will be a decisive step in the further development of the market for light mobility vehicles. The bicycles will be produced and delivered in Germany.

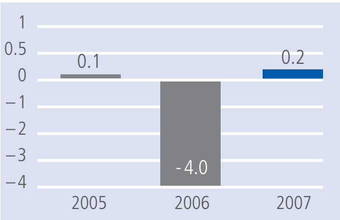
In 2007, we achieved our earnings targets in our extremely profitable High-Tech Hose Systems business unit. However, it should be noted that earnings were impacted by investments in the expansion of the business unit and start-up costs in the Fuel Cell Technology sub-segment.

Staff were recruited for both High-Tech Hose Systems and Fuel Cell Technology, and investments were made in employee training and further education. Non-capitalisable expenses arose from the complete upgrade of the IT system, among other things. Non-recurring expenses were also incurred due to the relocation of a production site from Bulgaria to the Czech Republic. As a subsidiary of SURPRO already operates production facilities in the Czech Republic, we expect this to result in synergy effects due to the joint use of resources. Production began in Q4 2007. Despite these effects, some of which were non-recurring in nature, segment EBIT increased by 5.4 % to € 9.7 million (previous year: € 9.2 million). This corresponds to an EBIT margin of 21.3 % (previous year: 22.2 %), meaning that the High-Tech Hose Systems business unit remains our Company's stable earnings base.

Segment revenue: Medical Technology
(€ millions)



Segment-EBIT
Medical Technology (€ millions)



Medical Technology

Total revenue in the Medical Technology business unit increased by 2.1 % to € 18.3 million in 2007 (previous year: € 17.9 million), with medical sets again accounting for a significant proportion of this figure. We succeeded in increasing segment revenue despite the streamlining of our medical set product range in the course of the planned restructuring measures. However, this smaller product range means that the quality of our revenues has improved. We pressed ahead with the distribution of our medical sets, performing customer analyses and further improving our customer relationships. Angiokard Medizintechnik GmbH & Co. KG and its subsidiary Medic Health Care GmbH were represented at major medical trade fairs, such as the MEDICA in Düsseldorf, with the aim of increasing awareness of their operation sets.

In 2007, the medical components sub-segment recorded extremely satisfactory development in some cases. Starting from a low level, we generated double-digit growth in revenue from medical hoses and catheters. Activities in 2007 focused on the silver catheter project. Silver is highly prized in the Medical Technology industry on account of its superb hygienic properties. The new product was stress-tested in 2007 in order to obtain reliable information on its durability. The results achieved to date are extremely promising. With this project, we are addressing the needs of a future-oriented market: according to a study by PIRA International, the market for anti-microbial additives is expected to record average annual growth of 3.7 % over the coming years, with silver-based materials enjoying above-average growth of some 10 % p.a.

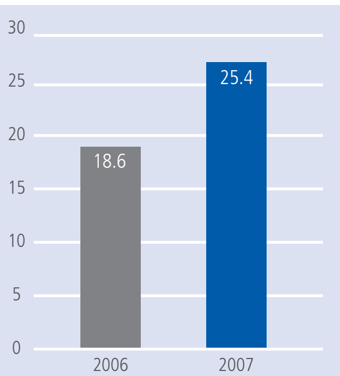
The earnings situation at Fleima Plastic GmbH in 2007 was impacted by the implementation of the necessary renovation activities.

Our internationally patented respirator mask, LaryVent, was presented at various medical conferences in 2007. This was accompanied by discussions with potential strategic partners. Additional clinical trials were performed in order to investigate the benefits of adding a feeding tube to the LaryVent mask.

On account of the comprehensive restructuring measures, we set ourselves the target of breaking even in 2007, an objective which we successfully achieved. Compared with the previous year, in which earnings were significantly impacted by goodwill impairment, segment EBIT improved from € 4.0 million to € 0.2 million.

We believe that the Medical Technology business unit offers additional development potential for the 2008 financial year thanks to its innovative products and strict cost management.

Segment revenue
Advanced Material Design (€ millions)

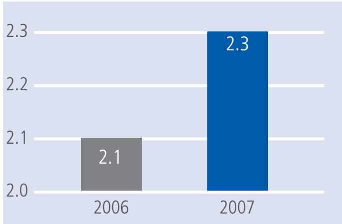


Advanced Material Design

In 2007, we generated revenue of € 25.4 million in the Advanced Material Design business unit (2006: € 18.6 million), with earnings before interest and taxes increasing to € 2.3 million (2006: € 2.1 million). Although we achieved our targets, we had expected to record significantly higher earnings as a result of the strong order situation.

Production reached a high level in the first half of 2007 thanks to a major order. To meet customer requirements, additional staff were employed and some production took place at weekends. However, the majority of the products were only delivered and invoiced from the second half of the year onwards. The completion and settlement of this major order will continue into spring 2008, meaning that some of the EBIT that was expected to be generated in 2007 will instead be recorded in the new financial year. As a result of this, as well as the increased inventories of semi-finished products and higher staff costs, segment EBIT increased by only 7.4 % in 2007.

Segment-EBIT
Advanced Material Design (€ millions)

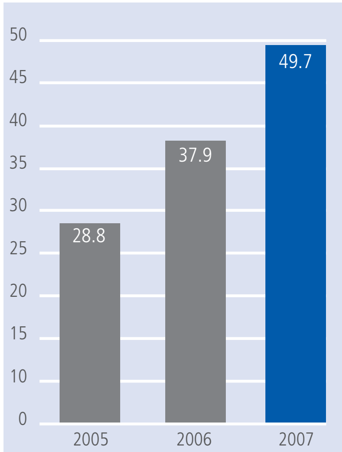


Mobile Office Systems

Although the Mobile Office Systems segment does not form part of Masterflex AG's core activities, it enjoyed successful development in the year under review. Our subsidiary DICOTA GmbH is one of the leading global providers of mobile computing equipment. As discussed elsewhere, Masterflex AG continued to support the expansion of DICOTA's international presence in the 2007 financial year as previously announced.

2007 was a highly successful year for DICOTA, with a significant expansion in its activities in Eastern Europe and Asia in particular. In the European market, too, DICOTA improved its market position with the acquisition of 70 % of the shares in DICOTA AG, Freienbach (Switzerland), with retrospective effect from 1 October 2007 for a purchase price of € 780 thousand. Accordingly, the seven-figure revenue generated by DICOTA AG was allocated to the Mobile Office Systems segment in full in the year under review.

Segment revenue
Mobile Office Systems (€ millions)

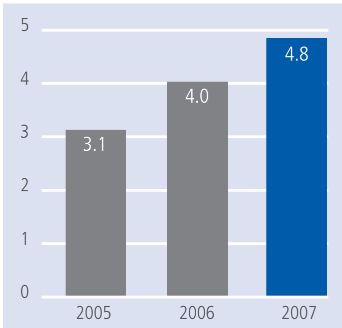


DICOTA AG was formed in 1996 as part of DICOTA's expansion, receiving the right to use the name and an exclusive monopoly for Switzerland and Liechtenstein. As the company is profitable, the acquisition did not have a dilutive effect on consolidation. Following DICOTA GmbH's acquisition of a majority interest, DICOTA AG will be integrated into its pan-European strategy, thereby helping to optimise its Europe-wide sales strategy.

In the 2007 financial year, total revenue in the Mobile Office Systems segment increased by 31.2 % to € 49.7 million (2006: € 37.9 million), while EBIT increased by 20.8 % to € 4.8 million (2006: € 4.0 million).

As discussed previously, EBIT increased at a lower rate than revenue as a result of the intensive globalisation of segment activities. We expect the positive development of this business unit to continue in the 2008 financial year.

Segment-EBIT
Mobile Office Systems (€ millions)



Development of subsidiaries

In addition to its corporate headquarters and main production site in Gelsenkirchen, Germany, Masterflex AG is directly represented at a further eleven locations in Germany, France, the United Kingdom, Bulgaria and the USA, as well as an indirect representation in Asia.

Company name	Company headquarters		Equity interest held by MASTERFLEX (%)
MASTERFLEX S.A.R.L.	F	Béligneux	80
MASTERFLEX Technical Hoses Ltd.	GB	Oldham	100
FLEXMASTER USA, Inc. (subgroup)	USA	Houston	100
TechnoBochum GmbH	D	Bochum	100
MASTERFLEX Bulgaria Eood	BG	Sofia	100
MASTERFLEX Cesko s. r. o.	CZ	Plana	100
ANGIOKARD Medizintechnik GmbH & Co. KG (subgroup)	D	Friedeburg	100
ANGIOKARD Medizintechnik Verwaltungs GmbH	D	Friedeburg	100
SURPRO Verwaltungs GmbH (subgroup)	D	Wilster	100
DICOTA GmbH (subgroup)	D	Bietigheim-Bissingen	100
Matzen & Timm GmbH	D	Norderstedt	100
MASTERFLEX Brennstoffzellentechnik GmbH (subgroup)	D	Herten	100

Masterflex S.A.R.L.

Masterflex S.A.R.L., Béligneux, is our most successful foreign subsidiary in the area of High-Tech Hose Systems. In 2007, the company further expanded its activities by launching new products and developing new market segments. The company was represented at the international specialist trade fairs Vrac Expo and EXPOBOIS in France, and plans to exhibit at these fairs again in 2008.

Masterflex Technical Hoses Ltd.

Masterflex Technical Hoses Ltd., Oldham, has been successful in the Anglo-Saxon markets for High-Tech Hose Systems for more than ten years, and recorded further revenue and earnings growth in the year under review. In 2008, Masterflex Technical Hoses will again exhibit at a wide range of industrial, plastics and specialist trade fairs.

MASTERFLEX AG
(D) since 1987

Matzen & Timm GmbH	SURPRO Verwaltungs GmbH (subgroup)	MASTERFLEX S.A.R.L.	MASTERFLEX Technical Hoses Ltd.	TechnoBochum GmbH
(D) since 2003 100%	(D) since 2005 100%	(F) since 1991 80%	(GB) since 1996 100%	(D) since 2000 100%

Flexmaster USA, Inc. and Masterduct Inc.

The establishment of the hose market in the USA continued successfully in 2007, with an increased trend towards the substitution of the PVC and rubber hoses that still dominate the market. Our subsidiary Masterduct Inc., Houston, generated double-digit revenue growth and made an above-average contribution to earnings, although further investments in marketing and sales are still necessary due to the size of the market. Additional sales offices are planned on both the west and east coast.

We have further expanded our core activities in the area of industrial hose systems and established a new hose production site, with single-shift operations commencing in November 2007. The main target groups for these hose systems include the plastics and automotive industries.

Flexmaster Inc. has positioned itself as a specialist for high-quality solutions in its core business area of air conditioning and ventilation systems. Although the real estate crisis meant that 2007 was a difficult year, Flexmaster successfully reinforced its market position by systematically focusing on high-quality products. One key event was the world's largest trade fair for air conditioning and ventilation systems, the AHSR EXPO in Dallas (Texas) in January 2007, which resulted in a number of interesting contacts.

TechnoBochum GmbH

TechnoBochum GmbH, Bochum, is a small subsidiary of Masterflex AG that specialises in hoses, fittings and accessories for concrete, water and compressed air with applications in the tunnel construction industry in particular. The company does not perform any in-house manufacturing activities, but instead assembles specialist products based on the requirements of the respective construction site. In recent years, Techno has been involved in a number of major construction projects in Germany and Europe. New markets have been established in Eastern Europe, where the European Union is supporting extensive infrastructural projects in its new member states. In 2007, the company was represented at STUVA in Cologne, a major trade fair for the tunnel construction industry.

TechnoBochum is currently also involved in the largest tunnel project in Germany. The company is supplying hoses, fittings and accessories for the two-tube Katzenberg tunnel, which is being constructed as part of the expansion and new construction of the Karlsruhe-Basle high-speed rail line.

FLEXMASTER USA, Inc. (subgroup)	MASTERFLEX Bulgaria Eood	ANGIOKARD Medizintechnik GmbH & Co. KG (subgroup)	MASTERFLEX Cesko s.r.o.	ANGIOKARD Medizintechnik Verwaltungs GmbH	MASTERFLEX Brennstoffzellentechnik GmbH (subgroup)	DICOTA GmbH (subgroup)
(USA)	(BG)	(D)	(CZ)	(D)	(D)	(D)
since 1999	since 2002	since 2000	since 2006	since 2000	since 2005	since 2001
100%	100%	100%	100%	100%	100%	100%

The project is scheduled for completion by the end of 2008 and will create one of the most modern railway tunnels in Europe, enabling increased speeds of up to 250km/h and hence shorter journey times. The tunnel, which will form part of the existing Rhine Valley line, is expected to go into operation in 2012.

On account of the infrastructural projects in Eastern Europe and the level of investment in the two-tube expansion of tunnels, we consider the outlook for the tunnel construction market segment to be extremely promising.

Masterflex Cesko s.r.o.

Masterflex Cesko s.r.o., Plana (Czech Republic), was formed in November 2006 as a wholly-owned subsidiary of Masterflex AG. The company focuses solely on the production of technical hoses. Production began in autumn 2007. Hoses are supplied exclusively to Masterflex Group companies.

Masterflex Bulgaria Eood

Masterflex Bulgaria Eood was formed in 2002 as a production facility for technical hoses. The company supplies hoses exclusively to Masterflex Group companies and has made a successful contribution to the expansion of the Group's product range. At the end of 2007, production was relocated to Plana, Czech Republic, where Masterflex Cesko s.r.o. has a modern production facility with free capacities, thereby allowing us to leverage significant synergy effects in the area of administrative expenses. Accordingly, Masterflex Bulgaria Eood will be liquidated in the course of the 2008 financial year.

Matzen & Timm GmbH

Matzen & Timm GmbH, formed in 1925, supplies highly specialised hose systems and moulded parts for use in applications requiring a high degree of precision and resistance. The company provides the international aviation, automotive and rail vehicle industries with specialist hoses, bellows and moulded parts made from synthetic rubbers, such as silicone and neoprene. The products, which are produced by hand and largely made to customer specifications, are used in applications such as the air conditioning system of the Airbus 380, the space shuttle for the ISS space station, the engines of Porsche sports cars or the undercarriages of tilting Pendolino trains.

On account of the company's successful development, its head office was relocated to Norderstedt near Hamburg in 2006, where it employed a workforce of around 70 people in 2007.
The new location boasts more efficient production capacities, thereby enabling quicker material throughput and a higher degree of production intensity.

The order situation continued to develop encouragingly in 2007. The company's largest customer is AIRBUS. Important contacts with new customers were made at trade fairs such as the AIRCRAFT Interiors Expo and the AMITEC trade fair for the automotive supply industry. In 2008, the company was also successfully represented at Nortec, the specialist trade fair for production technology in Northern Germany.

Masterflex Brennstoffzellentechnik GmbH

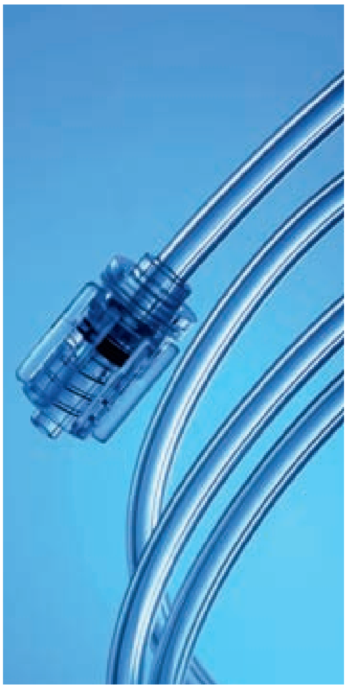
Masterflex Brennstoffzellentechnik GmbH was formed in December 2005 in order to ensure the clear organisational separation of the Fuel Cell Technology segment from the Group's other business units. The subsidiary's head office and production facilities are in Herten, and it employs a total of 12 people (previous year: 8).

CAB GmbH (Clean Air Bike), Berlin, was formed in summer 2007. Masterflex Brennstoffzellentechnik GmbH holds 51 % of the company's shares. The major order for 14,000 electric bicycles is being implemented via CAB.

Progress on the EU-backed HyChain project continued in 2007. Masterflex Brennstoffzellentechnik GmbH is involved in this project with the Cargobike. The first contractual agreement on the purchase of hydrogen vehicles – including the Cargobike – was entered into in the Emscher-Lippe region. The suitability of the vehicles for daily use will be tested in Bottrop from summer 2008 onwards, thereby supporting their continued development towards market maturity. The Cargobike will initially be used by the city authorities for local and external events. Further potential applications include courier and janitorial services.

In December 2007, Masterflex Brennstoffzellentechnik GmbH entered into an extensive cooperation agreement with an industrial partner. This company is the market leader for high-quality drive systems for E-Bikes and Pedelecs and offers extensive high-end manufacturing capacities in Schönau. Under the terms of the agreement, the 67 % equity interest in PERM Motor GmbH that was previously held by Masterflex Brennstoffzellentechnik GmbH was transferred to the industrial partner. PERM develops and distributes electric motors, generators and electric drive systems. Our cooperation partner will become the exclusive manufacturer of the electric drive systems developed by Masterflex Brennstoffzellentechnik GmbH, in exchange for which Masterflex Brennstoffzellentechnik GmbH will become the exclusive distributor for all of the bicycle drive systems manufactured by the partner. The synergies leveraged as a result of this cooperation are expected to create significant value added, particularly for our customers.

With the planned further implementation of Fuel Cell projects, we are confident that this segment will develop positively in 2008.



ANGIOKARD Medizintechnik GmbH & Co. KG (subgroup)

Our subsidiary Angiokard Medizintechnik GmbH & Co. KG, Friedeburg, is one of the leading manufacturers of customer-specific sets for cardiology, radiology, anaesthetics and intensive care, as well as the related accessories in the form of individual products. Permanent inventories of more than 4,000 individual components serve to ensure rapid supply, just-in-time delivery and simple cost allocation.

Angiokard initiated a restructuring programme in the 2007 financial year with the aim of optimising its cost, marketing and distribution structures. The initial fruits of these measures were visible by the end of the year under review.

The set concept was presented to potential customers at a number of trade fairs and medical conferences, including Arab Health in Dubai, the largest healthcare congress in the Middle East, as well as the annual meetings of the German Society for Thoracic and Cardiovascular Surgery and the German Cardiac Society, and the MEDICA in Düsseldorf.

New products include sets for anaesthesia and ophthalmology, areas in which only standardised solutions were previously available. In autumn 2007, a new image brochure was published featuring the wide range of available sets.

NOVOPLAST Schlauchtechnik GmbH

In the beginning of 2007 Novoplast Schlauchtechnik GmbH, Halberstadt, Germany, was transferred to Angiokard GmbH & Co. KG. This measure was implemented in order to reflect the growing importance of the Medical Technology business unit in organisational terms, as well as bundling our activities in the area of Medical Technology.

A specialist for the extrusion processing of a wide range of polymers, Novoplast Schlauchtechnik has manufactured industrial hose systems since the 1990s. Over recent years, the company has established itself in the area of individual medical components (known as medical devices), i.e. infusion tubes, multi-lumen tubes and catheters made from high-quality, hard-wearing plastics. These products are successful because they can be used in innovative applications. One such promising project is the manufacture of antibacterial hoses – something that is extremely important in medical applications, as it significantly reduces the risk of infection.

On account of its sustained strong development, Novoplast Schlauchtechnik has been expanding its production capacities at its headquarters in Halberstadt since August 2007. A new production and warehouse facility is scheduled to go into operation in spring 2008.

Novoplast Schlauchtechnik exhibited its industrial products at trade fairs including the World of Industry in Istanbul, Hannover Messe and MOTEK, and its medical products at the ComPaMED suppliers' trade fair, among others. In 2008, Novoplast Schlauchtechnik GmbH will again be represented at a number of industry events.

As Novoplast Schlauchtechnik GmbH operates in a sparsely populated competitive environment, expectations for 2008 are extremely optimistic.

Fleima-Plastic GmbH

Fleima-Plastic GmbH, D-Mörlenbach, which was formed in 1974, is a specialist for the production of high-quality plastic injection moulding parts for the pharmaceutical and Medical Technology industries. The company has its own tool-making facilities with state-of-the-art processing equipment. The components manufactured by Fleima are used in various Medical Technology applications, such as dialysis, cardiology, surgery, infusions and transfusions. In 2007, a number of new projects were launched and the production of two-component injection moulding parts was further expanded.

On account of its extensive expertise in the area of thermoplastics, Fleima-Plastic GmbH offers services relating to the manufacture of tools and parts, as well as development services for components that are tailored to customer requirements. Thanks to these services, Fleima-Plastic GmbH is now recognised as a specialist in the market. In 2007, the company presented its service range at the MEDICA trade fair, as well as throughout the rest of Europe.

The earnings situation at Fleima Plastic in 2007 was impacted by the implementation of necessary renovation activities. This was offset by the conclusion of long-term projects with new customers. The company also initiated a new business line, water filtration, for which a number of high-quality tools have been launched.

With regard to the Medical Technology business unit as a whole, Masterflex AG expects the restructuring programme that has been initiated and the user-side cost benefits offered by medical sets to form a strong basis for the continued successful development of the Angiokard subgroup in the short term, both quantitatively and qualitatively. The Company intends to press ahead with these improvement measures in 2008.

SURPRO Verwaltungs GmbH (subgroup)

SURPRO Verwaltungs GmbH, D-Wilster, has been part of the Masterflex Group since August 2005. The name SURPRO is derived from the phrase "surface protection". The company specialises in precious metal coating, a market in which it is one of the global leaders. The company offers a comprehensive range of services on request, from development/construction, component production and finishing through to the manufacture of finished products.

A galvanisation and metal processing provider for functional and decorative goods, SURPRO specialises in the manufacture and finishing of precision surfaces. The company is a member of the Precious Metals committee of the German Society for Galvanisation and Surface Engineering and is the co-author of a number of publications on the subject of precious metals. The company supplies products for the medical and the aviation industry, among others.

SURPRO also has extensive expertise in the areas of CAD-based construction, tool manufacture and production. Masterflex AG, whose research and development activities are strongly focused on materials expertise and new materials, expects this know-how to provide significant momentum and synergy effects for product development in the Medical Technology and Fuel Cell Technology segments and the metal coating of plastics in general.

In the 2007 financial year, the company pressed ahead with its project investigating silver-based antiseptic coatings for Medical Technology applications. Revenue increased in the area of high-quality consumer goods, where the target markets include Europe, Asia and the USA. The company's objectives for 2008 include the expansion of its customer base and the areas of application for its technologies.

DICOTA GmbH (subgroup)

DICOTA GmbH, D-Bietigheim-Bissingen, has been a member of the Masterflex Group since 2001 and is now one of the leading global full-service providers of mobile computing equipment. In 2007, the company celebrated the 15th year of its successful history. DICOTA GmbH is now the only full-service global provider. With ten subsidiaries and more than 80 partners, it sells and distributes cases and bags for the transportation of notebooks and office systems around the world, and is represented in all of the key markets. DICOTA is one of the most successful companies in its industry, with its continuous international expansion helping to reinforce its position as a market leader. The company's success is attributable to its high quality standards, innovative strength and customer focus.

2007 was the most successful year in the company's history. DICOTA again underlined its leading market position with a range of innovative bags and accessories, as well as exhibiting at a large number of national and international trade fairs, such as the CeBIT in Hanover, Retail Vision Europe in Monaco, and the Computex in Taipei. The company strengthened its European presence with the acquisition of DICOTA AG, Freienbach, Switzerland. Significant gains in market share were achieved in Eastern Europe and Asia in particular. In both of these regions, DICOTA is already the market leader in some individual markets.

In the past financial year, DICOTA GmbH organised the first-ever notebook bag design competition for up-and-coming designers in conjunction with the globally renowned Faculty for Design at Hochschule Pforzheim University. The competition was announced in November 2007 with the aim of giving talented designers the opportunity to express their creativity. The results of the competition were presented at the CeBIT in March 2008.

DICOTA GmbH expects another successful year in 2008. As announced previously, Masterflex AG intends to examine how long and to what extent it will continue to accompany the successful expansion of its subsidiary.

II. Net Assets, Financial Position and Results of Operations

Results of operations

	2007		2006		Change		2005		2004	
	€ thou.	%	€ thou.	%	€ thou.	%	€ thou.	%	€ thou.	%
Revenue	138,618	95.7	115,706	96.0	22,912	19.8	87,773	93.2	75,752	94.9
Changes in inventories	1,789	1.2	561	0.5	1,228	218.9	1,164	1.2	406	0.5
Other own work capitalised	1,089	0.8	959	0.8	130	13.6	1,066	1.1	903	1.1
Other operating income	3,387	2.3	3,276	2.7	111	3.4	4,203	4.5	2,777	3.5
Gross revenue	**144,883**	**100.0**	**120,502**	**100.0**	**24,381**	**20.2**	**94,206**	**100.0**	**79,838**	**100.0**
Cost of materials	-70,355	-48.6	-55,123	-45.7	-15,232	27.6	-40,637	-43.1	-34,313	-43.0
Staff costs	-31,947	-22.1	-26,859	-22.3	-5,088	18.9	-21,309	-22.6	-17,538	-22.0
Depreciation, amortisation and write-downs	-3,066	-2.1	-7,096	-5.9	4,030	-56.8	-2,321	-2.5	-2,991	-3.7
Other operating expenses	-24,140	-16.7	-21,281	-17.7	-2,859	13.4	-17,676	-18.8	-14,443	-18.1
Total operating expenses	**-129,508**	**-89.5**	**-110,359**	**-91.6**	**-19,149**	**17.4**	**-81,943**	**-87.0**	**-69,285**	**-86.8**
EBIT	**15,375**	**10.5**	**10,143**	**8.4**	**5,232**	**51.6**	**12,263**	**13.0**	**10,553**	**13.2**
Non-operating expenses	0	0.0	-731	-0.6	731	-100.0	0	0.0	0	0.0
Net finance costs	-3,657	-2.5	-2,229	-1.8	-1,428	64.1	-2,544	-2.7	-1,130	-1.4
Other taxes	-203	-0.1	-212	-0.2	9	-4.2	-246	-0.3	-198	-0.2
Net profit before income taxes and minority interests	**11,515**	**7.9**	**6,971**	**5.8**	**4,544**	**65.2**	**9,473**	**10.0**	**9,225**	**11.6**
Income taxes	-3,830	-2.6	-2,248	-1.9	-1,582	70.4	-3,315	-3.5	-2,932	-3.7
Income attributable to minority interests	-216	-0.1	-245	-0.2	29	-11.8	-193	-0.2	-351	-0.4
Consolidated net profit for the period	**7,469**	**5.2**	**4,478**	**3.7**	**2,991**	**66.8**	**5,965**	**6.3**	**5,942**	**7.5**

Masterflex AG's earnings situation continued to improve in 2007. The changes in the earnings structure are primarily due to the Company's successful development.

Revenue increased for the 20th year in succession, rising by 19.8 % to € 138.6 million (previous year: € 115.7 million).

The cost of materials increased by 27.6%. Expressed as a percentage of revenue, the cost of materials deteriorated slightly to 50.7% (previous year: 47.6%). This was due to the above-average contribution to revenue growth by the Advanced Material Design and Mobile Office Systems business units, which generally have a higher level of material consumption. Staff costs rose by 18.9%, with the staff cost ratio improving slightly to 23.0% (previous year: 23.2%).

Other operating expenses increased at a lower rate than revenue, rising by 13.4% to € 24.1 million.

Depreciation, amortisation and write-downs of non-current assets decreased to € 3.1 million. In the 2006 financial year, a non-cash write-down of € 4.1 thousand was recognised on the goodwill of Angiokard Medizintechnik GmbH & Co. KG, whereas no such write-downs were necessary in 2007.

Earnings before interest and taxes (EBIT) increased from € 10.1 million to € 15.4 million on the back of this positive development, resulting in an EBIT margin of 11.1 % (previous year: 8.8 %).

In 2006, we recorded non-operating expenses of € 0.7 million. This related to legal and other consultancy fees incurred in connection with the divestment of DICOTA, which was examined but not implemented.

Net finance costs deteriorated by 64.1% to € 11.5 million in 2007 due to the increase in net indebtedness and write-downs on non-current financial assets totalling € 650 thousand compared with the previous year.

The pre-tax profit increased by 65.2 % to € 11.5 million in 2007, while the tax rate rose from 31.3 % to 32.7 %.

Consolidated net profit for the period after income taxes and minority interests amounted to € 7.5 million (previous year: € 4.5 million), representing an increase of almost 67 %. This resulted in a net profit margin of 5.4 % and earnings per share carrying dividend rights of € 1.71.

We expect the earnings situation to remain positive in the 2008 financial year. The innovation campaign in our High-Tech Hose Systems business unit, the continued successful development of our subsidiary DICOTA and higher contributions to earnings from our Medical Technology and Fuel Cell Technology segments are expected to result in double-digit revenue growth of 10–15 %, EBIT growth of 6–12 % and a corresponding improvement in net profit.

Financial position

Financial management principles and objectives

Masterflex AG aims to be the technology leader in its target markets. This strategy requires an efficient financial management system that provides liquidity for the successful expansion of the Group's business activities at a low cost, while at the same time ensuring an above-average return on the capital employed.

In all of its financing measures, Masterflex AG aims to achieve an appropriate balance between equity and debt, thereby ensuring the Group's financial independence.

With a view to continuing the Company's successful business development, liquidity therefore has the highest priority. However, Masterflex AG also focuses on the leverage effect of debt capital, which increases the return on equity, in order to ensure that the cost of capital remains low.

When providing liquidity in the form of debt capital, the Company attempts to ensure that interest rates are fixed at low levels to the greatest possible extent, including using innovative financing instruments and subsidies where appropriate. The financing requirements of the individual companies are also analysed with a view to identifying and leveraging potential interest rate reductions for the Group as a whole.

Masterflex AG maintains a continuous and transparent dialogue with various financial institutions on the status of the Company's development, the necessary financing measures and the minimisation of default risk. This also serves to ensure our financial independence.

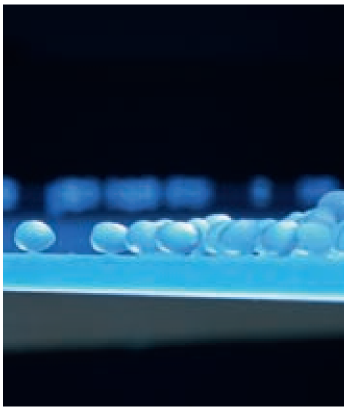
Analysis of the Group's financing activity

In September 2004, Masterflex AG received a five- and seven-year promissory note loan from IKB Deutsche Industriebank AG with a volume of € 23 million at attractive conditions thanks to its excellent credit rating.

In 2007, debt finance was used to finance current assets and the Group's continued expansion policy. In September 2005, Masterflex AG was granted a five-year promissory note loan by Deutsche Bank AG with a volume of € 5 million.

The production facilities of Masterflex Cesko and Novoplast Schlauchtechnik GmbH are financed using long-term publicly subsidised loans.

Analysis of the Group's investing activity



Due to the importance of our research and development activities and the high proportion of in-house developments, Masterflex AG primarily invests in creative employees. Investments in property, plant and equipment totalled € 6.6 million in 2007, and related largely to expansion investments.

In the High-Tech Hose Systems business unit, investments were made in the expansion of the internally developed machinery fleet at the Gelsenkirchen site. Construction investments were made at our subsidiaries Masterflex Cesko and Novoplast Schlauchtechnik in 2007.

Investments in intangible assets, which totalled € 1.8 million, primarily related to goodwill and development work on the inner-coated hose, LaryVent respirator mask and Fuel Cell Technology projects.

Investments in financial assets included the extension of a loan to a start-up company in exchange for share options. The options are expected to be exercised in at least two stages starting from 2008.

Analysis of the Group's liquidity position

In the 2007 financial year, net cash from operating activities amounted to € 1.5 million. Consolidated net profit for the period, depreciation, amortisation and write-downs of non-current assets and the decrease in trade payables were offset by the increase in inventories and trade receivables, which primarily related to the DICOTA Group and the SURPRO Group.

Net cash used in investing activities, which related to investments in both property, plant and equipment and intangible assets, increased to € 11.5 million in the year under review. This was offset by net cash from financing activities in the amount of € 11.7 million.

Cash and cash equivalents increased by 8.8 % to € 5.9 million as of the balance sheet date.

Net assets

Assets	Dec. 31, 2007 EUR thou.	%	Dec. 31, 2006 EUR thou.	%	Change EUR thou.	%	Dec. 31, 2005 EUR thou.	%	Dec. 31, 2004 EUR thou.	%
Intangible assets	29,589	22.8	28,343	25.1	1,246	4.4	32,716	33.5	23,258	26.6
Property, plant and equipment	29,147	22.4	25,746	22.8	3,401	13.2	23,221	23.7	17,221	19.7
Non-current financial assets	9,544	7.3	1,215	1.1	8,329	>100	1,315	1.3	2,391	2.7
Other assets	453	0.3	0	0.0	453	0.0	0	0.0	0	0.0
Deferred taxes	1,768	1.4	1,799	1.6	-31	-1.7	709	0.7	394	0.5
Non-current assets	**70,501**	**54.2**	**57,103**	**50.6**	**13,398**	**23.5**	**57,961**	**59.2**	**43,264**	**49.5**
Inventories	28,219	21.7	23,771	21.1	4,448	18.7	20,573	21.0	13,569	15.6
Prepaid expenses	760	0.6	760	0.7	0	0.0	743	0.8	639	0.7
Trade accounts and notes receivable	24,712	19.0	25,666	22.8	-954	-3.7	13,660	14.0	12,189	14.0
Current assets	**53,691**	**41.3**	**50,197**	**44.6**	**3,494**	**7.0**	**34,976**	**35.8**	**26,397**	**30.3**
Cash Flow	**5,895**	**4.5**	**5,419**	**4.8**	**476**	**8.8**	**4,895**	**5.0**	**17,598**	**20.2**
	130,087	**100.0**	**112,719**	**100.0**	**17,368**	**15.4**	**97,832**	**100.0**	**87,259**	**100.0**

Equity and Liabilities	Dec. 31, 2007 EUR thou.	%	Dec. 31, 2006 EUR thou.	%	Change EUR thou.	%	Dec. 31, 2005 EUR thou.	%	Dec. 31, 2004 EUR thou.	%
Consolidated equity	33,975	26.2	30,875	27.4	3,100	10.0	30,606	31.3	28,039	32.1
Minority interest	797	0.6	645	0.6	152	23.6	434	0.4	809	0.9
Total equity	**34,772**	**26.7**	**31,520**	**28.0**	**3,252**	**10.3**	**31,040**	**31.7**	**28,848**	**33.0**
Provisions	1,308	1.0	1,320	1.2	-12	-0.9	1,289	1.3	292	0.3
Financial liabilities	39,316	30.2	31,116	27.6	8,200	26.4	28,799	29.5	30,247	34.7
Deferred income	3,198	2.5	2,814	2.5	384	13.6	2,616	2.7	2,606	3.0
Deferred tax liabilities	1,749	1.3	2,283	2.0	-534	-23.4	2,444	2.5	1,588	1.8
Noncurrent liabilities	**45,571**	**35.0**	**37,533**	**33.3**	**8,038**	**21.4**	**35,148**	**36.0**	**34,733**	**39.8**
Provisions	5,189	4.0	3,833	3.4	1,356	35.4	4,504	4.6	4,419	5.1
Financial liabilities	29,183	22.4	19,330	17.1	9,853	51.0	14,590	14.9	4,454	5.1
Deferred income	297	0.2	221	0.2	76	34.4	233	0.2	243	0.3
Other current liabilities	15,075	11.6	20,282	18.0	-5,207	-25.7	12,317	12.6	14,562	16.7
Current liabilities	**49,744**	**38.2**	**43,666**	**38.7**	**6,078**	**13.9**	**31,644**	**32.3**	**23,678**	**27.2**
	130,087	**100.0**	**112,719**	**100.0**	**17,368**	**15.4**	**97,832**	**100.0**	**87,259**	**100.0**

Analysis of the Group's asset structure

The changes in individual balance sheet items compared with the previous year reflect the successful expansion of the Group's business activities. Total Group assets increased by 15.4 %, from € 112.7 million to € 130.1 million.

The individual items changed as follows:

Non-current assets increased by € 13.4 million or 23.5 % to € 70.5 million.

Intangible assets increased by 4.4 % year-on-year to € 29.6 million, while property, plant and equipment rose by 13.2 % to € 29.1 million. This was offset by investments in the amount of € 6.5 million and depreciation and write-downs totalling € 2.8 million.

Non-current financial assets increased to € 9.54 million. Among other things, this was due to a loan receivable from a German start-up company in which Masterflex has the option to acquire a majority interest starting from 2008.

Inventories increased by 18.7 % to € 28.22 million as a result of the increased material requirements at the SURPRO Group and the strong order situation at DICOTA GmbH. Receivables and other assets declined by € 2.0 million to € 24.7 million.

Income tax assets increased by € 1.9 million to € 3.15 million; this was partially offset by a € 1.2 million rise in income tax liabilities.

At the balance sheet date, cash and cash equivalents increased to € 5.9 million.

Shareholders' equity amounted to € 34.8 million at the balance sheet date, meaning that Masterflex AG again reported a strong equity ratio of 26.7 %. The fall in the equity ratio compared with the previous year is due in particular to the higher level of net assets, which primarily resulted from increases in non-current financial assets, inventories and financial liabilities. Since its IPO, Masterflex AG has not implemented any capital increases, while at the same time continuously distributing dividends to its shareholders.

Non-current liabilities increased by 21.4 % to € 45.6 million; this was largely due to the financing of real estate through the assumption of a new promissory note loan with a volume of € 5 million.

Current liabilities increased by 13.9 % to € 49.7 million on the back of the € 9.9 million rise in current financial liabilities to € 29.2 million and the € 5.2 million increase in other current liabilities to € 15.1 million.

Provisions increased by 26.2 % to € 6.5 million in 2007. This was due in particular to the rise in provisions for customer bonuses and incentive payments to employees.

Company formations, acquisitions and disposals

In April 2007, Masterflex Brennstoffzelletechnik GmbH acquired a 51 % stake in the newly formed CAB, Berlin.

In October, DICOTA GmbH acquired 70 % of the shares of DICOTA AG, Freienbach, Switzerland, for a purchase price of € 780 thousand. The remaining shares remained with the existing shareholder, who will continue to act as managing director of DICOTA AG.

At the end of 2007, Masterflex Brennstoffzellentechnik sold its 67 % interest in PERM Motor GmbH to Heinzmann GmbH & Co. KG under the terms of an extensive cooperation agreement.

Disclosures in accordance with sections 289 (4) and 315 (4) of the German Commercial Code

The share capital of Masterflex AG amounts to € 4,500,000.00 and is divided into 4,500,000 no-par value bearer shares each with a notional interest in the share capital of € 1.00. Each share grants the holder a voting right.

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions until 7 June 2010 by a total of up to € 2,225,000.00 by issuing up to 2,225,000 new no-par value bearer shares in exchange for cash and/or non-cash contributions (authorised capital).

In accordance with sections 76 and 84 of the German Stock Corporation Act and Article 7 of the Articles of Association of Masterflex AG, the Executive Board consists of at least one person. In accordance with Article 7 of the Articles of Association, the Supervisory Board is responsible for appointing the members of the Executive Board and determining the number of members. In accordance with Article 18 of the Articles of Association, resolutions at the Annual General Meeting are passed by a simple majority of the votes cast unless otherwise required by law. If a majority of the share capital represented at the passing of the resolution is also required by law, a simple majority of the capital represented is sufficient, to the extent that this is permitted by law.

The Annual General Meeting on 5 June 2007 authorised the Executive Board to acquire treasury shares with a notional interest in the Company's share capital of up to € 450,000.00 until 5 December 2008. This represents 10 % of the Company's share capital of € 4,500,000.00 at the date of the Annual General Meeting. The acquired shares, together with the other treasury shares held by the Company or attributable to it in accordance with sections 71a ff. of the German Stock Corporation Act, may not exceed 10 % of the Company's share capital at any time, including on the exercise date.

Furthermore, the Executive Board was authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares to third parties with shareholders' subscription rights disapplied in exchange for non-cash contributions, particularly in connection with business combinations and the acquisition of companies, parts of companies and/or equity interests in companies. The Executive Board was also authorised to sell the acquired treasury shares with shareholders' subscription rights disapplied in exchange for cash contributions in a manner other than via the stock exchange or the circulation of an offer to all shareholders.

The Executive Board was also authorised to retire the acquired treasury shares without this requiring an additional resolution by the Annual General Meeting. The Executive Board is authorised to retire the relevant shares either with or without implementing a capital decrease. If the shares are retired without a capital decrease, this serves to increase the notional interest in the Company's share capital attributable to the other shares in accordance with section 8 (3) of the German Stock Corporation Act. In this case, the Executive Board is also authorised to amend the number of shares of the Company as set out in the Articles of Association (section 237 (3) no. 3 of the German Stock Corporation Act).

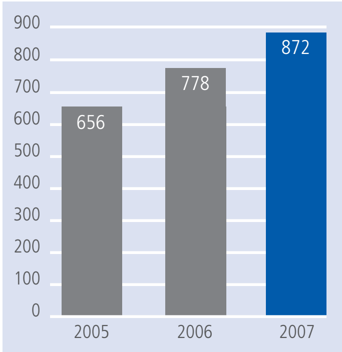
Furthermore, the Executive Board was authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares to third parties with shareholders' subscription rights disapplied in exchange for non-cash contributions, particularly in connection with business combinations and the acquisition of companies, parts of companies and/or equity interests in companies. The Executive Board was also authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares with shareholders' subscription rights disapplied in exchange for cash contributions in a manner other than via the stock exchange or the circulation of an offer to shareholders.

The Company is not aware of any direct or indirect interests in the Company's share capital exceeding 10 % of the voting rights.

Employees

The basis of the Masterflex Group's success is its problem-solving ability, which it has acquired over the years by systematically orienting its product development activities towards the needs of its customers.

Employees



The innovations developed over the years, and the technological leadership obtained as a result, would have been impossible without the creativity and commitment of our employees. We give a high degree of priority to research and development, which is often performed in cooperation with our customers. Achieving this aim requires well-trained employees with a feel not only for what is currently achievable in technical terms, but also for marketable, future-oriented products. At the same time, we also need a sales team that enters into constant dialogue with customers and passes their recommendations and suggestions on to the R&D department. This pronounced customer focus is duly rewarded, with customer surveys recognising our high level of service quality and the commitment of our employees.

The Masterflex Group is aware of its social responsibility. This includes expressing its commitment to Germany as a business location, as well as providing apprenticeships. Training facilities have been in place at our head office in Gelsenkirchen and many of our subsidiaries for a number of years. In the 2007 financial year, a total of 23 trainees were employed throughout the Group (2006: 17). We intend to continue our commitment to providing placements for trainees in 2008.

We also regularly offer internships and work placements to students and school pupils. We stepped up the search for well-educated employees in the 2007 financial year by developing a concept for increased cooperation with universities. The first students to benefit from this scheme will start their practice-oriented internships at the Group's head office in the current financial year.

Employees who are due to become parents are given the option of working part-time. This helps to ensure that we do not lose the expertise of experienced staff members.

We believe in providing a healthy working environment that encourages innovative ideas and committed work. We have an extremely low level of staff fluctuation, and the number of work days lost to sickness is significantly below the average for German industry as a whole. We are fully aware that a committed and satisfied workforce is no less important than the satisfaction of our customers. The new appointments in the year under review meant that the total number of employees increased by 12.1 % to 872 (2006: 778).

Social commitment

Masterflex AG is committed to the principles of corporate responsibility at all levels, from its economic actions, the responsible use of raw materials and resource-friendly production, right through to its social responsibility. The Masterflex Group intends to further expand its social commitment in future.

In Gelsenkirchen, Masterflex AG provides financial aid to HeartKick e.V., a local organisation that supports people in crisis. In 2006 and 2007, the donations were used to help seriously ill children. HeartKick e.V. is not tied to a fixed organisational structure, but instead aims to help where it is needed the most – including at the sites of major disasters, but also in cases of human suffering that do not make the headlines. Masterflex AG was so impressed by this approach that it sponsored the HeartKick charity football tournament at the Glückauf-Kampfbahn stadium in Gelsenkirchen, the motto of which was "What the heart desires". The success of this event prompted the Company to offer both financial and organisational support to the HeartKick 2008 tournament, which will be held in Gelsenkirchen on 31 May 2008.

Our subsidiary SURPRO GmbH supported the German Bone Marrow Donor Centre (DKMS) in Tübingen. Blood type testing was performed on the company's employees in the 2007 financial year, with the resulting costs covered by the company.

Humedica e. V. aims to provide rapid assistance in disaster areas, aid and accommodation for refugees, and support for health projects around the world. The charity, which is based in Kaufbeuren, has provided medical support in emergency situations worldwide for more than 25 years. The immediate aid provided by the organisation's 700 volunteers saves tens of thousands of lives every year.

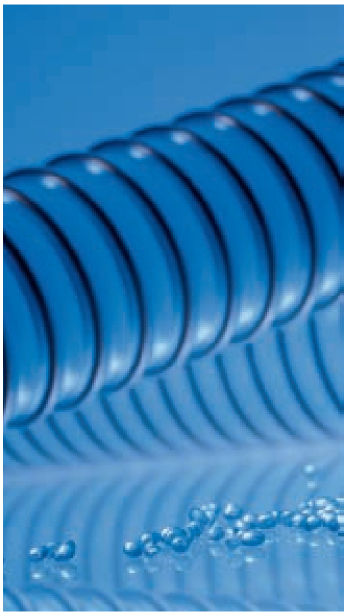
However, this achievement would be almost impossible without the use of modern computer technology. DICOTA GmbH has provided the organisation with notebook bags for the protection of sensitive IT equipment.

III. Report on Post-Balance Sheet Date Events

Significant events after the end of the financial year

There were no significant events affecting the net assets, financial position and results of operations of the Group after the balance sheet date.

IV. Risk Report



Risk management system for value-oriented corporate management

All corporate activity involves risks and rewards. Risk describes the possibility of unfavourable future developments with a realistic, though not necessarily significant, probability of occurrence.

At Masterflex, risk management stands for the targeted safeguarding of existing and future earnings potential. Our risk management system comprises the identification, assessment and management of risks. This systematic process is aimed at ensuring the early identification of potential risks within the Group as a whole, monitoring these risks, and limiting or preventing them through the implementation of appropriate countermeasures. This controlled approach to risk is intended to safeguard the net assets, financial position and results of operation of the Group.

Efficient risk management organisation

The Executive Board of Masterflex AG has established a decentralised risk management system that is continuously expanded and refined. Key components include Group planning, periodical internal reporting (including actual and forecast reports), and comprehensive risk reporting.

The forecast/actual system, which is based on the Group's strategic planning and medium-term financial planning, means that potential risks can be identified and assessed at an early stage and incorporated into the decision-making process in order to allow the timely implementation of appropriate risk mitigation measures.

The economic risks arising from the Group's operating activities are monitored and controlled using standardised internal reporting, which is performed on a Group-wide basis in accordance with uniform requirements. This serves to ensure that the Executive Board is informed on a monthly basis about the current economic situation and the extent to which the Group's objectives have been achieved. Market and competitive analyses are also performed in order to further increase risk transparency.

The wide range of business activities performed in the High-Tech Hose Systems, Medical Technology, Mobile Office Systems and Advanced Material Design business units gives rise to risk profiles requiring methods that are precisely tailored to the specific risks in the various business units.

Decentralised risk management is responsible for performing regular risk reporting with the aim of identifying risks, assessing them in terms of the potential damages and the probability of their occurrence, and documenting and communicating them. The relevant on-site risk officers are also responsible for developing and, where appropriate, initiating measures aimed at preventing, reducing and mitigating risk.

The decentralised risk officers are supported by decentralised Group risk management, which is responsible for coordinating risk management tasks and formulating the uniform terms and conditions and guidelines for the Group as a whole. Decentralised risk management also calculates the consolidated risk position of the Masterflex Group, full details of which are provided to the Executive Board on a regular basis.

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

Risk factors

Market risks

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

On the procurement side, the availability and purchase prices of raw materials and intermediate products constitute a potential risk for our companies. We strive to reduce these price and availability risks through our international purchasing activities, the conclusion of long-term supply agreements and the continuous optimisation of our supplier portfolio. We also enter into agreements with price adjustment clauses in order to minimise the adverse effect of changes in purchase prices. When selecting suppliers, Masterflex AG focuses on efficiency and quality. For particularly important bought parts, we aim to ensure close cooperation with the respective suppliers and incorporate them into new development projects at an extremely early stage in order to safeguard our economic success. This cooperative approach means that Masterflex AG is also exposed to the risk of dependence on specific suppliers.

On the sales side, we counteract the potential increase in competitive pressure in our business units by continuously improving our products, services, business processes and cost structures. However, price pressure has increased in recent times.

We aim to mitigate general customer-related risks (e.g. the loss or insolvency of major customers, increased price pressure due to competitive hegemony) by ensuring a broad-based customer structure and avoiding dependencies.

Financial risks

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

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

The fundamental risk strategies for interest rate, exchange rate and liquidity management are determined on a centralised basis. Financing and hedging decisions are made on the basis of our financial and liquidity forecasts, which incorporate all key business units.

Business and financing activities in currencies other than the respective local currency are only conducted to a limited extent, but automatically result in foreign-currency cash flows. The individual business units are obliged to monitor the resulting risks and hedge the relevant cash flows in consultation with Group management where appropriate and to the extent that this is not prohibited due to country-specific restrictions or other reasons. Hedging instruments may include currency forwards, currency swaps and simple currency options.

Where possible, exchange rate risks are reduced using natural hedges, e.g. through the provision of goods and services in the respective order currency.

To the extent that interest rate risks arise when raising funds on the capital markets due to the differing terms of the respective arrangements, these risks are managed centrally. We employ interest rate derivatives, such as interest rate and currency swaps and interest rate options, on a case-by-case basis. Translation risks arising from the translation of the financial statements of companies not reporting in euros are not hedged using financial instruments.

In autumn 2007, the Group's insurance coverage was restructured with a view to reducing financial risk.

Production risks

Lengthy downtimes due to disasters (e.g. fire damage) at individual production sites pose a risk to the ability of the affected subsidiary to supply goods.

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

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

Technology and quality risks

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

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

IT risks

The appropriate availability of IT systems is a vital factor in ensuring the operationality of the Group's individual sites and offices. Accordingly, internal and external experts work permanently with a view to optimising the Group's decentralised information security systems. The hardware and software components currently available on the market are employed to protect the Group against potential system failures due to external disruptions, e.g. the infection of computer systems with viruses. The protective measures implemented include the use of the latest virus scanners and state-of-the-art firewall systems, as well as extensive user access controls.

Legal risks

The Group is not aware of any current or potential legal proceedings that could have a tangible effect on its financial position. However, the possibility that such risks will arise in future cannot be fully excluded.

Personnel risks

The performance of our employees is a vital factor in our Company's continued growth and development. We compete with other companies in our efforts to attract highly qualified employees and managers. We do not consider there to be any significant risk to our ability to employ the necessary specialist staff and managers to achieve our growth targets.

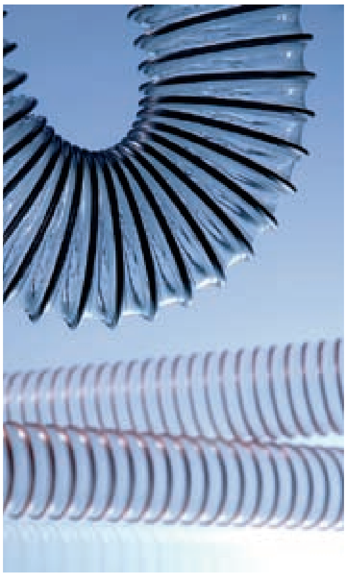
Overall assessment of the Group's risk situation

There are no individual risks, either at present or in the foreseeable future, that could endanger the continued existence of Masterflex AG or materially impact its net assets, financial position and results of operations, nor is the Company's continued existence endangered by the aggregate risk to which it is exposed. We believe that our core High-Tech Hose Systems business unit in particular has an extremely stable basis for its operations, with no risks that could endanger its continued existence. However, we cannot rule out the possibility that developments may deviate from our forecasts in the following four areas. Although Masterflex would miss out on significant future development potential if this were the case, the Group's fundamental business activities would be unaffected.

1. In the Medical Technology segment, our subsidiary Angiokard Medizintechnik GmbH & Co. KG, Friedeburg, is primarily active in the area of angiography sets. Angiokard has expanded its expertise to include operation sets, which we consider to offer significantly greater market and earnings potential. The development of operation sets is still in the early stages. The large number of potential applications means that this promising market is not particularly well-structured or developed at present, making its future performance hard to estimate. Angiokard Medizintechnik GmbH & Co. KG operates in an intense competitive environment. In light of the pronounced efforts to reduce costs in the German healthcare system, measures were initiated in 2007 with a view to significantly improving the company's future earnings potential. The initial fruits of these measures were already visible by the end of the 2007 financial year. If the expected economic success of Angiokard GmbH & Co. KG fails to materialise, however, it could become necessary to adjust the carrying amount of the investment at Group level.

   There were further delays in the development work on the LaryVent respirator mask, which also falls within the Medical Technology business unit, with the product now scheduled to be launched in late 2008. As previously, we consider the expenses of € 746 thousand incurred to date and capitalised as order-related development costs to represent a trend-setting investment with significant development potential. If our expectations fail to materialise, these development costs will result in a corresponding loss at the respective subsidiary.

2. The Fuel Cell Technology segment has enjoyed encouraging development to date, with Masterflex becoming the technological leader for a range of individual components, as well as for system development in general. Past market research has shown that the lack of certain infrastructural facilities in particular, i.e. the fact that hydrogen suppliers and filling stations are not yet widely available, are offset by the rapid development of the market. Masterflex AG is unable to provide these comprehensive solutions. Accordingly, we aim to implement standalone solutions, e.g. by establishing a comparatively large user base in a specific region in which we can guarantee hydrogen supply via third-party suppliers. We have presented two alternative scenarios: the bicycle fleet uses certified cartridges that are transported to and from filling stations, while the Cargobike uses a standardised steel bottle that can be distributed by gas suppliers via their conventional supply networks. Our development expenses in the Fuel Cell Technology segment are systematically maintained at a manageable level.



3. The same essentially also applies to the expertise we have gained in developing the inner-coated hose project.

4. Masterflex AG has extended a loan to a start-up company in Germany that is active in the area of high-quality surface treatment in exchange for share options. Masterflex AG intends to acquire a majority interest in this company in several phases between 2008 and 2010. The company will be allocated to the Advanced Material Design business unit, but its production and materials expertise is also expected to benefit the High-Tech Hose Systems and Medical Technology segments in the medium term. If this company were to encounter earnings and liquidity problems, it could become necessary to write down its carrying amount up to the full amount of the loan.

V. Report on Expected Developments

Opportunities

Masterflex AG continued its successful operating development in the 2007 financial year, with dynamic revenue growth and a further increase in earnings. The Company thereby underlined its ability to generate both revenue- and value-based growth.

We believe that particularly significant future growth potential is offered by the High-Tech Hose Systems business unit, including the Fuel Cell Technology sub-segment, and the manufacture of medical hoses and catheters. The establishment of Group-wide knowledge management, which has already been initiated, and the intensification of marketing and distribution activities are expected to be additional growth factors. Activities relating to environmentally-friendly mobility solutions in the Fuel Cell Technology segments also offer considerable potential on account of the energy and environmental problems that remain unresolved.

We are confident that Masterflex AG will continue to grow on the basis of the wide range of opportunities that we have identified as follows:

We work with innovative materials

High-performance plastics, such as polyurethane, are increasingly proving to be a vital component in the development of high-end applications. They are being used to an ever-greater extent where PVC, rubber, steel and other materials reach their limits. In the market for industrial hoses, the qualities of polyurethane and other polymers have been highly regarded for some time. In recent years, however, Medical Technology has also discovered the versatility of high-performance plastics, such as anti-bacterial plastics that can help to reduce the risk of infection. Today, polyurethane products are already substituting traditional materials thanks to their excellent properties.

The innovative potential of polyurethane is reinforced by the use of nanotechnology. This increases the benefits of polyurethane compared with other materials and allows the development of new areas of application, such as the further optimisation of the non-stick and anti-microbial properties of polyurethane. Our development team works permanently to improve materials and procedures, including in cooperation with external institutions.

We permanently develop product innovations

Permanent product innovations are one of the pillars of Masterflex AG's success. In the High-Tech Hose Systems business unit, Masterflex has been a recognised specialist for the solution of highly complex technical problems for a number of years. Research and development are extremely important to the Company, as can be seen from its wide range of product innovations and the permanent (further) development of its materials and production and process technologies. This includes the first flame-retardant PUR hose for the wood industry the master PUR inline hose with a reinforced inner lining, as well as the first electric bicycles with Fuel Cell Drive Systems. Many of Masterflex's past innovations have become standard industrial solutions.

Our knowledge, which is documented in a large number of patents, covers the entire value chain – from materials, materials finishing, internally developed machinery and manufacturing processes right through our to field staff. This combination of chemicals and mechanical engineering forms the basis for our success and makes our product range unique.

We have systematically transferred this successful approach to all of our business units. We ensure that we are kept informed of the state of the art, and work in close cooperation with high-profile partners, including research institutions and universities, in order to guarantee the high quality of our products.

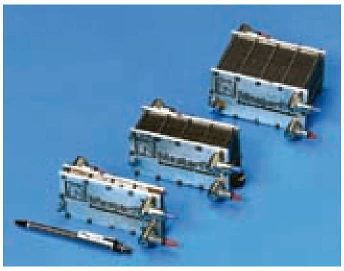
We focus on profitable niche markets

Our corporate strategy is clear and simple: as a provider of specialist product and system solutions, we systematically focus on profitable, future-oriented niche markets that are driven by the quality and problem-solving ability of the available products rather than price and volume considerations. Many of our products are manufactured on a customised basis.

Our target market in the area of hose systems offers substitution potential for traditional materials such as PVC, rubber and steel.

For a number of years, we have applied our materials expertise in the industrial hose industry to manufacture medical infusion hoses and catheters.
Medical technology is a profitable sub-segment of the healthcare market and one of the few growth areas in the difficult German market, which is currently dominated by cost savings. Our markets are areas where we can benefit from this trend by offering products with genuine value added and a reliable basis of calculation. Our catheters and infusion hoses minimise the risk of thrombosis and infection, thereby helping to reduce subsequent complications and the length of hospital stays. This is also a profitable niche market with a low level of competitive pressure and a promising outlook for the future.

Experts believe that Fuel Cell Technology offers the greatest potential for solving the increasing environmental and traffic problems. In the traffic and transport sector, decisions have largely been taken in favour of hydrogen-based Fuel Cells. However, substantial technical problems and the lack of a hydrogen infrastructure mean that it will still be some time before a broad-based market launch is possible. Masterflex AG is several steps ahead of the competition in this respect. Our focus is on the niche market of light electric vehicles. With the Cargobike and the electric bicycle, we have already developed products with a functional hydrogen supply in cooperation with external partners that are now almost ready for series production. The market for light electric vehicles is a growth market which we consider to offer even greater future potential thanks to the launch of Fuel Cell Drive Systems, as this will significantly increase the range of such vehicles as well as their attractiveness from an economic perspective.



In the Mobile Office Systems segment, we offer bag solutions that are tailored to customer requirements. This means that we are specialised in a profitable niche of the extensive market for personal computers and the growth segment of notebooks. Demand for notebooks is on the rise thanks to the growing industrialisation of countries in Asia and Eastern Europe in particular, meaning that this segment offers significant growth potential.

We seek out synergies

Our acquisition policy is strategically oriented towards strengthening and further expanding our existing business units. Company acquisitions are also considered if they would make a value-based contribution to the Group's development. Size is an important factor in any potential acquisition, as we aim to ensure that integration costs are kept to an appropriate level with a view to maintaining our high accounting standards. Acquisition targets must be market leaders or recognised specialists in attractive niche segments. Our acquisition policy actively excludes the addition of high-revenue companies that do not make a corresponding contribution to earnings.

As the technology leader in the area of High-Tech Hose Systems, company acquisitions in this area are only interesting if they allow us to leverage new market segments in which expertise, specialisation and quality are key customer criteria (such as the acquisition of Matzen & Timm GmbH with its focus on the aviation industry). As the competitive environment is sparsely populated, past investment has largely been concentrated on the establishment of in-house production sites.

Conclusion

The development of our Company over the past 20 years demonstrates our ability to recognise potential and leverage opportunities for successful corporate growth. With our competitive materials, processing expertise and innovative ability, as well as the stability of our core business activities, we are well positioned to continue our success story on the back of a wide range of promising opportunities accompanied by manageable risks.

Outlook

As we are active in growing markets, the overall economic environment offers ideal conditions for further growth. The plastics processing industry and the PUR sector have outperformed other industries for a number of years, and experts are forecasting continued growth in 2008, both at a macroeconomic level and across all individual segments.

In the Medical Technology industry, the area of medical devices offers significant growth potential. We are confident that we will also be able to generate sustainable profits from our sets as a result of the restructuring measures that we have implemented. Environmental issues mean that the up-and-coming Fuel Cell Technology industry enjoys political support at national and international level. As the market leader for drive systems using hydrogen-based Fuel Cells, we are in an excellent position to benefit from this trend, as we have already developed operational systems. We are also one of the market leaders in the area of surface technology, where we specialise in surface treatment with precious metals. Finally, the rapid growth in the industrial markets of Eastern Europe and Asia means that demand for notebooks, and hence Mobile Office Systems, is likely to remain strong. We expect to record further growth in the 2008 financial year on the back of the opportunities presented above.

Business units

High-Tech Hose Systems

We aim to increase our focus on our core High-Tech Hose Systems business unit, further expanding our position as a systems supplier for innovative hose solutions.

The expertise within the Group in order to ensure that all available information is used to offer tailored products to our customers, including for extreme applications. We intend to further expand the identification of customer requirements and product development. The success of Masterflex AG is based on its innovative ability. Accordingly, substantial investments are made in research and development, including in cooperation with external partners and institutions. We employ innovative technologies, such as nanotechnology, and will continue to apply the surface finishing expertise of our subsidiary SURPRO in order to improve the properties of our existing products and create new innovations.

We intend to expand our market leadership around the world. Germany is still our most important market, but we will also press ahead with our global expansion, with an initial focus on Eastern Europe and the USA.

The market acceptance of our highly specialist hose systems is dependent on achieving a certain industrial standard and ensuring compliance with environmental aspects. As the Asian industrial regions are increasingly developing new standards, they are becoming more interesting as target markets for Masterflex AG. Accordingly, we intend to analyse the respective markets in order to develop a targeted strategy for market entry.

In terms of market positioning, we will continue to pursue our successful strategy in 2008, developing products of the highest quality under the motto "Masterflex – always a step ahead". We intend to create markets by introducing new products for new or existing applications, such as our inline hose with a reinforced polyurethane lining. We will also exhibit our products at a number of trade fairs (e.g. Hannover Messe) and further expand our sales and distribution activities.

Fuel Cell Technology

We have already made further progress in our Fuel Cell projects in 2008. Our activities are focusing on the market for light mobility vehicles, which we consider to be the leading segment for future Fuel Cell applications. The advantage of this approach is that the extensive availability of hydrogen is not a fundamental condition for the functionality of this market, as stand-alone solutions for local supply mean that commercial applications are possible even today.

Ten electric bicycles and a number of Cargobikes are already in permanent operation. Having solved the problem of hydrogen supply for our Cargobikes, active marketing began in the 2007 financial year.

We further expanded our position as one of the market leaders for innovative mobility concepts in 2007 with a major order for 14,000 electric bicycles with accumulators. This has allowed us to establish a dominant market position that we intend to reinforce with follow-up orders, also with fuel cell drives. Activities in the 2008 financial year will focus on processing this order, as well as manufacturing Cargobikes for the EU-backed HYCHAIN Minitrans project. At the same time, we intend to further expand our cooperation with our industrial partner in the area of electric drive systems.

As we are forecasting seven-digit revenue and a higher than expected EBIT contribution in 2008, we are considering reporting the Fuel Cell Technology segment as a separate business unit at the end of the current financial year.

All in all, the High-Tech Hose Systems business unit is expected to record revenue growth of 10–15 % in the 2008 financial year. We anticipate an improvement in earnings before interest and taxes (EBIT) of between 5 % and 10 % despite the fact that the intensive expansion of our core High-Tech Hose Systems business unit means that investments in human resources, marketing and sales are not yet complete. The Fuel Cell Technology segment is expected to record revenue growth of more than 200 % and a reduction in EBIT of 25–35 % as a result of the extraordinary effects due to the sale of PERM Motor GmbH.

Medical Technology

In 2007, we increased revenue in the Medical Technology business unit and generated a positive contribution to earnings from medical devices, which still account for only a small proportion of the Group's operations. Earnings development at Angiokard Medizintechnik GmbH & Co. KG was impacted by restructuring measures. The company's future prospects depend on the extent to which angiography and operation sets are affected by the reform of the German healthcare sector. With the restructuring measures successfully implemented to date, we believe we are well on the way to generating a significant profit in the Medical Technology business unit in 2008.

This sustainable EBIT growth will be achieved through strict cost management and the continued development of the market for unplasticised medical devices and operation sets for new areas of application. Our business activities will focus on improving awareness of our products in Germany and abroad, as well as developing innovative sets. We will need longer than expected to make our internationally patented LaryVent respirator mask competitive, as we intend to add a feeding tube to the existing product. The date of the eventual market launch is still uncertain, meaning that the product is not yet included in our forecasts for the Medical Technology business unit. All in all, we expect Medical Technology to record revenue growth up to 5 % and above-average EBIT growth in the 2008 financial year.

Advanced Material Design

Our profitable subsidiary SURPRO is one of the market leaders for precious metal coating. We intend to further extend this leading position and leverage new customer segments in future. In the area of industrial coating, we will focus on the coating of connector systems.

On account of the current order situation, we believe that there is potential for the Advanced Material Design business unit to record further revenue growth in 2008. We are also aiming to improve the earnings situation on a sustainable basis. Among other things, we intend to introduce a modern inventory management system.

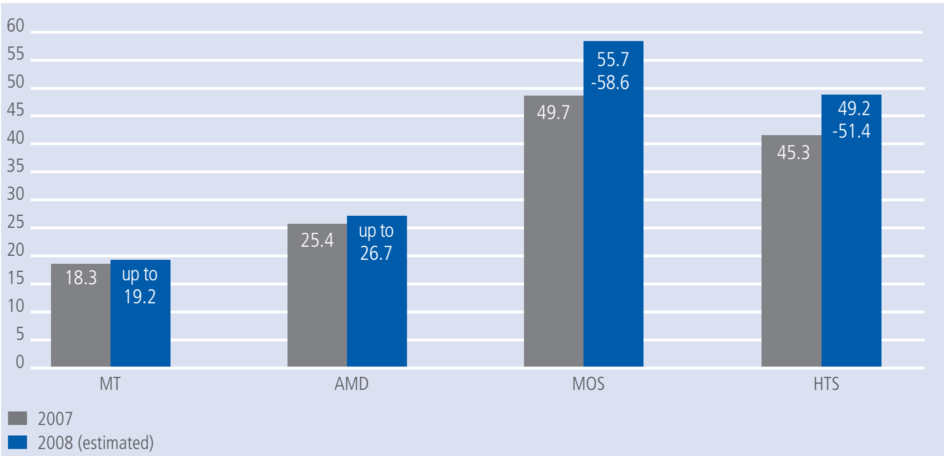
All in all, we expect the Advanced Material Design business unit to record revenue growth of up to 20 % and EBIT to go down to approximately 20 % in the 2008 financial year.

Mobile Office Systems

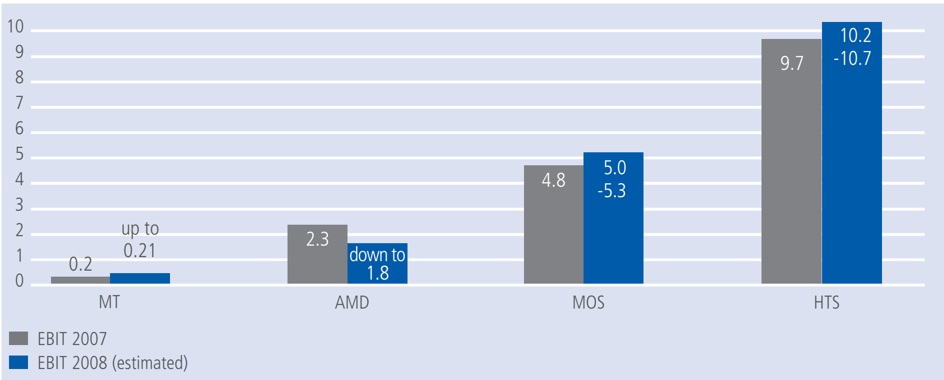
In 2006, we decided to keep DICOTA GmbH in the consolidated group in order to participate in its further growth, despite the fact that the Mobile Office Systems business unit no longer forms part of our core activities. The subsidiary's dynamic development has shown this to be the correct course of action. We will make a further decision on DICOTA's future in the course of the 2008 financial year. Any plans to dispose of the company are contingent on a positive environment.

We are confident that DICOTA GmbH will continue to develop successfully in the current financial year, with a particular focus on the expansion of its product range and the potential formation of new companies, such as in the Middle East. On account of the company's successful expansion into Asia, we expect DICOTA to generate revenue growth of 12–18 % and EBIT growth of 5–10 % in 2008.

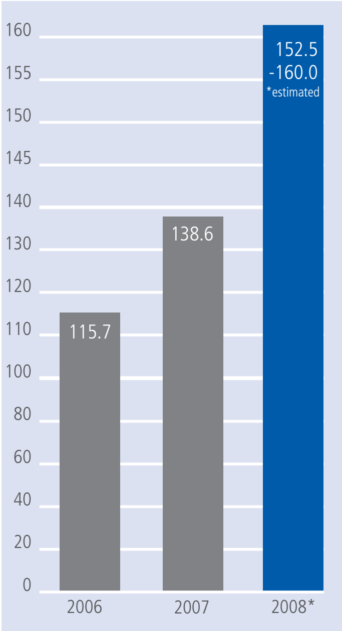
Segment revenue forecast
(€ millions)



Segment EBIT forecast before reconciliation
(€ millions)



Consolidated revenue forecast (€ m)



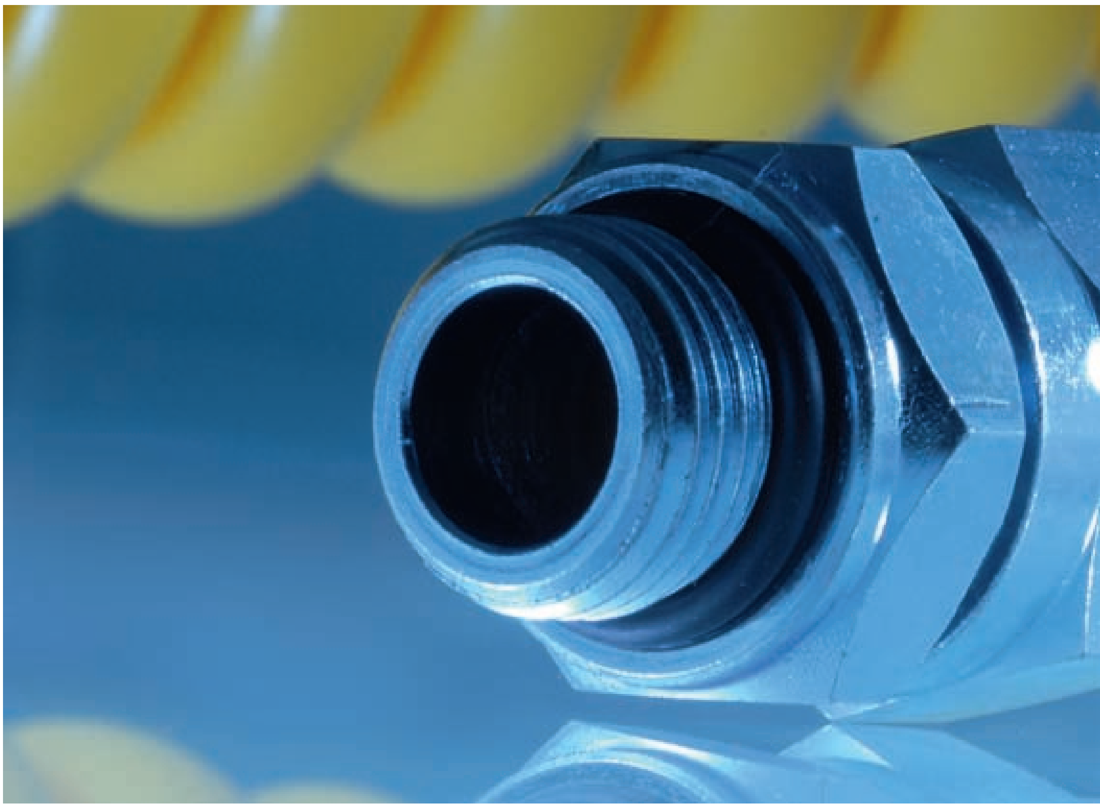
Group

We aim to expand our market leadership and systematically establish unique selling points in order to generate a continuous and sustainable increase in enterprise value.

On account of the available potential, we believe that the prospects for the continued successful development of Masterflex AG remain positive. In terms of our corporate development, we will continue to prioritise operational, value-based growth ahead of pure revenue growth. Accordingly, measures aimed at more rapid market penetration will always be evaluated in terms of this strategic objective.

Over the coming years, our key strategic goal will be the expansion and reinforcement of our technology leadership. We aim to become a recognised specialist for complex system solutions at the highest level of technology across all of our business units. In order to achieve this, it will be necessary to further expand our successful product development activities and systematically pursue the cost-related restructuring measures that have already been implemented, particularly in the Medical Technology segment. In areas in which we are already the technology leaders, we will develop new market segments through product innovations, as well as focusing on the international expansion of our market position.

Our investment policy has two clear objectives. Creative and committed employees with the ability to develop state-of-the-art products are our most important capital. Accordingly, investments in employee development and product innovations will continue to enjoy a high



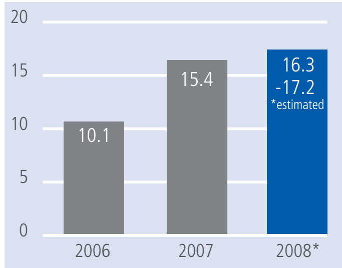
priority. At the same time, we will strive to finance a large proportion of our investments from company funds. This means that sustainable positive cash flow contributions are another key corporate objective.

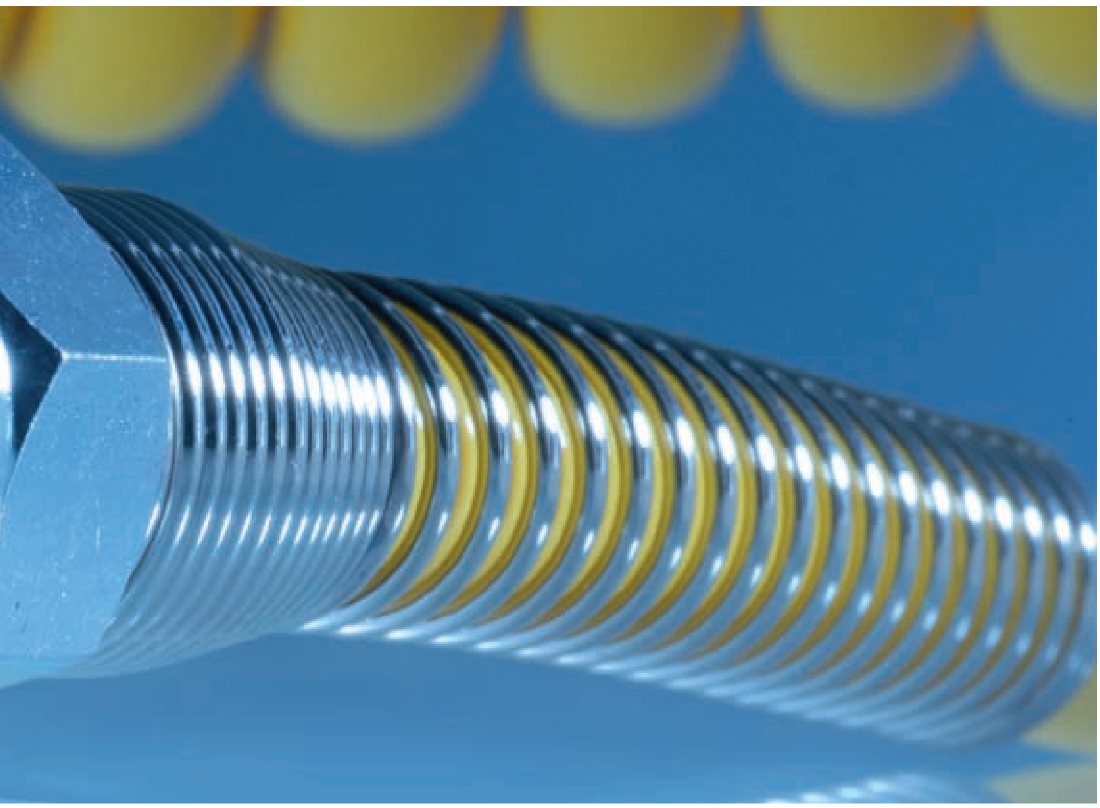
Accordingly, the aim of our medium-term financing strategy is to maintain our net indebtedness at a manageable level, including an appropriate ratio of debt to equity. We intend to develop corresponding strategies to reduce this figure in 2008. As the High-Tech Hose Systems business unit remains our primary strategic focus, we have the option of disposing of capital-intensive operations that do not form part of our core activities. In the 2007 financial year, the equity ratio amounted to 26.8%. The Group's long-term target is an equity ratio in excess of 30 %.

Finally, we intend to allow our shareholders to participate in our success in the form of a dividend, providing that the profits generated are not required for the expansion of our business activities.

Our medium-term growth targets are sustainable double-digit consolidated revenue growth and consolidated earnings that are at least stable, thereby allowing us to maintain an attractive consolidated EBIT margin. In the 2008 financial year, we are forecasting consolidated revenue growth of 10–15 % and consolidated EBIT growth of between 6 % and 12 %.

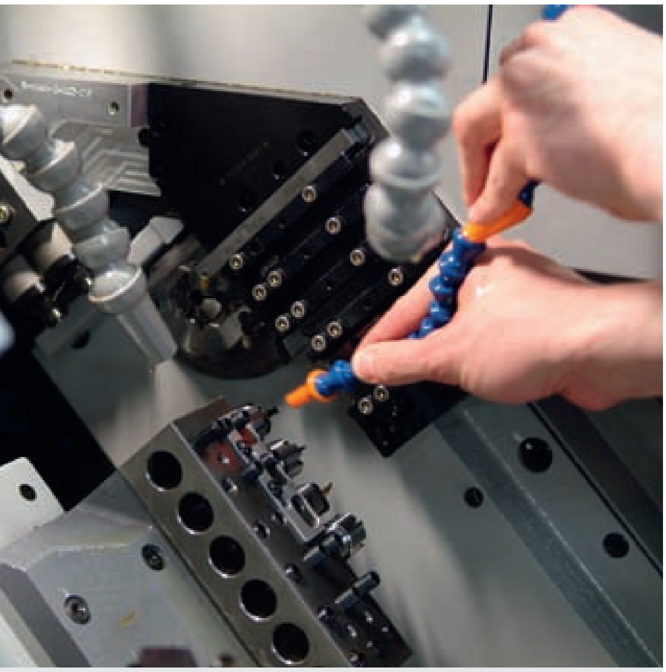
Consolidated EBIT forecast (€ millions)





Where creativity meets
technological leadership,
innovation inevitably follows.

THE MASTERFLEX SHARE



2007: the stock market year

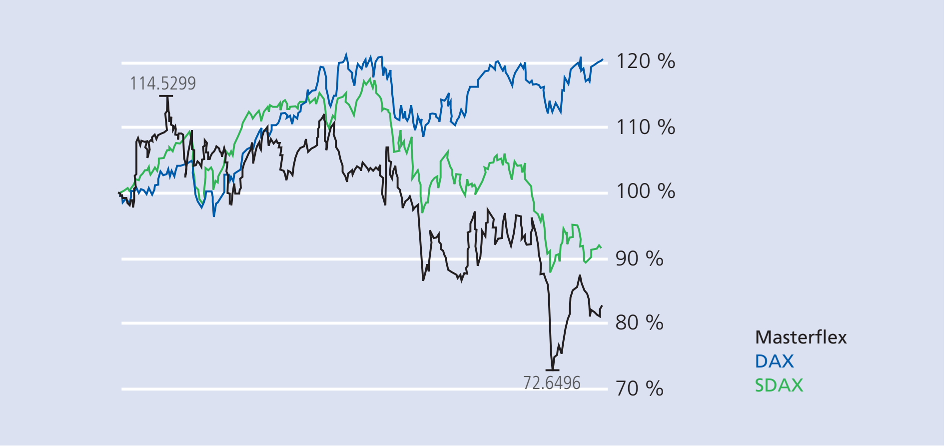
2007 was a year of high volatility and extreme developments on the stock markets. While the markets in China and India performed successfully, U.S. exchanges were impacted by the negative headlines emanating from the real estate and financial sectors, with the majority of share prices falling over the course of the year. The Japanese markets and the London Stock Exchange also suffered losses after adjustment for exchange rate effects.

In Germany, too, the market situation was characterised by fluctuation. While the DAX, the MDAX and the TecDAX all recorded growth in the first half of 2007, there were significant variations in their performance throughout the rest of the year as German stocks were affected by the credit crisis in the USA: the DAX consolidated at a high level and the TecDAX enjoyed further gains, albeit with substantial fluctuations, whereas the MDAX entered a correction phase, rising by a mere 4.9 % compared with the DAX's growth of 23 % to 8,067.32 points. The TecDAX enjoyed the best performance in 2007, recording gains of more than 30 %. Interest in mid-caps and small caps declined over the course of the year as a result of the deterioration in the overall market environment, as the lower level of liquidity offered by such issues means that they are considered riskier than standard stocks, and hence tend to be quickly removed from portfolios in periods of market uncertainty. Accordingly, the SDAX fell by 8.4% to close the year at 5,191.56 points. The market for IPOs remained positive in 2007, with the number of initial public offerings again increasing year-on-year to total 230 (previous year: 210 companies), of which 33 (previous year: 40) were in the Prime Standard.

Share information	
ISIN	DE 000 549 293 8
German Securities Code Number (WKN)	549 293
Class of shares	No- par value bearer shares
Exchange symbol	MZX
Bloomberg symbol	MZX.GR
Reuters symbol	MZXG.F
Market segment	Prime Standard
Member of the following indices	CDAX
	Prime All Share Index
	Classic All Share Index
	Prime Industrial Index
Designated sponsor	HSBC Trinkaus & Burkhardt
Number of shares	4.5 million
Theoretical interest in share capital per share	€ 1.00

The stock market year for Masterflex AG

Price performance of Masterflex's shares compared with the DAX and the SDAX in 2007



The continued successful development of Masterflex AG was not reflected in its share price performance in 2007.

The first half of 2007 saw a sideways movement in the Company's valuation, with the share price fluctuating between € 23 and just under € 27. In the third quarter of the year, the stock markets were impacted by the U.S. mortgage crisis, with the DAX – which had repeatedly enjoyed new highs – and the SDAX both experiencing a downwards correction in July and August. The economy as a whole remained robust, however, allowing share prices to recover until November, after which a pronounced downward correction hit smaller stocks in particular. The performance of Masterflex's shares roughly reflects these trends. The Company's share price fell to a low for the year of € 17.00 (XETRA) on 22 November, recovering slightly to close the year at € 19.30 (XETRA) on 28 December 2007. This represents a disappointing decline of 17.5 % compared with the share price of € 23.40 at the start of the year. The first few months of 2008 have seen capital market participants becoming increasingly nervous as a result of the negative signals emanating from the financial crisis in the USA. Share prices slumped on 21 January 2008, with the DAX closing at 6,790.19 points compared with the level of more than 8,000 at the end of 2007. The downturn in share prices continued until the publication of this Annual Report.

As well as the external factors listed above, another reason for Masterflex AG's unsatisfactory share price performance in 2007 was the fact that the capital markets expected the Company to focus on its core High-Tech Hose Systems segment and spin off its non-core operations, i.e. Mobile Office Systems, whereas we announced that we would not examine this option until 2008 at the earliest. Due to the Company's growth prospects and its low valuation at present, we expect Masterflex AG's share price to recover on the back of a corresponding upturn in the global economic environment.

Share price statistics

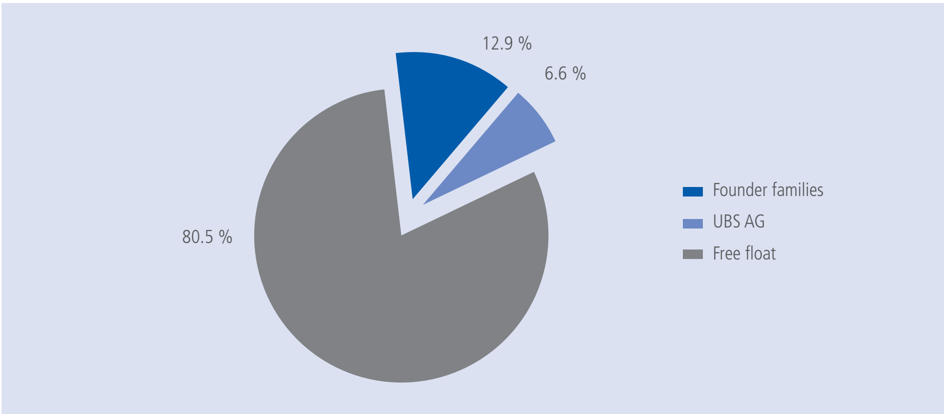
Xetra		**2008 02. Jan. to 14. Mar.**	**2007**	**2006**
Highest variable price	€	20.10	26.80	32.80
Lowest variable price	€	15.88	17.00	20.40
Opening price	€	20.10	23.40	27.00
Closing price on 30 December/ 14 March	€	16.74	19.30	23.00
Performance		-16.72 %	-17.52 %	-14.80 %
Floor trading				
Highest variable price	€	20.11	26.70	32.49
Lowest variable price	€	16.35	17.28	20.40
Opening price	€	20.11	23.40	27.10
Closing price on 30 December/ 14 March	€	16.42	19.18	22.80
Performance		-18.35 %	-18.0 %	-15.90 %

All-time high	€	39.00
All-time low	€	9.95

Masterflex AG's order book turnover in 2007

In 2007, Masterflex's average monthly order book turnover in XETRA trading was 142,848 shares, down 32 % on the previous year (208,810 shares). This corresponds to an average monthly volume of € 3.4 million (previous year: € 5.5 million). The average trading floor turnover was 53,269 shares (previous year: 80,271 shares) or around € 1.0 million (previous year: € 2.1 million), down 52 % year-on-year.

A total of 2.5 million Masterflex shares were traded across all German stock exchanges (previous year: 3.8 million), down 34 % on the volume traded in 2006. In terms of value, this represents turnover of € 59.6 million (previous year: € 99.1 million), corresponding to a year-on-year decline of almost 40 %. The free float was just under 87 %. In 2007, there were no changes in the shareholder structure compared with the previous year. On 7 February 2008, UBS AG informed us that it had acquired shares of Masterflex AG and that it now held an interest in the Company's share capital of 6.65 %.



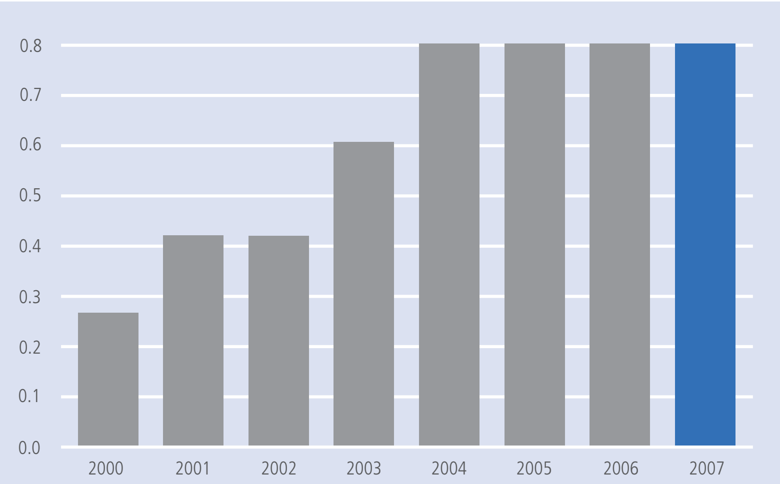
Coverage

The following banks cover Masterflex AG's performance and regularly publish analyses of the Company (investment recommendations as of March 2008):

Bank	Investment recommendation	Bank	Investment recommendation
Bankhaus Lampe	Buy	HSBC Trinkaus & Burkhardt	Hold
Berenberg Bank	Buy	First Berlin	Buy
Dresdner Kleinwort	Hold	West LB	Hold

Analyst recommendations are also published in the Investor Relations/Analysts & Press section of our website at www.masterflex.de.

Dividend payment for the seventh consecutive year



For the seventh consecutive year, our shareholders are participating in the positive development of the Company in the form of a dividend. The Executive Board and the Supervisory Board will recommend to the Annual General Meeting on 4 June 2008 that a dividend be distributed in the amount of € 0.80 per share, the same level as in the previous year. This serves to further underline our positioning in the equity markets: Masterflex is both a growth stock and a value stock.

Earnings performance in 2007

Key figures		2007	2006
Share capital	€ million	4.5	4.5
Number of shares	Million	4.5	4.5
Closing share price 2007 (floor trading)	€	19.18	22.80
Market value as of 31 Dec.	€ million	86.31	102.6
Market capitalisation as of 31 Dec.	€ million	75.1	99.5
Free float as of 31 Dec.		86.9 %	83.2 %
Earnings per share	€	1.71	1.03
Net dividend per share	€	0.80*	0.80*
Net dividend yield (based on 31 Dec. 2007)		4.2 %	3.5 %
*Proposal to the Annual General Meeting on 4 June 2008			

Investor Relations policy 2007

In 2007, we again held a number of meetings with investors. From the second half of the year in particular, however, it became increasingly clear that investor interest in small and mid-caps had declined as a result of the difficult capital market environment. In early 2007, Masterflex AG held its DVFA analysts' conference in Frankfurt, followed by an international road show. Further national and international road shows were carried out after the publication of the Company's interim reports and in response to investor interest. Masterflex AG was also represented at the German Equity Forum in Frankfurt in November, where it held a number of one-on-one meetings with investors and analysts. With more than 5,000 participants, the German Equity Forum has further established itself as the largest capital market conference in Europe. In December 2007, another road show was held and Masterflex AG made a presentation to investors in Zurich as part of Deutsche Börse's technology conference.

In 2007, a large number of investors and analysts also held meetings with Masterflex AG's Executive Board and Investor Relations team at the Company's main production site in Gelsenkirchen and obtained information on the Company and its products from our stands at various trade fairs (e.g. Hannover Messe, CeBIT, Kunststoffmesse K).

We adopt a policy of providing open, transparent and simultaneous communications to all capital market participants. Private shareholders can obtain comprehensive information from our website at www.masterflex.de and via an e-mail newsletter service. A mailing list also exists for the distribution of interim and annual reports. Shareholders have direct access to the Company at its Annual General Meeting and at shareholder meetings in particular. Around 300 shareholders attended our Annual General Meeting on 5 June 2007 and engaged in discourse with the Executive Board and Supervisory Board of Masterflex AG. The shareholders and shareholder representatives in attendance demonstrated their general satisfaction with the Company's performance in the past financial year and voted to adopt all of the agenda items with large majorities.

Masterflex AG also presented itself to private investors at the IAM International Investors' Fair in Düsseldorf in September 2007 and the investors' forum of Deutsche Schutzgemeinschaft für Wertpapierbesitz (DSW) in Düsseldorf in December 2007.

Company profile continues to increase

Reports on Masterflex AG and its products are published across a wide range of media. The second half of the year saw a further increase in the volume of reporting on Masterflex's High-Tech Hose Systems in the specialist press, as well as numerous reports on the Company's continued progress in the market for light mobile vehicles and the use of the Cargobike in the EU-backed HyChain project. Since September 2007, Masterflex's shares have also been included in the Düsseldorf Stock Exchange's new NRW Index.

Investor relations 2008 – highlighting growth potential

Although Masterflex AG continued to grow and successfully achieved its targets in the past financial year, its share price development was generally negative. This situation was exacerbated by the crisis in the financial markets in the run-up to the publication of this report, with the downturn on the stock markets having a particularly pronounced impact on second-tier stocks.

Accordingly, Masterflex AG's investor relations activities remain focused on building up confidence in the Company's growth prospects. Masterflex AG has recorded steady growth for more than twenty years and is a technology leader in its target markets, introducing a wide range of innovations in its core High-Tech Hose Systems segment in particular. The Company launched several new products in 2007, as well as initiating a number of promising projects that are expected to lead to the implementation of successful products in the 2008 financial year, thereby underlining the potential it offers. Analysts continued to issue "Buy" or "Hold" recommendations for the Company's shares throughout 2007, with Commerzbank starting coverage in September 2007 via the research company First Berlin with an initial "Buy" recommendation.

Activities in the first quarter of 2008 focused on the preparation of the annual report. The announcement of the Company's results for 2007 at the financials and DVFA analysts' press conference on 31 March 2008 will again be followed in May by an international road show. Masterflex's hose systems and light mobile vehicles will also be represented at the Hannover Messe trade fair in April, while DICOTA GmbH had a large stand at the CeBIT in March 2008. The Annual General Meeting will again be held at Schloss Horst in Gelsenkirchen on 4 June 2008. Another road show is scheduled for the autumn following the publication of the figures for the first nine months of the year, with additional events also planned.

Masterflex AG financial calendar 2008

31 March	Financials press conference, presentation of 2007 annual report, 9.30 a.m., Industrieclub Düsseldorf
31 March	DVFA analysts' conference, 3.00 p.m., DVFA Multimedia Centre, Frankfurt
21–25 April	Hannover Messe trade fair, exhibitors: Masterflex AG, Novoplast Schlauchtechnik GmbH, Masterflex Brennstoffzellentechnik GmbH
15 May	Interim report I/2008
May	International road show
4 June	Annual General Meeting, 11.00 a.m., Gelsenkirchen
15 August	Interim report II/2008
7 November	Interim report III/2008
November/December	International road show

Responsibility forms the basis
for our solutions
and our global success.

CORPORATE GOVERNANCE REPORT

In accordance with Section 3.10 of the German Corporate Governance Code, the Executive Board reports on corporate governance at Masterflex AG – including on behalf of the Supervisory Board – as follows:

Corporate governance stands for responsible company management and control geared towards long-term value creation. Key aspects of good corporate governance include

- efficient cooperation between the Executive Board and the Supervisory Board,
- protection of shareholders' interests, and
- open and transparent corporate communication.

Corporate governance traditionally enjoys high priority at Masterflex AG. The vast majority of the provisions and recommendations of the German Corporate Governance Code are already embodied in the Company's corporate culture. The Compliance Officer at Masterflex AG, a position which was implemented for corporate governance matters in the 2002 financial year, regularly informs the Executive Board and the Supervisory Board about the status of implementation of the German Corporate Governance Code and new developments in Germany, as well as the extent to which the Code is observed throughout the Group.

Masterflex AG is committed to the principles of the German Corporate Governance Code, which sets out guidelines for responsible company management. The Code was presented by the Government Commission on the German Corporate Governance Code on 26 February 2002 and published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette on 26 November 2002. In the years since the introduction of the Code, new recommendations and supplementary provisions have been published with the aim of improving the transparency of Executive Board and Supervisory Board compensation and strengthening the role of the Supervisory Board in particular.

The Code sets out the material statutory provisions on the control and monitoring of German listed corporations and contains internationally and nationally recognised standards of good and responsible company management (in the form of "recommendations" and "suggestions"). The Code is intended to improve the transparency and understanding of the German corporate governance system. The statutory provisions set out in the Code must be implemented and observed by the Company without exception, whereas the Company is permitted to deviate from the recommendations contained in the Code. Such deviations are expressly provided for in the preamble to the Code and are intended as a contribution to "more flexibility and more self-regulation in the German corporate constitution".

Declaration of conformity

In December 2007, the Executive Board and Supervisory Board of Masterflex AG issued a revised declaration stating that the Company had complied with the recommendations of the German Corporate Governance Code in the version dated 12 June 2006 and the additional recommendations published by the Government Commission on the German Corporate Code on 14 June 2007 since the last declaration of conformity in December 2006 with the exceptions contained therein, and that it would continue to comply with the aforementioned recommendations with the exceptions listed below. The declaration of conformity is permanently available to Masterflex AG's shareholders at http://www.masterflex.de/de/index.php?&node_id=21. All of the Company's previous declarations of conformity can also be accessed via this link.

Exceptions

4.2.3. Publication of the principles of the compensation system

The principles of the compensation system and the concrete form of any stock option plans and comparable schemes for components with a long-term incentive effect and risk character are presented in the Company's annual report, which can be downloaded from its website.

5.3.1., 5.3.2. Supervisory Board

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

5.4.7. Disclosure of the compensation of the individual members of the Supervisory Board

The compensation paid to the members of the Supervisory Board consists solely of fixed components and is set out in the Company's Articles of Association.

7.1.2. Deadlines for publication

The Code recommends that interim reports be published within 45 days of the end of the reporting period and that annual reports be published within 90 days of the end of the financial year. We apply the provisions of the German Securities Trading Act following the amendments implemented in accordance with the German Transparency Directive Implementation Act and the Exchange Rules for the Frankfurt Stock Exchange, which provide for publication within two months and four months respectively.

7.1.4. Publication of the results of subsidiaries

The Code requires the publication of the individual results of the Company's subsidiaries for the past financial year in its annual financial statements. We deviate from the Code in that we do not publish these results. Our subsidiaries are medium-sized companies, and we believe that their competitive position could be adversely affected by the publication of their results.

The declaration of conformity and the German Corporate Governance Code are permanently available via the Investor Relations section of our website at www.masterflex.de.

If the audit of the annual financial statements identifies facts that could lead to the inaccuracy of the declaration of conformity submitted by the Executive Board and the Supervisory Board in accordance with Section 161 of the German Stock Corporation Act, the auditor must inform the Supervisory Board accordingly or make a corresponding note in the audit report.

Key elements of Corporate Governance at Masterflex AG

Investor Protection Improvement Act requires greater observation of corporate governance

The German Investor Protection Improvement Act came into force on 30 October 2004. The implementation of the EU Directive resulted in the modernisation and harmonisation at European level of statutory provisions on insider trading, ad hoc disclosures and market manipulation.

The Act, which included amendments to the German Securities Trading Act, is intended to improve investor confidence in the capital markets. Masterflex AG has taken all the necessary measures to comply with the new provisions. The employees of Masterflex AG were informed about the new rules on insider trading and the corresponding amendments to the catalogue of events requiring disclosure. Masterflex AG fulfils its obligation to maintain a register of insiders containing details of all persons with regular or project-specific access to insider information.

Efficient cooperation between the Executive Board and the Supervisory Board

We are confident that the continuous and intensive dialogue between the Executive Board and the Supervisory Board forms the basis for the successful development of our Company. The Executive Board of Masterflex AG regularly informs the Supervisory Board in a timely and comprehensive manner about all material issues relating to corporate planning and strategic development, the course of business, the position of the Group including the risk situation and risk management, both in writing and orally. Deviations from the planned course of business are discussed in detail and the Company's strategic orientation is determined on a joint basis. Measures and transactions of fundamental importance are communicated to shareholders and the capital markets in good time in order to ensure that the decision-making process remains transparent throughout the year and that capital market participants are provided with adequate information. Provisions on the prevention of conflicts of interest are documented in the Rules of Procedure. The Company has concluded a directors' and officers' liability insurance policy for the members of the Executive Board and the Supervisory Board with a suitable deductible. Due to the increased risk of liability as a result of the adoption of the German Investor Protection Improvement Act, the Company has further intensified its measures aimed at ensuring the completeness of documentation and its risk management activities.

Compliance as a cornerstone of risk management

The responsible handling of risks is a key element of good corporate governance. Accordingly, Masterflex AG has established a comprehensive risk management system as part of its value-oriented corporate management approach in order to ensure that risks are identified at an early stage. The risk management system is continuously reviewed, developed and adjusted to reflect changes in conditions. Further details of the Company's risk management activities can be found in the management report.

Shareholders' rights

The shareholders of Masterflex AG exercise their rights and cast votes at the Annual General Meeting. Shareholders may exercise their voting rights at the Annual General Meeting in person or authorise a proxy of their choice or a representative of the Company who is required to vote in accordance with their instructions to exercise their voting rights on their behalf.

Open and transparent corporate communications

We have a particularly strong commitment to providing information to all shareholder groups regularly, simultaneously and in a timely manner. Accordingly, we give a high degree of priority to publishing information on our website at www.masterflex.de. This allows private shareholders and other capital market participants to obtain information on our Company on a regular basis. The website also includes a financial calendar listing all of the Company's key dates and publications (e.g. annual report, interim reports, Annual General Meeting).

Shareholders and interested parties are invited to subscribe to an electronic newsletter in order to receive frequent information on current developments within the Group, major events and new releases, as well as ad hoc disclosures and press releases. The financial media and specialist publications are also kept regularly informed by way of press releases, press conferences and interviews. Press releases issued by the Company can be accessed via our website.

Increased transparency as a result of the new Transparency Directive

The German Transparency Directive Implementation Act came into force on 20 January 2007. As its name suggests, the purpose of the Act is to further improve transparency and, in particular, the international comparability of financial statements. The following points are relevant for Masterflex AG:

1. There are new disclosure thresholds for securities transactions. The new lower threshold is 3 % (previously 5 %), with further thresholds at 15 %, 20 % and 30 %. Options and treasury shares are now also subject to disclosure requirements.
2. The publicity requirements have been expanded. A condensed management report must be prepared for the half-yearly report.
3. There are new provisions on the dissemination of news relating to the Company, which is now required to be circulated throughout Europe. In addition, disclosures that are relevant to the capital markets (including ad hoc disclosures, notifications of voting rights, financial reports and notifications relating to additional post-admission obligations (e.g. Annual General Meeting, dividend payments)) must be submitted to the Company Register, which was created on 1 January 2007 (www.unternehmensregister.de).

Securities transactions requiring disclosure on Masterflex AG's website

Since the Fourth Financial Markets Promotion Act came into force on 1 July 2002, the members of the Executive Board and the Supervisory Board and their spouses are required to disclose the acquisition/sale of treasury shares and other securities transactions involving Masterflex's shares (e.g. the acquisition or sale of warrants) in accordance with Section 15a of the German Securities Trading Act. The range of people required to provide such notification was expanded following the implementation of the Investor Protection Improvement Act in autumn 2004. Persons who have regular access to insider information and are authorised to take important decisions relating to the Company, as well as legal and natural persons with a close relationship to members of the Executive Board and the Supervisory Board, are now also required to disclose securities transactions.

These transactions are published in the Investor Relations section of the Company's website under the heading "Directors' Dealings". No transactions requiring disclosure were conducted in 2007.

Compensation report

In 2007, Masterflex AG had three Executive Board members and three Supervisory Board members.

The compensation paid to the members of the Executive Board consists of an annual salary with a fixed and a variable component. The criteria for the appropriateness of the compensation paid are the tasks assigned to the respective Executive Board member, their personal performance and the success and future prospects of the Company.

The fixed component is paid on a monthly basis. Performance-related compensation is paid in the financial year following the year to which it relates; however, a corresponding provision is recognised in the current financial year. The variable component, which takes the form of a management bonus, depends on the development of consolidated EBIT.

In addition to fixed compensation, the members of the Executive Board receive non-cash benefits such as the use of a company car and accident insurance coverage. Post-contractual restraints on competition with standard compensation have also been agreed with the members of the Executive Board. No other agreements have been entered into.

The total compensation paid to the members of the Executive Board in the 2007 calendar year amounted to € 724 thousand (previous year: € 525 thousand).

	Fixed compensation 2007 € thou.	Performance-related compensation 2007 € thou.	Total 2007 € thou.
Chairman of the Executive Board, Mr. Detlef Herzog	272	37	309
Member of the Executive Board, Mr. Ulrich Wantia	179	26	205
Member of the Executive Board, Dr. Andreas Bastin	210	0	210
Total	**661**	**63**	**724**

Performance-related compensation was paid in the 2007 financial year.

The compensation paid to members of the Supervisory Board is set out in the Company's Articles of Association and is determined by the Annual General Meeting. It is based on the tasks and areas of responsibility of the Supervisory Board members.

The compensation paid to the members of the Supervisory Board currently consists solely of fixed components. The Annual General Meeting is entitled to resolve the payment of variable compensation, but has yet to exercise this option. The fixed compensation is paid after the end of the respective financial year.

The Chairman of the Supervisory Board receives double the compensation paid to an ordinary member, while the Deputy Chairman receives one-and-a-half times the compensation paid to an ordinary member. Persons who are only members of the Supervisory Board for part of a given financial year receive pro rata compensation on the basis of the length of time served. The publication of payments to members of the Supervisory Board for services provided individually is consistent with the relevant statutory requirements.

All in all, the members of the Supervisory Board received compensation totalling € 32 thousand in 2007.

	2007 € thou.	2006 € thou.
Chairman of the Supervisory Board, Mr. Friedrich-Wilhelm Bischoping	14	14
Deputy Chairman of the Supervisory Board, Mr. Prof. Detlef Stolten	11	11
Member of the Supervisory Board, Mr. Prof. Paulus Cornelis Maria van den Berg	7	7
Total	**32**	**32**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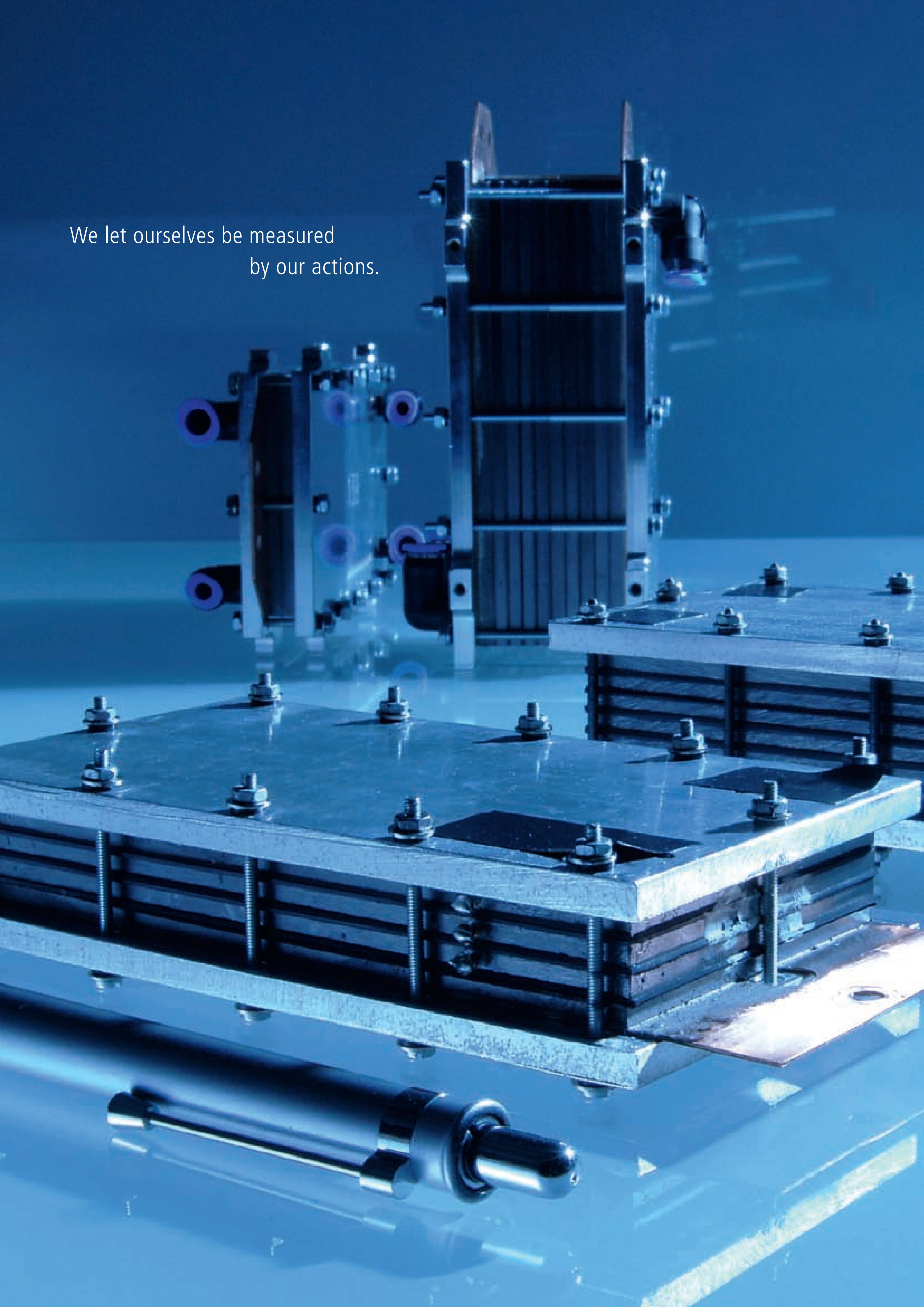
We let ourselves be measured
by our actions.



CONSOLIDATED FINANCIAL STATEMENT

Consolidated Balance Sheet

Assets	Notes	December 31, 2007 EUR thou.	December 31, 2006 EUR thou.
NONCURRENT ASSETS			
Intangible assets	**3, 4, 27**	**29,589**	**28,343**
Concessions, industrial and similar rights	4	2,252	2,651
Development costs	4	4,834	4,107
Goodwill	3, 4, 27	22,474	21,565
Advance payments	4	29	20
Property, plant and equipment	**4**	**29,147**	**25,746**
Land, land rights and buildings		11,687	10,627
Technical equipment and machinery		9,854	9,923
Other equipment, operating and office equipment		5,286	4,815
Advance payments and assets under development		2,320	381
Noncurrent financial assets	**4**	**9,544**	**1,215**
Noncurrent financial instruments		752	1,212
Other loans		8,792	3
Other assets	**7**	**453**	**0**
Deferred taxes	**30**	**1,768**	**1,799**
		70,501	**57,103**
CURRENT ASSETS			
Inventories	**5**	**28,219**	**23,771**
Row materials and consumables used		8,379	7,388
Work in progress		6,248	3,704
Finished products and goods purchased and held for sale		13,470	12,541
Advance payments		122	138
Prepaid expenses	**6**	**760**	**760**
Receivables and other assets	**7, 8**	**21,563**	**24,467**
Trade receivables	8	17,882	18,237
Other assets	7	3,681	6,230
Income tax assets	**9**	**3,149**	**1,199**
Cash in hand and bank balances	**10**	**5,895**	**5,419**
		59,586	**55,616**
Total Assets		**130,087**	**112,719**

Equity and liabilities	Notes	December 31, 2007 EUR thou.	December 31, 2006 EUR thou.
SHAREHOLDERS´EQUITY			
Consolidated equity	**11**	**33,975**	**30,875**
Subscribed capital		4,366	4,366
Capital reserve		17,521	17,521
· Retained earnings		14,756	10,780
Revaluation reserve		-176	-419
Exchange differences		-2,492	-1,373
Minority interest	**12**	**797**	**645**
Total equity		**34,772**	**31,520**
NONCURRENT LIABILITIES			
Provisions	**13**	**1,308**	**1,320**
Noncurrent financial liabilities	**14**	**39,316**	**31,116**
Prepaid expenses	**15**	**3,198**	**2,814**
Deferred taxes	**30**	**1,749**	**2,283**
		45,571	**37,533**
CURRENT LIABILITIES			
Provisions	**13**	**5,189**	**3,833**
Current financial liabilities	**14**	**29,183**	**19,330**
Prepaid expenses	**15**	**297**	**221**
Income tax liabilities	**16**	**2,717**	**1,511**
Other current liabilities	**17, 18, 19**	**12,358**	**18,771**
Trade payables	18	8,384	10,668
Other current liabilities	17, 19	3,974	8,103
		49,744	**43,666**
Total Equity and liabilities		**130,087**	**112,719**

Consolidated Income Statement

		Notes	2007 EUR thou.	2006 EUR thou.
1.	Revenue	20	138,618	115,706
2.	Changes in inventories of finished goods and work in progress		1,789	561
3.	Work performed by the enterprise and capitalised		1,089	959
4.	Other operating income	21	3,387	3,276
			144,883	**120,502**
5.	Costs of materials	22		
	Cost of raw materials and consumables used and of goods purchased and held for resale		-67,200	-52,188
	Cost of purchased services		-3,155	-2,935
			-70,355	**-55,123**
6.	Staff costs	25		
	Wages and salaries		-26,876	-22,242
	Social security contributions, retirement and other benefit costs		-5,071	-4,617
			-31,947	**-26,859**
7.	Depreciation and amortization expense	26	-3,066	-7,096
8.	Other operating expenses	23	-24,140	-21,281
9.	Non-operating expenses		0	-731
10.	Income from investments	28	102	1,526
11.	Other interest and similar income	28	835	351
12.	Write-downs of current financial instruments	28	-650	0
13.	Interest and similar expenses	28	-3,944	-4,106
14.	**Net profit from ordinary acitivites**		**11,718**	**7,183**
15.	Income tax expense	29	-4,352	-3,500
16.	Deferred taxes	30	522	1,252
17.	Other taxes		-203	-212
18.	**Group net income**		**7,685**	**4,723**
19.	thereof minority interests		-216	-245
20.	thereof attributable to shareholders of Masterflex AG		7,469	4,478
21.	Earnings per share (diluted and non-diluted)	31	1.71	1.03

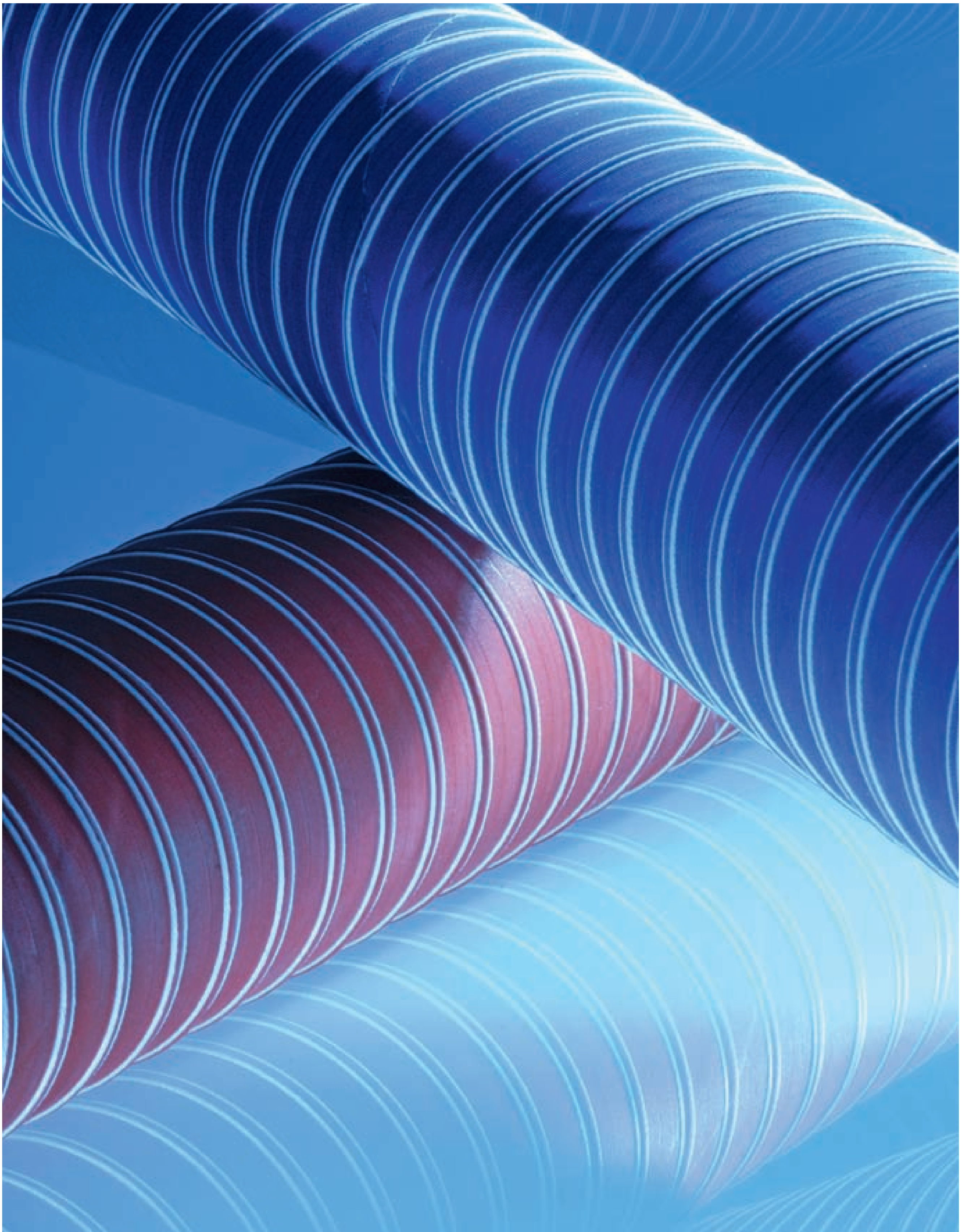
Consolidated Statement of Changes in Equity

	Subscribed capital	Capital reserve	Retained earnings (re-tained profits brought forward)	Revaluation reserve	Exchange differences	Minority interest	Total
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Notes	**11**	**11**	**11**	**11**	**11**	**12**	
Equity at Dec. 31, 2005	**4,366**	**17,521**	**9,795**	**-504**	**-572**	**434**	**31,040**
Net profit/result minority interest in earnings	0	0	4,478	0	0	245	4,723
Changes in fair values of financial instruments	0	0	0	85	0	0	85
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	-801	0	-801
Dividend distributions	0	0	-3,493	0	0	-100	-3,593
Change due to equity decreases	0	0	0	0	0	50	50
Other changes	0	0	0	0	0	16	16
Equity at Dec. 31, 2006	**4,366**	**17,521**	**10,780**	**-419**	**-1,373**	**645**	**31,520**
Net profit/result minority interest in earnings	0	0	7,469	0	0	216	7,685
Changes in fair values of financial instruments	0	0	0	243	0	0	243
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	-1,119	0	-1,119
Dividend distributions	0	0	-3,493	0	0	-120	-3,613
Change due to equity decreases	0	0	0	0	0	40	40
Other changes	0	0	0	0	0	16	16
Equity at Dec. 31, 2007	**4,366**	**17,521**	**14,756**	**-176**	**-2,492**	**797**	**34,772**

Consolidated Cash Flow Statement

Cash Flow	2007 EUR thou.	2006 EUR thou.
Result for the accounting period before taxes, interest income and financial income	14,306	8,955
Income taxes paid	-3,229	-3,284
Depreciation and amortization expense	3,716	7,096
Change in provisions	1,344	871
Other non-cash expenses/income and gains/losses from the disposal of noncurrent assets	-965	-705
Changes in inventories	-4,448	-3,026
Changes in trade receivables and other assets that can not be allocated to investment or financing activities	-4,400	-11,934
Changes in trade payables and other equity and liabilities that can not be allocated to investment or financing activities	-4,872	8,886
Net cash from operating activities	**1,452**	**6,859**
Proceeds from the disposal of noncurrent assets	357	135
Payments to acquire noncurrent assets	-10,910	-6,200
Changes in cash and cash equivalents due to the acquisition of consolidated subsidiaries	-968	-101
Net cash used in investing activities	**-11,521**	**-6,166**
Payments to shareholders including dividends, acquisition of treasury shares	-3,557	-3,527
Interest and dividend receipts	900	1,828
Interest expenditure	-4,127	-4,028
Proceeds from the sale of term deposits/securities	804	60
Proceeds from raising loans	20,588	11,559
Payments for the repayment of loans	-2,944	-5,260
Net cash from/used in financing activities	**11,664**	**632**
Net change cash and cash equivalents	**1,595**	**1,325**
Changes in cash and cash equivalents due to exchange rates and other factors	-1,119	-801
Cash and cash equivalents at start of period	**5,419**	**4,895**
Cash and cash equivalents at the end of period	**5,895**	**5,419**

Explanation report in **attachement 36.**



To protect our leading positions,
we make new investments in our cutting-edge expertise
every single day.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. Principles of financial reporting

Basis of presentation

The present consolidated financial statements have been prepared in accordance with section 315a of the German Commercial Code ("Consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRSs) and the interpretations issued by the International Accounting Standards Board (IASB) as applicable within the EU in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. The prior-period amounts were calculated in accordance with the same principles. The consolidated financial statements are also consistent with those IFRSs that were required to be applied as of the balance sheet date.

The following accounting standards and interpretations and amendments to existing standards were published as of the reporting date but were not yet required to be applied in preparing the IFRS consolidated financial statements for the year ended 31 December 2007:

- IAS 1 Presentation of Financial Statements (revised)
- IAS 23 Borrowing Costs,
- IFRS 8 Operating Segments,
- IFRIC11 IFRS 2: Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements,
- IFRIC 13 Customer Loyalty Programmes,
- IFRIC 14 The Limit on a Defined Benefit Asset.

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

The following accounting standards and interpretations were applied by Masterflex Aktiengesellschaft (hereinafter referred to as Masterflex AG) for the first time in the year under review:

- IAS 1 Presentation of Financial Statements (Capital Management)
- IFRS 7 Financial Instruments: Disclosures,
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies,
- IFRIC 8 Scope of IFRS 2,
- IFRIC 9 Reassessment of Embedded Derivatives,
- IFRIC 10 Interim Financial Reporting and Impairment

IFRS 7 combines and expands the disclosure requirements for financial instruments that were previously set out in IAS 32 and IAS 30. With the exception of the expansion of these disclosure requirements, the initial application of IFRS 7 did not affect the consolidated financial statements of Masterflex AG.

The initial application of the other standards and interpretations did not affect the financial statements of Masterflex AG.

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

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

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

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

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

Changes in accounting policies are discussed in the notes.

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

2. Accounting principles

Basis of consolidation

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

As of 31 December 2007, a total of 13 domestic subsidiaries (previous year: 13) and 16 foreign subsidiaries (previous year: 14) were consolidated in addition to Masterflex AG. The table below shows the subsidiaries that were fully consolidated as of 31 December 2007:

Company name	Company headquarters		Equity interest held by Masterflex (%)
Masterflex S.A.R.L.	F	Beligneux	80
Masterflex Technical Hoses Ltd.	GB	Oldham	100
Flexmaster USA, Inc.*	USA	Houston	100
· Masterduct Inc.	USA	Houston	100*
Masterflex Bulgaria Eood	BG	Sofia	100
TechnoBochum GmbH	D	Bochum	100
Masterflex Cesko s. r. o.	CZ	Plana	100
Matzen & Timm GmbH	D	Norderstedt	100
Angiokard Medizintechnik Verwaltungs GmbH	D	Friedeburg	100
Angiokard Medizintechnik GmbH & Co. KG*	D	Friedeburg	100
· Angiokard B. V.	NL	Hillegom	100*
· Fleima-Plastic GmbH	D	Mörlen-bach	100*
· Medic Health Care GmbH	D	Friedeburg	100*
· Novoplast Schlauch-technik GmbH	D	Halberstadt	100*
DICOTA GmbH*	D	Bietigheim-Bissingen	100
· DICOTA Asia Ltd.	SGP	Singapur	100*
· DICOTA AG	CH	Freienbach	70*
· DICOTA Far East Ltd.	VRC	Hong Kong	100*
· DICOTA Eastern Europe s. r. o.	CZ	Prag	75*
· DICOTA UK Ltd.	GB	London	100*
· Subra International Ltd.	VRC	Hong Kong	100*
· DICOTA France S.A.R.L.	F	Paris	100*
· DICOTA Trading Shanghai	VRC	Shanghai	100*
SURPRO Verwaltungs-gesellschaft mbH*	D	Wilster	100
· SURPRO Oberflächen-beschichtungs- und Be-ratungszentrum GmbH	D	Wilster	100*
· SURPRO Metalltechnik GmbH	D	Wilster	100*
· TEKOV-SURPRO s.r.o.	CZ	Plana	100*
Masterflex Brennstoffzel-lentechnik GmbH*	D	Herten	100
· Clean Air Bike GmbH	D	Berlin	51*

*) = subgroup

Compared with the previous year, the consolidated group expanded to include DICOTA AG, Freienbach, Switzerland, and Clean Air Bike GmbH, Berlin. The date at which control was obtained, and hence the date from which the aforementioned subsidiaries were included in consolidation, corresponds to the date on which the respective agreements were concluded. PERM Motor GmbH, which was included in the consolidated financial statements for the previous year, was sold and deconsolidated in December 2007.

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

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

Consolidation

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

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

Currency translation

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

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

The financial statements of all companies with a functional currency other than the Group reporting currency are translated into the reporting currency of Masterflex's consolidated financial statements. The assets and liabilities of the consolidated companies are translated using the middle rates prevailing at the balance sheet date, while their income statements are translated using moving average rates for the year as a whole. If the average rate for the year is not a reasonable approximation of the actual exchange rates on the respective transaction dates, the latter rates are applied. Any exchange differences are classified as a separate component of equity and remeasured at each balance sheet date. At 31 December 2007, these differences amounted to € 2,492 thousand (previous year: € 1,373 thousand).

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

The following exchange rates were applied for currency translation purposes:

	31 Dec. 2007 EUR
1 pound sterling (£)	1.3611
1 US dollar ($)	0.6794
1 Bulgarian lev (LEV)	0.5113
1 Czech koruna (CZK)	0.0376

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

	31 Dec. 2007 EUR
1 pound sterling (£)	1.4575
1 US dollar ($)	0.7277
1 Bulgarian lev (LEV)	0.5113
1 Czech koruna (CZK)	0.0361

Property, plant and equipment

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

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

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

Certain items of property, plant and equipment are sold and leased back. All of the sale and leaseback transactions concluded by the Company result in lease arrangements.

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

Goodwill

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

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

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

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

Other intangible assets

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

Intangible assets whose useful lives can be determined are amortised on a straight-line basis over this period.

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

Useful lives

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

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

Financial assets

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

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

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

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

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

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

Deferred taxes

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

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

Inventories

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

Prepaid expenses

Prepaid expenses are recognised for items that constitute expenses in future periods. This primarily relates to the discount on a promissory note loan extended to the Group.

Other receivables and other assets

Other assets are carried at their principal amount. Reimbursements relating to the negative fair values of derivative financial instruments are carried at fair value.

Trade receivables

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

Trade receivables from financial service providers that are sold under the terms of factoring agreements are derecognised when the risks and rewards are transferred to the respective factoring company.

Cash in hand and bank balances

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

Subscribed capital

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

Provisions

Provisions are recognised when the Group has a current (legal or constructive) obligation from a past event that it is expected to be required to settle, and the amount of this obligation can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the current obligation as of the balance sheet date, taking into account the risks and uncertainties underlying the obligation. Provisions for pension obligations are recognised on the basis of actuarial reports prepared by independent actuaries. If a provision is measured using the estimated cash flow required to settle the obligation, the carrying amount of the provision is the present value of the respective cash flow. In order to ensure that the Company is able to meet its pension obligations, qualifying insurance policies are concluded for financial assets.

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

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

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

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

Other liabilities
Other liabilities are carried at their repayment amount.

Trade payables
Trade payables are carried at their principal amount.

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

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

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

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

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

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

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

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

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

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

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

a) Goodwill

The Group tests goodwill for impairment on an annual basis. The recoverable amount of cash-generating units is determined on the basis of the value in use, which in turn is calculated on the basis of assumptions by the Group's management (see note 27).

b) Deferred taxes

When estimating the realisability of deferred tax assets, the Group's management assesses the extent to which the factors in favour of realisation outweigh those against it. The actual realisability of a deferred tax asset depends on the availability of future taxable income against which the respective temporary differences or tax loss carryforwards can be offset. To this end, the Group's management examines the dates at which the deferred tax liabilities are expected to reverse and the future taxable income is expected to be received. Based on Masterflex's expected future business development, the Group's management assumes that the deferred tax assets recognised will be realisable (see note 30).

c) Provisions and contingent liabilities

Changes in the estimated probability of a current obligation or an outflow of economic resources may lead to the reclassification as provisions of items that were previously classified as contingent liabilities, or to changes in the amounts recognised as provisions (see note 13).

d) Pension obligations

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

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

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

3. Changes in the consolidated group

Masterflex sold its 66.7 % interest in PERM Motor GmbH, Breisach, with effect from 31 December 2007. The gains on the disposal amounted to € 200 thousand, while the net assets sold amounted to € 31 thousand. Adjusted for minority interests, this resulted in gains on disposal of € 179 thousand. The net cash flow from the disposal totalled € 154 thousand. Earnings before taxes amounted to € 150 thousand, while net cash from operating activities totalled € 58 thousand. Due to the lack of available information and the subordinate importance of the transaction for the net assets, financial position and results of operations of the Company, no further disclosures are made.

Company acquisitions and formations

DICOTA AG

In the 2007 financial year, DICOTA GmbH, Bietigheim-Bissingen, acquired 70 % of the shares of DICOTA AG, Freienbach, Switzerland, for a purchase price of CHF 1,260 thousand (€ 942 thousand) plus incidental acquisition costs of € 26 thousand in order to strengthen its European presence. The purchase agreement provides for a potential purchase price adjustment depending on DICOTA AG's earnings performance in 2008 and 2009. The date of initial consolidation was 1 October 2007. The number of shares in the subscribed capital of the company is the same as the number of voting rights. The purchase price was paid in cash and corresponds to the net cash outflow from the acquisition. There were no adjustments to non-current assets or deferred taxes in the course of purchase price allocation at the acquisition date. The amounts of the assets and liabilities acquired were the same as their carrying amounts, which totalled € 12 thousand for non-current assets, € 576 thousand for current assets and € 277 thousand for current liabilities. The remaining excess of € 899 thousand after purchase price allocation was allocated to goodwill. The proportionate shareholders' equity at the acquisition date totalled € 131 thousand, while minority interests amounted to 40 thousand. DICOTA AG generated revenue of € 478 thousand from 1 October to 31 December 2007; this amount was recognised in full in the consolidated financial statements of Masterflex AG. The IFRS net profit since the acquisition date was included in the Group's consolidated net profit in the amount of € 107 thousand. Minority interests in this amount totalled € 32 thousand. It was not possible to determine the revenue and earnings for the reporting period as a whole due to the change in the company's financial year during 2007.

Clean Air Bike GmbH

By way of an agreement dated 11 April 2007, Clean Air Bike GmbH, Berlin, was formed with share capital of € 25 thousand, after which date it also commenced operations. Masterflex AG holds an indirect interest of 51 % in the company's share capital via its subsidiary Masterflex Brennstoffzellentechnik GmbH. The number of shares held is the same as the number of voting rights. The share capital is fully paid up. Clean Air Bike develops and distributes utility and leisure bicycles.

Notes to the consolidated balance sheet: assets

4. Non-current assets

The development of non-current assets is presented in a separate statement of changes in non-current assets (see appendix). Liabilities to banks are secured by way of entries in the land register in the amount of € 7,775 thousand (previous year: € 5,249 thousand) and transfers of title to production facilities and assigned receivables totalling € 195 thousand (previous year: € 426 thousand).

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

a) Intangible assets

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

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

	Internally generated intangible assets EUR thou.	Purchased intangible assets EUR thou.	Goodwill EUR thou.	Total EUR thou.
Balance at 1 Jan. 2006	**3,432**	**2,992**	**32,442**	**38,866**
Changes in consolidated group	0	324	12	336
Additions	920	560	597	2,077
Disposals	0	59	2,268	2,327
Reclassifications	0	0	0	0
Currency translation differences	0	4	17	21
Balance at 1 Jan. 2007	**4,352**	**3,821**	**30,800**	**38,973**
Changes in consolidated group	0	-323	899	576
Additions	773	172	0	945
Disposals	22	186	0	208
Reclassifications	0	-1	0	-1
Currency translation differences	0	0	10	10
Balance at 31 Dec. 2007	**5,103**	**3,483**	**31,709**	**40,295**

Current and accumulated amortisation are composed as follows:

	Internally generated intangible assets EUR thou.	Purchased intangible assets EUR thou.	Goodwill EUR thou.	Total EUR thou.
Balance at 1 Jan. 2006	**207**	**763**	**5,180**	**6,150**
Amortisation in the year under review	2	420	4,055	4,477
Currency translation differences	0	3	0	3
Balance at 1 Jan. 2007	**209**	**1,186**	**9,235**	**10,630**
Changes in consolidated group	0	-41	0	-41
Amortisation in the year under review	17	286	0	303
Disposals	0	187	0	187
Currency translation differences	0	1	0	1
Balance at 31 Dec. 2007	**226**	**1,245**	**9,235**	**10,706**

The carrying amounts of intangible assets are composed as follows:

	Internally generated intangible assets EUR thou.	Purchased intangible assets EUR thou.	Goodwill EUR thou.	Total EUR thou.
31 December 2006	**4,143**	**2,635**	**21,565**	**28,343**
31 December 2007	**4,877**	**2,238**	**22,474**	**29,589**

b) Property, plant and equipment

Property, plant and equipment also includes land and buildings held under a finance lease. Production and warehouse facilities and an administrative building used by Masterflex AG are held under the terms of a real estate lease. The lease, which was entered into on 30 March 1993 with the lessor MODICA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Masterflex KG, Gelsenkirchen, was designed in such a way that all of the risks and rewards incident to ownership of the leased assets were transferred to Masterflex AG. Masterflex AG has a notarised option to purchase the leased assets with effect from 31 July 2014. The Group has also entered into finance leases for machinery and operating equipment.

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

	Cost EUR thou.	Useful life	Carrying amount at 31 Dec. 2007 EUR thou.	Carrying amount at 31 Dec. 2006 EUR thou.
Buildings	4,505	30 years	2,705	2,859
Land	587	-	587	587
Technical equipment and machinery	1,146	10 years	922	897
Operating and office equipment	607	5 years	591	0
Total	**6,845**		**4,805**	**4,343**

The payment obligations relating to the lease instalments are allocated to an interest element and a capital element over the term of the lease. The interest expense in the year under review amounted to € 161 thousand (previous year: € 177 thousand).

c) Financial assets

Financial assets are composed as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Investment securities	752	1,212
Loans and receivables	8,792	3
Total financial assets	**9,544**	**1,215**

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

	EUR thou.
Shares	532
Debt instruments	220
Total	**752**

The following table shows the cost, unrealised gains and losses and fair values of available-for-sale securities as of 31 December 2007:

Cost EUR thou.	Unrealised gains/losses EUR thou.	Fair value EUR thou.
1,032	**280**	**752**

Income from available-for-sale securities totalled €18 thousand.

Loans and receivables are composed of various interest-bearing loans. Masterflex AG has granted an interest-bearing loan of € 3,759 thousand to a start-up company under the terms of an investment option. This loan is classified under loans and receivables in accordance with IAS 39. The investment option is expected to be exercised in at least two phases starting in 2008.

Receivables from shareholders amount to € 3,351 thousand. Trade receivables in the amount of € 550,000.00 are reported as non-current receivables on account of a financing agreement.

5. Inventories

Inventories are composed as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Raw materials, consumables and supplies	8,379	7,388
Work in progress	6,248	3,704
Finished goods and merchandise	13,470	12,541
Advance payments	122	138
Total	**28,219**	**23,771**

6. Prepaid expenses

Prepaid expenses primarily relate to the discount on a promissory note loan, as well as prepayments of trade fair expenses, commission, lease installments and insurance premiums.

7. Receivables and other assets

Receivables and other assets are composed as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Trade receivables	17,882	18,237
Other assets	4,134	6,230
Total receivables and other assets	**22,016**	**24,467**

Other assets are composed as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Reimbursements relating to derivative financial instruments	891	4,596
Reinsurance claims	700	673
Receivables from investment grants and subsidies	623	30
Receivables from the disposal of non-current assets	554	0
Receivables from tax authorities	404	0
Security deposits	118	0
Receivables from shareholders	85	238
Bonus receivables	73	102

continuation

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Receivables from employees	55	42
Miscellaneous	631	549
Total other assets	**4,134**	**6,230**

Miscellanous other financial assets include receivables totalling 453 T € (previous year: 0 T €), which will be realised primely one year after the balance sheet date.

Receivables from tax authorities primarily relate to VAT receivables.

8. Trade receivables

Trade receivables are composed as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Trade receivables	18,178	18,539
Valuation allowances	-296	-302
Total trade receivables	**17,882**	**18,237**

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

Specific and global valuation allowances on trade receivables totalled € 296 thousand (previous year: € 302 thousand).

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

The maturity structure of trade receivables is composed as follows:

31 Dec. 2007	EUR thou.	EUR thou.
1. Non-overdue receivables for which no valuation allowances have been recognised		13,599
2. Overdue receivables for which no specific valuation allowances have been recognised		4,072
Less than 30 days	1,892	
30 to 59 days	975	
60 to 89 days	904	
90 to 119 days	91	
120 days or more	210	
3. Receivables for which specific valuation allowances have been recognised		211
Carrying amount (net)		17,882

9. Income tax receivables

Income tax receivables amounted to € 3,149 thousand at the balance sheet date (previous year: € 1,199 thousand). All income tax receivables are due within one year.

10. Cash in hand and bank balances

Cash in hand and bank balances at the balance sheet date were calculated as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Cash in hand and bank balances	5,895	5,419

The effective interest rate for short-term bank deposits was between 0 % and 4.26 %.

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

11. Shareholders' equity

Capital management

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

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

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

Subscibed capital

The subscribed capital of Masterflex AG consists of a total of 4,500,000 no-par value bearer shares each with a notional interest in the share capital of € 1.00. The Company's share capital is fully paid up.

By resolution of the General Meeting on 5 June 2007, the Company was authorised, with effect from 6 June 2007, to acquire treasury shares accounting for an interest in the share capital of no more than € 450,000.00 until 5 December 2008. This represents 10 % of the Company's share capital of € 4,500,000.00 at the date of the Annual General Meeting. The acquired shares, together with the other treasury shares held by the Company or attributable to it in accordance with sections 71a ff. of the German Stock Corporation Act, may not exceed 10 % of the Company's share capital at any time. This authorisation supersedes the authorisation granted by the General Meeting on 14 June 2007, which was scheduled to run until 14 December 2007 and which is therefore revoked.

This authorisation may not be used for the purposes of trading in treasury shares.

Treasury shares must be acquired via the stock exchange or a public purchase offer circulated to all of the Company's shareholders.

If treasury shares are acquired via the stock exchange, the purchase price per share (excluding incidental costs) may not exceed or fall below the Company's quoted share price by more than 5 %. For the purposes of this authorisation, the quoted share price is the mean value of the Company's share price in the closing auctions in Xetra trading (or a functionally similar successor to the Xetra system) on the Frankfurt Stock Exchange during the three trading days prior to the purchase of the shares.

If treasury shares are acquired by way of a public purchase offer circulated to all of the Company's shareholders, the purchase price offered or the upper and lower thresholds of the purchase price range offered per share (excluding incidental costs) may not exceed or fall below the Company's quoted share price by more than 20 %. For the purposes of this authorisation, the quoted share price is the mean value of the Company's share price in the closing auctions in Xetra trading (or a functionally similar successor to the Xetra system) on the Frankfurt Stock Exchange during the period from the sixth to the third trading day prior to the publication of the offer. The volume of the offer may be limited. If the total subscription to the offer exceeds this limit, treasury shares must be purchased in proportion to the total number of shares offered in each case. The priority purchase of smaller numbers of shares, i.e. up to 100 shares from each shareholder responding to the offer, may be agreed.

The provisions of the German Securities Acquisition and Takeover Act must be observed to the extent that they are applicable.

The Executive Board is also authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares to third parties with shareholders' subscription rights disapplied in exchange for non-cash contributions, particularly in connection with business combinations and the acquisition of companies, parts of companies and/or equity interests in companies. The value of the non-cash contributions must be generally appropriate within the meaning of section 255 (2) of the German Stock Corporation Act. In the case of f), the treasury shares may only be sold to third parties at a price (excluding incidental costs) that is not significantly lower than the quoted price for shares of the Company with the same features at the transaction date, and in any case no more than 5 % lower than this quoted price. For the purposes of this authorisation, the quoted share price is the mean value of the Company's share price in the closing auctions in Xetra trading (or a functionally similar successor to the Xetra system) on the Frankfurt Stock Exchange during the five trading days prior to the sale of the treasury shares.

Furthermore, the Executive Board is authorised, with the approval of the Supervisory Board, to sell the acquired treasury shares with shareholders' subscription rights disapplied in exchange for cash contributions in a manner other than via the stock exchange or the circulation of an offer to shareholders. The authorisation to disapply shareholders' subscription rights is subject to the proviso that the treasury shares sold with shareholders' subscription rights disapplied – both as a whole and together with any other shares issued from a capital increase or from authorised capital with shareholders' subscription rights disapplied in accordance with section 186 (3) sentence 4 of the German Stock Corporation Act – may not exceed 10 % of the Company's share capital at the transaction date in each financial year.

The Executive Board is also authorised to retire the acquired treasury shares without this requiring an additional resolution by the Annual General Meeting. Furthermore, the Executive Board is authorised to retire the relevant shares either with or without implementing a capital decrease. If the shares are retired without a capital decrease, this serves to increase the notional interest in the Company's share capital attributable to the other shares in accordance with section 8 (3) of the German Stock Corporation Act. In this case, the Executive Board is also authorised to amend the number of shares of the Company as set out in the Articles of Association (section 237 (3) no. 3 of the German Stock Corporation Act).

The authorisations detailed above may be exercised on one or more occasions, either individually or cumulatively.

When acquiring treasury shares, the Executive Board is required to observe the statutory provisions on the recognition of reserves for treasury shares as set out in section 71 (2) sentence 1 of the German Stock Corporation Act and section 272 (4) of the German Commercial Code.

No treasury shares were sold or newly acquired in the 2007 financial year. At the balance sheet date, Masterflex AG held a total of 134,126 treasury shares (previous year: 134,126).

Authorised capital

By resolution of the Ordinary General Meeting on 8 June 2005, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions until 7 June 2010 by a total of up to € 2,225,000.00 by issuing up to 2,225,000 new no-par value bearer shares in exchange for cash and/or non-cash contributions (authorised capital). The Executive Board is authorised to determine the further content of the equity rights and the terms and conditions of the issue of these shares, subject to the approval of the Supervisory Board. The new shares must be offered to the Company's shareholders for subscription. However, the Executive Board is authorised to disapply shareholders' subscription rights in the following cases, subject to the approval of the Supervisory Board:

- to eliminate fractions;
- for capital increases in exchange for non-cash contributions that are implemented in order to grant shares for the acquisition of companies, parts of companies or equity interests in companies; and

- for cash contributions up to an amount not exceeding 10 % of the Company's share capital at the date on which this authorisation is exercised, providing that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the Company at the date on which the issue price is finalised. Treasury shares issued or sold in the financial year in which the shares are issued from authorised capital with shareholders' subscription rights disapplied in accordance with section 186 (3) sentence 4 of the German Stock Corporation Act are counted towards this 10 % limit.

The Supervisory Board is authorised to amend the wording of Article 4 of the Articles of Association following the full or partial exercise of the authorisation to increase the Company's share capital to reflect the extent to which authorised capital has been utilised and, if the authorised capital is not fully utilised by the date on which the authorisation period expires (7 June 2010), to amend the wording of Article 4 of the Articles of Association to reflect the expiry of the authorisation period.

Capital reserves

Capital reserves amounted to € 17,521 thousand at the balance sheet date (previous year: € 17,521 thousand) and primarily relate to the proceeds from the Company's IPO in 2000 less initial stock exchange listing costs. In accordance with SIC 16, acquisitions and disposals of treasury shares are offset against capital reserves after adjustment for income tax effects.

Retained earnings

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

Reserve for the marking-to-market of financial instruments

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

Exchange differences

The exchange differences recognised in equity are composed as follows:

	Exchange differences from the translation of foreign financial statements	Exchange differences in accordance with IAS 21.17	Exchange differences in accordance with IAS 21.19	Exchange differences in accordance with IAS 21.32	Total
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Balance at 31 Dec. 2005	-395	-272	95	0	-572
Change in 2006	-802	1	0	0	-801
Balance at 31 Dec. 2006	-1,197	-271	95	0	-1,373
Change in 2007	-1,077	-1	0	-41	-1,119
Balance at 31 Dec. 2007	-2,274	-272	95	-41	-2,492

In accordance with IAS 12.61, taxes relating to items taken directly to equity were also recognised in equity, and are included in the changes in exchange differences presented in the table above.

In accordance with IAS 21.17/21.19/21.32 in conjunction with IAS 21.37, the changes in fair value recognised in equity in the amount of € -218 thousand (previous year: € -177 thousand) are fixed when the respective foreign-currency obligations are settled. Exchange differences recognised in equity are reversed to income only when the respective foreign entity is sold.

12. Minority interests

Minority interests in the shareholders' equity of Masterflex Group companies amounted to € 797 thousand (previous year: € 645 thousand).

13. Provisions

Provisions are composed as follows:

	Balance at 1 Jan. 2007 EUR thou.	Change in consolidated group EUR thou.	Utilisation EUR thou.	Reversal EUR thou.	Addition EUR thou.	Balance at 31 Dec. 2007 EUR thou.
Non-current provisions						
Pensions	1,249	0	0	10	69	1,308
Onerous contracts	71	0	0	71	0	0
Total	**1,320**	**0**	**0**	**81**	**69**	**1,308**
Current provisions						
Year-end closing costs	314	-6	293	10	337	342
Vacation	482	-8	474	0	532	532
Customer bonuses	604	0	512	92	1,038	1,038
Incentive payments, severance payments, commission	1,365	0	1,301	64	1,922	1,922
Warranties	108	-5	61	1	75	116
Employers' Liability Insurance Association	355	-3	343	9	356	356
Outstanding invoices	299	-3	290	6	521	521
Other	306	0	223	62	341	362
Total	**3,833**	**-25**	**3,497**	**244**	**5,122**	**5,189**

a) Non-current provisions

Provisions are recognised for current and future pension claims to beneficiaries consisting of active and past employees of Masterflex Group companies and their surviving dependents. There are different forms of old-age provision, which are generally based on the length of service and the level of salary of the respective employee.

In the case of occupational pensions, a distinction is generally made between defined contribution and defined benefit plans.

In the case of defined contribution plans, the Company assumes no obligations above and beyond the obligation to make payments to a pension fund. The corresponding expenses are reported in staff costs for the current period and no provision is recognised. In the past financial year, the cost of defined benefit plans amounted to € 158 thousand (previous year: € 153 thousand), not including employer contributions to statutory pension schemes.

In the case of defined benefit plans, the Company undertakes to meet specific benefit obligations to active and past employees. Provisions for defined benefit pension plans are determined on the basis of the projected unit credit method as set out in IAS 19. The amount of the defined benefit obligation is calculated using actuarial methods and estimates of the relevant factors. In addition to assumptions on life expectancy, the following premises are applied with regard to the parameters for actuarial calculations:

	31 Dec. 2007
Discount rate	4.50 %
Salary growth	0.00 %
Increase in living costs	2.00 %
Pension growth	2.00 %

Salary growth includes expected future salary increases, which are estimated annually on the basis of factors such as inflation and length of service. As the agreed pension benefits at subsidiaries are not dependent on future salary increases, no salary growth factor was applied in calculating the corresponding provisions.

Pension provisions developed as follows as of 31 December 2007:

	31 Dec. 2007 EUR thou.
Carrying amount at 1 Jan. 2007	1,249
Reversal	10
Addition	26
Interest expense	43
Carrying amount at 31 Dec. 2007	1,308

b) Current provisions

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

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

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

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

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

14. Financial liabilities

Finance lease liabilities were reported under financial liabilities for the first time in the year under review. The prior-period amounts have been restated accordingly.

As of 31 December 2007, financial liabilities were composed as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Liabilities to banks	36,087	28,191
· of which due in > 5 years	2,973	4,177
Finance lease liabilities	3,229	2,925
· of which due in > 5 years	1,156	1,456
Non-current financial liabilities	**39,316**	**31,116**
Liabilities to banks	28,643	18,901
Finance lease liabilities	540	429
Current financial liabilities	**29,183**	**19,330**
Total financial liabilities	**68,499**	**50,446**

Liabilities to banks

The Company received a five- and seven-year promissory note loan from IKB Deutsche Industriebank AG with a volume of € 23 million in September 2006 and a five-year promissory note loan from Deutsche Bank with a volume of € 5 million in September 2007. In terms of maturity, liabilities to banks can be broken down as follows:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Liabilities due within 1 year	28.643	18.901
Liabilities due between 1 and 5 years	33.114	24.014
Liabilities due in more than 5 years	2.973	4.177
Total liabilities to banks	**64.730**	**47.092**

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

Liabilities to banks totalling € 7,970 thousand are secured (previous year: € 5,675 thousand).

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

In the euro zone, interest was charged on liabilities to banks at rates of between 2.5 % and 7.0 % p.a. depending on the maturity and purpose of the respective liabilities (previous year: between 3 % and 6 % p.a.). The Company also had material foreign-currency liabilities in Swiss francs and US Dollars, on which interest was charged at around 4.75 % and around 7.2 % p.a. respectively.

As of 31 December 2007, the Company had cash advance facilities totalling € 37,742 thousand, of which € 10,831 thousand were unutilised. The Company also had access to guarantee facilities for contractual fulfilment, advance payments and warranties of which € 100 thousand (previous year: € 100 thousand) were utilised.

Finance lease liabilities

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

	up to 1 year EUR thou.	2–5 years EUR thou.	more than 5 years
Future financial obligations (including interest)	605	2,259	1,185
Present value of future financial obligations (capital element)	540	2,073	1,156

The Company's material leases relate to land and buildings, as well as technical equipment and machinery. The present value of the minimum lease payments for land and buildings amounted to € 2,586 thousand at 31 December 2007 (previous year: € 2,864 thousand), while the present value of the minimum lease payments for technical equipment and machinery and office and operating equipment totalled € 1,183 thousand (previous year: € 483 thousand).

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

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

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

15. Deferred income

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

The following amounts were recognised as deferred income as of 31 December 2007 and 2006:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Investment grants	2,646	2,319
Subsidies	849	716
Total	**3,495**	**3,035**

The following amounts were reversed to income in 2007 and 2006:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Reversal of investment grants	124	133
Reversal of subsidies	105	102
Total	**229**	**235**

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 2007. 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.

16. Income tax liabilities

Income tax liabilities relate to current taxes and totalled € 2,717 thousand at the balance sheet date (previous year: € 1,511 thousand).

17. Other liabilities

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

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Liabilities to shareholders	0	94
Payments received on account of orders	51	65
Trade payables	8,384	10,668
Miscellaneous other liabilities	3,032	3,348
Fair values of derivative financial instruments	891	4,596
Total other liabilities	**12,358**	**18,771**

Miscellaneous other liabilities include the following items:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Amount withheld from acquisitions	1,322	1,322
Tax liabilities	1,157	871
Liabilities to employees	260	117
Social security liabilities	200	165
Other	93	873
Total	**3,032**	**3,348**

Other liabilities are all due within one year.

18. Trade payables

At the balance sheet date 31 December 2007, the Company had the following trade payables:

	31 Dec. 2007 EUR thou.	31 Dec. 2006 EUR thou.
Trade payables	8,384	10,668

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 8,384 thousand (previous year: € 10,668 thousand) are due within one year.

19. Derivative financial instruments

In 2006, Masterflex AG entered into an agreement with a bank on a derivative financial instrument (interest rate swap). The agreement came into force on 1 September 2005 and is scheduled to end on 1 September 2010. The subscription volume is € 15 million. Masterflex AG will receive a fixed return of 3 % over the term of the agreement, in exchange for which it must pay a fixed interest rate of 2.4 %. The parties also agreed that the interest rate gap, calculated as the difference between the 30-year EUR swap rate and the 2-year EUR swap rate, will be settled at the end of the agreement. As this financial instrument is unhedged, it is classified as held for trading in accordance with IAS 39.9 and carried at fair value. Based on the forecasts provided by the bank, the fair value at the balance sheet date was € 891 thousand. As Masterflex AG is entitled to terminate the agreement at any time, this amount is reported under current liabilities.

The existing shareholders have indemnified the Company from all obligations resulting from the legal transactions described above up to a maximum of the amount recognised in current liabilities. The corresponding receivable is reported under other assets (note 7).

Notes to the consolidated income statement

20. Revenue

Revenue is composed as follows:

	2007 EUR thou.	2006 EUR thou.
Gross revenue	140,969	118,231
Elimination of intragroup revenue	2,351	2,525
Total	**138,618**	**115,706**

21. Other income

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

	2007 EUR thou.	2006 EUR thou.
	3,387	3,276

Other operating income is composed as follows:

	2007 EUR thou.	2006 EUR thou.
Currency translation gains	1,469	1,687
Income from the reversal of provisions	325	219
Subsidies	296	0
Income from the reversal of deferred income	229	269
Gains on the sale of assets	214	51
Remuneration in kind	106	77
Insurance recoveries	42	69
Income from reductions in specific valuation allowances	33	49
Rental income	27	21
Miscellaneous	646	834
Total	**3,387**	**3,276**

22. Cost of materials

The cost of materials is composed as follows:

	2007 EUR thou.	2006 EUR thou.
Cost of raw materials, consumables and supplies	67,200	52,188
Cost of goods purchased and held for resale	3,155	2,935
Total	**70,355**	**55,123**

23. Other operating expenses

The other operating expenses incurred by the Group were as follows:

	2007 EUR thou.	2006 EUR thou.
	24,140	21,281

Other operating expenses are composed as follows:

	2007 EUR thou.	2006 EUR thou.
Selling costs	11,685	9,886
Administrative expenses	3,664	2,812
Incidental premises expenses	3,038	2,581
Operating costs	2,675	2,471
Currency translation losses	1,307	1,451
Insurance costs	548	555
Write-downs of receivables	189	201
Cost of valuation allowances	152	143
Expenses for the sale of assets	43	61
Warranty expenses	17	55
Relocation expenses	0	186
Miscellaneous	822	879
Total	**24,140**	**21,281**

24. Research and development costs

Capitalisable development costs are reported in intangible assets. Research costs and non-capitalisable development costs are expensed as incurred. In the 2007 financial year, research and development costs totalled € 402 thousand (previous year: € 205 thousand).

25. Staff costs

In 2007, staff costs increased by € 5,088 thousand to € 31,947 thousand (previous year: € 26,859 thousand). Amounts resulting from the discounting of future pension obligations are reported as a component of interest expense under net finance and interest expense. Staff costs include wages and salaries in the amount of € 26,876 thousand (previous year: € 22,242 thousand) and social security, post-employment and other employee benefit costs totalling € 5,071 thousand (previous year: € 4,617 thousand).

26. Depreciation, amortisation and write-downs

Depreciation, amortisation and write-downs are composed as follows:

	2007 EUR thou.	2006 EUR thou.
Goodwill from business combinations	0	4.055
Other intangible assets and property, plant and equipment	3.066	3.041
Total	**3.066**	**7.096**

In the year under review, depreciation and write-downs of property, plant and equipment and amortisation and write-downs of intangible assets totalled € 3,066 thousand (previous year: € 7,096 thousand). Write-downs of securities amounted to € 650 thousand in the year under review (previous year: 0). Write-downs of inventories are included in net finance expense.

27. Impairment of assets

In accordance with IFRS 3 (Business Combinations) and the revised IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill and intangible assets with an indefinite useful life must be tested for impairment on a regular basis.

The initial consolidation of DICOTA AG, Freienbach, Switzerland resulted in the recognition of goodwill in the amount of € 899 thousand, which was reported in intangible assets.

Goodwill and assets with an indefinite useful life are tested for impairment annually. If events or changes in circumstances suggest that an asset may be impaired, impairment testing must be performed more frequently.

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

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

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

The cost of capital is calculated as the weighted average cost of equity and debt capital (WACC). The discount rate for cash flow forecasts is composed of a basic interest rate of 4.25 % plus a risk premium. The weighted average cost of capital before taxes that is applied when discounting cash flows is between 7.28 % and 7.54 %. WACC takes into account data on the German financial markets, long-term German government bonds and effective Group financing. A growth discount of 1.5 % is factored into the perpetual annuity.

No impairment losses were recognised in 2007.

The acquisitions of subsidiaries and successive share purchases conducted in the year under review and in previous years resulted in the recognition of the following (amortised) goodwill:

	EUR thou.
Novoplast Schlauchtechnik GmbH	462
Flexmaster Inc.	1,488
TechnoBochum GmbH	768
Angiokard GmbH & Co. KG	4,671
Fleima Plastic GmbH	601
DICOTA GmbH	8,444
DICOTA France S.A.R.L.	684
DICOTA AG	899
Matzen & Timm GmbH	233
SURPRO GmbH	4,224
Total	**22,474**

Intangible assets with a definite useful life amounted to € 1,254 thousand at the balance sheet date, and were composed of development work on the LaryVent respirator mask (€ 747 thousand), inner-coated hose (€ 427 thousand) and silver catheter (€ 80 thousand) projects.

28. Net finance costs

Net finance costs are composed as follows:

	2007 EUR thou.	2006 EUR thou.
Income from equity investments	102	1,526
Other interest and similar income	835	351
Write-downs of non-current financial assets	-650	0
Interest and similar expenses	-3,944	-4,106
Total	**-3,657**	**-2,229**

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

Net finance costs are primarily affected by tax optimisation models in the form of securities lending transactions. The resulting compensation payments and financing costs in the amount of € 488 thousand (previous year: € 1,633 thousand) were offset by income totalling € 488 thousand (previous year: € 1,510 thousand). These securities lending transactions served to reduce the Group's tax expense by € 122 thousand (previous year: € 380 thousand).

29. Income tax expense

The following reconciliation of income tax expense for the 2007 financial year is based on an overall tax rate of 40.0 % reconciled to an effective tax rate of 32.7 %:

	2007 EUR thou.	2006 EUR thou.
Accounting profit	11,514	6,971
Expected tax expense (40 %)	4,606	2,788
Effect of tax-exempt income	-42	0
Tax reductions due to differences in tax rates	-438	-208
Tax optimisation model	-122	-380
Effect of changes in income tax rates on deferred taxes	-150	0
Other	-24	48
Total income tax expense	**3,830**	**2,248**

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

30. Deferred taxes

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

	31 Dec. 2006		31 Dec. 2007	
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Tax loss carryforwards	1,479	0	1,290	0
Non-current assets	403	5,071	360	3,972
Inventories	236	25	312	17
Receivables	0	133	29	5
Other assets	53	0	36	0
Pension provisions	170	0	129	0
Other provisions	60	52	6	0
Liabilities/deferred income	2,396	0	1,851	0
Before offsetting	**4,797**	**5,281**	**4,013**	**3,994**
thereof non-current	4,168	4,774	3,139	3,597
Offsetting	-2,998	-2,998	-2,245	-2,245
Amounts recognised in the consolidated balance sheet	**1,799**	**2,283**	**1,768**	**1,749**

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.

As of 31 December 2007, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of € 1,290 thousand.

Deferred taxes in Germany are calculated on the basis of a tax rate of 30.9 % (previous year: 39.4 %). This tax rate is composed of the corporate income tax of 15 % that comes into force on 1 January 2008 (previous year: 25 %), the solidarity surcharge, which remained unchanged at 5.5 %, and the average trade tax rate for the Group. The Masterflex Group recorded deferred tax income of around € 150 thousand as a result of these effects.

For foreign companies, the applicable tax rates vary between 17 % and 34 %.

No deferred taxes were recognised for tax loss carryforwards in the amount of € 204 thousand (previous year: 0), 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.

31. Earnings per share

Earnings per share are calculated as follows:

	2007 EUR thou.	**2006** EUR thou.
Consolidated net profit after minority interests	7,469	4,478
Weighted average number of shares in circulation	4,365,874	4,365,874
Earnings per share (EUR)	**1.71**	**1.03**

There were no dilutive effects in the 2007 financial year or the previous year.

32. Appropriation of net retained profits

The single-entity financial statements of Masterflex AG in accordance with the German Commercial Code for the year ended 31 December 2007 reported net retained profits of € 7,281 thousand. The Executive Board and the Supervisory Board intend to propose the distribution of a dividend of € 0.80 per share, with the remaining T € 3,789 being carried forward to new account. The General Meeting to be held on 4 June 2008 will resolve on the appropriation of net retained profits for the 2007 financial year.

33. Financial risk management

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

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

Exchange rate risk management

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

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

Interest rate risk management

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

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

The sensitivity analyses performed by the Group were determined on the basis of its interest rate exposure at the balance sheet date. For variable-rate liabilities, it is assumed that the amount of the outstanding liability at the balance sheet was outstanding throughout the entire year.

The sensitivity analysis assuming a 50 bp fluctuation in interest rates did not have a significant impact on shareholders' equity and consolidated net profit.

Counterparty default risk management

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

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

A write-down to fair value in the amount of € 650 thousand was recognised for a non-current receivable from a debtor that is in economic difficulties at present.

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

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

Liquidity risk management

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

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

2007 EUR thou.	**Carrying amount**	**2008**	**2009**	**2010**	**2011**	**2012**	**≥ 2013**
Trade payables	8,384	8,384	0	0	0	0	0
Liabilities to banks	64,730	28,643	13,084	1,529	12,201	6,300	2,973
Finance lease liabilities	3,769	540	507	518	531	517	1,156
Other liabilities	3,974	3,974	0	0	0	0	0
Total	**80,857**	**41,541**	**13,591**	**2,047**	**12,732**	**6,817**	**4,129**

2006 EUR thou.	**Carrying amount**	**2007**	**2008**	**2009**	**2010**	**2011**	**≥ 2012**
Trade payables	10,668	10,668	0	0	0	0	0
Liabilities to banks	47,092	18,901	448	12,000	566	11,000	4,177
Finance lease liabilities	3,354	429	363	361	369	376	1,456
Other liabilities	8,103	8,103	0	0	0	0	0
Total	**69,217**	**38,101**	**811**	**12,361**	**935**	**11,376**	**5,633**

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.

34. Other financial commitments

At 31 December 2007, other financial commitments related to lease obligations and other commitments.

a) Lease obligations

The financial commitments relating to finance leases are discussed in note 14.

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

	2008 EUR thou.	2009–2012 EUR thou.	2013 EUR thou.
Notional amount of future minimum lease payments	713	416	5

The operating leases entered into by the Group relate to the financing of its vehicle fleet and office and operating equipment.

b) Other commitments

The office and operating buildings of Angiokard Medizintechnik GmbH & Co. KG are rented from a former shareholder under the terms of an agreement running until 31 December 2009. No right to extraordinary termination or to purchase the respective assets has been agreed. Angiokard has the option to extend the rental agreement when it expires. The total rental obligation under the terms of the agreement is € 518 thousand, of which € 259 is due within one year and € 259 thousand between one and five years.

The Company has entered into a licensing agreement with Material Design GmbH (licensor) for the use of a coating procedure for inner-coated hollow bodies for an unlimited period. This right to use is restricted to Europe. The licensing agreement provides for the payment of performance-related licence fees.

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

35. Segment reporting

By business unit

IAS 14 states that primary segment reporting must be prepared on the basis of product-related business units. Accordingly, the Masterflex Group now reports a total of four segments:

High-Tech Hose Systems (HTS), Medical Technology (MT), Advanced Material Design (AMD) and Mobile Office Systems (MOS).

Masterflex's oldest business unit (HTS) manufactures high-tech hose systems from high-quality special materials (e.g. polyurethane). These systems are used across a wide range of industrial applications (e.g. chemicals, automotive, environmental protection, food, etc.). The Fuel Cell Technology sub-segment is currently of only subordinate importance to the Group's activities as a whole, and hence is included in the High-Tech Hose Systems (HTS) business unit.

The Company used polyurethane in its Medical Technology (MT) business unit for the first time in 1996. Early 2000 saw the strategic expansion of the Medical Technology business unit through the acquisition of an equity interest in Angiokard Medizintechnik GmbH & Co. KG. In addition to individual medical components, this business unit also manufactures and distributes complete treatment sets for the areas of radiology, cardiology and anaesthesia. The value chain in the Medical Technology segment was optimally expanded and reinforced in the 2004 financial year with the acquisition of Fleima-Plastic GmbH.

Advanced Material Design (AMD) is the youngest business unit in the Group. It specialises in surface processing for technical applications and galvanisation for functional coating.

The Mobile Office Systems (MOS) business unit primarily consists of DICOTA GmbH, Bietigheim-Bissingen, and its subsidiaries. The DICOTA Group's business activities largely focus on the sale and distribution of cases and bags for the transportation of notebooks and office systems.

Segment information by business unit:

2007	HTS High-Tech-Schlauch-systeme	MT Medical Technology	AMD Advanced Material Design	MOS Mobile-Office-Systems	Segment totals	Recon-ciliation	Group
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue	45,315	18,268	25,362	49,673	138,618	0	138,618
Earnings (EBIT)	9,666	203	2,271	4,807	16,947	-1,572	15,375
Assets	44,102	17,069	18,861	29,699	109,731	20,356	130,087
Liabilities	7,918	1,770	5,019	6,751	21,459	73,856	95,314
Investments in property, plant and equipment and intangible assets	5,832	764	730	1,122	8,448	0	8,448
Depreciation and amortisation	1,825	492	594	155	3,066	0	3,066
Write-downs of goodwill	0	0	0	0	0	0	0

2006	HTS High-Tech-Schlauch-systeme	MT Medical Technology	AMD Advanced Material Design	MOS Mobile-Office-Systems	Segment totals	Recon-ciliation	Group
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue	41,372	17,886	18,584	37,864	115,706	0	115,706
Earnings (EBIT)	9,175	-4,031	2,115	3,978	11,237	-1,094	10,143
Assets	42,477	17,969	15,883	26,818	103,147	9,572	112,719
Liabilities	11,254	2,218	3,917	8,659	26,048	55,151	81,199
Investments in property, plant and equipment and intangible assets	5,543	735	729	739	7,746	0	7,746
Depreciation and amortisation	1,696	546	547	252	3,041	0	3,041
Write-downs of goodwill	0	4,055	0	0	4,055	0	4,055

Segment earnings are presented in the form of EBIT (earnings before interest and taxes) adjusted for segment income and expenses eliminated in accordance with IAS 14. There were no significant non-cash expenses.

Segment assets are primarily composed of all operating assets and non-current intangible assets, including goodwill, property, plant and equipment, inventories, receivables, other assets and prepaid expenses. In accordance with IAS 14, financial assets, intersegment receivables, income tax assets and deferred taxes are not included in segment assets. Depreciation and amortisation relates exclusively to the amortisation of non-current intangible assets and the depreciation of property, plant and equipment.

Segment liabilities primarily consist of operating liabilities resulting from the operating activities of the respective segment. In the same way as for segment assets, tax liabilities, financial liabilities and lease liabilities are not included in segment liabilities.

The “Reconciliation” column contains amounts resulting from differences between the definition of the content of segment items and the corresponding items at Group level.

The reconciliation of EBIT to profit from ordinary activities is presented below:

Earnings (EBIT)	EUR	15,375	thousand
Interest and similar income	EUR	835	thousand
Income from financial instruments/ equity investments	EUR	102	thousand
Write-downs of current financial instruments	EUR	-650	thousand
Interest and similar expenses	EUR	-3,944	thousand
Profit from ordinary activities	EUR	11,718	thousand

Total liabilities and shareholders' equity are derived as follows:

Liabilities	EUR 95,315 thousand
Shareholders' equity recognised on the face of the balance sheet	EUR 33,975 thousand
Minority interests	EUR 797 thousand
Total liabilities and shareholders' equity	EUR 130,087 thousand

Segment information by region:

2007	Germany	Rest of the EU	Rest of the world	Segment totals	Reconciliation	Elimination	Group
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue	74,914	31,944	31,760	138,618	0	0	138,618
Segment assets	79,009	17,649	14,860	111,518	20,356	-1,787	130,087
Investments	6,030	935	1,483	8,448	0	0	8,448

2006	Germany	Rest of the EU	Rest of the world	Segment totals	Reconciliation	Elimination	Group
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Revenue	64,642	27,624	23,440	115,706	0	0	115,706
Segment assets	77,195	12,707	14,599	104,501	9,573	-1,354	112,719
Investments	7,403	95	248	7,746	0	0	7,746

At both primary and secondary level, the allocation of the reported amounts to the individual segments is largely performed on the basis of legally independent Group companies.

36. Cash flow statement

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

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

37. Government grants

In the 2007 financial year, government grants related to income were recognised in the amount of € 768 thousand (previous year: € 422 thousand). Grants for depreciable assets are recognised over the depreciation period of the respective assets and in proportion to the depreciation recognised in each period.

38. Related party disclosures

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

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

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

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

The lease is scheduled to run until 31 July 2014. In the 2007 financial year, the monthly lease instalment was approximately € 25 thousand.

The shareholders of MODICA Grundstücks-Vermietungsgesellschaft mbH also hold shares in Masterflex AG, Gelsenkirchen.

The Group has receivables from related parties in the amount of € 282 thousand on which interest is charged at standard market conditions.

In addition, the Group has a subordinate receivable from a member of the Executive Board, a member of the Supervisory Board and a major shareholder in the amount of € 3,154 thousand on which interest is charged at 5.5 %. This receivable may only be enforced if it is not satisfied by the claims arising from pending legal proceedings in which the Group is the claimant or covered by the D & O insurance policy.

39. Declaration of conformity with the German Corporate Governance Code

In December 2007, the declaration of conformity in accordance with section 161 of the German Stock Corporation Act was again submitted by the Executive Board and Supervisory Board of Masterflex AG and made permanently available to shareholders via the Company's website. The declaration of conformity is also reproduced in the Corporate Governance section of this Annual Report.

40. Number of employees

The annual average number of staff emloyed was:

	2007	2006
Number of employees	872	778

41. Audit and advisory fees

The fees expensed (recognised as provisions) in the 2007 financial year for the auditors of the consolidated financial statements, MBT Wirtschaftstreuhand GmbH, Wirtschaftsprüfungsgesellschaft, amounted to € 148 thousand and consisted of fees for the audit of the consolidated financial statements and the statutory single-entity financial statements of Masterflex AG and its domestic subsidiaries. An additional € 67 thousand was expensed for tax and other advisory services.

42. Exemption from publication

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

- DICOTA GmbH
- SURPRO Verwaltungsgesellschaft mbH
- SURPRO Oberflächenbeschichtungs- und Beratungszentrum GmbH
- SURPRO Metalltechnik GmbH
- Angiokard Medizintechnik GmbH & Co. KG
- Novoplast Schlauchtechnik GmbH
- Fleima Plastic GmbH

43. Events after the balance sheet date

As of the date on which the financial statements were submitted to the Supervisory Board for approval, there were no significant events after the balance sheet date.

44. Publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Executive Board on 18 March 2008 and published on 15 April 2008.

45. Significant equity investments

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

Gelsenkirchen, March 18, 2008
The Executive Board

Detlef Herzog
(Chairman of the Board)

Ulrich Wantia
(Member of the Executive Board)

Dr. Andreas Bastin
(Member of the Executive Board)

Responsibility statement

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

Gelsenkirchen, March 18, 2008
The Executive Board

Detlef Herzog (Chairman of the Board)	Ulrich Wantia (Member of the Executive Board)	Dr. Andreas Bastin (Member of the Executive Board)

Consolidated Statement of Changes in Noncurrent Assets

	Historical cost Jan. 1, 2007	Changes to the consoli-dated Group	Additions	Disposals	Reclassifi-cations	Currency translation differences	Historical cost Dec. 31, 2007
	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.	EUR thou.
Intangible assets							
Concessions, industrial and similar rights and assets, licenses	4,035	-323	164	186	19	0	3,709
Development costs	4,118	0	752	22	0	0	4,848
Goodwill	30,800	899	0	0	0	10	31,709
Advance payments	20	0	29	0	-20	0	29
Total	**38,973**	**576**	**945**	**208**	**-1**	**10**	**40,295**
Property, plant, and equipment							
Land, land rights and buildings on third-party land	13,960	0	1,544	10	0	-99	15,395
Technical equipment and machinery	18,106	-149	1,236	330	115	-120	18,858
Other equipment, operating and office equipment	8,829	-18	1,704	598	1	-91	9,827
Advance payments and assets under development	381	-51	2,105	0	-115	0	2,320
Total	**41,276**	**-218**	**6,589**	**938**	**1**	**-310**	**46,400**
Noncurrent financial assets							
Noncurrent financial instruments	1,809	0	0	777	0	0	1,032
Other loans	3	0	9,442	3	0	0	9,442
Total	**1,812**	**0**	**9,442**	**780**	**0**	**0**	**10,474**
	82,061	**358**	**16,976**	**1,926**	**0**	**-300**	**97,169**

	Cumulative depreciation and amortization Jan, 1, 2007 EUR thou.	Changes to the consolidated group EUR thou.	Depreciation and amortization for fiscal year EUR thou.	Disposals EUR thou.	Fair value changes recognized directly in equity EUR thou.	Currency translation differences EUR thou.	Cumulative depreciation and amortization Dec. 31, 2007 EUR thou.	Balance at Dec. 31, 2007 EUR thou.	Balance at Dec. 31, 2006 EUR thou.
Intangible assets									
Concessions, industrial and similar rights and assets, licenses	1,384	-41	300	187	0	1	1,457	2,252	2,651
Development costs	11	0	3	0	0	0	14	4,834	4,107
Goodwill	9,235	0	0	0	0	0	9,235	22,474	21,565
Advance payments	0	0	0	0	0	0	0	29	20
Total	**10,630**	**-41**	**303**	**187**	**0**	**1**	**10,706**	**29,589**	**28,343**
Property, plant, and equipment									
Land, land rights and buildings on third-party land	3,333	0	419	0	0	-44	3,708	11,687	10,627
Technical equipment and machinery	8,183	-33	1,360	398	0	-108	9,004	9,854	9,923
Other equipment, operating and office equipment	4,014	-16	984	382	0	-59	4,541	5,286	4,815
Advance payments and assets under development	0	0	0	0	0	0	0	2,320	381
Total	**15,530**	**-49**	**2,763**	**780**	**0**	**-211**	**17,253**	**29,147**	**25,746**
Noncurrent financial assets									
Noncurrent financial instruments	597	0	0	104	-213	0	280	752	1,212
Other loans	0	0	650	0	0	0	650	8,792	3
Total	**597**	**0**	**650**	**104**	**-213**	**0**	**930**	**9,544**	**1,215**
	26,757	**-90**	**3,716**	**1,071**	**-213**	**-210**	**28,889**	**68,280**	**55,304**

Auditor's Report

"We have audited the consolidated financial statements comprising the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements prepared by Masterflex AG for the fiscal year from January 1 to December 31, 2006.The preparation and content of the consolidated financial statements are the responsibility of the Company's Board. Our responsibility is to express an opinion as to whether the consolidated financial statements comply with the International Financial Reporting Standards (IFRSs), based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with IFRSs.

Our audit, which also extends to the group management report prepared by the Company's Board for the fiscal year from January 1 to December 31, 2006, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the fiscal year from January 1 to December 31, 2006 satisfy the conditions required for the Company 's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law."

MBT WIRTSCHAFTSTREUHAND GmbH
Auditors

Taphorn	Nietfeld-Yasar
CPA	CPA

Lohne, March 18, 2008

Report of the Supervisory Board

Dear Shareholders,

In the 2007 financial year, the Supervisory Board of Masterflex AG performed the duties assigned to it by the German Stock Corporation Act and the Company's Articles of Association in full.

In the past financial year, the Executive Board regularly informed the Supervisory Board in a timely and comprehensive manner about all issues concerning the planning, business development, risk situation and risk management of the Company and the Group, both in writing and orally. In particular, the Executive Board reported to the Supervisory Board on the planned business policy and fundamental aspects of corporate planning, especially financial, investment and human resources planning. The Supervisory Board received regular information on the Company's sales and earnings development, balance sheet situation and human resources development.

The Supervisory Board examined the planning documents, the risk position and the risk management system of Masterflex AG. All of the risk areas identified by the Executive Board and the Supervisory Board were discussed. The Company's risk management was subject to an intensive examination by the auditor, which confirmed that the Executive Board of the Company had implemented the measures required in accordance with Section 91 (2) of the German Stock Corporation Act, and in particular the establishment of a monitoring system, and that this monitoring system was suitable for the early recognition of developments that could endanger the continued existence of the Company.

The Chairman of the Supervisory Board remained in contact with the Executive Board throughout the financial year and was kept informed about significant developments and forthcoming decisions, including between Supervisory Board meetings.

The Supervisory Board of Masterflex AG met four times in the 2007 financial year. It discussed the financial position and strategic development of Masterflex AG in detail. At all of its meetings, the Supervisory Board was regularly and comprehensively informed by the Executive Board about the Group's course of business, financial position, human resources situation, business and investment development, and the status of corporate planning. The reports and proposals for resolution by the Executive Board were discussed in detail and evaluated following an in-depth examination and consultation.

In the year under review, the activities of the Supervisory Board focused in particular on the measures aimed at the further growth of the core High-Tech Hose Systems segment, the successful expansion of DICOTA GmbH in Asia, the restructuring of the medical sets business, M&A projects and the successful development of the Group's fuel cell technology/light mobile vehicle activities.

At its meeting convened to review the Group's accounts on 23 March 2007, the Supervisory Board discussed the consolidated financial statements for the 2006 financial year in detail. The Supervisory Board also resolved to propose to the Annual General Meeting on 5 June 2007 that MBT Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft, Lohne, be reappointed as the Group's auditor.

At its meeting on 5 June 2007, the Supervisory Board discussed the Group's encouraging business development in the current financial year. The Supervisory Board also discussed the status of the restructuring of Angiokard Medizintechnik GmbH & Co. KG and was informed about planned sales campaigns by the head of the High-Tech Hose Systems segment.

In the second half of the year, the third Supervisory Board meeting that was held on 14 September 2007 focused on the situation at the Group's subsidiaries, the presentation of the new schedule of responsibilities for the Executive Board and the Group's continued strategic development.

At the Supervisory Board meeting on 4 December 2007, the Supervisory Board obtained detailed information on the outlook for the remainder of the current financial year and the sale of PERM Motor GmbH, which was scheduled for December. The Executive Board also reported in detail on the potential and suitable measures for the expansion of the Group's business activities over the next two financial years. In particular, this includes strategic options for the spin-off of its non-core mobile office systems activities and the further expansion of the core High-Tech Hose Systems segment.

Corporate Governance

The implementation of the German Corporate Governance Code is a key element of the meetings of the Supervisory Board of Masterflex AG. In accordance with Section 5.6 of the Code, the Supervisory Board is required to examine the efficiency of its activities on a regular basis. The declaration of conformity was discussed at the Supervisory Board meeting on 4 December 2007, following which the Executive Board and the Supervisory Board submitted a revised declaration of conformity with the German Corporate Governance Code in the version dated 12 June 2006 and the additional recommendations published on 14 June 2007 in accordance with Section 161 of the German Stock Corporation Act and made this declaration permanently available to its shareholders via the Company's website. The declaration of conformity is also included in the Corporate Governance Report contained in the annual report. In addition, the Executive Board reports on corporate governance – including on behalf of the Supervisory Board – in accordance with Section 3.10 of the German Corporate Governance Code.

Supervisory Board committees

With a total of three members, the Supervisory Board of Masterflex AG is deliberately kept small in order to allow resolutions to be passed efficiently, rapidly and flexibly on the basis of streamlined structures, as is the case throughout the Group. Accordingly, no committees were formed.

Approval and adoption of the single-entity and consolidated financial statements

The annual financial statements and management report of Masterflex AG and the consolidated financial statements and Group management report for 2007 as submitted by the Executive Board, together with the bookkeeping system, were audited by MBT Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft, Lohne, which was appointed as the Group's auditor by the Annual General Meeting on 5 June 2007, and issued with an unqualified audit opinion. The audited documents and the auditor's reports were made available to all members of the Supervisory Board at the meeting convened to review the Group's accounts on 18 March 2008. The auditor participated in the discussion of the single-entity and consolidated financial statements and reported on the key results of its audit, as well as providing additional information as required.

The Supervisory Board took note of and concurred with the results of the auditor's reports. Based on the final results of its own examination, the Supervisory Board agreed in full with the results of the audit and did not raise any objections to the single-entity and consolidated financial statements as prepared by the Executive Board. The Supervisory Board approved the single-entity and consolidated financial statements for the year ended 31 December 2007 as prepared by the Executive Board, which have therefore been adopted. The Supervisory Board also endorsed the Executive Board's proposal for the appropriation of net retained profit.

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

German Takeover Directive Implementation Act – disclosures in accordance with Sections 289 (4) and 315 (4) of the German Commercial Code

At its meeting on 18 March 2008, the Supervisory Board discussed the disclosures and the report by the Executive Board in accordance with Section 120 (3) of the German Stock Corporation Act on the disclosures in the management report in accordance with Sections 289 (4) and 315 (4) of the German Commercial Code. For further details, please refer to the corresponding section of the management report (see page 52).

Changes in the Supervisory Board and the Executive Board

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

The Supervisory Board would like to take this opportunity to thank the members of the Executive Board and all of Masterflex's employees for their commitment and successful work in the 2007 financial year.

Gelsenkirchen, March 2008
For the Supervisory Board
Friedrich-Wilhelm Bischoping
Chairman

The current members of the Supervisory Board are:

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

Prof. Detlef Stolten (Deputy Chairman since 9 June 2004)
After graduating with a degree in metallurgy and geology, Prof. Stolten joined the research unit of Robert Bosch GmbH in 1986, where he also wrote his doctoral thesis. Following positions at Daimler-Benz/Dornier research and Dornier Satellitensysteme GmbH, he became the Director of the Institute for Materials and Processes in Energy Systems at Forschungszentrum Jülich GmbH (Research Center Jülich) in 1998. His research activities focus on energy process technologies for PEFC and SOFC fuel cells, i.e. the areas of electrochemistry, stack technology, process and systems technology and systems analysis. Since 2000, he has held the position of Professor of Fuel Cell Technology at RWTH Aachen University.

Among other posts, Prof. Stolten serves as a member of the EU Hydrogen and Fuel Cell Technology Platform Advisory Council, where he chairs the Strategic Research Agenda steering panel.

Prof. Paulus Cornelis Maria van den Berg (Member of the Supervisory Board since 9 June 2004)
After completing his medical studies and receiving his PhD from the University of Amsterdam, Prof. Van den Berg continued his education at various institutions including the Harvard School of Clinical Health, Boston. He is currently the Director of Intensive Care at the University of Leiden in the Netherlands. In addition to intensive care, his research activities focus in particular on anaesthesia. Among other achievements, Prof. van den Berg organised the 10th European Congress on Intensive Care, and is a member of organisations such as the Nederlandse Vereiniging voor Intensive Care (Dutch Intensive Care Association), the European Society of Intensive Care and the Society of Critical Care Medicine.

Glossary

Angiography	An X-ray examination in which the blood vessels can be seen via the use of an X-ray contrast medium.
Balance on current account	That part of a country's balance of payments encompassing the trade, services and transfer balance.
Break-even	The point at which revenues equal expenses.
CAPEX	Capital expenditures are expenditures used by a company to acquire or upgrade physical assets such as equipment, property and industrial buildings.
Cardiology	The science, i.e. the diagnosis and treatment, of heart disease, or, more broadly, cardiovascular disease.
Cash flow	The cash flows generated in a particular period, adjusted for significant non-cash expenses and income. This demonstrates a company's ability to finance itself, i.e. its earnings power.
Corporate governance	Corporate governance refers to responsible corporate management and supervision aimed at creating long-term enterprise value.
Cupping process	Stamping process in which a small metal plate is pulled across a die within a mould, thus creating a casing.
Current swap	Swap of capital amounts in different currencies, including the related interest payments.
Customer Procedure Tray	Individualised customer sets where all the necessary medical components are individually combined in line with the requirements of the doctors and delivered finished and sterilised.
DRG	Diagnosis Related Groups or fee per case payments in medical technology.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
EBIT	Earnings before interest and taxes.
EBT	Earnings before taxes.
Extrusion	A process used in plastics manufacture. The raw materials (in granulated form) are broken down and heated in an extruder until they are plasticized, i.e. mouldable, and can be processed further.
Free Cash Flow	Measures a company's net increase in cash from operations, less the dividends paid to preferred shareholders, less expenditures necessary to maintain assets.

Free Float	Refers to the percentage of share capital which is freely available for trading on the stock market. The opposite of this is the non-free float, in which the total shares held by one shareholder account for five percent or more of the share capital.
Fuel cell	A device that transforms chemical energy directly into electrical energy. The principle is based on a discovery by Sir William Robert Grove in 1839.
Gross domestic product	The total value of all goods and services produced by an economy for the market within a reporting period.
IASs	International Accounting Standards.
Interest rate derivative	Derivate whose underlying value is an interest rate or an interest-related figure. A derivative is a finance product whose market value is derived from the classical underlying instruments such as shares, bonds or gold.
IPO	Initial Public Offering, the stock market flotation of a company.
Joint Venture	Joint ventures (collaborations between companies) resulting in the establishment of a new, legally independent business unit.
Kits/surgery kits	Medical instruments are assembled into a complete set to suit physicians' individual requirements.
LaryVent respiratory mask	A medical respiratory device that is specially designed to prevent the risk of vocal cord damage, which is common in operations, and asphyxiation from vomiting.
Market capitalization	The share price multiplied by the number of shares in free float.
Medical Devices	Medical components/parts such as infusion tubes, catheters, etc.
Minimum-invasive surgery	The umbrella term used to describe operations involving minimum trauma (inflicting minimum injury to the skin and soft tissues).
Mobile computing equipment	Carrying systems designed to facilitate the mobile use of communications technology (printers, notebooks, etc.).
Mobile office systems	see Mobile computing equipment.
Multi-lumen tubing	Medical hose with multiple chambers.
Nanotechnology	Research and technological development at the atom level, focusing on a range of between one and a hundred nanometers.
Net dividend yield	Dividend per share divided by the share price.
Net margin	Also net turnover yield: the percentage share of the net profit in an enterprise's turnover during a specific period.
Ophthalmological surgery	Surgery conducted in the field of opthalmology.

Pedelec	Derived from "pedal electric"; this is an electric bike with a force or motion sensor that automatically couples the power of the motor with the muscle.
PEM	Proton exchange membrane.
Plating (deep drawing process)	Electro-chemical depositing of metallic precipitations (coatings) on objects.
Polyurethane (PUR)	Highly versatile special polymer.
Product portfolio	'Portfolio' is a management and marketing term used to denote a collection of products, services, projects or brands offered by a particular company.
Stack	Several individual fuel cells are combined to form a stack. In a bipolar stack, electrical contact between individual cells is ensured by a bipolar plate sandwiched between them.

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Imprint

Masterflex AG
Willy-Brandt-Allee 300
D-45891 Gelsenkirchen

Contact
Fon: (+49) 209 9707744
Fax: (+49) 209 9707720
info@masterflex.de

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