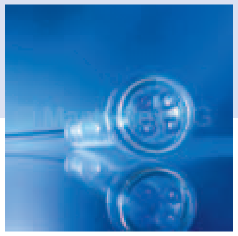
Masterflex

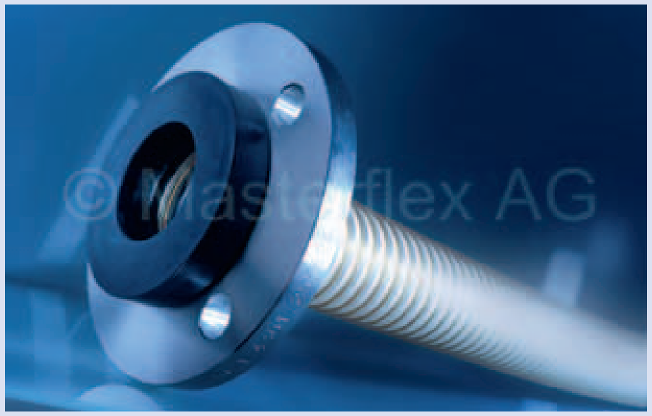
ANNUAL REPORT 2011



one step ahead

Masterflex AG

Your specialist for high-tech connector systems

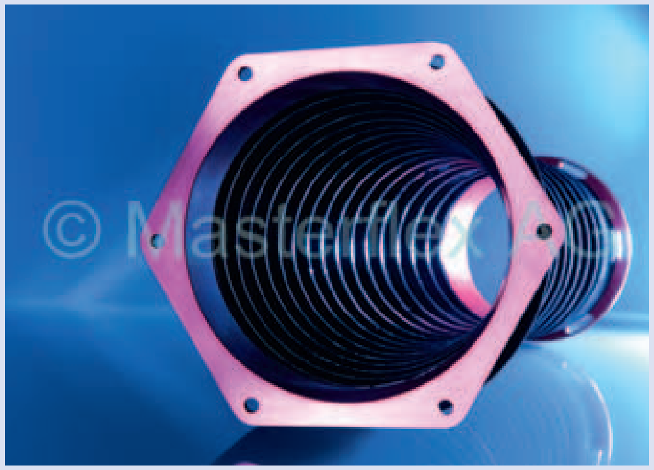


We produce sophisticated connecting and hose systems made from high-tech plastics. With more than 12 subsidiaries in Europe, America and Asia, as well as many authorised dealers, we operate all over the world.

Our extensive product range covers everything from profile-extruded and clamp-profile hoses to smooth hoses with variable numbers of lumen, and from pneumatic and compressed air spirals through vulcanised neoprene and silicone hoses to preformed tubing and moulded parts.The various areas of application of our products, combined with our outstanding expertise in synthetics processing, allow us to produce solutions which cannot be achieved or only unsufficient with conventional materials.

OUR VISION

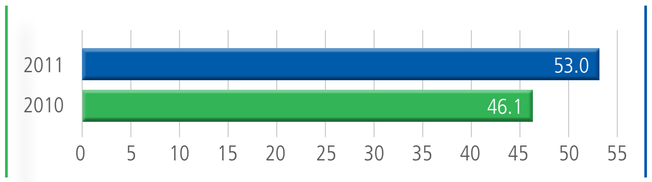
Our vision is to become a global leader in all the specialist markets we have defined and serve. In so doing, we will concentrate on our core expertise, which lies both in processing demanding high-tech polymers and in the innovative development of solutions for specialist connector systems, hoses and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



CONTINUED BUSINESS UNITS

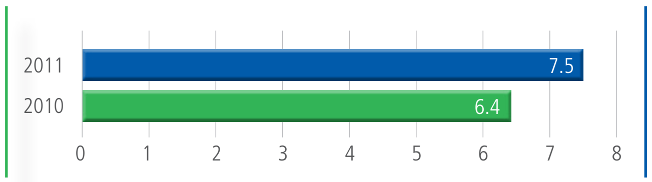
Consolidated revenue

In € million



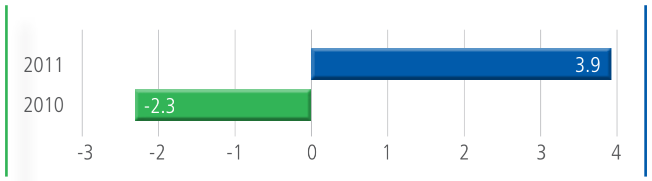
Consolidated EBIT

In € million



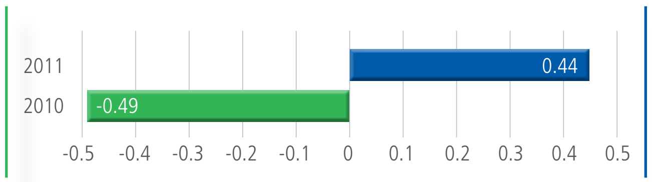
Consolidated net income/loss

In € million



Consolidated earnings per share

In €



Masterflex at a glance	31.12.2011	31.12.2010	Change in %
Consolidated revenue (€ thousand)	52,999	46,057	15.1 %
EBITDA (€ thousand)	9,964	9,114	9.3 %
EBIT (€ thousand)	7,499	6,445	16.4 %
EBT (€ thousand)	5,261	3,104	69.5 %
Consolidated earnings from continued business units (€ thousand)	4,256	8,100	-47.5 %
Consolidated earnings from discontinued business units (€ thousand)	-114	-10,267	98.9 %
Consolidated net income/loss (€ thousand)	3,883	-2,333	
Consolidated equity (€ thousand)	16,239	12,213	33.0 %
Consolidated total assets (€ thousand)	50,930	65,416	-22.1 %
Consolidated equity ratio %	31.9 %	18.7 %	
Employees	448	397	12.8 %
EBIT margin	14.2 %	14.0 %	
Return on sales	8.0 %	17.6 %	
Consolidated earnings per share (€)			
from continued business units	0.45	1.67	-73.1 %
from discontinued business units	-0.01	-2.16	99.5 %
from continued and discontinued business units	0.44	-0.49	

Only the German version of this report is legally binding.

Cover picture: 3 D preformed tubing, producible according your customized wishes (Novoplast Schlauchtechnik GmbH)

Cover flap (Picture 1): Loose flange with hose for abrasive bulk material (Masterflex AG)

Cover flap (Picture 2): Coil tubing for truck brakes (Novoplast Schlauchtechnik GmbH)

Cover flap (Picture 3): Sound attenuating fan muffler for cabin-ventilation in aircrafts (MATZEN & TIMM GmbH)

Cover flap inside: Protection hose to avoid leakage in case of fuel duct failure (MATZEN & TIMM GmbH)

CONTENT

FOREWORD BY THE CEO

Dear shareholders,

Dr. Andreas Bastin,
Chief Executive Officer

The first year following the successful completion of our restructuring was very much a good one for the Masterflex Group as well as for its shareholders. We were able to achieve or even exceed all our targets: This is true for both our economic results as well as our internal requirements for continued growth:

- Revenue from high-tech hoses and connector systems amounted to € 53 million in the past year. That is 15% more than in 2010 – and approximately 5% more than we expected.
- Earnings before interest and taxes were € 7.5 million, a good 16% more than in the previous year. In comparison, our target was € 7.0 million.
- We sold the remaining Mobility activities left over from the failed attempt to diversify our business units in the last decade. With that, we are finally a company concentrating purely on high-tech connection solutions again.
- We also settled, out of court, a legal dispute concerning an interest rate swap from the past. The company received € 2.7 million from the agreement; this includes non-operating income of € 0.9 million.
- For the first time after three difficult, loss-making years, we can finally report net profit for the year of € 3.9 million.
- Our equity ratio is now 31.9%. This enabled us to multiply our thin capital base resulting from the crisis within just two years.
- With the admission of 4.4 million new shares in June 2011, the number of shares traded on the stock exchange doubled, benefiting the liquidity of the Masterflex share.
- Our internationalisation is advancing: With the launch in Asia and the direct sales activities in the Czech Republic, we have taken the next steps on our course of expansion.
- We gained a variety of good new employees to continue implementing our growth strategy.

Our business model is highly profitable: For 25 years now, we have been the specialist for flexible solutions to industrial and commercial connection problems. Our particular expertise lies in the use of demanding polymers. Due to our wide range of products and the high number of industries that our high-tech hoses can provide with added value in comparison with conventional connection solutions, we are becoming gradually less dependent on individual market cycles. We want to continue pushing this broad position in our anniversary year in order to grow steadily and surely in the long term. Our target is global market leadership in all the markets we address. Therefore, we are pursuing the strategy of developing and producing customized and sophisticated products with high value for the customer, and selling these with the skills required for their application. This consultation-oriented specialist market strategy differentiates Masterflex from other hose manufacturers.

Executive Board of Masterflex AG: Dr. Andreas Bastin (CEO since April 2008) and Mark Becks (CFO since June 2009)

Our value-oriented growth strategy is based on two pillars:

Internationalisation – we want to capture new regional markets with our products. While the economic outlook for 2012 for the European and North American markets is rather muted, the forecasts for the BRIC countries (Brazil, Russia, India, China) look a lot better in the short to long term. Our establishments in Brazil, Russia (2010) and currently in China are important components for the implementation of our growth strategy. Further steps in new markets will follow.

Innovation – with products that are continuously being technically refined, we want to create new possibilities for application and increasingly replace conventional connection solutions. Not only are our development engineers responsible for this, but also our technical sales team, which constructively takes on board the requirements and wishes expressed for the practical application of our products. In addition, we have created a new task, "Company development". This cross-departmental function will identify and purposefully develop new product and service ideas in the connector business throughout the Group.

We have again made certain plans for 2012:

- For the 2012 financial year, we expect revenue of € 57 million to € 58 million. Our EBIT will shadow the increase in revenue albeit at a somewhat more moderate rate. Due to rising commodity prices and particularly the initial costs of our continued internationalisation, we anticipate EBIT of € 8 million.
- Debt is to be reduced further, on the condition that we are also financially and structurally equipped for possible future acquisitions.
- We are proposing to the Annual General Meeting to convert Masterflex AG into Masterflex SE (Societas Europaea, European Company). With this legal form, which is becoming more common in Germany, we want to give customers and investors an indication of our increasingly international focus. Moreover, the operating activities of the AG (stock corporation) are to be transferred to an operating company (GmbH, limited liability company). We are expecting improved operational control of the Group to result from this change.

Over the next few years, we want to create an integrated structure within the Masterflex Group at the international level. In doing so, we want to be able to offer our increasingly international customers around the world the same range of products and services, something that is not generally possible at this time. Furthermore, we want to enhance internal synergies in purchasing, marketing and sales as well as the way we present ourselves to the outside world.

Dear shareholders,

Happily, Impulse Magazine and the audit firm BDO presented me with the "Turnarounder of the Year 2011" prize last autumn in recognition of our now completed restructuring. I was delighted to receive this award. However, this achievement would not have been possible without my colleague Mark Becks and the entire workforce with its superb and committed efforts, even in difficult times. Once again, I would like to take this opportunity to express my deep gratitude.

I would like to thank you, dear shareholders, for your confidence in your company, its management and its staff. I would also like to thank all our employees for their high level of commitment, their motivation, their loyalty and our business partners for their trust and support. All members of the Masterflex Group are very motivated to press ahead with the process of profitable growth. We are utterly convinced of the potential of our business, because there are many layers of customer requirements for effective, economical and intelligent connection solutions. And we are determined to realise this potential in the interests of our customers, shareholders and employees. Only a globally oriented, reliable and financially strong company like the Masterflex Group can live up to these diverse requirements on a long-term basis.

Gelsenkirchen, 6 March 2012

Yours sincerely,

Andreas Bastin

Dr. Andreas Bastin
Chief Executive Officer

Y-connectors for the medical
devices (FLEIMA-PLASTIC GmbH)

WE
produce purity.

Have you ever been to Majorca and enjoyed the sun and the sand? You went there by plane, how else? What's that got to do with us? Masterflex produces hoses for the air-conditioning systems of 34 airlines – 28 of which fly to Majorca. Not bad, in our opinion. Have a nice flight!

GROUP MANAGEMENT REPORT

Left:
Insulated ventilation hose to reducing heat loss (MATZEN & TIMM GmbH)

Right:
Hose connector made from PU with hose for abrasive bulk material (Masterflex AG)

A. BUSINESS DEVELOPMENT AND BUSINESS ENVIRONMENT

I. Group structure and business activities

The Masterflex Group, whose parent company is Masterflex AG, Gelsenkirchen, (hereafter Masterflex Group or Masterflex) is a global specialist in the development and production of high-quality hoses and connector systems using high-tech plastics and fibres.

The main production sites of the international Masterflex Group with twelve significant subsidiaries are located in Gelsenkirchen, Halberstadt, Norderstedt and Houston (USA). In addition, Masterflex has branches or sales partnerships at various sites in Europe and America. For the expansion to Asia, the establishment of the management company in Singapore began at the end of 2011.

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

After the restructuring begun in 2008 was successfully completed in 2010, the Group is now concentrating on its traditional business with high-tech hoses (HTS) and connector systems.

Important changes

With effect from 20 April 2011, Masterflex AG sold its 51% equity investment in Clean Air Bike GmbH, Berlin, and its 100% stake in Velo Drive GmbH, Herten. The assets of Brennstoffzellentechnik GmbH were sold to the management of the company as part of an asset deal with effect from 30 September 2011. The GmbH shell remains with Masterflex AG. All of the companies belonged to the Mobility unit. In 2010, Masterflex had decided to discontinue this business unit; its assets, liabilities, income and expenses were accordingly reported separately in the consolidated financial statements. As all of the resulting effects had been recognised in the 2010 annual financial statements, the sale and deconsolidation of these activities did not lead to any further burden for Masterflex.

II. Management and control

1. The Executive Board

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

2. The Supervisory Board

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

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

The detailed report by the Supervisory Board is published on page 123 of this annual report.

III. Objectives, strategies, corporate management

1. Objectives and strategies

The market for high-tech hoses and connector systems again developed very positively in the past year. Our core business continues to hold considerable growth potential and we are pressing ahead with the expansion with determination. Our growth strategy is based on two pillars: internationalisation and innovation. Our medium-term objective is to become a global leader in the regional specialist connector system markets, both industrial and commercial.

Internationalisation

In 2011, we began our expansion to Asia as part of the targeted development of new markets. After the foundation of the German intermediary company, also in 2011, the subsidiary in Singapore was formally launched at the beginning of 2012. The Chinese company in Kunshan/Shanghai will be established during the first half of 2012. In addition, direct sales activities were launched in Planá/Czech Republic for the region; previously the location had served exclusively as a production site. The companies in Brazil and Russia, founded in 2010, generated notable orders and revenue for the first time in the past year. Sales activities in the USA were also intensified. Furthermore, the first internal steps were taken towards successively offering our entire product range on all markets addressed.

Innovation

The development of new products, which was previously initiated primarily by customer request, has been systematically broadened and improved. Alongside the solutions adapted to customer requirements, our engineers are now developing innovative products from a continuously expanding variety of high-performance polymers and production processes. These products could replace conventional connection solutions or their materials.

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

Further explanation and examples of these processes are given in section E. Research and development.

2. Internal corporate management system

The starting point for the strategic corporate planning is an annually updated five-year plan dealing with the income statement, balance sheet, investments and liquidity. The budget planning for the following financial year is derived from this strategic planning and apportioned to individual months. Controlling within the Group is driven by the monthly target-actual deviation analyses. Forecasts are prepared quarterly, allowing a rolling earnings projection.

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

- The EBIT margin (operating earnings before interest and taxes in relation to revenue)
- Net debt (financial liabilities less cash in hand) and net debt in relation to EBITDA
- Net working capital (tied-up capital in relation to revenue)
- Product margins
- The amortisation period for the valuation of investments
- Productivity (costs in relation to revenue)
- Revenue growth compared with budget (planning) and previous year

IV. Market and competition

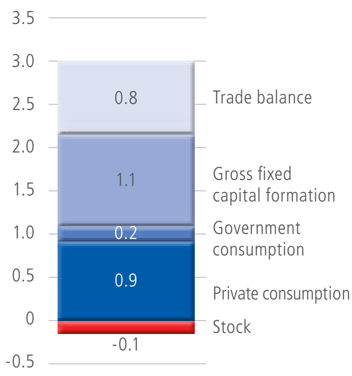
1. General and industry-specific economic situation in 2011

The momentum of the German economic upturn of 2010 continued in the first half of 2011 unabated, but weakened after the revival of the sovereign debt crisis and the turbulence on the capital markets in the second half of the year. This was due in particular to declining exports (trade balance) and companies' reluctance to invest as a result of the turbulence on financial markets. Fortunately, German GDP growth ultimately exceeded many forecasts from the start of the year (2.0%) quite considerably with a rate of 3.0% despite the slowdown.

In the European Union (EU) as a whole, gross domestic product did not prove as strong as in Germany at 1.6% in 2011. Structural problems in some EU countries also partly had an effect here.

Growth contribution to real GDP

In percentage points; data for 2011



Source: Federal Statistical Office

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

Country	2010	2011
Euro zone	**1.9**	**1.5**
Germany	3.6	3.0
France	1.5	1.6
Entire EU	**2.0**	**1.6**
United Kingdom	2.1	0.9
Sweden	5.6	4.0
Czech Republic	2.7	1.8
World		
USA	3.0	1.7
Russia	4.0	4.2
Brazil	7.5	3.0
China	10.4	9.2
Singapore	14.4	5.3

Data: Eurostat, Commerzbank

The EU's declining momentum was partially offset in the other world regions in which Masterflex is represented with its own local operations. Although growth in the USA and Brazil flattened during the course of 2011, the economic growth there was significantly higher than in the Euro zone. The Russian economy even grew slightly in comparison with 2010. This shows how right it was for Masterflex to enter these markets in 2010. The new countries have already delivered a remarkable contribution to revenue in the past year.

The German plastics processing industry, with annual revenue of some € 55.9 billion and 292,000 employees in over 2,735 businesses, remained one of the most significant components of the manufacturing industry in 2011. The sector, consisting primarily of SMEs, is characterized by high levels of innovation and a diverse array of products.

2. The market for high-tech hoses

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

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

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

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

Masterflex Group products cannot easily be replaced with other materials. On the other hand, high-tech plastics processed by Masterflex offer significant potential as replacements for conventional materials like steel. Moreover, we generally perform no contract production. Nearly all our products and services are developed by our own engineers and technicians and to a large extent self-produced.

3. Market presence

The following section presents the most important companies with which the Masterflex Group operates on the market for high-tech hoses.

Masterflex AG

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

Other production and sales companies in Europe and Russia also belong to Masterflex AG.

The extensive range offers products that satisfy individual requirements and demanding tasks. Irrespective of whether extremely abrasive solid matter, aggressive chemicals, gaseous media up to +1,100 °C or even foodstuffs have to be transported: the hoses constructed from high-tech plastics and fibres always constitute an application and customer-oriented, flexible solution.

The electrically heated templine® hoses, which are distinguished by an innovative heating concept and can consequently be used in a variety of applications for protecting against frost and maintaining or increasing temperature, offer a substantial degree of technological innovation. The templine® heated hose system, with its spiral heating cables, ensures a consistent thermal shell around the medium-carrying hose and consistent heat distribution on the surface of the hose. This results in this method's higher efficiency when compared to conventional heated hoses with a saving of up to 30%. The substantial bending and torsional strength and the considerable extension in service life resulting from its structure are additional outstanding characteristics. The characteristics of the system prevent the medium being transported overheating as a result of local hotspots.

High pressure multi-layer tubing for medical applications (Novoplast Schlauchtechnik GmbH)

Novoplast Schlauchtechnik GmbH

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

Only with thermofixing can moulded hoses in 2D or 3D and with complex geometry and bending radii be manufactured in accordance with customer requirements and with high precision. This process has great potential: in many areas, curved metal pipes are still used as connector systems. These are heavy, expensive and transmit vibrations. By contrast, plastic pipes score points with their low weight, their moderate cost and their ability to absorb vibrations. And with thermosetting, preformed tubings can be produced that fit perfectly to the circumstances of installation.

As well as internationalisation, a particular strategic aim is the further expansion of business with medical products. This also includes intensified in-group cooperation with fellow subsidiary FLEIMA-PLASTIC GmbH, manufacturer of injection-moulded medical components, to provide medical industry customer with the full package.

State-of-the-art equipment is used for hose and profile extrusion. In 2011, an additional assembly line was installed. The assembly line, acquired in 2010, was commissioned for the area of medical technology and the clean rooms were extended. Product innovations over the past year included customer-specific multi lumen and multi layer tubing and profiles as well as hollow profiles with casing.

MATZEN & TIMM GMBH

MATZEN & TIMM GMBH is a highly regarded manufacturer of specialist hoses, industrial hoses and many other moulded parts produced from high quality plastic and rubber materials. The products are handmade on an industrial scale and are used, most notably, in sectors in which precision and resilience are paramount, particularly the aviation industry, railway industry and others. Production occurs almost entirely in manufacturing structures in Norderstedt, near Hamburg, and in Plana/Czech Republic. Its special hoses can be found, for example, in the air-conditioning system of the Airbus 380, in astronautic life-support systems, in the navy and civil defence, under the bonnet of a racing car and in the chassis of a train with tilt technology. As a manufacturer with its own development department, the value added chain includes all substeps from design to prototypes up to series production. Almost all products are custom-made for specific customers.

Hollow needle collector box (FLEIMA-PLASTIC GmbH)

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

Masterduct Holding Inc.

The Masterflex Group is represented in North and South America through Masterduct Holding Inc., a wholly-owned subsidiary of Masterflex AG. Masterduct Holding Inc. has three operating subsidiaries: Masterduct Inc., Flexmaster USA Inc. (both in Houston/Texas), and Masterflex Brasil LTDA in Sao Paulo/Brazil.

Flexmaster USA Inc. has established itself as a specialist in the air-conditioning and ventilation sector with a series of top quality patent-protected products. The company is a leading name for public sector construction, such as in hospitals, schools, sports facilities and universities. Over time, Flexmaster USA has significantly distanced itself from its competitors through the quality of its products and is a preferred provider, particularly in the health sector, since the hoses it manufactures contain no adhesives or solvents of any kind. In the past year, another air-conditioning innovation was offered. In place of rigid metal pipes, sound-insulated hose designs proved not only more cost-effective, but worked to absorb sound at the same time. Special tubular woven fabrics, which are very good at reducing acoustic noise, are also used in meeting rooms at the Pentagon, for example.

Since the founding of Masterduct Inc. more than twelve years ago, an extensive production portfolio has been developed aimed at establishing the Masterflex product programme on the North American continent. Masterduct has become one of the market leaders in North America for exhaust fume extraction, owing for example to a special hose deployed particularly by fire services that was launched in the previous year. The new hose can be deployed without a problem in existing systems, even for the higher temperatures arising in the new generation of fire service vehicles. Moreover, the product portfolio encompasses polyurethane hoses, silicon hoses and highly heat-resistant clip hoses. Application-specific technical solutions are devised jointly with customers. The clientele ranges from the wood industry to the aviation and service industry and up to the US government.

B. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Results of operations, net assets and financial position of the Masterflex Group were essentially marked by the following factors in the 2011 financial year:

- A marked increase in revenue from € 46.1 million to € 53.0 million. This equates to growth of approximately 15%.
- The subsidiaries founded in Brazil and Russia in 2010 posted significant revenue growth in 2011.
- In 2011, the entrance to the Asian market was prepared. The first legal steps were taken.
- EBIT increased by € 1.1 million to € 7.5 million. The EBIT margin was thus increased slightly to 14.2% (previous year 14.0%).
- The legal dispute with a German bank resulting from an interest rate swap was settled out of court. An agreement was reached between Masterflex AG, the bank and the founding shareholders, on the basis of which Masterflex received € 2.7 million net cash with a non-recurring effect on income of € 0.9 million.
- The operations consolidated in the Mobility business unit were sold in 2011, thus successfully concluding the discontinuation of this business unit, which had been decided upon in 2010.
- The new shares issued in the context of the capital increase implemented in 2010 were admitted for stock exchange trading on 17 June 2011.
- The Group's debt was again significantly reduced. The equity ratio climbed to above 30%.
- In coordination with the Supervisory Board, the Executive Board resolved to convert Masterflex AG to an international legal form, an SE (Societas Europaea), and also to spin off the entire operating business to a separate company. Masterflex SE would thus become purely a management and financial holding company. The conversion plan is recorded in the commercial register. This will be voted upon at the Annual General Meeting on 19 June 2012.

Overall, all stated goals for 2011 were achieved or even exceeded.

The effects of the sale of the Mobility activities are explained in detail in the notes to the consolidated financial statements and shown in condensed form in the consolidated income statement under the item Discontinued business unit.

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

€ thou.	2011	2010
EBITDA	9,964	9,114
EBIT	7,499	6,445
EBIT margin	14.2%	14.0 %
Consolidated net result – continued	4,256	8,100
Consolidated net result – discontinued	-114	-10,267
Earnings per share – continued	0.45 €	1.67 €
Earnings per share	0.44 €	-0.49 €

I. Results of operations

	2011 € thou.	%	2010 € thou.	%	+/- € thou.	%
Revenue	52,999	96.7	46,057	97.8	6,942	15.1
Changes in inventories	205	0.4	160	0.3	45	28.1
Other own work capitalised	52	0.1	20	0.0	32	160.0
Other operating income	1,518	2.8	832	1.9	686	82.5
Gross revenue	**54,774**	**100.0**	**47,069**	**100.0**	**7,705**	**16.4**
Cost of materials	-17,002	-31.0	-13,518	-28.7	-3,484	25.8
Staff costs	-18,032	-32.9	-16,042	-34.1	-1,990	12.4
Depreciation, amortisation and write-downs	-2,465	-4.5	-2,669	-5.7	204	-7.6
Other operating expenses	-9,553	-17.4	-8,178	-17.4	-1,375	16.8
Other taxes	-223	-0.4	-217	-0.5	-6	2.8
Total operating expenses	**-47,275**	**-86.2**	**-40,624**	**-86.4**	**-6,651**	**16.4**
Adjusted EBIT	**7,499**	**13.8**	**6,445**	**13.6**	**1,054**	**16.4**
Financial result	-2,238		-3,341		1,103	
Non-operating income	910		6,033		-5,123	
Earnings before taxes	**6,171**		**9,137**		**-2,966**	
Income tax expense	-1,915		-1,037		-878	
Earnings after taxes from continued acitivities	4,256		8,100		-3,844	
Earnings after taxes from discontinued activities	-978		-928		-50	
Non-operating result from discontinued activities	864		-9,339		10,203	
Consolidated net income/loss	**4,142**		**-2,167**		**6,309**	
thereof minority interests	259		166		93	
thereof attributable to shareholders of Masterflex AG	3,883		-2,333		6,216	

1. Revenue performance

Revenue increased year-on-year by € 6.9 million or 15% to € 53.0 million (previous year: € 46.1 million). The increase in revenue is therefore significantly higher than our own forecast for the 2011 financial year, which is particularly attributable to unusually strong business in December.

Revenue increased significantly in almost every Group company. The main drivers were Masterflex AG, Novoplast Schlauchtechnik, Matzen & Timm and the Russian subsidiary. These four companies are responsible for approximately 83% of revenue growth. Only in the USA was the revenue increase below the Group average.

This sharp increase in revenue is driven not only by economic growth – which was particularly strong in the first half of the year – but also by initial successes of the internal measures taken for internationalisation, the expansion of sales activities in our traditional markets and the introduction of new products.

Germany remained the most important sales market in 2011. For the next few years, we expect a gradual shift in revenue share towards other regions and countries, including outside Europe.

2. Earnings development

Operating EBIT (EBIT before discontinued business units and non-operating income and expenses) increased from € 6.4 million (previous year) to € 7.5 million, mainly due to the significant increase in revenue. This signifies an increase in earnings of some 16%.

This positive operating result includes the considerable start-up costs as part of the internationalisation and innovation strategy, costs connected to special projects, relocation costs for the Fleima-Plastic subsidiary and rising commodity costs.

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

Despite the large increase in revenue, the change in inventories proved rather small, increasing by € 0.2 million. As in the previous year, work performed by the enterprise was only capitalised to a minor extent.

Other operating income increased by € 0.7 million year-on-year and amounted to € 1.5 million. This includes effects from the reversal of provisions (including a portion of the warranty provision formed in 2010) and the amortisation of investment grants and subsidies.

The materials usage rate (cost of materials in relation to revenue and the change in inventories) rose perceptibly in 2011. In the previous year it amounted to 29.2%, while in 2011 it was 32.0%. This is primarily attributable to rising commodity prices and a temporary product mix effect.

Despite the increase in staff as part of the internationalisation and innovation strategy, the staff cost ratio (staff costs in relation to revenue and the change in inventories) sank from 34.7% to 33.9%. The reason for this is the lower proportional fixed costs due to the increased production volume resulting from increased revenue (fixed cost degression), which had a positive impact on the results of operations.

In 2011, other operating expenses increased considerably from € 8.4 million (previous year) by € 1.4 million to € 9.8 million. On the one hand, this effect is attributable to the sales-related increase in variable costs, such as freight, energy, and machine maintenance. On the other hand, costs in connection with internationalisation (foundation and establishment of new companies), from increased travel and the relocation of Fleima are also recognised here. However, no noteworthy costs connected to the planned establishment of the SE and the spin-off of operating business were incurred in 2011.

Due to moderate investment activities, depreciation decreased slightly year-on-year to € 2.5 million (previous year: € 2.7 million).

With EBIT of € 7.5 million, the EBIT margin (EBIT in relation to revenue) was increased slightly from 14.0% to 14.2%. As with revenue, the operating EBIT achieved thus also exceeded expectations. The return on sales (annual result after taxes from continued business units in relation to revenue) at 8.0% sank against the previous year (17.6%) primarily because the previous year's result after taxes from continued business units included high non-recurring effects (including a debt waiver from banks of € 10.2 million and approximately € 4.7 million restructuring costs).

Income from non-operating business in continued business units was positive again at € 0.9 million (previous year: € 6.0 million). This reflects the effect with respect to the carefully measured compensation claims from the settlement concerning the interest rate swap transaction.

There were no extraordinary expenses in 2011.

The financial result was reduced significantly from € -3.3 million in 2010 to € -2.2 million. In particular, interest for liabilities to banks was lowered considerably. This effect is based on intensified debt reduction beginning with the capital increase at the end of 2010 (volume effect), and on a lower interest rate due to a significantly improved credit rating and associated declining credit risk premiums (price effect).

Pneumatic coil tubing in customized manufacture (Novoplast Schlauchtechnik GmbH)

Tax expense increased, particularly due to the reversal of deferred tax assets in the balance sheet, to € 1.9 million (previous year: € 1.0 million). Current income tax was incurred mainly at the foreign subsidiaries and in the context of the minimum taxation at Masterflex AG. The income tax burden in Germany was optimised on the basis of Masterflex AG's loss carryforwards by two profit transfer agreements concluded in 2011 between Masterflex AG on one side and M & T Verwaltungs GmbH and Novoplast Schlauchtechnik GmbH on the other.

Effects from the sale of the Mobility activities are combined under earnings from discontinued business units. In total, the result for this unit amounts to € -0.1 million.

Overall in 2011, net profit for the year is positive again for the first time after three loss-making years. Overall consolidated net income in 2011 amounts to € 4.1 million after a loss of € 2.2 million in the previous year. This is primarily due to the fact that no more significant expenses or losses from discontinued business units adversely affected the operating result. € 3.9 million of the net profit for the year was allotted to the Masterflex AG shareholders (previous year € -2.3 million).

Minority interests reflect the ownership of the subsidiary in France (Masterflex AG: 80%) and the Russian subsidiary (Masterflex AG: 51%).

Other comprehensive income relates to changes in fair values of financial instruments (€ 118 thousand) and is a result of applicable IFRS regulations on recognising such changes directly in equity.

II. Net assets

1. Asset structure

Assets	31 Dec. 2011 € thou.	%	31 Dec. 2010 € thou.	%	+/- € thou.	%
Intangible assets	4,107	8.0	4,090	6.2	17	0.4
Property, plant and equipment	20,881	41.0	21,155	32.3	-274	-1.3
Non-current financial assets	615	1.2	2,664	4.1	-2,049	-76.9
Other assets	81	0.2	254	0.4	-173	-68.1
Deferred taxes	5,641	11.1	5,866	9.0	-225	-3.8
Non-current assets	**31,325**	**61.5**	**34,029**	**52.0**	**-2,704**	**-7.9**
Inventories	9,295	18.3	7,397	11.3	1,898	25.7
Receivables and other assets	5,766	11.3	9,592	14.7	-3,826	-39.9
Current assets	**15,061**	**29.6**	**16,989**	**26.0**	**-1,928**	**-11.3**
Cash	**4,544**	**8.9**	**14,398**	**22.0**	**-9,854**	**-68.4**
	50,930	**100.0**	**65,416**	**100.0**	**-14,486**	**-22.1**

Total assets declined by € 14.5 million year-on-year to € 50.9 million.

On the assets side, non-current assets sank by € 2.7 million to € 31.3 million. This is attributable to the payment of a debt of € 1.8 million to the founding shareholders based on the agreement in the legal dispute over the interest rate swap (reported under 'Other liabilities' in 2010). In addition, the reversal of deferred tax assets amounting to € 0.2 million and the € 0.3 million use-related reduction in property, plant and equipment are also reflected here.

In the 2011 financial year, Masterflex invested approximately € 2.4 million (previous year: € 2.0 million) in intangible assets and property, plant and equipment. Significant investments related to injection moulding machines and cleanroom facilities at Fleima, a foil line at Masterflex RUS, land for Novoplast, renewal of the machine par at Masterduct and the final costs for the market launch of the templine® heated hose.

Current assets and cash and cash equivalents sank significantly by € 11.8 million from € 31.4 million (previous year) to € 19.6 million in 2011. Important effects were:

- Reduction of cash in hand and bank balances to further reduce the Group's debt by € 9.9 million.
- Reduction due to the sale of the Mobility activities amounting to € 3.6 million.
- Build up of inventories amounting to € 1.9 million due to growth and increasing internationalisation.

Equity and liabilities	31 Dec. 2011 € thou.	%	31 Dec. 2010 € thou.	%	+/- € thou.	%
Consolidated equity	15,682	30.8	11,813	18.0	3,869	32.8
Minority interest	557	1.1	400	0.6	157	39.3
Total equity	**16,239**	**31.9**	**12,213**	**18.6**	**4,026**	**33.0**
Provisions	242	0.5	116	0.2	126	108.6
Financial liabilities	18,446	36.2	30,265	46.3	-11,819	-39.1
Other non-current liabilities	1,629	3.2	1,869	2.9	-240	-12.8
Deferred tax liabilities	431	0.8	514	0.8	-83	-16.1
Non-current liabilities	**20,748**	**40.7**	**32,764**	**50.2**	**-12,016**	**-36.7**
Provisions	3,561	7.0	4,492	6.9	-931	-20.7
Financial liabilities	5,656	11.1	7,172	11.0	-1,516	-21.1
Other current liabilities	4,726	9.3	8,775	13.3	-4,049	-46.1
Current liabilities	**13,943**	**27.4**	**20,439**	**31.2**	**-6,496**	**-31.8**
	50,930	**100.0**	**65,416**	**100.0**	**-14,486**	**-22.1**

2. Capital structure

Equity grew from € 12.2 million to € 16.2 million on the basis of € 4.1 million net profit for the year. As a result, the equity ratio (equity in relation to total assets) was 31.9% as of 31 December 2011 (previous year: 18.6%). We thus achieved our medium-term target of an equity ratio above 30% much faster than planned. Due to existing distribution restrictions at Masterflex AG, no dividend can be distributed for the 2011 financial year.

Non-current liabilities decreased by € 12.0 million or 36.7% from € 32.8 million to € 20.7 million. This is primarily due to the significant reduction of the Group's debt and the accompanying € 11.8 million reduction of non-current financial liabilities to € 18.4 million. Current liabilities sank by € 6.5 million to € 13.9 million. These most notably include a € 0.9 million decrease in current provisions, which were formed at the end of 2010 for non-operating expenses and warranty risks, and the reduction of current financial liabilities by € 1.5 million to € 5.6 million. Moreover, the derecognition of almost all balance sheet items connected with the sale of the Mobility activities (liabilities directly connected with assets held for sale) amounting to € 4.4 million (as of 31 December 2010) is also reflected here.

III. Financial position

1. Principles and objectives of financial management

The key short to medium-term aims of the financial management were achieved in 2011. In essence, they are:

- Admission of new shares, already issued in 2010, to the Frankfurt Stock Exchange
- Reducing liabilities to banks by generating liquid funds from operating activities and/or by selling equity investments from discontinued business units as well as other non-recurring effects (agreement in interest rate swap legal dispute)
- Strengthening equity.

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

2. Financing analysis

As at 31 December 2011, financial liabilities (current and non-current) amounted to approximately € 24.1 million, down € 13.3 million on the previous year. The cash and cash equivalents of the Masterflex Group amounted to € 4.5 million, meaning that net debt stood at € 19.6 million as at 31 December 2011. Net debt in relation to EBITDA (one of the Group management variables) was just below 2. This key figure is a measure of Masterflex's debt-to-equity ratio and indicates how quickly debt can be reduced.

The financial liabilities amounting to € 24.1 million are structured as follows:

- € 17.2 million from the syndicated loan agreement
- € 5.5 million amortising loans (including deferred amortising loans) outside the syndicated loan agreement
- € 1.2 million lease liabilities
- € 0.2 million other interest-bearing financial liabilities.

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

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

3. Liquidity position

As explained previously, cash in hand and bank balances decreased from € 14.4 million to € 4.5 million at the end of 2011. The € 9.9 million reduction is largely due to the following circumstances:

- Positive earnings before depreciation and amortisation (EBITDA, € + 10.0 million)
- Net inflow from the interest rate swap agreement (€ + 2.7 million)
- Inflow from the sale of the Mobility activities (€ + 0.8 million)
- Cash inflow from the debtor warrant agreed with the buyers of Dicota GmbH (€ +0.8 million)
- Cash inflow from the warranty retention from the disposal of Angiokard Medizintechnik GmbH & Co. KG (€ +0.2 million)
- Reduction of the Group's debt (€ -13.3 million)
- Increase of working capital (€ -2.7 million)
- Investment (€ -2.4 million)
- Financial result (€ -2.2 million)
- Income taxes paid (€ -0.8 million).

Connector for medical tubes
(FLEIMA-PLASTIC GmbH)

The cashflow statement, condensed to the main rows, showing the reduction of cash in hand and bank balances in 2011, appears on page 65 (consolidated cashflow statement).

Despite considerable repayments, the Masterflex Group's was solvent at all times in 2011. In addition, under the syndicated loan agreement Masterflex AG has a further freely available, non-utilised credit line of € 4.0 million.

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

Overall, and in view of the restructuring that was finally completed just a few months ago and the growth strategy that is now coming into full effect with the two pillars of internationalisation and innovation, the Group management considers the results of operations, net assets and financial position of the Masterflex Group as of the reporting date to be extremely satisfying and as a good foundation for the further development of the Masterflex Group.

C. CORPORATE GOVERNANCE REPORT

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

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

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

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

According to Section 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board are required to issue an annual declaration stating that the Company has complied and will comply with the recommendations of the Government Commission on the German Corporate Governance Code published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette, or stating which recommendations have not or will not be applied and why. This declaration of conformity pursuant to Section 161 AktG is to be made permanently available to the shareholders. The declaration of conformity for the 2011 financial year was submitted in April 2011 and remains available for inspection on the Internet at www.masterflex.de.

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

Declaration of Conformity with Corporate Governance of March 2012

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

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

Masterflex AG is a stock corporation in accordance with German law. Accordingly, the Company is managed by the Executive Board and Supervisory Board. Corporate governance enjoys high priority at Masterflex AG. The Executive Board and Supervisory Board have worked closely together from the very start in the best interests of the Company and have maintained intensive and ongoing dialogue on the Company's development.

The Code sets out the material statutory provisions on the management and supervision of German listed corporations, and contains internationally and nationally recognised standards of prudent and responsible company management (in the form of "recommendations" and "suggestions"). The Code is intended to improve the transparency and better the understanding of the German corporate governance system. The legal provisions reflected in the Code must be observed and complied with by the Company without exception. The Company is not bound to comply with the recommendations contained in the Code. Such deviations are expressly provided for in the preamble to the Code, and are intended as a contribution to "more flexibility and more self-regulation in German corporate constitution".

The Executive Board and Supervisory Board of Masterflex AG declare that the recommendations of the previous version of the Code dated 26 May 2010 have been observed since the most recent version of the declaration of conformity dated April 2011 with the exceptions stated therein and continues to be observed with the exceptions stated below. The declaration of conformity is permanently available to Masterflex AG shareholders on the Company website. All of the Company's previous declarations of conformity can also be accessed via this link.

Exceptions:

2.3.3 Sentence 2 Postal vote

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

4.2.2 External compensation expert

Should an external compensation expert be considered necessary in order to assess the appropriateness of the Executive Board compensation, the independent status of such an expert will also be ensured. Due to the expertise already available in the Supervisory Board, two members of which are financial auditors, as well as the qualified support from the Company's legal advisors, it has never been considered necessary to seek the additional services of a separate, independent compensation expert.

5.3 Supervisory Board – committees

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

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

5.4.6 Section (1) sentence 3 Supervisory Board compensation

The Supervisory Board compensation resolved by the Annual General Meeting does not provide extra compensation for the activities of the Chairman or Deputy Chairman as a differentiation of this kind would be meaningless for the Company and the allocation of tasks within the Supervisory Board due to the small size of the Supervisory Board and the burden of work assigned to all members of the Supervisory Board.

7.1.4 Publication of the results of subsidiaries

he Code requires the publication of the results of the Company's individual subsidiaries for the past financial year in the annual financial statements. In this point, we deviate from the

Code in that we do not publish these results. Our subsidiaries are medium-sized companies, and we believe that their competitive position could be adversely affected through publication of their results.

A Compliance Officer supports the implementation of the Code of Conduct in the Group and reports regularly in the Executive Board and to the Supervisory Board.

1.2 Relevant disclosures on corporate management practices

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

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

Masterflex AG is a stock corporation in accordance with German law. The basic principle of German stock corporation law is the dual management principle consisting of an Executive Board and Supervisory Board, which each have their own areas of responsibility.

The Executive Board of Masterflex AG manages the transactions of the Company and is bound to observe the best interests and business policy principles of the Company in the context of the provisions of the Stock Corporation Act. It consists of at least two members and determines the Company's strategic orientation. The Executive Board currently consists of two members: the Chairman and the Chief Financial Officer. The Masterflex AG Supervisory Board will not appoint anyone to the Executive Board who is over the age of 65.

The work of the Executive Board is governed by a set of Rules of Procedure, in which matters which are limited to the entire Executive Board and subject to the approval of the Supervisory Board, departmental responsibilities and the required resolution majority are set out. Each Executive Board member manages his area of work independently and on his own authority. In so doing, he undertakes to inform the entire Executive Board on an ongoing basis of any significant business affairs, as the allocation of individual areas of work does not exempt any member of the Executive Board from his joint responsibility for Company management as a whole.

The Executive Board generally attends all meetings of the Supervisory Board, reports on the individual agenda items and resolution proposals in writing and verbally, and answers any questions posed by the individual Supervisory Board members.

The Supervisory Board advises and monitors the Executive Board. With a total of three members, this Masterflex body is deliberately kept small in order to allow resolutions to be passed efficiently, rapidly and flexibly via streamlined structures, as is the case throughout the Group. The Supervisory Board also has its own Rules of Procedure. Here, an age limit for (repeated) appointment by the Annual General Meeting has been set at 70 in article 11 (4) of the Articles of Association.

The Supervisory Board may form committees from its own members, to which decision-making powers can also be assigned – to the extent that this is permitted by law. However, there are currently no committees in place, as the Supervisory Board is made up of three members, meaning that its duties can be performed effectively and competently on a plenary basis.

Drainage hose in aircraft (MATZEN & TIMM GmbH)

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

The appointment of recognised experts to the Supervisory Board is an important factor in Masterflex AG's successful development, as it allows major strategic decisions to be reached on a joint basis and in a spirit of continuous dialogue. Where necessary, the Supervisory Board calls on qualified external help in order to assess difficult matters.

The Supervisory Board regularly discusses business development, planning, strategy and their implementation with the Executive Board. Significant corporate decisions, such as establishing the annual budget and investment plan, entering into or selling equity investments and larger financial measures, are all subject to its approval. The Supervisory Board may designate further transactions as being subject to approval. It is also responsible for approving the separate and consolidated financial statements submitted by the Executive Board, unless this responsibility is passed on to the Annual General Meeting.

Diversity

The Supervisory Board agrees with the objectives of the Code, namely that in addition to achieving a balance in terms of its staff's technical qualifications, an appropriate mix of nationalities and an appropriate number of female members should be achieved in the Supervisory Board by taking account of diversity. In this context, the term diversity must be understood as international origin, education, training or professional activity and not as citizenship or gender and age diversity.

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

However, it also means that nobody will be excluded as a candidate for the Supervisory Board or proposed for the Supervisory Board simply because he or she has or does not have a specific characteristic. Women must be taken into account appropriately if they have the same qualifications and aptitude, but not as part of a mandatory quota.

The Supervisory Board has therefore defined targets for its composition, which should fulfil the requirement for diversity and take account of both appropriate participation by women and also people with an international background. The objective and the extent to which it has been implemented are to be published in the Corporate Governance Report. Since the Supervisory Board only consists of three people, it will be difficult to realise the total of the formulated targets in the short term. In this connection, it must be noted that the company's activity is focused in areas in which, because of its technical orientation, there is a relatively low proportion of women with the specific qualifications required, meaning that acquiring women for management roles constitutes a challenge. Nevertheless, it is and remains the objective to facilitate and further increase appropriate participation by women at all levels of the company. This is already the case in administration and cross-departmental functions. Masterflex was one of the first listed companies that had appointed a woman to an Executive Board consisting of two members in the past.

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

Where possible in future Supervisory Board elections, a woman is to be proposed to the Annual General Meeting as a membership candidate; if this proposal is accepted, this would be a ratio of 33%. In the process, particular account will be taken of people with an international background.

Every year, the Chairman of the Supervisory Board explains the activities of the Supervisory Board both in the Annual Report ("Report to the Shareholders") and at the Annual General Meeting. The remuneration system for the Executive Board is also explained in this process.

Shareholders and the Annual General Meeting

Our shareholders exercise their rights at the Annual General Meeting. The Company's Annual General Meeting takes place within the first eight months of the financial year in the context of the statutory requirements given under Section 175 of the German Stock Corporation Act. The Chairman of the Supervisory Board chairs the Annual General Meeting. The Annual General Meeting makes decisions on all tasks assigned to it by law (including granting discharge to the management, appropriation of net profit, electing Supervisory Board members, appointing the auditor, amendments to the Articles of Association, capital measures).

Securities requiring disclosure of the Executive Board and Supervisory Board

An overview of the acquisition or sale of Masterflex shares on the part of the Executive Board and the Supervisory Board can be found on the Company's website www.masterflex.de under Investor Relations/Corporate Governance/Directors Dealings.

An overview of the equity investments, in particular in accordance with Section 6.6 sentence 1 of the Code, provides information as to how the members of the Executive Board and the Supervisory Board have a stake, whether direct or indirect, in Masterflex AG. Together, the two Executive Board members have a stake in the company through BBC GmbH that is above 4%. Furthermore, two Supervisory Board members – Messrs Bischoping and Klomp – are also shareholders in the Company. These disclosures are not necessarily of the kind required by securities trading or corporate legislation but are made solely for the purposes of corporate governance. The table below shows the investment structure, separated into members of the Executive Board and the Supervisory Board:

BBC GmbH (Dr Andreas Bastin und Mark Becks)	Friedrich Wilhem Bischoping	Axel Klomp
4.57 %	2.5 %	0.75 %

Stock option plans

In accordance with Item 7.1.3 of the German Corporate Governance Code, the corporate governance report must also contain specific disclosures on stock option plans and similar securities-based incentive schemes run by the Company. There are currently no stock option plans or similar securities-based incentive schemes in place at the Company.

Transparency

Providing standardised, comprehensive and up-to-date information is a high priority at Masterflex. Reports on the development of the Company are issued via the internet, in annual and interim reports, at analysts' conferences, press conferences and general capital market conferences and via ad hoc disclosures and press releases.

All information can be accessed on the Company's website at www.masterflex.de.

Masterflex AG keeps a list of individuals with insider information in accordance with Section 15b of the German Securities Trading Act (WpHG). The persons listed here have been informed of legal obligations and sanctions.

Conflicts of interest are, should any exist, discussed in depth and disclosed if necessary. No conflicts of interest have been identified.

Accounting and auditing

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). After being prepared by the Executive Board, the consolidated financial statements are audited by the auditor and approved by the Supervisory Board. The separate financial statements are prepared in accordance with the German Commercial Code (HGB). Interim reports are not reviewed by an auditor. A monthly report is issued in accordance with International Financial Reporting Standards (IFRS). For competitive reasons, all details except individualised profit figures are disclosed for the associated companies.

It has been agreed with the auditor that he will inform the Chairman of the Supervisory Board immediately of any significant findings or events during the audit.

Management variables and control system

The internal corporate management systems have been improved considerably in recent years, so that undesirable developments can be recognised at an early stage and measures to counteract them can be commenced. With the efficiency programme "MOVE", new methods for business and action planning have been developed and the internal reporting system has been expanded considerably.

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

Risk management

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

We view risk management as the central responsibility of the Executive Board, the managers and all employees. Risks can thus be identified and limited at an early stage without having to forego corporate opportunities. A detailed presentation of risk management is given in the risk report (section G).

II. Compensation report

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

1. Executive Board compensation

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

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

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

Inner hose, heating conductors and protective intermediate layer inside innovative templine® heated hose series (Masterflex AG)

The total compensation paid to the Executive Board in 2011 and its division into fixed and variable components is presented in the following table:

All disclosures in € thou.	Fixed compen-sation	Variable compensation based on sustainable targets Short-term focus	Variable compensation originated in 2011 Long-term focus[1]	Fringe benefits (remuneration in kind)	Total compensation relevant to payment[2] 2011
Chief Executive Officer Dr Andreas Bastin	260	208	82	27	495
Executive Board member Mark Becks	170	136	44	31	337
Total	**430**	**344**	**126**	**58**	**832**

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

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

In the 2011 financial year, fixed and variable compensation was granted to the Executive Board. The variable compensation components were determined on the basis of the bonus regulations agreed with members of the Executive Board at the beginning of the past financial year. As stated in the Management Report, all the Company's targets were achieved or even exceeded in the past financial year. A special bonus of € 50 thousand each as a component of the short-term variable compensation shown honours the Executive Board's extraordinary achievement in the Company restructuring finally completed with the sale of the fuel cell activities, which was also awarded with the "Turnarounder of the Year 2011" prize from independent jurors – the audit firm BDO and the economy magazine impulse – and has confirmed the appraisal of the achievement by the Supervisory Board.

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

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

2. Supervisory Board compensation

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

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

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

The total compensation paid to the Supervisory Board in 2011 and the distribution of this is presented in the following table:

All disclosures in € thou.	Fixed compensation	Variable compensation[1]	Total attendance allowance	Total compensation relevant to payment 2011
Chairman of the Supervisory Board, Mr Friedrich W. Bischoping	14	5	2	21
Deputy Chairman of the Supervisory Board, Mr Georg van Hall	14	5	2	21
Supervisory Board Member, Mr Axel Klomp	14	5	2	21
Total compensation	**42**	**15**	**6**	**63**

1 The portion of variable compensation acquired in 2010 but not yet paid, but which is paid with the financial statements of the 2011 financial year in consequence of the success criteria being met, cf. Article 15 of the Articles of Association.

III. Other disclosures in accordance with Section 315 (4) of the German Commercial Code

The share capital of Masterflex AG amounts to € 8,865,874 and is divided into 8,865,874 no-par value bearer shares each with a notional interest in the share capital of € 1.00. Each share grants the holder a voting right.

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

The Company is aware of one case of direct or indirect equity investment in the capital exceeding 10% of the voting shares. This is a strategic investor who to the Company's most recent knowledge holds 19.6% of shares in Masterflex AG.

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

templine® heated hose for efficient temperature-controlled transportation of liquid media with low energy consumption (Masterflex AG)

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

Any amendment to the Articles of Association requires a resolution by the Annual General Meeting. In accordance with Section 179 of the German Stock Corporation Act, a resolution by the Annual General Meeting requires a majority of at least three quarters of the share capital represented when the resolution is passed. The Articles of Association can stipulate a different majority, although only a larger majority for a change to the purpose of the Company. In accordance with Article 18 of the Articles of Association, resolutions at the Annual General Meeting are passed by a simple majority of the votes cast unless otherwise required by law. If a majority of the share capital represented at the passing of the resolution is also required by law, a simple majority of the capital represented is sufficient, to the extent that this is permitted by law. This also applies to amendments to the Articles of Association. In accordance with Article 14 (5) of the Articles of Association, the Supervisory Board is authorised to make changes to the Articles of Association that affect only the wording.

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions up to 27 June 2016 by issuing up to 4,432,937 new no-par value bearer shares in exchange for cash and/or non-cash contributions, by a maximum value of € 4,432,937 ("authorised capital I"). Subscription rights can be disapplied in accordance with the more detailed provisions of the authorisation.

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

The Annual General Meeting on 28 June 2011 authorised the Company from 29 June 2011 to 28 June 2016 to acquire treasury shares of up to 10% of the Company's share capital as of the date the resolution was passed or – if this value is lower – as of the time the authorisation is exercised. The Company has not yet exercised this authorisation.

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

In the case of a takeover bid, the Executive Board contracts provide for compensation of the Executive Board members that is limited to less than the annual compensation for two years including fringe benefits (severance payment cap) and provides remuneration for no longer than the remaining term of the employment contract.

D. EMPLOYEES

In 2011, there was an average of 448 employees employed in the Masterflex Group (previous year: 397). The increase in employee numbers is due to the development of Masterflex RUS and the increase of resources for Group-wide sales. Following the successful restructuring in the years preceding 2010, this positive trend continued in the 2011 financial year, also thanks to our extremely dedicated and motivated employees.

We are aware of our social responsibility towards young people. For this reason we again employed trainees in commercial and administrative functions in 2011. In Germany alone, we currently employ twelve trainees in various occupations. We also work with various educational establishments and offer places to retrainees so that they can complete the practical part of their training with us.

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

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

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

Masterflex supports the compatibility of family and career. We offer parents in our employ the opportunity to balance their family and career by working part-time or with flexible hours. In this way, we retain the skills of these experienced employees.

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

E. RESEARCH AND DEVELOPMENT

I. Research and development in the Masterflex Group

If you want to shape the future, you have to set the course today. In times of ever faster innovation cycles and increased globalisation, it is important for a company to remain a step ahead of the competition with innovative products. Therefore, strength in innovation is a significant element of our corporate strategy.

Application development is in the foreground. We are concerned with innovative materials, production processes and new product applications. This often occurs when customer requirements are taken up and implemented in solutions to specific problems. We regularly develop material-based standards in close cooperation with our raw material suppliers. In doing so, we align the quality standards to various market requirements right at an early stage and in a targeted manner.

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

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

Tube connectors for the medical devices (FLEIMA-PLASTIC GmbH)

Our innovative strength is proven particularly persuasively by the hose system templine®, which was developed to market maturity over several years and has been on sale since the end of 2010. Among other things, benefits of the new heated tube include heating the medium to be transported homogeneously and constantly, its extreme flexibility in all directions (360°) and a reduction in energy consumption compared with conventional systems of up to 30%. The hose system is used, among other places, in the food and luxury food industry, for transporting fats, liquid sugar and cocoa butter or in adhesive technology for labelling machines or machines for laminating wood and plastic. In 2011, additional product variants of the templine family were launched, including heated hoses with an internal diameter of up to DN 50 or a pressure load capacity in excess of 200 bar.

Product innovation was also driven by the change in technical requirements. We developed another hose series that is particularly suited for applications in rail vehicles on the basis of its certification in accordance with the DIN 5510-2 standard. The hoses can be used for ventilation in rail vehicles, as drainage hoses for rainwater and condensation from air-conditioning systems, as well as suction and blower hoses for conveying abrasive solids in rail vehicles. Along with its microbe and hydrolysis resistance, its flammability resistance in accordance with DIN 5510-2 S-4 sets this hose range apart from its competitors and makes it highly versatile for a wide range of applications.

Together with one of our suppliers, we demonstrated our materials expertise by developing hoses made of modified POM (polyoxymethylene) as an alternative to polyamide (PA) products. The new modified POM, with its mechanical characteristics, achieves results for the first time that permit applications such as the extrusion of flexible pipes and hoses, which were previously made from PA 11 or PA 12. The burst pressures achieved with our new material and its low-temperature impact strength set new standards. As the modified POM is unplasticised, there are no problems with plasticiser migration. Moreover, unlike PA, modified POM has the advantage of higher availability and accompanying better price stability, which was at times not the case for PA.

Examples of other results of these processes in 2011 were:

- Antistatic hoses for the food industry
- Multi-lumen hoses for neurology
- Printed multi-layer hoses for respiratory technology
- T profile transport hoses for mechanical engineering
- Specific multi-layer hoses for multi-layered optimisation of characteristics
- Overmoulding of hoses to avoid separate joining processes
- Electrically conductive hoses for vacuum lifting systems
- Flexible moulded parts for toilet seat ventilation systems in aeroplanes
- Special seals for aeroplane ground power units

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

II. Environmental protection/REACH

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

We go beyond this by pursuing a policy of continually improving measures to reduce the impact of our operations on the environment. Masterflex AG has been certified as an 'Ecoprofit company'. Ecoprofit is an ecological project for integrated environmental technology offered for companies and institutions by local authorities. The objective of the project is to realise potential for optimisation in companies. The priorities are reducing operational consumption of resources in the company and integrated, forward-thinking environmental protection, in order to lower operating costs at the same time as making a contribution to environmental protection.

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

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

Great importance was also assigned to environmental impact in the development of the new templine® product line. The heated hoses do not contain any materials with softening agents or any acid-emitting components in the event of the hoses overheating or even catching fire. They do not affect ground water and are highly effective in converting electrical energy into heat energy. This results in better energy efficiency (CO2 saving). The longer service lives of heated hoses lead to a reduction in the consumption of raw materials. Series of durability tests show, for example, that Masterflex hoses used on automation robots in the automotive industry have a service life that is three times that of comparable products.

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

In the REACH supplier chain, the Masterflex Group, as a product supplier, has the status of a downstream user and for this reason has not carried out any pre-registration. All necessary measures have been adopted since REACH came into effect on 1 June 2007. Relevant information was exchanged with suppliers in order to examine the implementation. Information on REACH can be found on the website at www.masterflex.de in the Products/REACH section.

F. REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no events with particular significance after the reporting date affecting net assets, financial position and results of operations.

G. RISK REPORT

I. Risk management system for value-oriented corporate management

Corporate activity always involves risks and rewards. Risk describes the possibility of unfavourable future developments with a realistic, though not necessarily significant, probability of occurrence. We define possible successes in excess of our defined targets as opportunities. For all transactions we enter, the opportunities must clearly outweigh the risks. We strive to limit existing risks to an acceptable and manageable level. Among other things, we use insurance and contractual provisions for this purpose.

The risks of financial reporting lie in the fact that our annual and interim financial statements could contain misrepresentations that could potentially have a significant influence on the decisions of recipients. We have therefore developed an Internal Control System (ICS) for accounting, which aims to identify potential sources of error and to limit risks arising from them.

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

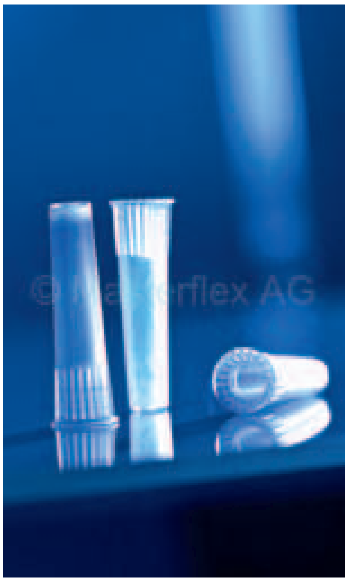
The structure of the accounting ICS is based on the organisation of our accounting and financial reporting processes. One of the key functions of this process is the management of the Group and its operating units. The targets developed by the Executive Board of Masterflex AG form the starting point.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

We identify risks in financial reporting at the level of the sub-units using quantitative, qualitative and process criteria. Our generally binding guidelines and ethical values form the basis of the ICS. In a control process that was refined in 2009, we will in future provide evidence once a year of whether the necessary control measures actually took place and were implemented correctly.

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

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

On this basis, at Masterflex, risk management stands for the targeted safeguarding of existing and future earnings potential, as well as the specific management of known risks. Our risk management system comprises the identification, assessment, control and management of risks. This controlled approach to risk is intended to safeguard the net assets, financial position and results of operations of the Group.



Caps for the medical devices (FLEIMA-PLASTIC GmbH)

II. Efficient risk management organisation

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

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

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

III. Risk factors

1. Market risks

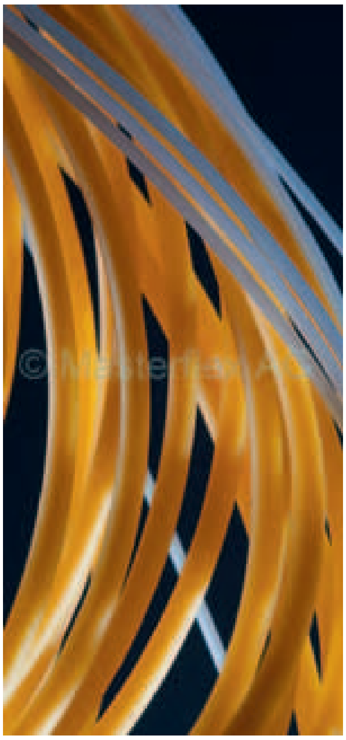
The Masterflex Group companies are exposed to potential market risks in their sales and procurement activities.

In sales, risks can arise in particular from the as-yet unresolved sovereign debt crisis and its influence on further economic development. The further business development of Masterflex is particularly dependent on the German as well as the global economy. However, since Masterflex is involved in many sectors and markets and also supplies many different customers, it is not dependent on one sector or one individual customer.

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

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

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



Multi-layer tubing for infusion (Novoplast Schlauchtechnik GmbH)

2. Financial risks

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

Within the Group, there are binding provisions on the types of financial instruments that may be used, the maximum limits for their conclusion and the banks with which such instruments may be entered into. Compliance with all regulations is constantly examined and revised. Receivable default risk is reduced by systematically obtaining information on creditworthiness, setting credit limits and performing active debtor management, including dunning and proactive collection measures. Nevertheless, individual – even major – defaults on receivables from customers cannot be ruled out.

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

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

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

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

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

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

Based on current and planned business development, we anticipate being in compliance with these covenants, because the covenant limits were defined on the basis of a business plan that forecast the economic recovery of the company much later. The upper limit for the key figure ‘debt-to-equity ratio’ (calculated in accordance with the syndicated loan agreement) in 2011 was initially 5, and from October 2011 it was 4.5. However, due to debt being greatly reduced, Masterflex has maintained a debt-to-equity ratio continuously below 3 since the beginning of 2011. As of the 2011 balance sheet date, this key figure was 1.96. From the beginning of 2011, Masterflex was also quite considerably above the 1% lower limit for the second key figure (‚equity ratio‘, calculated according to the loan agreement, in which the equity on the balance sheet is adjusted for certain assets), which was first stipulated for 31 March 2012, with values of 6% to most recently 16.3%. Therefore, the covenants would only be breached by a dramatic deterioration of future results.

3. Production risks

We counteract possible production downtime, e. g. caused by disasters or fire damage, by performing preventive maintenance work and maintaining adequate inventories of key replacement parts, as well as through fire prevention measures, employee training and the establishment of a network of external suppliers. We also have reasonable insurance coverage for any damages that may arise in spite of these measures. Moreover, our production is not limited to one location.

4. Technology and quality risks

The Masterflex Group strives to reinforce its market position by offering globally competitive products and services. This requires a permanent innovation and development process in order to meet the demanding requirements of its customers. In order to secure this in the future, an innovation management process was introduced. An expert body from sales, product management, R&D, controlling and production makes decisions on further developments in accordance with clear process and assessment criteria. In particular, the members make decisions on the basis of market analyses and considerations of economic viability. Risks resulting from undesirable developments and the associated financial expense are thus minimised.

The Group also aims to maintain close cooperation with its customers in order to help it to develop new applications and leverage new markets at an early stage. This also frequently results in innovative business ideas, some of which later become new standard applications. We secure the results of our R&D activities, when possible, with our own property rights.

The recognised quality of our products and high delivery capacity are important requirements for our success. In order to control such risks relating to its goods and services, we give a high degree of priority to quality assurance. By setting ambitious quality standards for its development activity, intensively examining the entire process chain and maintaining permanent contact with suppliers, quality-specific risks within the Group are limited in a systematic manner.

5. IT risks

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

6. Legal risks

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

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

7. Personnel risks

The expertise and commitment of our employees are vital factors in the Masterflex Group's economic success and future development. We counter the intensive competition for qualified technical and management staff and the associated risks in the form of a loss of expertise caused by employee turnover with attractive opportunities for acquiring additional qualifications and a compensation system that rewards performance. The loss of experts or experienced technical and management staff is one of the greatest risks for the Group, although no such trend can be seen at the moment.

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

8. Acquisitions and divestments

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

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

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

9. Tax risks

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

IV. Other individual risks

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

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

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

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

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

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

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

H. REPORT ON EXPECTED DEVELOPMENTS

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

I. Outlook

1. Economic environment

In terms of the economy, 2012 began mixed, but also encouragingly.

At the end of 2011, at - 0.2% growth of German gross domestic product quarter-on-quarter was negative for the first time since 2009. As a result, Commerzbank's capital market experts, for example, derive zero growth for Germany in the current year (see table page 46).

However, in January 2012, the KfW-Ifo SME barometer which measures business climate among SMEs on a monthly basis, improved for the third time in a row, despite much-expressed fears of a global downwards trend. Likewise, large corporations, which had been particularly affected by the global downturn at the end of the year, also proved markedly recovered. According to the National Association of Plastics Processors (GKV), capacity utilisation in the plastic processing industry is also at a high level. The innovative sector is expecting additional new areas of application for individual products.

On the basis of the knowledge available in the spring and in view of the stabilisation of the most important sentiment indicators, we consider zero growth to be too pessimistic an outlook. The Federal Government anticipates only a temporary phase of weakness with GDP growth of 0.7%.

Continued growth of economic momentum is also expected in regions of the world that are important for Masterflex.

Country	2012 forecast	2013 forecast
Euro zone		
Germany	0.0	1.3
France	0.0	1.0
EU		
United Kingdom	0.7	1.3
Sweden	1.5	2.8
Czech Republic	-0.1	2.1
World		
USA	2.0	2.5
Russia	3.5	3.7
Brazil	3.8	4.2
China	7.5	7.5
Singapore	4.5	4.0

Source: Commerzbank

Nevertheless, significant setbacks cannot be ruled out due to increased risks in the global economy. The Organisation for Economic Co-operation and Development (OECD) anticipates GDP growth for the German economy of on 0.4% in 2012. In the view of the OECD economists, the weaker GDP growth results mainly from lower investment and decreased consumer spending. However, the OECD expects growth in Germany to pick up again to 1.9% in 2013. That being said, it also points firmly to the risks for the economy and growth proceeding from the debt crisis in Europe.

Even if the development of the plastics industry cannot be equated with general economic growth and the substitution of traditional materials still gives rise to a disproportionately high level of potential for the use and sale of plastic products, according to the GKV there are also developments that may negatively impact the positive situation in the industry, such as rising commodity prices and growing risks regarding the security of supply and the competitiveness of the energy markets. It may not be possible for plastic processing companies to pass on price increases in procurement and production to the market at the same time they occur. Moreover, supply bottle necks are still conceivable, particularly in the case of technical plastics.

2. Group outlook

Locations

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

The Masterflex Group accesses international markets. With the establishment of our own operations in Brazil, Russia and China – thus in almost every BRIC country – the Masterflex Group has expanded into world regions with markedly dynamic growth. This is to be followed by further international steps targeted at opening new markets not addressed by us before. In this context, potential new sales regions are currently being examined with our market research and validated on the basis of the database that we have been building up since 2008. Further market entries are planned for the future.

The Masterflex Group grows predominantly from within. The potential gains in efficiency from internal synergies still unrealised in the Group and that were not at the top of the list of priorities in the restructuring years (such as corporate branding, marketing, purchasing, logistics) are now being successively identified. In the next step, there are projects and measures to leverage these synergies for value creation in the context of Group-wide integration. Some are planned, some already begun.

The Masterflex Group's business approach is planned from a business vantage point. For the 2012 financial year, we expect revenue to increase from € 53.0 million by between 8% and 10% to between € 57 million and € 58 million. Growth in EBIT will follow at a somewhat more moderate rate: In view of the initial costs of further internationalisation, for projects such as corporate branding and commodity prices that continue to rise, we expect operating EBIT of € 8 million and an EBIT margin derived from this around 14% or slightly lower. In administration, non-recurring costs, particularly for the special project to change legal form to an SE and the spin-off of the operating business, will be incurred in 2012. For the consolidated net profit for the period, we again expect a profit.

For the 2013 financial year, we anticipate further revenue growth comparable to 2012, even if an exact forecast is only possible with some hesitation at this time due to the uncertainty surrounding economic developments in the global economy. Our EBIT will shadow the increase in revenue albeit at a somewhat more moderate rate. Sales and earnings development will also be reflected in cashflow from operating activities.

II. Our vision

Our business has again provided impressive evidence of its strength and profitability in the first year following the successful completion of our restructuring. Despite heightened uncertainty over economic development, we have started the 2012 financial year with a tailwind. Our task is now to strengthen the two mainstays of our growth, internationalisation and innovation. Our future prospects are good, since we are ideally positioned thanks to our materials and innovation expertise. Furthermore, we have only just started tapping into the development potential of the applications for high-tech polymers.

Our vision is global market leadership in all the markets we address.

Therefore, we are pursuing the strategy of developing and producing customised and sophisticated products with high value for the customer, and selling these with the skills required for their application. This consultation-oriented specialist market strategy differentiates Masterflex from other hose manufacturers.

We are thus pursuing a value-oriented growth strategy with long-term goals.

III. Summarising overall statement of the forecast

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

Spiral hose (Masterflex AG)

WE
take care of cleanliness.

Have you ever been annoyed by leaves on the road? You'd be right, because this regularly causes accidents. Why do we ask? Masterflex produces hoses for all kinds of cleaning equipment, now in 45 countries. Not bad, in our opinion. Have a good journey!

THE MASTERFLEX SHARE

Share information	
ISIN code	DE000 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.DE
Market segment	Prime Standard
Member of the following indices	CDAX Prime All Share Index Classic All Share Index Prime Industrial Index
Designated sponsor	Close Brothers Seydler Bank AG
Number of shares	8.865.874
Theoretical interest in share capital per share	1.00 €

Left:
Suction hose for road sweepers, transparent and black (Masterflex AG)

Right:
Partially dyed PU hoses in special colours (Masterflex AG)

Masterflex AG share performance

The positive performance of the Masterflex share in 2011 was decisively formed by the Company restructuring.

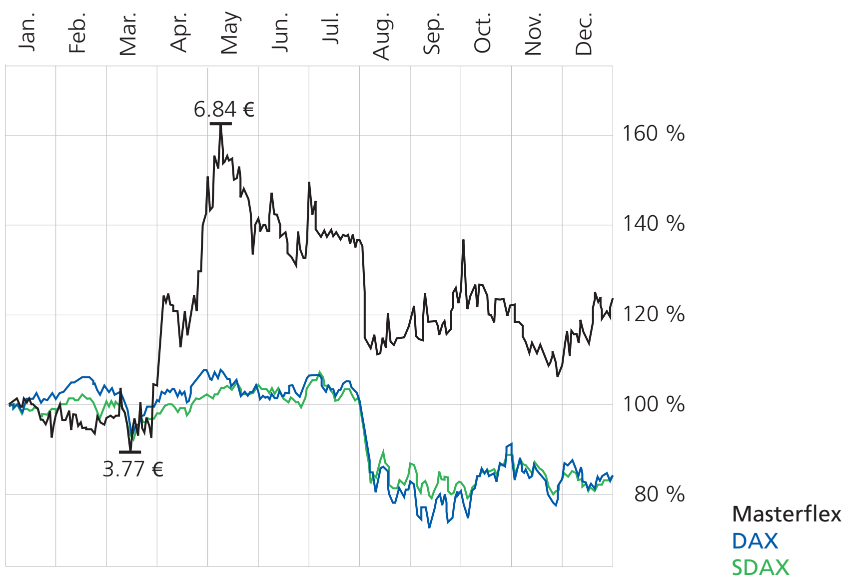
While a high level of uncertainty over the result of the package of measures still dominated the capital market in the first quarter of 2011 and the share hovered around a price of € 4.00, the price climbed rapidly after the announcement of the provisional results for 2010 at the end of March. On 10 May, the share reached its high to date with a closing price of € 6.84. Capital market experts see this as the expression of the share's current potential.

Up to the start of the capital market turbulence at the beginning of August, the share ranged between € 5.50 and € 6.00. On the basis of great uncertainty on the financial markets about the handling and the progress of the sovereign debt crisis, the Masterflex share then dipped occasionally below € 4.50 again. From mid-November, the share rose again up to a year-end price of € 5.18.

Over the year as a whole, the share thus increased its value by more than 20%. In particular this is an expression of the successful completion of several years of Company restructuring and the return to the highly profitable core business of high-tech hoses. In contrast, German listed companies suffered in large part from uncertainty on the capital markets as well as the broader economic developments. The DAX fell by 14.7%, the SDAX by 15.5% and the TecDAX (not shown in the graphic below) by as much as 19.5%.

Masterflex share price compared with the DAX and the SDAX 2011

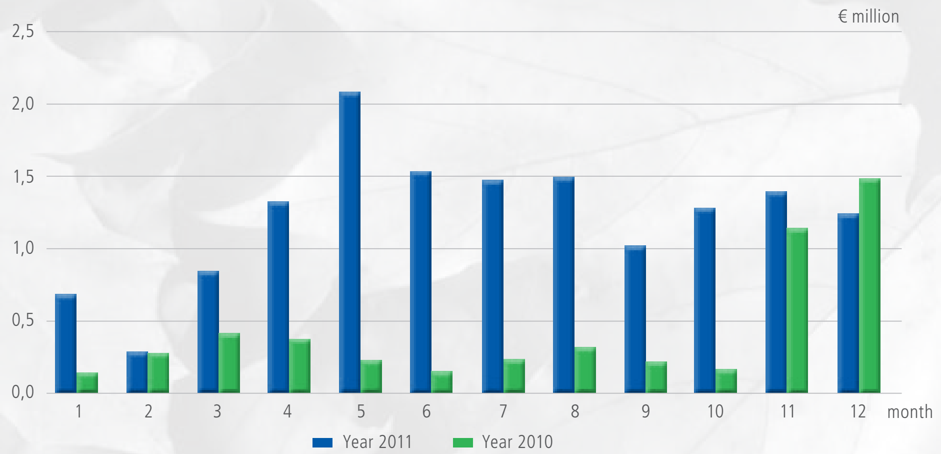
Share price development in 2011[1]



1 *Based on daily closing prices*

Liquidity of the Masterflex share

Order book turnover



The sales volume of the Masterflex share increased significantly in 2011. The total sales volume on Xetra and in floor trading in Frankfurt stood at € 14.7 million (previous year: € 5.2 million). In addition to the increased price, the capital increase of December 2010, due to which the number of shares almost doubled to approximately 9 million, also made a contribution here. The 4,365,874 new shares were admitted for stock exchange trading in June 2011. Since then, the average monthly sales volume has been constantly above € 1 million. The average number of shares traded each day was 11,187 compared with 5,598 in 2010.

Masterflex has supported the liquidity of its share with a designated sponsor since it was first listed in 2000. This function was taken on by the Close Brothers Seydler Bank AG at the start of 2011.

Admission of new shares to the stock exchange

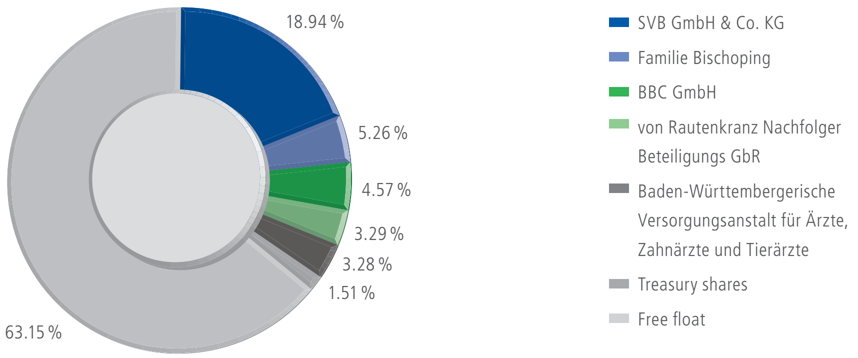
At the end of 2010, Masterflex issued 4,365,874 new shares at a subscription price of € 3.00 as part of a capital increase. On 16 June 2011, the listing prospectus was approved by the German Federal Financial Supervisory Authority (BaFin). On 17 June, the new shares, which up to that point had the securities code (ISIN) DE000A1E8N63, were admitted for trading in the regulated market in the Prime Standard segment under one securities identification number (549 293, ISIN DE0005492938). This gave further impetus to the trend of higher trading volume.

Shareholder structure

The shareholder structure that arose as part of the capital increase at the end of 2010 has proved stable.

New major shareholders according to disclosures in June 2011 are von Rautenkranz Nachfolger BeteiligungsGbR (3.29%) and in September 2011 the Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte (3.28%). In November 2011, BBC GmbH, whose company shares are held by the two Executive Board members, increased its stake so that it now stands at 4.57%. Due to the increased involvement of institutional investors and family offices, the free float declined to 63.15%

Masterflex Shareholder structure (as of December 2011)



Share price statistics

Xetra		2011	2010	2009
Highest variable price	€	6.84[1]	4.50	7.06
Lowest variable price	€	3.77[1]	2.84	3.41
Opening price	€	4.00	3.50	6.00
Closing price	€	5.18	4.00	3.50
Performance		+29.5 %	+14.3 %	-41.7%

1 Adjusted for the newly admitted shares

Analyst research

As early as August 2010, the restructuring of the Company had come so far that the first research firm, Close Brothers Seydler Research AG (CBS Research), following drastic changes, resume coverage of the share in its portfolio of tracked capital market issuers. Since then, a professional analysis of our business model and business development is again available to analysts, portfolio managers and private shareholders.

CBS Research updated its recommendation three times in 2011. Their most recent study of 6 March 2012 recommends the share as a buy with an upside target of € 6.70. As of 5 December 2011, First Berlin Equity Research GmbH is also analysing the Company's business development and the potential of the share. First Berlin's most recent update of 6 March 2012 results in a buy recommendation with an upside target of € 7.20.

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

Performance in 2011

Share key figures (Xetra)		31.12.2011	31.12.2010
Share capital	€ million	8.9	8.9
Number of shares	Million shares	8.9	8.9
Treasury shares	Shares	134,126	134,126
Closing share price	€	5.18	4.00
Market capitalisation as of 31 Dec.	€ million	45.9	35.5
Market capitalisation as of 31 Dec. (not including treasury shares)	€ million	45.2	34.9
Free float as of 31 Dec.		63.15 %	70.6 %
Earnings per share	€	0.44	-0.49

Annual General Meeting 2011

On 28 June 2011, the ordinary Annual General Meeting for the 2010 financial year took place in Gelsenkirchen with active participation of the shareholders. Discharge was granted to the Executive Board and Supervisory Board; the Executive Board compensation system was approved; Rölfs RP AG Wirtschaftsprüfungsgesellschaft was appointed as the Group's auditor for the 2011 financial year.

In addition, certain capital measures were resolved. Under certain conditions, the Annual General Meeting authorised the Company up to 28 June 2016 to acquire treasury shares of up to 10% of the share capital for cash or non-cash contributions with the possibility to disapply subscription rights. The Company was also authorised to resell these shares with the possibility to disapply subscription rights against non-cash contribution or cash payment. In addition, the Annual General Meeting agreed to an authorised capital of up to € 4,432,937 to 2016 (contingent capital I). On the basis of these contingent capital resolutions, the Company is able to react flexibly to any acquisition opportunities that may arise.

The shareholders' meeting also approved two profit transfer agreements between Masterflex AG and Novoplast Schlauchtechnik GmbH and between Masterflex AG and M&T Verwaltungs GmbH. The Masterflex Group will thus be able to make better use of tax loss carryforwards in the future.

All voting results are published on the www.masterflex.de website under Investor Relations/ Stockholders' Meeting.

Capital market communications

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

Following completion of the restructuring, the professional information exchange with the capital market was also intensified. After a gap of several years, Masterflex once again took part in the Small Cap Conference of the German Association for Financial Analysis and Asset Management (DVFA) in August 2011. In November the Company spoke and answered questions at the well-attended German Equity Forum in Frankfurt and, in December, meetings were held with investors at the Munich Capital Market Conference. Furthermore, talks were sought with investors at a roadshow in Hamburg.

Intensive dialogue with the capital market will continue into the future. The objective of Investor Relations is to show the shares of the Masterflex Group to their best advantage on the capital market, even with a conservative accounting policy. The Group's objective is to become a global leader in the regional specialist connector system markets, both industrial and commercial, and to take our shareholders with us on the journey!

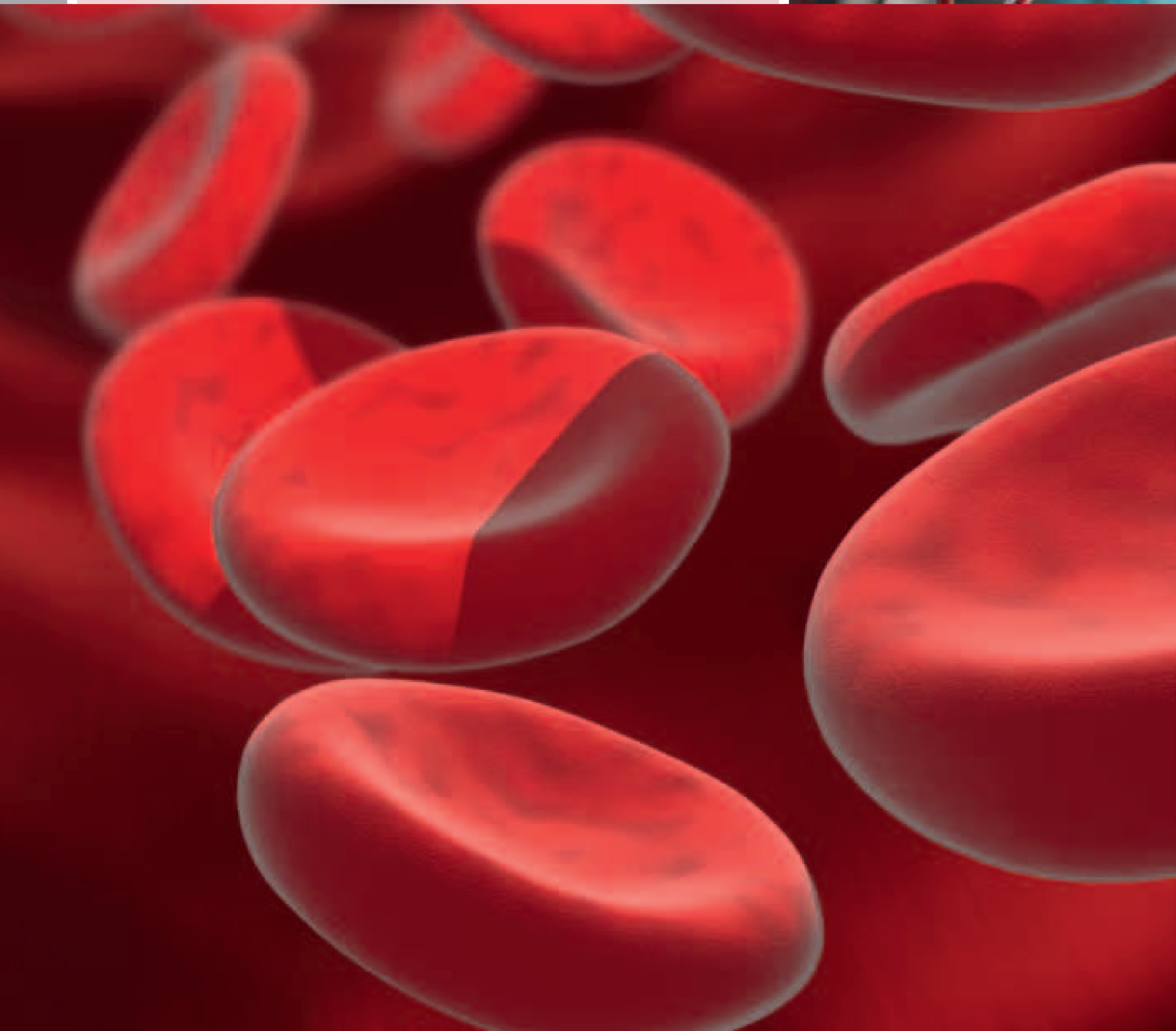
Masterflex AG financial calendar 2012

29 March	Financials press conference, presentation of 2011 annual report, Dusseldorf
29 March	DVFA analysts' conference, Frankfurt
7 May	Interim report I/2012
19 June	Annual General Meeting, 11:00 a.m., Gelsenkirchen
13 August	Interim report II/2012
12 November	Interim report III/2012
	German Equity Forum, Frankfurt

Crush and microbe resistant hose
(Masterflex AG)

WE
look after health.

Have you ever been to hospital for an operation? That's perfectly normal. What's that got to do with us? Masterflex produces tubes for medical products for all aspects of health. And we've done so for 12 years. Not bad, in our opinion. We wish you well!



CONSOLIDATED FINANCIAL STATEMENTS

Left:
Luer-Lock-connectors for medical devices (FLEIMA-PLASTIC GmbH)

Right:
Radiopaque catheter tubing for the medical technology (Novoplast Schlauchtechnik GmbH)

Consolidated balance sheet

Assets	Notes	31 Dec. 2011 EUR thou.	31 Dec. 2010 EUR thou.
NON-CURRENT ASSETS			
Intangible assets	**3, 4, 24**	**4,107**	**4,090**
Concessions, industrial and similar rights	4	774	706
Development costs	4	29	33
Goodwill	3, 4, 24	3,258	3,258
Advance payments	4	46	93
Property, plant, and equipment	**4**	**20,881**	**21,155**
Land, land rights and buildings		11,504	11,819
Technical equipment and machinery		6,975	6,005
Other equipment, operating and office equipment		1,952	2,184
Advance payments and assets under development		450	1,147
Non-current financial assets	**4**	**615**	**2,664**
Non-current financial instruments		74	193
Other loans		541	2,471
Other assets	**6**	**30**	**38**
Other financial assets	**6, 17**	**51**	**216**
Deferred taxes	**27**	**5,641**	**5,866**
		31,325	**34,029**
CURRENT ASSETS			
Inventories	**5**	**9,295**	**7,397**
Raw materials and consumables used		5,566	4,169
Work in progress		303	437
Finished products and goods purchased and held for sale		3,389	2,721
Advance payments		37	70
Receivables and other assets	**6, 7**	**5,600**	**5,830**
Trade receivables	7	4,942	4,361
Other assets	6	641	1,415
Other financial assets	6, 17	17	54
Income tax assets	**8**	**144**	**163**
Cash in hand and bank balances	**9**	**4,544**	**14,398**
		19,583	**27,788**
Assets held for sale	**6**	**22**	**3,599**
		19,605	**31,387**
Total Assets		**50,930**	**65,416**

Equity and liabilities	Notes	31 Dec. 2011 EUR thou.	31 Dec. 2010 EUR thou.
SHAREHOLDERS' EQUITY			
Consolidated equity	**10**	**15,682**	**11,813**
Subscribed capital		8,732	8,732
Capital reserve		26,252	26,252
Retained earnings		-18,075	-21,952
Revaluation reserve		-747	-629
Exchange differences		-480	-590
Minority interest	**11**	**557**	**400**
Total equity		**16,239**	**12,213**
NON-CURRENT LIABILITIES			
Provisions	**12**	**242**	**116**
Financial liabilities	**13**	**18,262**	**30,045**
Other financial liabilities	**13**	**184**	**220**
Other liabilities	**15**	**1,629**	**1,869**
Deferred taxes	**27**	**431**	**514**
		20,748	**32,764**
CURRENT LIABILITIES			
Provisions	**12**	**3,561**	**4,492**
Financial liabilities	**13**	**5,612**	**7,135**
Other financial liabilities	**13**	**44**	**37**
Income tax liabilities	**14**	**1,042**	**1,075**
Other liabilities	**15, 16**	**3,202**	**3,317**
Trade payables	**16**	1,498	1,768
Other liabilities	**15**	1,704	1,549
		13,461	**16,056**
Liabilities directly connected with assets held for sale	**15**	**482**	**4,383**
		13,943	**20,439**
Total Equity and liabilities		**50,930**	**65,416**

Consolidated income statement

	Continued business units	Notes	2011 EUR thou.	2010 EUR thou.
1.	Revenue	18	52,999	46,057
2.	Changes in inventories of finished goods and work in progress		205	160
3.	Work performed by the enterprise and capitalised		52	20
4.	Other operating income	19	1,518	832
	Gross profit		**54,774**	**47,069**
5.	Cost of materials	20	-17,002	-13,518
6.	Staff costs	23	-18,032	-16,042
7.	Depreciations		-2,465	-2,669
8.	Other expenses	21	-9,776	-8,395
9.	Financial result	25		
	Financial expenses		-2,474	-3,493
	Other financial result		236	152
10.	**Earnings before taxes and non-operating income/expenses**		**5,261**	**3,104**
11.	Non-operating income	26	910	6,033
12.	**Earnings before taxes**		**6,171**	**9,137**
13.	Income tax expense	27	-1,915	-1,037
14.	**Earnings after taxes from continued business units**		**4,256**	**8,100**
	Discontinued business units			
15.	**Earnings after taxes from discontinued business units and before non-operating income/expenses**	28	-978	-928
16.	Non-operating income/expenses	28	864	-9,339
17.	**Consolidated net income/loss**		**4,142**	**-2,167**
	thereof minority interests		259	166
	thereof attributable to shareholders of Masterflex AG		**3,883**	**-2,333**
	Earnings per share (diluted and non-diluted)			
	from continued business units	29	0.45	1.67
	from discontinued business units	29	-0.01	-2.16
	from continued and discontinued business units	29	0.44	-0.49

Consolidated statement of comprehensive income

	Consolidated statement of comprehensive income	Notes	2011 EUR thou.	2010 EUR thou.
	Consolidated net income/loss		**4,142**	**-2,167**
	Other result			
1.	Currency translation differences from the translation of foreign operations	10	110	307
2.	Net result from “available-for-sale” financial assets		-118	-39
3.	**Other result for the period under review, after taxes**		**-8**	**268**
4.	**Overall result**		**4,134**	**-1,899**
	Overall result:		**4,134**	**-1,899**
	thereof minority interests		259	166
	thereof attributable to shareholders of Masterflex AG		**3,875**	**-2,065**

Consolidated statement of changes in equity

	Subscribed capital	Capital reserve	Retained earnings (retained profits brought forward)	Revaluation reserve	Exchange differences	Minority interest	Total
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Note	10	10	10	10	10	11	
Equity at 31 Dec. 2009	**4,366**	**17,521**	**-19,618**	**-590**	**-897**	**213**	**995**
Consolidated net income/ Minority interests	0	0	-2,333	0	0	166	-2,167
Changes in fair values of financial instruments	0	0	0	-39	0	0	-39
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	307	0	307
Overall result for the financial year	**0**	**0**	**-2,333**	**-39**	**307**	**166**	**-1,899**
Dividend distributions	0	0	0	0	0	-106	-106
Change due to equity decreases	4,366	8,731	0	0	0	126	13,223
Other changes	0	0	-1	0	0	1	0
Equity at 31 Dec. 2010	**8,732**	**26,252**	**-21,952**	**-629**	**-590**	**400**	**12,213**
Consolidated net income/ Minority interests	0	0	3,883	0	0	259	4,142
Changes in fair values of financial instruments	0	0	0	-118	0	0	-118
Currency translation gains/losses from translation of foreign financial statements	0	0	0	0	110	0	110
Overall result for the financial year	**0**	**0**	**3,883**	**-118**	**110**	**259**	**4,134**
Dividend distributions	0	0	0	0	0	-172	-172
Change due to equity decreases	0	0	0	0	0	70	70
Other changes	0	0	-6	0	0	0	-6
Equity at 31 Dec. 2011	**8,732**	**26,252**	**-18,075**	**-747**	**-480**	**557**	**16,239**

Consolidated cashflow statement

	2011 € thou.	2010 € thou.
Result for the accounting period before taxes, interest income and financial income	8,060	2,755
Non-cash non-operating results	0	-1,241
Cash non-operating results	-910	3,557
Gain/loss from the disposal of business units	-1,065	1,036
Income taxes paid	-849	-1,256
Depreciation of intangible assets	242	692
Depreciation expense for property, plant and equipment	2,223	2,291
Write-downs of non-current financial assets	125	0
Change in provisions	-2,117	635
Other non-cash expenses/income and gains/losses from the disposal of non-current assets	328	-45
Changes in inventories	-1,793	-781
Changes in trade receivables and other assets that cannot be allocated to investment or financing activities	-1,251	-2,933
Changes in trade payables and other equity and liabilities that cannot be allocated to investment or financing activities	1,548	376
Net cash from operating activities	**4,541**	**5,086**
Proceeds from the disposal of non-current assets	42	33
Payments to acquire intangible assets	-259	-189
Payments to acquire property, plant and equipment	-2,182	-1,811
Changes in cash and cash equivalents due to the sale of consolidated subsidiaries *	1,850	983
Changes in cash and cash equivalents due to the acquisition of consolidated subsidiaries	-832	-432
Changes in cash and cash equivalents due to the repayment of financial assets	2,840	145
Payments to acquire financial assets	-125	0
Net cash from/used in investing activities	**1,334**	**-1,271**
Payments for transfers to equity (capital increase, disposal of treasury shares)	0	13,097
Payments to owners and minority interests (dividends, purchase of own shares)	-172	-106
Interest and dividend receipts	160	334
Interest expenditure	-2,607	-3,819
Proceeds from the sale of term deposits/securities	77	18
Proceeds from raising loans	0	28,600
Payments for the repayment of loans	-13,336	-35,368
Net cash from/used in financing activities	**-15,878**	**2,756**
Net change in cash and cash equivalents	**-10,003**	**6,571**
Changes in cash and cash equivalents due to exchange rates and other factors	110	143
Cash and cash equivalents at start of period	**14,493**	**7,830**
Change in the consolidated group	**-39**	**-51**
Cash and cash equivalents at the end of period	**4,561**	**14,493**

Explanatory notes given in Notes 3 and 34
**) thereof € 800 thousand from the sale of DICOTA GmbH and € 200 thousand from the sale of Angiokard GmbH & Co. KG*

WE
move with precision.

You like wholegrain toast? So do we. But why do we mention it? Masterflex produces tubes for food technology. And our sales partners are located in 78 countries. Not bad, in our opinion. Bon appétit, wherever you are!

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Both pictures:
Hoses in food quality, partly with clamp connection (Masterflex AG)

1. Principles of financial reporting

Basis of presentation

The present consolidated financial statements have been prepared in accordance with section 315 a of the German Commercial Code ("Consolidated financial statements in accordance with international accounting standards") in conjunction with the International Financial Reporting Standards (IFRSs) and the interpretations issued by the International Accounting Standards Board (IASB) as applicable within the EU in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. These comprise the obligatory IASs, IFRSs and the relevant interpretations (SIC/IFRIC) as of the balance sheet date December 31, 2011. The prior-period amounts were calculated in accordance with the same principles.

The option regarding the early application of new standards, revisions of standards and interpretations already approved as of December 31, 2011 and adopted by the European Union by the time the consolidated financial statements were approved, was not exercised.

The following accounting standards, interpretations and amendments to existing standards were published as of the reporting date, but were not yet required to be applied in preparing the IFRS consolidated financial statements for the year ending December 31, 2011:

- IFRS 7 Amendments to improve disclosures during transfers of financial assets

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

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

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

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

- IAS 24 Revised definition of related party disclosures
- IAS 32 Amendments regarding the classification of rights issues
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

As part of the annual "improvement" project of May 2011, various IFRSs were amended.

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

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

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

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

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

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

Changes in accounting policies are discussed in the notes.

The Executive Board of Masterflex 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 2011, a total of 9 domestic subsidiaries (previous year: 10) and 10 foreign subsidiaries (previous year: 10) were consolidated in addition to Masterflex AG. The table below shows the subsidiaries that were fully consolidated as of 31 December 2011:

Company name	Company headquarters		Equity interest held by Masterflex (%)
Masterflex S.A.R.L.	F	Béligneux	80
Masterflex Technical Hoses Ltd.	GB	Oldham	100
Masterduct Holding Inc.*	USA	Houston	100
· Flexmaster USA, Inc.	USA	Houston	100*
· Masterduct Inc.	USA	Houston	100*
· Masterduct Holding SA Inc.	USA	Houston	100*
· Masterduct Brazil LTDA.	BR	Santana de Parnaiba	100*
Novoplast Schlauchtechnik GmbH	D	Halberstadt	100
FLEIMA-PLASTIC GmbH	D	Wald-Michelbach	100
Masterflex Handelsgesellschaft mbH	D	Gelsenkirchen	100
Masterflex Cesko s.r.o.	CZ	Plana	100
M & T Verwaltungs GmbH*	D	Gelsenkirchen	100
· MATZEN & TIMM GmbH	D	Norderstedt	100*
Masterflex RUS	RUS	St. Petersburg	51
Masterflex Scandinavia AB	S	Kungsbacka	100
SURPRO Verwaltungsgesellschaft mbH	D	Gelsenkirchen	100
Masterflex Entwicklungs GmbH*	D	Gelsenkirchen	100
· Masterflex Vertriebs GmbH	D	Gelsenkirchen	100*
Masterflex Asia Holding GmbH	D	Gelsenkirchen	100

*) = subgroup

The basis of consolidation has changed in comparison with the previous year. Clean Air Bike GmbH, Berlin, and Velodrive GmbH, Herten, which were included in the consolidated financial statements for the previous year, were sold and deconsolidated on 20 April 2011.

Masterflex Asia Holding GmbH, Gelsenkirchen was founded in 2011.

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

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

Consolidation

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

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

Currency translation

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

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

The financial statements of all companies with a functional currency other than the Group reporting currency are translated into the reporting currency of Masterflex's consolidated financial statements. The assets and liabilities of the consolidated companies are translated using the middle rates prevailing at the balance sheet date, while their income statements are translated using moving average rates for the year as a whole. If the average rate for the year is not a reasonable approximation of the actual exchange rates on the respective transaction dates, the latter rates are applied. Any exchange differences are classified as a separate component of equity and remeasured at each balance sheet date. On 31 December 2011, these differences amounted to € -480 thousand (previous year: € -590 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. 2011 €
1 pound sterling (£)	1.1952
1 US dollar ($)	0.7733
1 Russian rouble (RUB)	0.0240
1 Brazilian real (BRL)	0.4139
1 Czech koruna (CZK)	0.0387
1 Swedish krona (SEK)	0.1121

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. 2011 €
1 pound sterling (£)	1.1494
1 US dollar ($)	0.7194
1 Russian rouble (RUB)	0.0247
1 Brazilian real (BRL)	0.4296
1 Czech koruna (CZK)	0.0405
1 Swedish krona (SEK)	0.1110

Property, plant and equipment

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

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

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

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

Goodwill

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

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

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

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

Other intangible assets

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

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

Useful lives

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

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

Non-current financial assets

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

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

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

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

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

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

Deferred taxes

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

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

Inventories

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

Prepaid expenses

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

Other receivables and other assets

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

Trade receivables

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

Cash in hand and bank balances

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

Subscribed capital

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

Provisions

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

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

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

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

Financial liabilities
Liabilities to banks are reported as financial liabilities and carried at their settlement or repayment amount in accordance with the effective interest method. Finance lease liabilities are recognised in the amount of the present value of the lease 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 the income statement. Available-for-sale securities are carried at fair value. Unrealised changes in fair values are reported in the reserve for the marking-to-market of financial instruments as a separate component of shareholders' equity. The Executive Board is responsible for determining the allocation of financial instruments to the aforementioned categories at the acquisition date and reviewing this allocation at each subsequent reporting date. The securities held by the Group are reported as financial assets.

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

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

Revenue recognition

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

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

Borrowing costs

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

Research and Development

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

Government grants

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

Estimates

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

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

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

a. Goodwill

The Group tests goodwill for impairment on an annual basis. The recoverable amount of cash-generating units is determined on the basis of the value in use, which in turn is calculated on the basis of assumptions by the Group's management (see note 24).

b. Deferred taxes

When estimating the realisability of deferred tax assets, the Group's management assesses the extent to which the factors in favour of realisation outweigh those against it. The actual realisability of a deferred tax asset depends on the availability of future taxable income that can be offset against the tax loss carryforwards. To this end, the Group's management examines the dates at which the deferred tax liabilities are expected to 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 27).

c. Provisions and contingent liabilities

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

d. Pension obligations

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

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

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

e. Development costs

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

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

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

3. Company sales/discontinued business units

Masterflex AG sold its equity investments in Clean Air Bike GmbH, Berlin, and Velodrive GmbH, Herten, with effect from 20 April 2011. The assets and liabilities attributable to the Mobility Group were already reported separately as available for sale in the consolidated balance sheet as of 31 December 2010. The carrying amount of the net assets belonging to the disposal group exceeded the expected disposal proceeds less ancillary costs to sell at the end of 2010, meaning that an impairment loss of € 1,155 thousand was recognised when reclassifying the business unit as held for sale. Since it was not possible to allocate the disposal group to the fair value – due to a lack of non-current assets – a liability of € 2,085 thousand was reported. Accordingly, no further losses were incurred as a result of the sale of Clean Air Bike GmbH and Velodrive GmbH. Further details from the sale are shown in the tables below. The values from the previous year relate to the disposal of SURPRO GmbH, D-Wilster.

Carrying amount of net assets sold

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Current assets		
Cash	39	51
Trade receivables	879	1,442
Inventories	2,293	4,063
Other	169	189
Non-current assets		
Property, plant and equipment/intangible assets	623	623
Current liabilities		
Liabilities	-3,595	-3,401
Provisions	0	-1,823
Non-current liabilities		
Deferred taxes	0	-154
Net assets sold	**-215**	**990**
Gain/loss on disposal	1,065	-1,036
Total	**850**	**-46**

Sale price

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Sale price settled in cash	850	0
Deferred loss on disposal	0	-46
Total	**850**	**-46**

Net cash inflow/outflow from sale

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Sale price settled in cash	850	0
Less: cash issued on sale	-39	-51
Total	**811**	**-51**

Notes to the consolidated balance sheet: assets

4. Non-current assets

The development of non-current assets is presented in a separate statement of changes in non-current assets (see appendix). Liabilities to banks are secured by way of entries in the land register in the amount of € 5,685 thousand (previous year: € 5,806 thousand) and transfers of title to production facilities totalling € 5,203 thousand (previous year: € 2,810 thousand).

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

a) Intangible assets

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

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

	Internally generated intangible assets € thou.	Acquired intangible assets € thou.	Goodwill € thou.	Total € thou.
As of 1 January 2010	**2,458**	**2,173**	**9,161**	**13,792**
Changes to the consolidated group	-967	-475	0	-1,442
Additions	3	186	0	189
Disposals	1,155	32	0	1,187
Reclassifications	0	0	0	0
Currency translation differences	0	0	0	0
As of 1 January 2011	**339**	**1,852**	**9,161**	**11,352**
Changes to the consolidated group	0	0	0	0
Additions	0	259	0	259
Disposals	0	0	0	0
Reclassifications	0	0	0	0
Currency translation differences	0	0	0	0
As of 31 December 2011	**339**	**2,111**	**9,161**	**11,611**

Current and accumulated amortisation are composed as follows:

	Internally generated intangible assets € thou.	Acquired intangible assets € thou.	Goodwill € thou.	Total € thou.
As of 1 January 2010	**425**	**1,201**	**5,903**	**7,529**
Changes to the consolidated group	0	-264	0	-264
Depreciation and amortisation for fiscal year	494	198	0	692
Disposals	625	70	0	695
Currency translation differences	0	0	0	0
As of 1 January 2011	**294**	**1,065**	**5,903**	**7,262**
Changes to the consolidated group	0	0	0	0
Depreciation and amortisation for fiscal year	5	237	0	242
Disposals	0	0	0	0
Currency translation differences	0	0	0	0
As of 31 December 2011	**299**	**1,302**	**5,903**	**7,504**

The carrying amounts of intangible assets are composed as follows:

	Internally generated intangible assets € thou.	Acquired intangible assets € thou.	Goodwill € thou.	Total € thou.
As of 31 December 2010	45	787	3,258	4,090
As of 31 December 2011	40	809	3,258	4,107

b) Property, plant and equipment

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

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

	Cost € thou.	Useful life	Carrying amount 31 Dec. 2011 € thou.	Carrying amount 31 Dec. 2010 € thou.
Buildings	4,568	30 years	2,091	2,244
Land	587	-	587	587
Operating and office equipment	842	5 years	82	180
Total	**5,410**		**2,173**	**2,424**

The payment obligations relating to the lease instalments are divided into an interest element and a capital element over the term of the lease. The interest expense in the year under review amounted to € 89 thousand (previous year: € 117 thousand).

c) Financial assets

Financial assets are composed as follows:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Non-current financial instruments	74	193
Loans and receivables	541	2,471
Total financial assets	**615**	**2,664**

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

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Shares	74	155
Debt instruments	0	38
Total	**74**	**193**

The following table shows the cost, unrealised gains and losses and fair values of available-for-sale securities as of 31 December 2011:

Cost € thou.	Unrealised gains/losses € thou.	Fair value € thou.
822	**748**	**74**

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

Trade receivables in the amount of € 315 thousand are reported as non-current receivables on account of a financing agreement.

5. Inventories

Inventories are composed as follows:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Raw materials and consumables used	5,566	4,169
Work in progress	303	437
Finished products and goods purchased and held for sale	3,389	2,721
Advance payments	37	70
Total inventories	**9,295**	**7,397**

Inventories of the continued and discontinued business units were expensed in the amount of € 17,499 thousand (previous year: € 20,241 thousand).

Depreciation of inventories to the net realisable value amounted to € 144 thousand (previous year: € 214 thousand).

6. Receivables and other assets

Receivables and other assets are composed as follows:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Trade receivables	4,942	4,361
Other assets	671	1,453
Other financial assets	68	270
Assets classified as available-for-sale	22	3,599
Total receivables and other assets	**5,703**	**9,683**

Other assets are composed as follows:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Prepaid expenses	430	229
Receivables from tax authorities	123	61
Receivables from investment grants and subsidies	69	112
Creditors with debit balances	17	8
Receivables from employees	14	16
Bonus receivables	6	0
Loans	3	3
Deferred disposal proceeds	0	1,000
Other	9	24
Total other assets	**671**	**1,453**

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

"Miscellaneous other financial assets" include receivables totalling € 30 thousand (previous year: € 38 thousand), which will not be realised until one year after the balance sheet date.

Receivables from tax authorities primarily relate to VAT receivables.

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

"Other financial assets" are discussed in note 17. Derivatives to be reported as non-current amount to € 51 thousand.

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

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

7. Trade receivables

The nominal value of trade receivables is composed as follows:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Trade receivables	5,246	4,655
Impairment	-304	-294
Total trade receivables	**4,942**	**4,361**

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

Specific and global valuation allowances on trade receivables totalled € 304 thousand (previous year: € 294 thousand).

Individual risks were taken into account on the basis of write-downs totalling € 49 thousand (previous year: € 79 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:

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

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

8. Income tax assets

Income tax assets amounted to € 144 thousand at the balance sheet date (previous year: € 163 thousand). All income tax assets are due within one year.

9. Cash in hand and bank balances

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

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Cash in hand and bank balances	4,544	14,398

The effective interest rate for short-term bank deposits was between 0.00% and 2.00%.

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

10. Total equity

Capital management

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

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

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

Subscribed capital

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

No treasury shares were sold or newly acquired in the 2011 financial year. At the balance sheet date, Masterflex AG held a total of 134,126 treasury shares (previous year: 134,126).

The 134,126 no-par value bearer shares have a nominal amount of € 134,126. They represent 1.51% of the share capital. The shares were acquired between September 2004 and July 2005. The relevant Annual General Meeting resolutions from 2004 and 2005 authorised the Company to acquire treasury shares with a notional interest in the Company's share capital of up to € 450,000. At the date of the Annual General Meeting, this was 10% of the Company's share capital of € 4,500,000. The acquired shares, together with the other treasury shares held by the Company or attributable to it in accordance with sections 71 a ff. of the German Stock Corporation Act, could not exceed 10% of the Company's share capital at any time. This authorisation could not be used for the purpose of trading in treasury shares.

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

Authorised capital

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

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

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

c) The acquisition is to be made (1) via the stock exchange or (2) via a public offer to buy directed at all shareholders of the company.
   - If treasury shares are acquired via the stock exchange, the purchase price per share (not including incidental acquisition costs) may not deviate from the market price of Company shares by more than 10%. The relevant market price for the purposes of the authorisation is the average price for the Company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable successor system) at the Frankfurt Stock Exchange over the last three trading days prior to the purchase of the shares.
   - If treasury shares are acquired via a public offer to buy to all Company shareholders, the purchase price offered or the limits of the purchase price range offered per share (not including incidental acquisition costs) may not deviate from the market price of Company shares by more than 10%. The relevant market price for the purposes of the authorisation is the average price for the Company's shares determined from the closing prices on the Xetra trading platform (or a functionally comparable system taking the place of the Xetra system) at the Frankfurt Stock Exchange over the sixth to the third trading days prior to the day the offer is announced. The volume of the offer can be limited. If the total subscription for the offer exceeds this volume, acceptance must be proportionate to the number of shares offered. Small lots of shares offered for purchase (up to 50 per shareholder) may be preferred, and the number of shares may be rounded in accordance with commercial principles in order to avoid fractional shares.

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

e) Moreover, the Executive Board is authorised to sell the acquired treasury shares in exchange for cash contributions in a manner other than via the stock exchange or the circulation of an offer to shareholders, with the approval of the Supervisory Board and with shareholders' subscription rights disapplied.

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

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

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

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

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

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

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

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

Contingent capital

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

- For fractional amounts
- in the case of capital increases in exchange for non-cash contributions, in particular for granting shares for the acquisition of companies, parts of companies or equity interests in companies;
- for cash contributions up to an amount not exceeding 10% of the Company's share capital at the date the authorisation comes into effect and the date the authorisation is exercised, providing that the issue price of the shares is not significantly lower than the quoted price of the listed shares of the Company at the date the issue price is finalised. Shares that are acquired on the basis of an authorisation issued by the Annual General Meeting and sold in accordance with section 71 (1) no. 8 in conjunction with section 186 (3) sentence 4 of the German Stock Corporation Act during the term of this authorisation or that are issued during the term of this authorisation on the basis of an otherwise existing authorisation to disapply shareholders' subscription rights in accordance with section 186 (3) sentence 4 of the German Stock Corporation Act are counted towards this 10% limit. Furthermore, those shares that have been or will be issued in order to service bonds with conversion rights or options or an option or conversion obligation are to count towards this limit, provided that these bonds were issued during the term of this authorisation with subscription rights disapplied in accordance with section 186 (3) sentence 4 of the German Stock Corporation Act.
- In order to grant the holders or creditors of any bonds with warrants or convertible bonds previously issued by the Company subscription rights to new shares to the extent that they would have been entitled to these after exercising the option or conversion right or after fulfilling an option or conversion obligation as a shareholder.

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

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

The authorisation of the Executive Board, included in Article 4 (5) of the Articles of Association, to increase the Company's share capital by up to € 2,250,000.00 by 31 July 2014 with approval of the Supervisory Board, is revoked.

Capital reserve

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

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

Retained earnings

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

Revaluation reserve

In accordance with IAS 39, the Company's investment securities are classified as available-for-sale. These securities are carried at their fair value at the balance sheet date. After adjustment for income tax effects, the resulting unrealised 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 € thou.	Exchange differences in accordance with IAS 21.17 € thou.	Exchange differences in accordance with IAS 21.19 € thou.	Total € thou.
As of 31 December 2009	-779	-213	95	-897
Change in 2010	288	19	0	307
As of 31 December 2010	-491	-194	95	-590
Change in 2011	121	-11	0	110
As of 31 December 2011	-370	-205	95	-480

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

The changes in fair value recognised directly in equity in the amount of € -11 thousand (previous year: € 19 thousand) are established when the foreign currency obligation is repaid, in accordance with IAS 21.17/21.19/21.32 in conjunction with IAS 21.37. The exchange differences recognised directly in equity are not reversed in income until the time of disposal of the economically independent unit.

11. Minority interests

Minority interests held in Masterflex companies total € 557 thousand (previous year: € 400 thousand).

12. Provisions

Provisions are composed as follows:

	As of 1 Jan. 2011 € thou.	Utilisation € thou.	Reversal € thou.	Addition € thou.	As of 31 Dec. 2011 € thou.
Non-current provisions					
Bonuses	116	0	0	126	242
Total	**116**	**0**	**0**	**126**	**242**
Current provisions					
Year-end closing costs	220	215	0	224	229
Vacation	310	294	16	323	323
Customer bonuses	82	81	1	82	82
Incentive payments, severance payments, commission	1,193	974	28	1,345	1,536
Warranties	515	215	175	224	349
Employers' Liability Insurance Association	146	123	23	153	153
Outstanding invoices	1,657	1,641	16	450	450
Other	369	110	258	438	439
Total	**4,492**	**3,653**	**517**	**3,239**	**3,561**

a) Non-current provisions

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

b) Current provisions

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

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

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

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

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

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

13. Financial liabilities

As of 31 December 2011, financial liabilities were composed as follows:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Liabilities to banks	17,553	28,818
· of which due in > 5 years	577	1,341
Finance lease liabilities	709	1,227
· of which due in > 5 years	0	0
Other financial liabilities	184	220
· of which due in > 5 years	32	83
Non-current financial liabilities	**18,446**	**30,265**
Liabilities to banks	5,093	6,632
Finance lease liabilities	519	503
Other financial liabilities	44	37
Current financial liabilities	**5,656**	**7,172**
Total financial liabilities	**24,102**	**37,437**

Liabilities to banks

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

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Liabilities due within 1 year	5,093	6,632
Liabilities due between 1 and 5 years	16,976	27,477
Liabilities due in more than 5 years	577	1,341
Total liabilities to banks	**22,646**	**35,450**

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

Liabilities to banks totalling € 19,901 thousand are secured (previous year: € 21,910 thousand). Of this, € 5,685 thousand is attributable to land charges, € 5,828 thousand to other non-current assets, € 6,161 thousand to inventories, € 2,228 thousand to current receivables and other assets.

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

In the Euro zone, interest was charged on liabilities to banks at rates of between 2.8% and 9.6% p.a. depending on the maturity and purpose of the respective liabilities (previous year: between 2.0% and 9.25% p.a.). The Company also had foreign-currency liabilities in US dollars, on which interest was charged at approximately 7.2% p.a.

As of 31 December 2011, the Company had cash advance facilities totalling € 8,503 thousand, of which € 4,503 thousand were unutilised. Additional guarantee facilities for contractual fulfilment, advance payments and warranties were not utilised in 2011.

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 € thou.	2–5 years € thou.	more than 5 years
Future financial obligations (including interest)	578	746	0
Present value of future financial obligations (capital element)	519	708	0

The Company's material leases relate to land and buildings. The present value of the minimum lease payments for land and buildings amounted to € 1,131 thousand at 31 December 2011 (previous year: € 1,530 thousand), while the present value of the minimum lease payments for office and operating equipment totalled € 97 thousand (previous year: € 200 thousand).

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

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

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

Other financial liabilities

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

14. Income tax liabilities

Income tax liabilities relate to current taxes and totalled € 1,042 thousand at the balance sheet date (previous year: € 1,075 thousand).

15. Other liabilities

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

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Trade payables	1,498	1,768
Other liabilities	3,254	3,299
Payments received on account of orders	79	119
Liabilities directly connected with assets held for sale	482	4,383
Total other liabilities	5,313	9,569

Miscellaneous other liabilities include the following items:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Deferred income	1,811	1,990
Tax liabilities	930	584
Social security liabilities	106	71
Liabilities to employees	82	116
Liabilities to energy providers	81	93
Liabilities from customer bonuses	70	0
Surety fees (syndicated loan agreement)	40	103
Debtors with credit balances	25	0
Amount withheld from acquisitions	0	251
Assignment of disposal proceeds	0	32
Other	109	59
Total	**3,254**	**3,299**

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

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

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Investment grants	1,119	1,225
Subsidies	692	765
Total	**1,811**	**1,990**

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

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Reversal of investment grants	106	112
Reversal of subsidies	111	105
Total	**217**	**217**

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

The other liabilities item includes liabilities totalling € 1,629 thousand (previous year: € 1,869 thousand), which do not fall due until one year after the balance sheet date.

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

16. Trade payables

At the balance sheet date 31 December 2011, the Company had the following trade payables:

	31 Dec. 2011 € thou.	31 Dec. 2010 € thou.
Trade payables	1,498	1,768

The fair values of trade payables are the same as their carrying amounts. Trade payables amounting to € 1,498 thousand (previous year: € 1,768 thousand) are due within one year.

17. Derivative financial instruments

In 2010, Masterflex AG entered into an agreement on a derivative financial agreement for hedging against varying interest payments from variable-rate loans. It is reported under other financial assets on the basis of the current market conditions on the balance sheet date. The change in the fair value of € 202 thousand is recognised in net interest income.

Derivative financial instruments	Measurement category in accordance with IAS 39	Historical carrying amount € thou.	Fair value € thou. 31 Dec. 2011	Fair value € thou. 31 Dec. 2010
Derivatives without hedging relationship	Held-for-trading	418	68	270

Notes to the consolidated income statement

In the 2011 financial year, Masterflex AG successfully implemented the multi-year, far-reaching restructuring process, placing sole emphasis on the core business of high-tech hoses and connector systems, operated successfully worldwide, as well as a stronger focus on value. As a result of the sale of Clean Air Bike GmbH and Velodrive GmbH on 20 April 2011, the disclosures on the de-consolidated segment Climate-Neutral Mobility are presented in condensed form in the consolidated income statement under the item “Discontinued business unit”. The contribution to results consolidated until the sale and the contributions to results of SURPRO GmbH, which was sold in the previous year, are therefore no longer included in the comparative presentation of 2010. Furthermore, in 2011, nonrecurring effects are recognised separately in the item “Non-operating expenses”, in order to ensure comparability with the previous year. For clarity, some income and expense items have been summarised and explained in the Notes section.

18. Revenue

Revenue is composed as follows:

	2011 € thou.	2010 € thou.
Gross revenue	56,249	48,604
Elimination of intragroup revenue	3,250	2,547
Total	**52,999**	**46,057**

19. Other operating income

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

	2011 € thou.	2010 € thou.
	1,518	832

Other operating income is composed as follows:

	2011 € thou.	2010 € thou.
Income from the reversal of provisions	517	162
Other prior-period income	356	38
Income from non-typical incidental sales	173	47
Investment grants	115	399
Subsidies	111	105
Refunds and credit notes	67	0
Compensation	56	13
Gains on the sale of securities	55	0
Gains on the sale of assets	26	19
Income from reductions in specific valuation allowances	15	14
Currency translation gains	2	8
Income from written-down receivables	0	20
Other	25	7
Total	**1,518**	**832**

20. Cost of materials

The cost of materials is composed as follows:

	2011 € thou.	2010 € thou.
Cost of raw materials, consumables and supplies	16,581	13,321
Cost of goods purchased and held for resale	421	197
Total	**17,002**	**13,518**

21. Other expenses

The other expenses incurred by the Group were as follows:

	2011 € thou.	2010 € thou.
	9,776	8,395

Other expenses are composed as follows:

	2011 € thou.	2010 € thou.
Selling costs	3,528	3,367
Administrative expenses	2,314	1,478
Operating costs	1,545	1,254
Incidental premises expenses	1,483	1,131
Insurance costs	261	262
Expenses for the sale of assets	157	33
Write-downs of receivables	75	23
Currency translation losses	44	109
Cost of valuation allowances	26	40
Warranty expenses	9	455
Other	111	26
Other taxes	223	217
Total	**9,776**	**8,395**

22. Research and development costs

Capitalisable development costs are reported in intangible assets. Research costs and non-capitalisable development costs are expensed as incurred. In the 2011 financial year, research and development costs totalled € 217 thousand (previous year: € 53 thousand).

23. Staff costs

In 2011, staff costs increased by € 1,990 thousand to € 18,032 thousand (previous year: € 16,042 thousand). Staff costs include wages and salaries in the amount of € 15,043 thousand (previous year: € 13,120 thousand) and social security, post-employment and other employee benefit costs totalling € 2,989 thousand (previous year: € 2,922 thousand).

24. Impairment of assets

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

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

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

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

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

The cost of capital is calculated as the weighted average cost of equity and debt capital (WACC). The discount rate for cash flow forecasts is composed of a basic interest rate of 4.25% plus a risk premium. The weighted average cost of capital before taxes that is applied when discounting cash flow is between 6.48% and 7.99%. WACC takes into account data on the German financial markets, long-term German government bonds and effective Group financing. A growth discount of 1% is factored into the perpetual annuity.

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

	€ thou.
Novoplast Schlauchtechnik GmbH	462
Flexmaster USA Inc.	1,488
FLEIMA-PLASTIC GmbH	1,075
MATZEN & TIMM GmbH	233
Total	**3,258**

25. Net finance costs

Net finance costs are composed as follows:

	2011 € thou.	2010 € thou.
Other interest and similar income	240	177
Write-downs of non-current financial assets	-4	-25
Interest and similar expenses	-2,474	-3,493
Total	**-2,238**	**-3,341**

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

26. Non-operating expenses

	Note in which explanation appears	2011 € thou.
Continued business units		
Income from claims for damages to a bank		910
Total continued business units		**910**
Discontinued business units		
Reversal of liability on expected loss on disposal (Mobility)	28	864
Total		**1,774**

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

Non-operating expenses indude earnings from the reduction of a subordinated receivable to a member of the Supervisory Board and two other important shareholders as well as earnings from the dissolution of an obligation.

At approximately € 910 thousand in continued business units (previous year: € -3,361 thousand), these expenses had a cash impact.

27. Income tax expense

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

	2011 € thou.	2010 € thou.
Income tax expense	-1,571	-1,418
Deferred taxes		
From time differences	-127	45
From loss carryforwards	-217	336
Total deferred taxes	-344	381
Total income tax expense	**-1,915**	**-1,037**

The following reconciliation of income tax expense for the 2011 financial year is based on an overall tax rate of 30.0% (previous year: 30.0%) reconciled to an effective tax rate of 31.03%:

	2011 € thou.	2010 € thou.
Net profit before income taxes	6,171	9,137
Expected tax expense 30.0%	-1,851	-2,741
Effect of non-deductible expenses and tax-exempt income	-17	1,717
Other	-47	-13
Total income tax expense	**-1,915**	**-1,037**

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

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

	31 Dec. 2011		31 Dec. 2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Tax loss carryforwards	5,665	0	5,882	0
Non-current assets	655	1,915	570	2,129
Receivables	72	0	66	0
Other assets	20	0	67	0
Other provisions	21	0	0	0
Liabilities	692	0	896	0
Before offsetting	**7,125**	**1,915**	**7,481**	**2,129**
thereof non-current	5,890	1,915	7,481	2,129
Offsetting	-1,484	-1,484	-1,615	-1,615
Consolidated balance sheet	**5,641**	**431**	**5,866**	**514**

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

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

As of 31 December 2011, Masterflex recognised deferred tax assets for tax loss carryforwards in the amount of € 5,665 thousand (previous year: € 5,882 thousand).

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

No deferred tax assets were recognised for tax loss carryforwards in the amount of € 6,281 thousand (previous year: € 7,003 thousand), as their utilisation is not sufficiently certain. Tax losses at German companies may be carried forward for an unlimited period. By contrast, tax loss carryforwards at foreign companies are generally limited.

Taxes amounting to € -4 thousand (previous year: € -8 thousand) relate to other earnings. These taxes relate to currency translation differences in accordance with IAS 21 and are recognised directly in equity.

28. Discontinued business units

On 20 April 2011, Clean Air Bike GmbH and Velodrive GmbH were sold. The carrying amount of the associated net assets exceeds the disposal proceeds less ancillary costs to sell. As at 31 December 2010, the assets and liabilities attributable to the Mobility Group had already been entered separately in the consolidated balance sheet as available for sale. In addition, impairment of € 1,155 thousand was recognised when reclassifying the business unit. Since it was no longer possible to allocate the disposal group to the fair value – due to a lack of non-current assets – a liability of € 2,085 thousand was reported. Accordingly, no further losses were incurred as a result of the sale of Clean Air Bike GmbH and Velodrive GmbH. Further details on the assets and liabilities sold can be found under note 3.

The result components from the discontinued business unit included in the income statement are shown below. The comparative disclosures regarding results and cash flows from discontinued business units have been adjusted to take into consideration business units classified as discontinued in the current financial period.

	2011 € thou.	2010 € thou.
Earnings from discontinued business units		
Revenue	565	12,263
Changes in inventories of finished goods	-5	-314
Work performed by the enterprise and capitalised	60	154
Other operating income	724	225
	1,344	**12,328**
Cost of materials	-497	-6,723
Other expenses	-1,820	-6,535
Earnings before taxes and non-operating expenses	**-973**	**-930**
Income tax expense to be included	-5	2
Earnings after taxes from discontinued business units	**-978**	**-928**
Write-downs on non-current assets	0	-4,880
Loss from fair value measurement less disposal costs	0	-2,171
Loss from the disposal of business unit	0	-2,288
Reversal of liability on expected loss on disposal (Mobility)	864	0
Total non-operating expenses	**864**	**-9,339**

Cash flows from discontinued business units		
Net cash flows from operating activities	-114	553
Net cash flows from investment activities	50	-32
Net cash flows from financing activities	0	-174
Total net cash flows	**-64**	**347**

29. Earnings per share

Earnings per share are calculated as follows:

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2011 financial year	3,997	-114	3,883
Weighted average number of shares in circulation	8,865,874	8,865,874	8,865,874
Earnings per share (€)	**0,45**	**-0,01**	**0,44**

	Continuing business unit	Discontinued business units	Continuing and discontinued business units
Earnings for 2010 financial year	7,934	-10,267	-2,333
Weighted average number of shares in circulation	4,740,874	4,740,874	4,740,874
Earnings per share (€)	**1,67**	**-2,16**	**-0,49**

There were no dilutive effects in the 2011 financial year or the previous year.

30. Appropriation of net retained earnings

The single-entity financial statements of Masterflex AG in accordance with the German Commercial Code for the year ended 31 December 2011 reported a net loss of € 16,815 thousand. The Executive Board and the Supervisory Board propose carrying the result forward to new account.

31. Financial risk management

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

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

Exchange rate risk management

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

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

Interest rate risk management

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

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

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

The sensitivity analysis assuming a 100 bp fluctuation in interest rates results in an increased/reduced cash outflow of approximately € 443 thousand.

Counterparty default risk management

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

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

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

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

Liquidity risk management

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

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

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

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

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

Deferred income reported under "Other liabilities" totalling € 1,811 thousand (previous year: € 1,990 thousand) does not have a cash impact. Its reversal is therefore not presented in this table.

32. Other financial commitments

At 31 December 2011, other financial commitments related to lease obligations and other commitments.

a) Lease obligations
The financial commitments relating to finance leases are discussed in note 13.

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

	2012 € thou.	2013–2016 € thou.	2017 € thou.
Notional amount of future minimum lease payments	125	207	0

The operating lease liabilities relate primarily to office and operating equipment. Payments recognised as expenses amount to € 368 thousand (previous year: € 202 thousand).

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

33. Segment reporting

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

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

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

The segments are controlled both in terms of revenue and earnings. EBIT serves as an earnings indicator in the Masterflex Group, which was still reported as EBIT adjusted for restructuring expenses in 2010 and 2011.

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

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

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

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

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

Segment information by business unit:

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

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

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

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

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

In the 2011 financial year, revenue equalling more than 10% of consolidated revenue was not generated with any customers from the continued business units.

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

Reconciliation to consolidated earnings after taxes	2011 € thou.	2010 € thou.
Adjusted EBIT from continued business units	9,868	7,988
Extraordinary earnings from continued business units	910	6,033
Reconciliation	-2,369	-1,543
Extraordinary expenses from reconciliation	0	0
EBIT from continued business units	**8,409**	**12,478**
Interest income/income from equity interests	240	177
Interest expense, etc.	-2,478	-3,518
EBT from continued business units	**6,171**	**9,137**
Income taxes	-1,571	-1,418
Deferred taxes	-344	381
Minority interests	-259	-166
Earnings after taxes (EAT) from continued business units	**3,997**	**7,934**
Earnings from discontinued business units	-114	-10,267
EAT	**3,883**	**-2,333**

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

Non-current assets in € thou.	2011	2010
Germany	20,766	21,714
Rest of Europe	1,480	1,523
Rest of the World	3,037	2,878
Total	**25,283**	**26,115**

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

Reconciliation to consolidated assets in € thou.	2011	2010
Total assets of continued segments	44,441	52,852
Assets of discontinued segments	22	3,599
Deferred tax assets	5,641	5,866
Tax receivables	144	163
Non-current financial assets	682	2,936
Total consolidated assets	**50,930**	**65,416**

34. Cash flow statement

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

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

	2011 € thou.	2010 € thou.
Cash and cash equivalents at the end of period	4,561	14,493
Cash in hand and bank balances included in assets held for sale	17	95
Cash in hand and bank balances	**4,544**	**14,398**

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

35. Government grants

In the 2011 financial year, government grants related to income were recognised in the amount of € 38 thousand (previous year: € 81 thousand). Grants for depreciable assets are recognised over the depreciation period of the respective assets and in proportion to the depreciation recognised in each period.

36. Related party disclosures

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

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

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

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

The lease is scheduled to run until 31 July 2014. In the 2011 financial year, the monthly lease instalment was approximately € 18 thousand.

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

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

	Fixed compensation	Variable compensation based on sustainable targets	Variable compensation originated in the financial year	Fringe benefits (remuneration in kind)	Total compensation relevant to payment[2]
		Short-term focus	Long-term focus[1]		
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
2011	430	344	126	58	832
2010	428	224	116	59	711

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

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

The members of the Supervisory Board were compensated as follows:

	Fixed compensation	Variable compensation*	Total attendance allowance	Total
	€ thou.	€ thou.	€ thou.	€ thou.
2011	42,0	15,0	6,0	63,0
2010	42,0	7,5	7,5	49,5

** The portion of variable compensation acquired in 2010 but not yet paid, but which is paid with the financial statements of the 2011 financial year in consequence of the success criteria being met, cf. Article 15 of the Articles of Association.*

37. Declaration of conformity with the German Corporate Governance Code

In March 2012, the declaration of conformity in accordance with section 161 of the German Stock Corporation Act was again submitted by the Executive Board and Supervisory Board of Masterflex AG and made permanently available to shareholders via the Company's website. The declaration of conformity is also reproduced in the Corporate Governance section of this Annual Report.

38. Number of employees

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

	2011	2010*
Production	289	251
Sales	80	66
Administration	57	56
Technology	22	24
Employees in the Group	**448**	**397**
thereof trainees	12	16

** Mobility Group not including*

39. Audit and advisory fees

The fees expensed (provision) in the 2011 financial year for the auditors of the consolidated financial statements, Rölfs RP AG, Wirtschaftsprüfungsgesellschaft, amounted to € 136 thousand and consisted of fees for the audit of the consolidated financial statements and the statutory separate financial statements of Masterflex AG and its domestic subsidiaries. The expenses for business consulting in FY 2011 amounted to € 85 thousand. An additional € 18 thousand was expensed for tax advisory services.

40. Exemption from publication

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

- Novoplast Schlauchtechnik GmbH
- MATZEN & TIMM GmbH
- M&T Verwaltungs GmbH
- SURPRO Verwaltungsgesellschaft mbH
- Masterflex Handelsgesellschaft mbh.

41. Events after the balance sheet date

No events or developments of particular significance to the results of operations, net assets and financial position of the Masterflex Group have occurred since the balance sheet date of 31 December 2011.

42. Publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Executive Board on 6 March 2012 and published on 29 March 2012.

43. Significant equity investments

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

Gelsenkirchen, 6 March 2012

The Executive Board

Dr Andreas Bastin
(Chief Executive Officer)

Mark Becks
(Chief Financial Officer)

Responsibility statement

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

Gelsenkirchen, 6 March 2012

The Executive Board

Dr Andreas Bastin
(Chief Executive Officer)

Mark Becks
(Chief Financial Officer)

Consolidated statement of changes in non-current assets 2011

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

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

Consolidated statement of changes in non-current assets 2010

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

2010	Cumulative depreciation and amortization 1 Jan. 2010 € thou.	Changes to the consolidated group € thou.	Depreciation and amortization for fiscal year € thou.	Disposals € thou.	Fair value changes recognized directly in equity € thou.	Currency translation differences € thou.	Cumulative depreciation and amortization on 31 Dec. 2010 € thou.	Balance at 31 Dec. 010 € thou.	Balance at 31 Dec. 2009 € thou.
Intangible assets									
Concessions, industrial and similar rights and assets, licenses	1,162	-51	198	9	0	0	1,300	706	872
Development costs	251	0	494	686	0	0	59	33	1,949
Goodwill	5,903	0	0	0	0	0	5,903	3,258	3,258
Advance payments	213	-213	0	0	0	0	0	93	184
Total	**7,529**	**-264**	**692**	**695**	**0**	**0**	**7,262**	**4,090**	**6,263**
Property, plant, and equipment									
Land, land rights and buildings on third-party land	4,983	-40	563	0	0	60	5,566	11,819	12,708
Technical equipment and machinery	11,022	-1,482	1,044	129	0	87	10,542	6,005	9,012
Other equipment, operating and office equipment	4,368	-595	566	194	0	48	4,193	2,184	3,140
Advance payments and assets under development	0	0	118	118	0	0	0	1,147	567
Total	**20,373**	**-2,117**	**2,291**	**441**	**0**	**195**	**20,301**	**21,155**	**25,427**
Non-current financial assets									
Non-current financial instruments	788	0	0	0	22	0	810	193	250
Other loans	32	0	319	41	0	0	310	2,471	3,719
Total	**820**	**0**	**319**	**41**	**22**	**0**	**1,120**	**2,664**	**3,969**
	28,722	**-2,381**	**3,302**	**1,177**	**22**	**195**	**28,683**	**27,909**	**35,659**

Auditor's Report

We have audited the consolidated financial statements – comprising the balance sheet, the income statement, the statement of comprehensive income, the statements of changes in equity and cashflows and the notes to the financial statements – and the Group management report prepared by Masterflex AG for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as it is to be applied in the EU, and with the provisions given after section 315a (1) of the German Commercial Code (HGB) also to be applied as well as the supplementary provisions of the Articles of Association, is the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report, based on our audit.

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

Our audit did not lead to any reservations.

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

Düsseldorf, 19 March 2012

Rölfs RP AG
Wirtschaftsprüfungsgesellschaft

Frank Wettstein	Stefan Kemp
CPA	CPA

Report of the Supervisory Board

Dear shareholders,

In the 2011 financial year, we achieved all important targets, particularly finally completing the refocusing of our Group by selling the last Mobility activities and returning to sustainable growth and profitability. With the clear strategic focus of our business and its further expansion by way of internationalisation with a presence stretching across almost the entire globe, Masterflex is again looking to the future, strengthened and on track for sustainable growth.

Reports and meetings

In the 2011 financial year, the Supervisory Board of Masterflex AG performed the duties assigned to it by the German Stock Corporation Act and the Company's Articles of Association in full as well as regularly monitoring and advising the Executive Board.

The basis was the regular written and oral reports provided by the Executive Board to the Supervisory Board about all issues concerning the planning, business development, risk situation and risk management of the Company and the Group. The predominant theme of the past financial year was the measures to finally complete the reorganisation of the Group and to internationalise our operations in the high-tech hose and connector business. This purpose is also served by the reorganisation of the Company's internal structure, which is to be proposed for resolution to the shareholders at the Annual General Meeting: the spin-off of Masterflex AG's operating business to a wholly owned subsidiary and the conversion to the European form of stock corporation, the SE (Societas Europaea). The Supervisory Board was and is closely involved at all times in the approach and measures taken by the Executive Board.

Four scheduled meetings of the Supervisory Board took place in total in the 2011 financial year in which all members of the Supervisory Board and Executive Board took part. In addition to the regular face-to-face meetings, this group of people held several telephone conferences for the purposes of exchanging information and passing resolutions. On 21 January 2011, in particular, a further Supervisory Board meeting was held in the form of a telephone conference and minuted accordingly. The Supervisory Board also discussed submissions by the Executive Board and issues concerning the Executive Board in separate telephone conferences.

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

Focus issues in 2011

In the telephone meeting of 21 January 2011, the Supervisory Board addressed the planning for the 2011 financial year and the intended investments and steps to implement the planned further internationalisation of the high-tech hose business.

In the Accounting Supervisory Board meeting on 6 April 2011, the Supervisory Board discussed the separate financial statements and the consolidated financial statements for the 2010 financial year in detail. The Supervisory Board resolved to propose to the Annual General Meeting on 28 June 2011 that Rölfs RP AG Wirtschaftsprüfungsgesellschaft, Dusseldorf, be appointed as the Group's auditor for the 2011 financial year. Furthermore, the corporate governance report, the declaration on diversity and corresponding Supervisory Board targets as well as an updated declaration of conformity was approved and subsequently published by the Company. The Supervisory Board decided upon the agenda for the 2011 Annual General Meeting as well as the report of the Supervisory Board, which was presented to the shareholders at the Annual General Meeting. Finally, the concluding measures for selling the operations remaining in the Mobility unit were presented and discussed, as was the fixing of targets for the bonus agreements with the Executive Board members for the 2011 financial year.

Following the ordinary Annual General Meeting, in its meeting of 28 June 2011, the Supervisory Board was briefed by the Executive Board on current economic developments and the planned activities in Asia. Furthermore, the Supervisory Board communicated with an external legal advisor on the topic of recent legal developments and the status of developments in the area of diversity.

In the meeting of 15 September 2011, the status of the disposal activities in the last remaining equity investment in the discontinued Mobility business unit was discussed and resolved upon. The implementation of further internationalisation plans for Asia/China was also presented by the Executive Board and resolved by the Supervisory Board. The implementation was subsequently begun by the Executive Board. Finally, Mr Axel Schuchmann, the Managing Director of the subsidiary Novoplast Schlauchtechnik GmbH, was introduced to the Supervisory Board.

At the Supervisory Board meeting on 13 December 2011, the Supervisory Board received information on current economic developments and the status of the 2012 planning. The Supervisory Board also approved the plans to convert the Company into a European stock corporation and to spin off the operating business of Masterflex AG to a wholly owned subsidiary, reorganising the Company purely as a holding company by way of a resolution of principle. The Executive Board was given the further task of preparing the necessary resolutions to be submitted to and voted on at the 2012 Annual General Meeting. In addition, the Supervisory Board approved a settlement achieved by the Executive Board with a bank, by which the legal dispute resulting from a past interest-rate swap agreement was ended. Finally, the Supervisory Board decided on additional specific measures for further training and the continued updating of its members' knowledge. These measures are to be put in place in 2012.

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

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

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

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

Trusting cooperation with the Executive Board

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

Changes in the Supervisory Board and Executive Board

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

Corporate governance

The implementation of the German Corporate Governance Code is a key element of the meetings of the Supervisory Board of Masterflex AG. Again in 2011, the Supervisory Board and Executive Board discussed the recommendations and suggestions of the Code with the amendments that were made in 2010 in depth. In accordance with Section 5.6 of the Code, the Supervisory Board is required to examine the efficiency of its activities on a regular basis. In view of the tasks and content dealt with and the fact that the Supervisory Board with its three members is the minimum size prescribed by law, both the cooperation between the members and the way in which tasks are dealt with were assessed as efficient and very effective.

In April 2011, the Executive Board and Supervisory Board resolved and submitted a revised Declaration of Conformity in accordance with Section 161 AktG in the version of the German Corporate Governance Code dated 26 May 2010. This was made permanently available to shareholders on the Company website. The continued discussion and developments on the subject of diversity as well as developments in legislation regarding the content of the Declaration of Conformity had prompted the Company to submit a revised Declaration and also to report on content, in which there is no effective deviation from the Code's guidelines according to the Company but which, if there are any legal doubts, it considers should be depicted accordingly in the interests of an undoubted commitment to good Corporate Governance. Taking into account the declaration of conformity published on 26 May 2010, the Company remains particularly committed to the principles of the German Corporate Governance Code, the content of which was not changed in the reporting period. Current amendments to the declaration of conformity are therefore based on further development of corporate governance in the Company. In this annual report, the declaration of conformity submitted on the basis of the above mentioned version is provided in the Corporate Governance report in the explanation of corporate management on pages 24ff. In addition, the Executive Board reported on corporate governance – including on behalf of the Supervisory Board – in accordance with Section 3.10 of the Code.

Supervisory Board committees

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

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

The annual financial statements and management report of Masterflex AG and the consolidated financial statements and Group management report for 2011 as submitted by the Executive Board, together with the bookkeeping system, were audited by Rölfs RP AG Wirtschaftsprüfungsgesellschaft, Dusseldorf, which was appointed as the Group's auditor by the Annual General Meeting on 28 June 2011, and issued with an unreserved audit certificate. The documents to be audited and the auditor's reports were made available to all members of the Supervisory Board at the meeting convened to review the Group's accounts on 19 March 2012 and were sent to each member of the Supervisory Board sufficiently early for them to prepare for the meeting. The auditor took part in discussions regarding the separate financial statements and consolidated financial statements. He outlined the key findings of the audits and provided additional information where necessary. After a thorough audit of the documents and taking the auditor's reports into account, the Supervisory Board adopted the separate financial statements and approved the consolidated financial statements.

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

Following the recent difficult time of the Masterflex Group's reorganisation, all major targets were achieved or even exceeded in the 2011 financial year. The initiative for further internationalisation, started in the restructuring phase, was used again in 2011 to continue expanding Masterflex AG. Much credit is due to all involved. The Supervisory Board would like to take this opportunity to thank the Executive Board and all of Masterflex's employees for their commitment as well as their constructive, trusting and successful work in the past year.

Gelsenkirchen, 19 March 2012

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

The members of the Supervisory Board

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

Dipl.-Kfm. Georg van Hall (member of the Supervisory Board since 11 August 2009 and Deputy Chairman since 17 August 2010)
After studying business administration at the Technical University of Berlin and the University of Illinois, USA, and after taking his professional examinations, Georg van Hall held a number of management positions in his capacity as auditor and tax advisor. Since 2005, he has run his own business and, since May 2009, is a partner at Accounting Partners Wirtschaftsprüfungsgesellschaft in Dusseldorf.

Dipl.-Kfm. Axel Klomp (member of the Supervisory Board since 17 August 2010)
After studying business administration at the University of Cologne, in 1992, Mr Klomp joined the consultancy founded by his grandfather in 1931. He was appointed tax consultant in 1992 and auditor in 1997. Today, Mr Klomp is the senior partner at KLOMP-EXNER-ARETZ in Mönchengladbach, which is managed by three professionals. He is also a member of the Executive Board of the Chamber of Tax Consultants and the Dusseldorf Tax Consultants Association.

Glossary

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

Minimum-invasive surgery	The umbrella term used to describe operations involving minimum trauma (inflicting minimum injury to the skin and soft tissues).
MOVE	Masterflex's internal efficiency program
Multi-lumen tubing	Medical hose with multiple chambers.
Nanotechnology	Research and technological development at the atom level, focusing on a range of between one and a hundred nanometers.
Net dividend yield	Dividend per share divided by the share price.
Net margin	Also net turnover yield: the percentage share of the net profit in an enterprise's turnover during a specific period.
PlasticsEurope	European Plastics Association
Polymer Optic Fibres (POF)	Polymer fibres.
Polyurethane (PUR)	Highly versatile special polymer.
Product portfolio	'Portfolio' is a management and marketing term used to denote a collection of products, services, projects or brands offered by a particular company.
Return on Investment (ROI)	Return on investment
TPR Approval	Thermoplastic rubber, a type of thermoplastic elastomer.
Working capital	Current assets minus current liabilities

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Forecasts:

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

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

To find out more about the Masterflex Group, please log on to:
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